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CLIENT BULLETIN

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- ***Aging Nation(s)***

In Japan, sales of adult diapers will exceed sales of baby diapers this year according to Euromonitor International, a marketing research firm. While this is just one anecdotal data point, dropping birthrates coupled with an aging population can have a significant impact on a country's ability to grow their Gross Domestic Product. The U.S. is not too far behind – 2012 marked the nation's lowest fertility rate and longest life expectancy ever recorded. (National Center for Health Statistics)

- ***Healthcare Changes Coming***

One session of a recent continuing education seminar I attended focused on the financial impact of the Affordable Care Act (ACA). While the law's most financially significant aspects don't kick in until 2017, there seemed to be consensus on one likely result of the ACA – a substantial percentage of employers will get out of the healthcare business. The data show that an increasing number of businesses are likely to cancel their health insurance plans in favor of letting employees get their coverage on the health exchanges. The penalty for an employer dropping a health plan is typically cheaper than the cost of providing the plan. As an interim step, employers are already turning over the higher cost of healthcare by increasing employees' copayments and transitioning away from traditional major medical insurance by pairing health savings accounts with high-deductible health plans.

- ***Dé·jà Vu all over again?***

The process above will most likely be similar to the evolution of corporations backing away from the retirement planning business. In 1990, 43% of private sector workers had some sort of company-sponsored pension plan. Today just 18% of private sector workers have pensions. Healthcare and retirement trends are further steps toward a YOYO world for employees – You're On Your Own. (Source: Department of Labor)

- ***Scary Thought***

Unfortunately, there are millions of people who are not preparing for this new world. 45% of US households headed by individuals of working age have not set aside **any** funds for their future retirement (Source: National Institute on Retirement Security).

➢ *Income Inequality – Beyond the Rhetoric*

Inequality is forever a worthy subject and the evidence of a widening income gap is building. Over the last 20 years, the incomes of the richest tenth of the country have grown five times faster than the incomes of the bottom fifth. Additionally, the wealthiest 25% of the country now, on average, have average incomes 15 times those among the bottom 25%, up from 10 times in the mid-1970s. Before delving into likely causes and possible solutions, some deeper analysis takes exception to these measurements just mentioned. (Source: Internal Revenue Service)

➢ *The Data*

The data above is drawn from tax statistics. As such, they fail to take into account fringe benefits for workers and government transfers such as child care benefits and unemployment compensation, all of which accrue mostly to lower income households and would narrow the income gap if included. More importantly, a novel U.S. Treasury study followed the incomes of households over decades in order to capture the impact of families who move **between** groups in the income distribution. Over a 10-year stretch from 1996 to 2006, the incomes of those who **started** in the lowest quartile of income distribution rose 6.7% a year on average as some advanced through the income distributions, faster than the 1.5% gains showed by those who started in the highest quartile of distribution, some of whom dropped out of that quartile.

➢ *Causes?*

Even if there is room for dispute on the specifics, there is enough evidence of a growing income gap to raise questions about the cause. Of course it suits political objectives to find the cause in the evil of others, but fundamental economic and financial research points elsewhere. Two rarely discussed topics have played significant roles in creating income equality. The first is globalization. Because it is so much cheaper to produce toys and textiles and employ call centers in emerging economies, the burden of globalization has fallen most heavily on less skilled, lower paid employees. Secondly, technology has contributed to growing income inequality as well. Robotics and similar productivity enhancing upgrades tend to substitute for more routine, repetitive functions and throw more lower-wage people out of work or hold down their wages.

➢ *Potential Solutions*

While political solutions tend to focus on re-distribution of existing income, deeper analysis leads to more profitable solutions. Income growth at all levels depends on producing higher-value products that in turn can support higher, expanding wages for everyone. The key then becomes upgrading worker's skills. Not only must our educational system produce more scientists, engineers and mathematicians, we also need people who may be less technically skilled but who can combine new technologies with old to create new markets and produce efficiencies in ways never considered by the scientists and engineers who developed the technology. Steve Jobs had less technical skill than many of his employees, but contributed to Apple's success by sensing market opportunities and applying technology.