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By Greg Gann

Who Are the Real "Fat Cats"?

Introduction

During the peak of the American financial crisis, President Obama referred to American bankers and financiers as "fat cats". But, as I will discuss in this article, the evidence, the tide is shifting, and our citizenry is now questioning who and what is fair, and this label for the first time is starting to be pointed towards public service employees and their rich and unsustainable pension benefits. I predict that it will also carry forward into academia. Furthermore, this self-imposed public austerity is putting America on a very encouraging fiscal path towards sustained economic dominance.

Who Earns What

The annual salary of a rank-and-file Congressional representative in 2011 was \$174,000, according to About.com. Of course, this is on top of Cadillac health and pension benefits, as well as compensation from writing and speaking opportunities. The Chronicle of Higher Education lists the 2009-2010 school year compensation of William Kirwan, the Chancellor of the University System of Maryland, at \$716,744. The compensation in that year for Daniel Mote, Jr., the President of the University of Maryland at College Park, was \$464,600. Freeman Hrabowski, III earned \$420,339 serving as President of UMBC in that same academic year. Tamar Levin in a December 4, 2010 article for The New York Times reported that a study conducted by The Chronicle of Higher Education cited that presidents of 36 private colleges earned more than \$1 million in 2009, up from 33 the previous year. Because of certain contractual retirement perks in that year, William R. Brody retired as President of Johns Hopkins University being compensated in that year with \$3,821,886. Kevin J. Manning, President of Stevenson University, most likely has enjoyed his compensation of nearly \$1.5 million. Levin also found that in the decade

from 1999-2000 to 2009-2010, average presidential pay at the fifty wealthiest universities increased 75% to \$876,792.

Maybe college is considered "higher" education because the salaries of administration keep moving higher and higher. The Chronicle of Higher Education also cites that salaries for full professors in the 2011-2012 academic year was \$197,800. Within this context, data compiled by The Project on Student Debt reports that members of the college class of 2010 who took out college loans, owed on average \$25,250. And, roughly two-thirds of the class borrowed for college. More concerning is that due to data limitations, the figures do not include students at for-profit college, where other recent data indicate that 96% of graduates have loans and borrow nearly 50% more than those who graduate from other four-year schools. Within this backdrop, it is not only much more difficult for Americans to afford an adequate education, but college as well as post college graduates are increasingly finding it difficult to secure employment which will not only support themselves, but their past debts as well. In a recent interview, I heard one graduate compare her \$900 monthly college loan payments that continue until she reaches age 45 to the child care costs her peers were experiencing. She said, "but my loans are not going to grow up and go to kindergarten any time soon."

We are led to believe that we need at least a college education to earn a decent living. I think of education and the entire college experience as being far greater than simply earning potential. However, I have also come to realize that so many industries are regulated with incredible scrutiny in terms of truth in advertising, and government and education personnel seem to fall outside the purview. Wall Streeters, and lawyers, and doctors, and entrepreneurs have been vilified as "the fat cats", particularly if they earn more than \$200,000 per year, while government civil servants and educators have been sainted. I have never heard any accusation about a University of Maryland employee earning \$200,000 to \$700,000 receiving any kind of government bailout, yet our tax dollars support those salaries and benefits. As an investment advisor, I am scrutinized ad infinitum for making sure that each and every single investment in a client's portfolio is suitable. The compliance in my industry is nothing short of staggering. Yet, our educational system, supported with public tax revenues promotes college education for everyone as the panacea. They believe that industry involves sales, and as such needs strict regulation. But, to my way of thinking, they are the ultimate salespeople, and they pretty much fall outside the scope of scrutiny and regulatory sales practices.

Electricians, plumbers, mechanics, and a slew of other tradespeople cannot find adequately trained labor today. The demand for skilled workers exceeds the supply, yet Tom, Dick, and Harry are all convinced by the powers that be, and by the folks who supposedly are more trustworthy and know best, that everyone needs a college education. And, that it is well worth the huge debt load. There appears to be a symbiotic relationship between government and educators. Could that be the explanation why most centers for higher education promote a "liberal" agenda of bigger government as the remedy to most ills? Is it only I who thinks that the smart intelligentsia within government and education thinks they know what's best for society? It always fascinates me how so many with the PhDs who never forecast the bubbles somehow are credited to know how best to remedy them.

The Pendulum is Shifting

Recent events lead me to believe that the pendulum has just started to shift, and the public's perception of who are the real fat cats is quickly changing. The first occurred recently with the Wisconsin Legislature stripping state employees of collective bargaining rights. And perhaps in reaction to bankruptcy filings by Harrisburg, Pennsylvania and Stockton, California, and within the context of the entire

European fiasco, the public is becoming acutely aware that public funds are not unlimited.

Last month, according to the New York Times, massive public pension reforms were approved by over 66% of voters in San Diego, California's second largest city, and nearly 70% by voters in San Jose, the third largest city in the state. The San Diego plan would cease to offer pension benefits to new hires, and only offer a 401k type retirement option similar to one offered in the private sector. Current workers could switch to a lower paying pension or pay more to maintain their existing benefits. The reason for the radical shift is that San Jose's pension payments jumped from \$73 million in 2001 to \$245 million this year, resulting in 27% of its general fund budget. All of this has occurred while the city was forced to cut its workforce 27% over the last ten years. San Diego has been forced to cut its workforce 14% since 2005. Residents report frustrations with deteriorating roads and limited hours for libraries and recreation centers. This issue has deepened to the point of crossing political lines. Rahm Emanuel, Chicago's Democratic mayor, is seeking to suspend the annual automatic cost of living adjustments for retirees.

The point is that the government in seeking a scapegoat to today's woes, labeled industry as the fat cats who needed to be reigned in but like a boomerang, it has caused private civilians to scrutinize their own finances as well as those whose salaries and benefits are paid by taxes. The pendulum is swinging, and Americans are questioning who exactly are the fat cats. Private citizens are infusing their own measures of austerity and demanding change. Similar to investment markets where things are either sold off too significantly or bought too aggressively, and eventually return to "normal" through a reversion to the mean, also in politics, the pendulum either swings too far to the left or to the right until it settles and reverts to the mean.

From a purely economic point of view, this shift towards more governmental accountability, greater general scrutiny of power, and fiscal austerity, makes me more bullish on the United States than I have felt for some time. I don't care what the polls or the pundits say, the economy is awakening Americans from their slumber and inciting them to demand much greater fiscal responsibility.

Times will become much tougher for those who have been manipulating the system, and unfortunately, also for those who are in real dire need. But hard work and determination and entrepreneurship are founding principles of America, and these values are becoming more and more in vogue. Pressure for smaller, more effective and efficient government is mounting. I am not as worried about which candidate wins the next presidential election because this pressure super-cedes party lines, and represents grass roots sentiments which will be lobbied in Congress.

I believe that the power of human ingenuity inspired with competition and cooperation will create far more success and many more fat cats than can be mandated through bureaucracies. There is an equal and opposite reaction for every action. Thank you President Obama for initiating the dialogue which is contributing to today's public reaction. History may reveal this reaction as one of the lasting legacies of this administration.

Respectfully,
Greg Gann

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