

Hello Everyone,

Historians often compare ancient Rome to the US...and for good reason/reasons. The similarities can be striking. For example, Rome had a robust food welfare program. Sound familiar?

Oh, and Rome had a generous pension fund system--- especially for soldiers.

Unfortunately, as the pension fund grew, it was soon drained by corrupt politicians and inept bureaucrats. Sound familiar again?

Thus, today's missive goes down the unfunded pension fund road yet again....but this time with a twist provided by Mr. Warren Buffett himself.

I hope you find this 2-3 minute read edifying and illuminative.

Signed, Your Did-You-Know-Rome-Would-Remove-Leaders-And-End-Up-With-Worse-Leaders?-
Financial Advisor,

Greg

KKOB 03.11.2019 Buffe -Pensions-Corporate Reloca ons

Bob: So, Greg, the intersection of politics and Wall Street is today's subject. And you are going to cite one of your favorite investors---and, that's Warren Buffett.

Greg: I am. I am not always a fan of his politics, but as far a business-mind goes, he is pretty credible. Anyway, Mr. Buffett was recently on CNBC--- and he talked at length about the dire (his word) pension crisis here in America.

Now, Bob, you and I have talked at length about how cities, counties, and states all have ***pension obligations that far exceed their pension funds.*** And, we have talked about how the remedy for this will likely be a combination of higher taxes and reduced benefits. Right?

Bob: Right. My understanding is New Mexico's public pensions are underfunded by roughly \$13 billion, which puts us in the middle of the pack with respect to other states. And, I think our officials don't expect it to be 100% funded until 2043. That's not exactly comforting.

Greg: Exactly. So, we all know the situation.

Here is the part where Warren Buffett proves he is smarter than I am. He's suggesting companies should use unfunded pension liabilities in their metrics to determine whether to move to---or from---any particular State.

For example, we all know Illinois is a financial basket case. Their courts, however, have decreed that local governments must pay the pensions they promised. OK. I understand that. Illinois, you're supposed to keep your promises.

That means, however, Illinois must get the money from somewhere.

And, what is becoming the big target for tax increases? So-called "evil" corporations.

Therefore, as a business owner, would you want to move your business to Illinois---- knowing the State will be coming after you to shore-up tens of billions in unfunded pension promises?

And next, if you're already in Illinois, ***do you want to stay*** knowing they're coming after you?

Bob: Well, to me, this now becomes a simple math problem. If you're a business, you calculate the projected tax increases needed to cover the pension shortfall. You then balance that against the cost of moving.

And then, should you decide to move, you want to move to a State with healthy pension funds, because the tax-risk is lower.

But, of course, if you leave, that makes it worse for states like Illinois because they can't tax you once you're gone.

Greg: That's good analysis. So, what does this mean for NM?

Well, using Buffett's thinking, if we want to ***attract*** new businesses, then one way is to plus-up the pension funds. Two things then happen. One...you keep your word to your public employees. And two, you can use the healthy pension funds to recruit out-of-state companies.

The problem is---- spending money this way isn't very sexy. "***Look we are actuarially sound!***" doesn't make a very good bumper-sticker.

Bob: You know, this makes me think a little differently about what happened in New York with Amazon.

Yes, I know, the socialist democrats made life so hard for Amazon they decided not to move there. But you have to wonder if the pension shortfalls came to mind. I mean New York City alone is \$65 billion short in their pension fund.

Greg: Right. So, again, if I were Amazon, I'd be looking to relocate to a pension-healthy State, where they're not scratching and clawing for every dime.

And, let me add one more thing. When some of these State pensions fail, do you think it's possible they will ask for the **Federal government** to make good on the promises to police, fire, and teachers?

Bob: Yes. I mean how do you run for re-election to Congress if your local teachers and police think you're against them?

Greg: Right. So, where will the Fed get that money? I think they'll just print it. That's another reason to prep your portfolios for inflation.

Bob: I get it. And clearly Warren Buffett gets it too. How do people reach you?

Greg: My number is 508-5550, 508-triple-5-zero. Or, go to my website at zanettifinancial.com.

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