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CLIENT BULLETIN

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- ***Shutdown***

The House and Senate couldn't come to an agreement on a budget by midnight last night so the federal government is partially shutting down. That isn't as scary as it sounds – money still comes into the Treasury Department, and social security checks, interest on the debt, military, air traffic all continue to function as usual. The downside is that if you need a passport or want to get into a national park you may be inconvenienced. "Non-essential" federal workers in these areas will most likely be furloughed. I don't know about you, but being labeled a "non-essential" employee might hurt my on-the-job motivation a bit.

- ***Debt Ceiling Dance***

This running budget battle may just merge into the next issue for Congress - addressing the $16.7 trillion debt limit that the federal government will bump into this month. As I began to research the issue a strong sense of déjà vu came over me as I realized we went through this a little over two years ago. The Client Bulletin from July 2011 is also attached with amounts & dates changed along with a few nuances. Everything else remains the same.

- ***Let the Experiment Begin***

Today marks a significant beginning point of a new healthcare system in the United States. Today is the day that healthcare insurance marketplaces mandated by the Affordable Care Act (ACA) are scheduled to go live. The ACA required all 50 states to establish these exchanges by today. 14 states opted to build their own exchange (including California), 26 states ceded the duty to the federal government and the remaining 10 states elected to establish their exchange in partnership with the federal government.

- ***Exchange Basics***

Full-time employees of bigger companies (> 50 employees) who are insured through their employer and seniors on Medicare are not impacted by the exchanges. The exchanges allow individuals and smaller businesses to shop for health insurance coverage. There is a menu of health insurance plans to choose from labeled as bronze, silver, gold or platinum based on their cost and the level of coverage they provide. There is a subsidy available in the form of a tax credit if household income is below certain levels.

- ***The Really New Thing***

What's really new about the ACA is that individuals cannot be denied health insurance coverage from insurance companies that participate on the exchanges even if they have pre-existing health conditions nor can they be charged higher premiums. While this sounds great, we all know that someone has to pay more to cover the increased claims the insurance companies will be paying out. For the most part, that ***someone*** is healthy 20-30 year-olds who are being moved into the plan via penalties for not having health insurance. Their premiums and lower claims are needed to cross-subsidize older, more expensive patients. The future viability of the ACA, in fact, hangs on whether enough of these 20-30 year olds end up paying into the plan.

- ***No More "Lost Decade"***

As the financial crisis of 2008-2009 and its investment impact begin to fade, it is important to be aware of rate of return reporting figures you will start seeing. It was only two years ago that headlines trumpeted the "Lost Decade" for stocks, noting that the S & P 500 stock index went essentially nowhere over the previous 10 years. As of yesterday, however, the annualized 10-year return for the S & P 500 index is a more normal-looking 7.45% per year. How we can go from a lost decade to normal returns in just two years? The answer is that it is just a trick of the calendar.

- ***As the Calendar Turns***

With each new month of performance we add on going forward, the index drops off a monthly return figure from the past. ***5-year*** performance figures, which go back to September of 2008 and the teeth of the financial crisis, make the point in dramatic fashion. When we add on last month's 3.14% S & P 500 return to five-year track records we drop off the September 2008 return which was a decline of 8.91%. As a result, the annualized five -year return figure jumps from 7.32% to 9.9%/year. At the end of October this year we will drop off a whopping 16.79% decline from October of 2008 and the five-year return figure will have ***doubled*** into the mid-teens in just two months even if there are no further gains this year. Even though they didn't suddenly get any smarter, investment managers will be quick to tout these suddenly attractive performance figures. Don't get caught up in this reporting mania – ***the time to chase performance is when there is none***.

- ***Social Security Goes Digital***

Now that the Social Security Administration has discontinued the practice of mailing annual benefit estimates, you can create a personalized account at www.socialsecurity.gov/myaccount to view estimates of your social security benefits or change your contact information. In order to create your account you will need your Social Security number, date of birth, mailing address and a valid e-mail address. To guard against identity theft, the system will take you through a verification process in which you answer questions related to previous employment and residence addresses.