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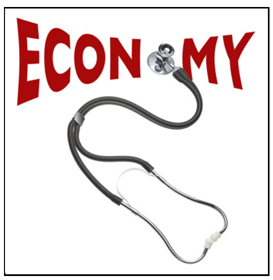
How Important Is The Debt Level To Future U.S. Economic Health?

During this year's first quarter, U.S. investors were heartened by improving economic indicators at home and by Europe's efforts to contain its sovereign debt crisis. Yet that good news, which helped fuel the recent stock market rally, may overlook a larger, more persistent weakness—a ballooning federal deficit that independent economist Fritz Meyer describes as a "debt bomb." Whether Congress finally deals with the issue could go far in determining the nation's long-term economic health.



Meyer points to the possibility that U.S. debt levels could leapfrog current projections—of a rise to $4 trillion during the next decade—and surge to as high as $11 trillion. A critical measure of economic viability is the level of debt relative to gross domestic product (GDP), and the higher the percentage of debt to GDP, the more the United States may begin to resemble Greece, Spain, Portugal, and other nations at the center of the European sovereign debt crisis. And although the current percentage of U.S. debt relative to GDP is better than in some other countries, that level could be on a trajectory to a danger point, depending on which of two possible projected scenarios actually occurs.

The two possibilities are contained in a Congressional Budget Office (CBO) report produced each January that describes what may happen during the following decade based on current tax laws. This year, there were two sets of projections because there are two starkly different scenarios for taxes and federal spending beyond the end of 2012.

One projection is based on what will happen under laws now on the books. This "baseline" scenario assumes that several tax cuts enacted during the past 11 years will expire on schedule at the end of the year. Those laws, which reduced tax rates across the board—for income, capital gains, dividends, estates and gifts—and have limited the number of people subject to the alternative minimum tax (AMT), were supposed to "sunset" in 2010 but got a last-minute, two-year extension.

The CBO's baseline scenario assumes that this time all of those taxpayer-friendly provisions indeed will expire, resulting in a rush of new tax revenue beginning in 2013. If that happens, the CBO projects that federal revenue could increase by as much as $800 billion during the next two years, rising to 16.3% of GDP in 2013 and 20% of GDP the following year. This surge in tax collection would be helped not only by higher tax rates but also by a sharp increase in the percentage of taxpayers subject to the AMT. The level of US debt would be impacted

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We Can Help You Determine Best Time For You To Retire

A 2010 report from the Social Science Research Network states that 2000 may have been the worst year to retire.

The report mentions the following, "Because of poor investment returns, Americans who retired in 2000 with nest-egg assets divided 60/40 (stocks/bonds), withdrawing 5% annually and paying a 1% fee, had an average of just 54% of their wealth remaining 10 years later, the worst 10-year performance of any retiree cohort (up until that date) since 1926."

According to Wade D. Pfau of the National Graduate Institute for Policy Studies in Tokyo, "Poor returns at the beginning of retirement can lead to early wealth depletion that becomes difficult to overcome." Pfau says even the old 4% rule-of-thumb annual withdrawal rate from retirement assets may be overly optimistic, given recent low stock and bond returns.

More than a decade later, it remains uncertain what the future holds in terms of return on investment, which is vital to any retirement plan.

At USA Asset Management, we will work closely with you to determine if now is the right time to retire in order to ensure you do not experience what those in 2000 have experienced a decade after they made the decision to retire.

How are you going to determine when is the best time for you to retire?

Sincerely,
USA Asset Management

Six Disability Facts To Consider

You probably already understand the importance of having life insurance. The proceeds from a life policy can help cover your family's current expenses and may provide a cushion for the future if you die prematurely. But another kind of coverage—disability income (DI) insurance—is often ignored or neglected. And that's a mistake, because DI insurance can be even more vital than life insurance in maintaining a family's financial well-being. A new white paper from the Council for Disability Awareness, an independent nonprofit group, provides these six startling facts.

