CITY OF MERIDEN

Pension Fund Update July 12, 2011

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Meriden Retirement Board
Tuesday – July 12, 2011

Overview

Armageddon.~ Thirty-four months after borrowing $700 billion for the troubled assets relief program to avert a global banking collapse, thirty-one months after borrowing $819 billion to finance a Stimulus Plan for shovel-ready projects, twenty-seven months after borrowing $108 billion to fund the IMF's Greek intervention to avert global economic calamity, and eleven months after lending ourselves $2 trillion to support our own earlier borrowing, we are back facing The End of the World…again.~ Ironically, this time the crisis involves accumulated debt.~

Debt remains the foundation of the US economy, with a current authorized debt ceiling of $14.4 trillion, which is roughly the same as the nation's total annual output – our GDP.~ Another $45.8 trillion is required to fund current entitlement obligations, according to the actuaries, yet unlike other pension and healthcare programs, no assets are invested to help meet those future benefit obligations.~ Meanwhile, the federal government this year is projected to spend $3.82 trillion, on total revenues of $2.18 trillion.~ This would be like a family with a $60,000 household income (and $396,000 of existing debt) spending at the rate of $105,000 a year.~ This may also explain why people buy lottery tickets.

Despite the rising possibility of a 2012 recession, the markets recently celebrated the silver lining of our troubled economy, anticipating quarterly earnings to reflect global growth and increased profitability.~ Facing continued uncertainty in taxation, healthcare, and social policies, companies – especially smaller businesses – remain disinclined to add to their workforce.~ The BLS reports fulltime civilian employment is up 247,000 over the past year, but the population during that time has grown by 1.8 million.~ Economist Paul Krugman has noted that the US economy must add at least 127,000 jobs each month just to keep up with population growth, and argues for a larger stimulus program to put Americans to work.~ But another leading economist, Lawrence Lindsay, reports the 2009 Stimulus plan borrowed $266,000 for each job that was "created or saved," based on White House data.~ Lindsay notes that most of the jobs saved were supported by fund transfers to maintain public employment at the local and state level.

Meriden Retirement Funds

The Meriden retirement accounts closed the 2011 Fiscal Year with their best investment performance in twelve years, protecting gains from the first half of the fiscal year and posting annual returns above 20% for both the City Employees fund and the Police/Fire pension plan, according to preliminary calculations.~ Since the stock market low in March 2009, the pension accounts have added more than $73.5 million in market value, while distributing an additional $20.8 million to support monthly retirement payments.~ As the Board begins the 2012 fiscal year, we recommend that the tactically defensive asset allocation (51% equities, 34% fixed income, and 15% alternatives) established during the past few months be adjusted to reallocate risk assets back into the investment policy strategies.~

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