
These Financial Times

Unlock the truth. Financially, we have all been told WHAT to think; now learn HOW to think. Please read and discover how financial common sense has been lost in traditional thinking and conventional wisdom. This very important article, an excerpt from Leonard A. Renier's book Sudden Impact will be continued in next week's Lakelander.

Last year in the United States alone, there was an increase in credit expansion of \$2,718 billion. This tremendous increase in credit occurred during the same period when inflation adjusted incomes did NOT rise and with NO increase in personal savings. The euphoria of our economy is being driven by debt. This phenomenon has been occurring now for about 15 years.

The government debt (not deficit) alone is about \$8 trillion. Sixty-six percent of this debt has come into being since 1990. Alarmingly, just the interest on the government's debt is \$41 MILLION DOLLARS PER HOUR, every hour of the day, seven days a week. In perspective, this interest payment comes to about \$690,000.00 per minute or about \$11,500.00 per second. This amount is devastating and continues to grow every day, out of control. Remember, the fact is, over the past 50 years, the government debt, on an annual basis, has NEVER gone down. This information can be found on the government's

own websites (<http://www.publicdebt.treas.gov/opd>).

Even though the government recognizes this debt problem, they continue to spend about \$1.58 for every \$1.00 they collect in tax revenues. It would be logical to assume that to raise revenue to pay off this debt and still operate the country, the government MUST raise taxes. They know it, you know it, I know it.

The debt situation is just one cloud on the horizon, but it's a big one. Even more concerning is this problem: The combined debt of local, state, and federal government, along with corporate, business, and personal debt in the U.S. totals \$40 trillion. Now I want you to be sitting down when you read this. That \$40 trillion dollars of debt is three times the amount of money in circulation in the entire world! To be continued...

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A Cup of Truth, Half a Cup of Reality, And the Government

The average American can sense the seriousness of the situation, yet preparing for these events is curiously a distant option. The problem is that the government continues to assure future generations of retirement benefits, and makes promises that cannot be kept. The "now" working generation has paid so little to finance these future obligations that even the most prosperous economy in history could not pay the bill.

The Government's Cost for the Average American

Take a look at an average American couple, who earned the average income during their lives and retired at the age of 65. Together, they earned about \$47,000.00 in their final year of work. They would receive a joint Medicare benefit valued at \$283,500.00. The reality is, they would have paid only \$43,000.00 in Medicare taxes during their working years. This represents a \$240,000.00 loss to the government. Remember, this is only ONE husband and wife.

The government's problem with the average 65-year-old retiree doesn't end there. Although this average couple

paid \$198,000.00 in Social Security taxes, longer life expectancies will create an average \$326,000.00 in Social Security benefits for this couple. Between Medicare and Social Security, the government, for this average couple, paid out \$368,000.00 more in benefits at retirement than the couple paid in. To make things worse, the benefits for these programs increase every year. Finally, the Social Security and Medicare trust funds have no money in them, only IOUs that future taxpayers must pay. Unfortunately, the children of this average couple, who are 40 to 45 years old, now will receive projected benefits 45% higher than their parents, costing the government about \$884,000.00 when they turn 65.

No one should expect this problem to go away. The changing demographics are certain to happen. The questions remain: Who will pay for this, and how much will future taxation have to increase to maintain these benefits? To be continued...

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The Government's Cost for the Average American

"No one should expect productivity growth to be sufficient to bail us out..."

Ensuring fiscal stability would require an overall federal tax burden well above its long-term average." Remarks by Alan Greenspan at the 2002 National Summit of Retirement Savings, Department of Labor, Washington, D.C., February 28, 2002.

Someone must pay all of this debt. If you're guessing it's you and me and people who haven't been born yet, you're right. But our ability to pay down this debt is a problem and is compounded by the fact that inflation adjusted personal incomes for the average male have NOT gone up in the last 25 years. In 2004, real incomes for the average male actually went down. One must conclude a larger percentage of one's income will go to paying off government and personal debt. Those amounts continue to rise every year whether personal incomes do or not.

Maintaining a standard of living has also become more difficult and affects one's ability to save and grow wealth. The cost of owning and main-

taining a home has grown faster than personal incomes. As a percentage, property taxes have grown faster than incomes. Increases in college education costs have grown faster than personal inflation adjusted incomes. The cost of gas, heating oil, utilities, etc. have all exceeded the growth of personal incomes. The cost of local government has increased 42% faster than incomes and the cost of state government has increased 168% faster than national income averages. Government regulations, fees, and taxes on corporations all impact the prices of goods and services you receive. A simple example of this would be the government raising the fees or changing the corporate regulations on bread manufacturers. The fees or regulation costs are passed on to the consumer, you and I. The bread people, not wanting to raise the price of a loaf of bread because the consumer would notice, simply take two pieces of bread out of the loaf. No matter what, the cost continues to grow. To be continued...

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The Government's Cost For the Average American

Evidence of the strain being put on individual incomes by personal and government debt is clear. More money allocated for debt and interest has affected everyone's ability to save money. According to the Bureau of Economic Analysis, personal savings in the United States is down 100% over the last 20 years. According to the BEA's studies, the average American is saving at the rate of 0%. Personal savings rates, or should we say, someone's ability to save, have not been this low since the 1930s during the Great Depression. This inability to save creates darkness on the horizon and adds depth to the storm's seriousness.

Let's scan the horizon now. What do we see?

- G R O W I N G GOVERNMENT DEBT—a dark cloud.

- GROWING PERSONAL DEBT—a dark cloud.

- INTEREST ON THIS DEBT—a dark cloud.

- ADJUSTED INCOMES ARE FLAT—a dark cloud.

- RECORD CREDIT EXPANSION—a dark cloud.

- LOWEST SAVINGS SINCE 1930—a dark cloud.

- INCREASING COST OF LIVING—a dark cloud.

Some may try to convince you that this financial horizon will create only a shower or two. Beware! What we have just discussed in this section thus far are not projections that might happen in the future, these events are happening RIGHT NOW and no one can deny it. But now it is my job to show you what is behind the first line of storm clouds to give you a better view of how this will impact your future. To be continued...

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Sustaining the Unsustainable: Beyond the Horizon

Looking beyond what we can see right now, the forecast becomes disturbing. The shifting demographics will intensify conditions dramatically. It is ironic that some people choose to continue following the advice of those who have created, and continue to create, the problem. Financially, the cost of sustaining the ever growing aging population with the promised government benefits will drain almost all our financial resources. But the government continues to believe that it can borrow its way to prosperity. Unfortunately many people have followed the same philosophy in their own personal lives. The government, so desperate to convince the public that everything will be okay, is now using the calculation of future revenues that they will receive from people who have not even been

born yet. I can see it now—a birth tax. During the cold war between the U.S.S.R. and the United States, victory became ours when the U.S.S.R. spent itself out of existence. Now, I fear, our own government is doing the same thing to itself. The burden of cleaning up and rebuilding from the damage created by this storm will fall on the backs of all of us, the taxpayers. What will intensify the dark clouds of this coming storm on the horizon are the changing demographics. For certain, the second wave of this storm is going to happen as these changes occur.

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