1. More than one in four of today's 20-year-olds will become disabled before they retire. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

2. Some 8.5 million disabled U.S. wage earners were receiving Social Security Disability Insurance (SSDI) benefits at the end of September 2011. (Source: Social Security Administration, Office of Disability and Income Security Programs)

3. Ninety percent of new long-term disability claims are the result of an illness, not an accident, and fewer than 5% of claims are work-related. (Source: 2011 Council for Disability Awareness Long-Term Disability Claims Study)

4. The average long-term disability claim lasts 31.2 months. (Source: 2010 GenRe Disability Fact Book)

5. New applications for Social Security Disability Insurance (SSDI) benefits increased 27% from 2008 to 2010. (Source: Social Security Administration, Office of Disability and Income Security Programs)

6. About 100 million workers lack private disability income insurance. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

If you don't have DI insurance, either through a policy from your employer or one you've bought on your own, you can choose from among a wide array of products whose costs and benefits vary widely. Here are several factors you'll need to take into account.

- How a policy defines "disability" is crucial. The best policies pay benefits if you can't work in your chosen profession, and they don't consider the nature of an injury.
- DI insurance policies generally require a waiting period before paying benefits, and a shorter waiting period normally translates into higher premiums.
- Typically, a policy will state how long and under what circumstances it will pay disability income benefits. It could, for example, provide benefits only until you qualify to receive Social Security retirement benefits.
- If you opt for a noncancellable policy, the insurer can't drop you off its rolls if your health declines.

Finally, don't be seduced by the low costs of a fly-by-night operation. You'll be better off opting for an experienced company with a good reputation.

What Are The 401(k) Limits In 2012?

The 401(k) plan continues to be, by far, the most popular company-sponsored retirement plan in the land. And it's no wonder. This unique retirement-saving vehicle offers tax advantages to employees and can also be a valuable tool for employers looking to recruit and retain top talent.

The basic premise is simple: You arrange to have a portion of your pre-tax salary deposited in a separate account. Frequently, an employer will agree to match each dollar that plan participants contribute, up to a specified percentage of compensation. For example, if you earn $100,000 and put $10,000 a year into your 401(k), your company, providing a 3% match, would kick in another $3,000 annually.

There's no current tax on investment earnings within the account, though you also don't get to claim a deduction for losses. Distributions from the account, usually during retirement, are taxed at ordinary income rates. If you change jobs or retire, you normally can choose among keeping the money in your old company's plan, shifting it to a new 401(k), or rolling over some or all of the account to an IRA.

That's the short story. But there are numerous other legal limits and restrictions to contend with. One of the biggest is the annual limit on how much salary you can defer, a number that rises based on an inflation index. Furthermore, the plan must satisfy strict, complex nondiscrimination requirements.

How well do you know the current rules? See how you fare on this brief quiz.

1) The maximum amount an employed 45-year-old can contribute to a 401(k) in 2012 is:

a) Zero. c) $21,500.
b) $17,000. d) $22,500.

2) The maximum amount an employed 55-year-old can contribute to a 401(k) in 2012 is:

The Likely Consequences Of A Greek Default

What If Greece Defaults? How would the ultimate failure of an European Union member country realistically affect the rest of the union, its currency, and the U.S. markets? It's a question investors have had on their minds for some time, especially since moves in U.S. markets are taking their cues from Europe.

The most pressing problem is Greece. The latest bailout package offered to Greece by the European Central Bank (ECB) mandates drastic spending cuts. The ECB has emphasized there will be no renegotiation of the terms.

But political turmoil in Greece may make it impossible for the country to fulfill its promises. This could result in Greece finally abandoning the euro and declining into economic and social disaster.

A quick review of how Greece got to this point may help to clarify how a worst-case scenario might affect the rest of Europe and, in turn, the U.S. markets.

André Cabannas, Ph.D., a professor at Stanford University, explains that the Greek government has a long history of spending more than the revenues it receives. Before joining the Eurozone, the government simply would issue more drachmas, its original currency, to make up the difference.

