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CLIENT BULLETIN

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➤ *Health Care Ruling*

On Thursday last week the United States Supreme court, voting 5-4, upheld the core of the Affordable Care Act (ACA). The ACA forces all citizens to purchase health insurance or pay a financial penalty. The entire case hinged on the definition of this financial consequence for not buying health insurance – is it a penalty or a tax? The law itself describes it as a penalty and the justices concluded that the law as it was written was **unconstitutional** under the Commerce Clause – the government cannot force citizens to purchase something by imposing a financial penalty on them. In a rather bizarre twist, however, Chief Justice Roberts singlehandedly said that *if* the consequence for not carrying health insurance had been called a “tax” in the law and not a “penalty” then it would be constitutional and provided the deciding vote upholding the law.

➤ *Economic Impact*

Forcing people to pay into the government-funded health insurance system is the economic linchpin of the ACA. The goal of the ACA is to provide government funded health insurance for 30 million more Americans at a net cost of \$1-\$2 trillion over the next ten years. To help pay for that cost, the government needs the premiums (or “penalty” imposed if they opt to not carry health insurance) of younger and healthier people so they had to be moved into the system. Most importantly, the Federal government was already facing staggering \$1 trillion+ deficits and nearly \$16 trillion of accumulated debt before the Act, and now the promise of government funded healthcare for 30 million more people just adds to the red ink. The snowball of the U.S. government’s debt just got bigger and picked up speed.

➤ *Social Security Statement Now Available Online*

Online access to your Social Security Statement is now available at socialsecurity.gov. The system has been set up to encourage people to check their statements each year for accurate information to consider in family and financial planning discussions. The portal also includes links to other online services such as retirement, disability and Medicare information.

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➤ *Fiscal Cliff*

A new term has entered the national lexicon recently – “fiscal cliff”. The “fiscal” portion of the term refers to tax increases, reduced unemployment benefits and government spending cuts that take effect on 1/1/2013. The tax increases come in the form of two tax cuts that expire on 12/31/12 (the Bush income tax cuts and the payroll tax cut) plus new taxes to help finance the health care reform law that take effect in 2013. The government spending cuts are the result of the compromise reached last August to increase the national debt ceiling (thereby allowing the United States to avoid defaulting on Treasury Securities). The cuts call for decreases in discretionary government spending of \$2.1 trillion over the next 10 years including \$1 trillion of defense cuts.

➤ *What About the Cliff?*

The “cliff” portion of the term refers to the potential that the combination of higher taxes and lower government spending could cause a slowdown in the economy in 2013. It is important to understand that Congress need not pass a single piece of legislation in 2012 for these tax increases and spending cuts to take effect. They are already on the books. In the current tumultuous campaign environment, Congress is unlikely to pass any significant legislation before November, so this fiscal cliff may be addressed by a lame duck Congress between Thanksgiving and Christmas this year. Standing on the edge of this fiscal cliff will be a significant motivation for the parties to negotiate a compromise and delay at least a portion of the tax cut expirations and roll back at least some of the spending cuts (which they agreed to make by law a little more than a year earlier).

➤ *College Payoff*

In the May edition we saw that people with higher educations suffer much lower unemployment rates than those without them. New data shows that obtaining a higher education helps the pocketbook in another way as well. The chart at right shows that, on average, people with a bachelor’s degree earn \$26,000 more than those with just high school diplomas, and people with an advanced degree (master’s, professional or doctorate) earn \$31,000 more than those with a bachelor’s degree. Although the rising level of student loan debt should not be ignored, it needs to be weighed against the very significant financial benefits that a higher education can provide.

