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

March, 2013

➢ *Zombie Spending Cuts*

In August of 2011 politicians made a deal to raise the debt ceiling thereby allowing the government to continue borrowing money after having reached their credit limit. As part of that deal, a "super committee" made up of six Democrats and six Republicans was created to come up with a plan for cutting the government's deficit. Another aspect of that 2011 deal was the threat of "sequester" budget cuts that would go into effect on January1, 2013 if the super committee failed to make a deal. To no one's surprise, the committee failed and of course the sequester cuts didn't go into effect at the beginning of this year –they were delayed from January 1 to March 1 as part of the "fiscal cliff" deal at the very end of 2012. Now here we are on the eve of March 1 and apparently the threat of these cuts isn't enough of an incentive to get Congress to act and the sequester cuts are finally kicking in.

➢ *Don't Fear the Sequester*

While these cuts are blunt and hit defense spending inordinately hard, they are hardly the economic Armageddon they were billed to be in the run-up to their implementation. The $85 billion in cuts for fiscal year 2013 are less than the effect of the expiration of the payroll tax cut and we have seen no sign of a downturn as a result of that yet. The next hurdle will be a little higher. If Congress can't agree on a new federal budget by March 27 - or extend the current one with something called a continuing resolution – then there is the potential for the government to temporarily shut down as it did during the Clinton administration. If you take the headlines of the past few weeks, substitute the words "continuing resolution" for "sequester" & multiply by 2 you will have the headlines for the month of March.

➢ *Going in the Right Direction*

Government spending cuts, as painful as they are, move us in the right direction of addressing our unsustainable deficit situation. In conjunction with previous spending cuts and a slowly improving economy (which generates more tax revenue) the debt situation should actually stabilize over the next few years. The debt to Gross Domestic Product (GDP) ratio – one of the key metrics we need to focus on in the debt reduction battle – should decline slightly to the 75% range until about the year 2016.

Steven F. Carter, CFP® is a Registered Principal with and securities offered through LPL Financial, Member FINRA/SIPC. CA Insurance License #0685681

- ***Still Missing the Big Picture***

After 2016, however, the government's deficit and debt as a % of GDP start to grow again and then skyrocket due to the costs associated with Social Security, Medicare and Medicaid. Throw in the probability of increasing interest rates, which makes debt service a bigger percentage of spending, and pretty soon just about all other government spending (food stamps, education, health, defense, highways, national parks etc) will be crowded out.

- ***Next Appointment – Healthcare***

Urgency is beginning to develop around the implementation of the Patient Protection and Affordable Care Act (also known as Obamacare). The law dictates full implementation by January 2014. The first sticking point is the mandate that everyone must purchase health insurance or pay a penalty. Viability of the law hangs on inducing roughly 18 million healthy 20 and 30 year olds to buy health insurance. The mechanism for doing that is a penalty for not buying insurance that ranges from $695 to 2.5% of family income, whichever is higher. Enforcement will be difficult – the law makes no provision for civil or criminal actions against those who refuse to buy insurance. The only step the IRS can take, beyond intimidating letters (for which, admittedly, it has a remarkable talent) is withholding tax refunds – not much of a motivation if the refund amount is less than the penalty.

- ***Insurance Exchanges***

More complex and potentially much more disruptive are questions surrounding the centerpiece of the legislation - state insurance exchanges. It was anticipated that each state would set up its own online exchange to enable its residents to buy individual private health insurance and apply for government subsidies. The Supreme Court decision that legalized the law, however, also gave states the right to refuse to set up exchanges, thereby throwing that responsibility back to the Department of Health and Human Services. At this point, roughly half of the states, mostly led by Republican governors, have elected not to set up their own exchanges. For both the federal and state governments, there is a lot of work to be done by October 1st when consumers can begin signing up for coverage that takes effect January 1st.

- ***Join the Club***

When the Eurozone was created there were two requirements established in order to become a member – a country must have an annual budget deficit of less than 3% of their GDP and its accumulated debt could not exceed 60% of GDP. In 2012, only **three** of the existing 17 Eurozone countries (Finland, Luxembourg and Estonia) passed both tests and would be able to be newly admitted. The United States would not make the cut either.

- ***Sign of the Times***

Beginning today, social security will no longer mail out benefit checks. Deposits will instead be sent electronically to bank accounts. The first social security check was cut in 1937 to a lucky woman named Ida Mae Fuller of Vermont. Ida paid in $22 to the social security system and collected $20,000 of benefits over her lifetime. Timing is everything

**The information contained in this newsletter is of a general nature and is not intended to be a substitute for specific individualized tax advice. It should not be acted upon in your specific situation without further details and/or professional assistance. Investing involves risk including the potential loss of principal. No strategy or product can assure success or protect against loss. Past performance is no guarantee of future results.*