One stipulation of becoming a Eurozone member was that no country could exceed its allowable debt limit. Instead of viewing Eurozone membership as a conduit for greater fiscal responsibility, both government and private entities in Greece saw the euro as an even greater source to tap for its growing deficit.

Large European banks in other member countries were glad to loan Greece money in exchange for the high interest rates Greece agreed to pay. The banks were certain that, if Greece failed to pay back the debt, other Eurozone members would cover it.

Newly flush, Greece began to spend more, not less. For a while, it used a combination of the very goods it imported with its share of euros, its own goods it manufactured, and promissory notes for the balance.

As Greece continued to spend, more of its euros left the country, and it began to have trouble taking care of its internal obligations to its citizens.

Then, the 2008 credit crisis hit. Greece's resources began to dry up and it was caught with no way to pay its obligations, even on a temporary basis. The rest of the Eurozone became concerned and has debated ever since on how to keep Greece from defaulting and having to leave the union. They fear it would have a domino effect and unravel the Eurozone, along with its common currency.

In an effort to survive, Greece has cut the salaries of its workers, pension payments to its retirees, and has cut back on service provisions to its citizens. The entire political system is in chaos because elections held May 6 were inconclusive. There is not enough agreement on what to do to form a coalition to fulfill the bailout agreement or to abandon it. Failure could come as early as August.

With Greece's growth rate as measured by gross domestic product slated to decrease by 4.7% in 2012, on top of its 6.9% decrease in 2011, citizens have been running out of money for their daily necessities.

Not all countries agreed to the latest bailout terms. These investors hold 6 billion euro in Greek debt and the country is contemplating paying off the bonds they hold. Government authorities are in chaos about which direction to take. The lack of direction could result in failure as soon as August. So the probability that Greece will fail is increasing daily.

What would happen then?

Independent economist Fritz Meyer asserts that the inability of Greece to uphold its latest austerity agreement with the European Central Bank would certainly be bad for the country. But it wouldn't necessarily be bad for Europe, he adds. His prediction is that Greece then would become a stark lesson to other distressed countries, such as Italy, Portugal, and Spain, and make them more determined to avoid Greece's fate.

If this indeed is the case, markets in Europe and the U.S. would gain more confidence that the crisis was contained. Since Greece no longer would be part of the Eurozone, other member countries would have no obligation to keep up rescue efforts and could, instead, concentrate on their own situations.

Never before has a country left the Eurozone, and there is no guidance for doing so. Moreover, the rest of the Eurozone has its own problems. The European Commission on 11 May 2012 finally admitted the Eurozone is in a recession. It stated that the overall economy will contract by .3% and grow by only 1% in 2013. ●

a) Zero. c) $21,500.
b) $17,000. d) $22,500.

3) The maximum amount a retired 65-year-old can contribute to a 401(k) in 2012 is:

a) Zero. c) $21,500.
b) $17,000. d) $22,500.

4) The minimum number of employees required to establish a 401(k) plan is:

a) 1. c) 25.
b) 10. d) 100.

5) If you aren't a company's owner, you must begin taking distributions from its 401(k) plan:

a) At age 59½.
b) At age 70½.
c) When you retire.
d) At age 70½ or your retirement date, whichever comes later.

6) A rollover from a 401(k) plan to an IRA is subject to a 20% withholding tax unless:

a) You complete the rollover within 60 days.
b) You arrange a trustee-to-trustee transfer.
c) You retire before the end of the tax year.
d) You are under age 59½.

7) If you receive a $10,000 "hardship distribution" from a 401(k) in 2012 and you're in the 25% tax bracket, your income tax liability is:

a) Zero. c) $2,500.
b) $1,000. d) $3,500.

