This Publication Brought To You Courtesy Of:

STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER™, Practitioner

CARTER FINANCIAL

4225 Executive Square
Suite 1030
La Jolla, CA 92037-1486
Phone: (858) 678-0579
Fax: (858) 546-0792
E-mail: steve.carter@lpl.com
www.stevecarterfinancial.com

CLIENT BULLETIN

December 2013

➢ *Next Gen Finances – The Challenge*

Young people today face a retirement landscape that is vastly different from anything previous generations have experienced (I am using the standard definition of “young” here, which is, of course, anyone younger than I am). Big companies, big unions or big government used to shoulder most of the burden of healthcare and retirement needs but too much has already been promised and longevity has increased to the point where that system is no longer affordable. Young people face a YOYO financial world – You’re On Your Own. They are thrown back on their own resources – their capacity to plan and their willingness and ability to practice thrift. Unfortunately, this is something they have never been trained to do.

➢ *Next Gen Finances – The Solution*

The answer for these younger folks is deceptively simple - there are no secrets of the wealthy. They should be investing at least 15% of their household income for their future. Every $1 a 35-year old spends now is $10 their 65-year old selves will not have. Contributions to 401(k) or similar retirement plans that are matched by their employer should be #1 on the priority list followed by funding Roth IRAs if they are eligible. While no young person has a lot of free cash flow for this type of investing, if they truly understand the attached “Start Early!” illustration they will find the money somehow. No one should be allowed to graduate from high school without being able to explain this spreadsheet – it would change our country.

➢ *Inoculation Time*

As you get your shots ahead of flu season, consider another sort of inoculation. As mentioned last month, the calendar is beginning to play serious tricks on investment returns. As the awful returns from the financial panic of 2008-2009 begin to drop off of 5-year return figures for investment indexes, those return figures are soaring. Already the 5-year annualized return for the S & P 500 is 17.66%. As journalists and investment providers begin to sing their siren song of ***past*** performance, it is more important than ever to stay tightly lashed to the mast of disciplined, diversified investing.

- ***Healthcare – Can't go Back***

It is abundantly clear that we could not maintain the healthcare system we previously had – it simply was not affordable. Healthcare costs have grown to nearly 20% of the U.S. economy, and while providing healthcare for our citizens is of course a viable economic activity, this high level of spending draws resources from investment, research and development, consumption and infrastructure that the economy needs to keep moving forward. Healthcare costs have become a major drag on our economy with the potential to seriously impair our growth potential. It also hurts our country's competitive position internationally. Germany and France commit roughly 11% of their economy to healthcare, Canada 10% and Britain 8.5%. This would be fine if the U.S. had better health outcomes but we have no greater longevity, no lower infant mortality nor fewer days of work missed due to illness than these nations.

- ***Healthcare – The New Deal***

As the rollout of the Affordable Care Act (ACA) continues its fitful process, it does not appear to be the answer to our healthcare challenges despite the laudable goal of ensuring that all Americans have health insurance coverage. The cost curve of healthcare expenses must be bent ***downward***, but the added layers of government bureaucracy and mandates in the ACA have little chance of making our healthcare system more efficient & cost effective.

- ***Healthcare – The Hard Truth***

We all appreciate the previous healthcare system with its $10 co-pays for doctor visits, MRI's and CAT scans that were seemingly free and hospital stays that cost us very little, but therein lies the problem. Most of us have been shielded from the true cost of healthcare by a system that insures too much and the result is overutilization. Americans over age 65 see their doctor or go to a hospital on average every 6 weeks and on average take 15 prescriptions yearly. None of us wants to be told that we need to consume less healthcare and pay a bigger share of what we do use, but that is what it will take to make our healthcare system affordable and avoid saddling our heirs with unconscionable amounts of debt. With the aging of our population, our country's prosperity literally depends on abating healthcare costs. This message is political suicide however, so you won't hear much about it.

- ***Healthcare – Some Ideas***

The general solution appears to be encouraging all Americans to approach healthcare as consumers, with an interest in quality and an eye on cost. The financial truism that "no one spends someone else's money as wisely or as frugally as he does his own" certainly applies. Below is a sampling of politically unpopular but most likely effective potential solutions:

- Move toward a "defined contribution" type of healthcare system in which individuals receive a set amount of money to allocate toward healthcare and then allow them to make choices to stretch their healthcare dollars as far as they can.
- A more streamlined and limited safety net
- Continue the trend toward high-deductible health insurance policies. People will use healthcare more judiciously if they are paying more of the cost.