Answers: 1-b; 2-d; 3-a; 4-a; 5-d; 6-b; 7-c

Tips On Long-Term Care Insurance

The cost of an extended nursing home stay can be frightening. In some parts of the country, annual expenses may run to $100,000 or even more. At that rate, it doesn't take long for a lifetime's savings to be depleted. That's why most long-term care ends up on the tab of Medicaid, the joint federal-state health plan for the poor. But your family will qualify for help only after you've exhausted most of your assets.

Advance planning can help you avoid dire financial consequences. For instance, you could purchase a long-term care insurance (LTCI) policy for yourself or a relative to defray some or all of the nursing home costs. That can help preserve family funds and put off panic sales of investments. Still, premiums for LTCI are based on several factors, including the health of the person who's being insured, and can be pricey. And the older you are when you get this insurance, the more you'll pay.

What do you know about long-term care insurance? This brief quiz can test your knowledge.

1) Benefits under an LTCI policy will begin to be paid:

a) Once the insured becomes ill or disabled.
b) Once the insured applies for benefits.
c) When the policy's lifetime amount is fully paid up.
d) After a waiting period has been satisfied.

2) Which of the following does NOT affect premium cost?

a) The age of the insured
b) The value of the insured's retirement assets
c) The length of the benefit period
d) The amount of the daily benefit

3) To qualify to receive LTCI benefits:

a) The insured must sell any primary residence.
b) The insured must need assistance with basic daily activities.
c) The family must elect to begin coverage.
d) The family must obtain permission from a nursing home.

4) What is the tax treatment of LTCI policies?

a) Premiums are fully tax-deductible.
b) Premiums are tax-deductible only by retirees.
c) Premiums may be partly tax-deductible.
d) Premiums are never tax-deductible.

5) The amount that can be used to defray nursing home costs:

a) Depends on the daily benefit.
b) Depends on the insured's age.
c) Depends on the retirement assets owned by the insured.
d) Is limited by state law.

6) A policy that is "guaranteed renewable" for life means that:

a) It can't be voided if the insured's health changes.
b) It can't be voided whether or not the premiums are paid.
c) It will still pay benefits after the lifetime limit has been exceeded.
d) Premiums can never increase.

7) LTCI policies are generally offered by:

a) Banks.
b) Estate planning attorneys.
c) Medical practitioners.
d) Financial services firms.

Answers: 1-d; 2-b; 3-b; 4-c; 5-a; 6-a; 7-d

Future U.S. Economic Health

(Continued from page 1)

by a scheduled 30% reduction in fees that Medicare uses to reimburse physicians for their services.

The baseline scenario also factors in the impact of another current law, the Budget Control Act of 2011. Passed last August to allow the U.S. debt limit to rise, the legislation calls for broad, automatic spending cuts if Congress fails to achieve major deficit reduction.

The baseline scenario shows the federal deficit for fiscal year 2012 dropping to $1.1 trillion, or 7% of GDP, and projects that the shortfall will continue to decline steadily to less than $200 billion and will average just 1.5% from 2013 through 2022.

Because neither spending cuts nor tax increases are ever popular, the CBO report also includes an alternative fiscal scenario based on the notion that Congress once again will give taxpayers a reprieve. If the current tax breaks continue rather than expire, payments to doctors remain at current levels, and the Budget Control Act spending cuts are somehow averted, the level of U.S. debt could skyrocket.

Under the CBO's alternative fiscal scenario, the annual U.S. budget deficit would remain high, averaging 5.4% of GDP during the next 10 years rather than the 1.5% average projected under the baseline scenario. Meanwhile, total public debt would approach 94%, the highest level since just after World War II.

Meyer considers the CBO's alternative fiscal scenario to be the more realistic of the two projections, and he believes the long-term impact of failing to reduce U.S. debt would be a weaker economy. Though further postponing tax increases and spending cuts would spur economic growth in the short run, leading to higher rates of GDP expansion and reduced unemployment, unchecked deficits ultimately would reduce private investment and cause GDP growth to fall below levels predicted under the baseline scenario. ●

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