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# These Financial Times

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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.

## ***Sustaining the Unsustainable: The Government Prepares Itself For the Storm***

So clear are the signs of the danger from this storm and the certainty that it is going to happen, you only need to take notice of changes the government is making to help it survive the oncoming storm. The government understands the statistics and demographics better than anyone and continues to try to sustain the unsustainable. But behind the scenes, the government is preparing.

## **QUALIFIED PLAN CHANGES**

Recently, the government made changes to the amounts that you can deposit on an annual basis into 401 (k) programs and IRAs. On the surface, this appears to be a benefit to everyone who is involved in one of these programs. But if you study this more carefully and confirm this with some basic math, you may come to the conclusion that there is more of a benefit to the government than there is to you. They know, because of the demographic shifts, as a percentage, there will be more retirees and fewer taxpaying workers. The government needs larger pools of money from these fewer workers to tax, at what ever rate they can, to

secure greater future tax revenues. Remember, these plans were sold to you as a tax savings.

## **THE CATCH-UP PROVISION.**

Not only did the government increase the amount you can put into qualified plans, but, if you are a certain age, you can put an additional amount into qualified plans to "help" you "save" for retirement. But, before you run off and do this, let's take a deeper look. If someone puts \$5,000.00 per year into a qualified plan for 10 years, for a total of \$50,000.00, and they thought they could receive a 6% rate of return on this money during those 10 years, what would be their share if they retired to a 30% tax bracket? \$48,300.00. Remember, they put in \$50,000.00.

Just remember, the Federal Government is building their own ark and using your Qualified plans and catch-up provisions to do so. Believe me, there will be no room for you on the Government's ark. To be continued...

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## *Sustaining the Unsustainable: The Government Prepares Itself For The Storm*

**SOCIAL SECURITY.** This program should be renamed Social Insecurity. The government continues to tweak the ages when someone can receive full benefits that they paid for, or, in some cases, that they didn't pay for. With life expectancies of people reaching into their 80s and 90s, the government seeks to save some money by increasing the age one must be to receive full benefits.

**BANKRUPTCY LAWS.** The government knows, since they are the experts on debt, that more and more people are drowning financially because of the tremendous amounts of personal debt. Recently, the government prided itself on the fact that personal bankruptcies leveled at about 1,700,000 filings per year. A closer look would tell you if that number is the average for 10 years, that means over 6% of our total population filed for bankruptcy protection. The new laws do not totally forgive the debt of certain filers and payments must be made on that debt into the future. Of course, any taxes due in this bankruptcy must be paid in full with interest. (Remember, the bankruptcy laws were not passed with John Q. Public in mind. They were designed for the federal government and the largest banks in our country.)

**MORTGAGES.** Recently,

40 year government sponsored mortgages were reintroduced. Why, you might ask. How would this benefit the government? The politician would have you believe it's to help you buy a nicer house, but the real reason involves a little deeper thought process. You see, buying a home is determined on how much you can afford to pay on a monthly basis. If you lengthen the mortgage years, you can afford a more expensive house. The government NEEDS to maintain the values of these properties as high as they can because these values are taxed. Think of the 40 year mortgage as putting you deeper into debt so you can pay higher taxes. The government is very fearful of housing prices going down, since it is a source of tax revenue.

As a side note to this, it seems as if property values go up every year, increasing the property taxes accordingly. If housing prices went down, how long do you think it will take the government to reduce those taxes? FOREVER. That is, IF they ever reduce them at all.

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### **REVERSE MORTGAGES.**

The government also introduced reverse mortgages for people over the age of 62. Because of increasing life expectancies and people outliving their retirement savings, this mortgage allows retirees to withdraw the values of their homes to support their incomes. The government, understanding that full impact of demographic changes are coming, needed to do this to take the pressure off itself of having to raise and increase the benefits they provide. The funny thing is, when reverse mortgages were first introduced years ago, the government considered them risky. I guess the government finally figured out that as long as the risk is borne by someone else, it's okay.

**EMINENT DOMAIN.** A recent challenge against eminent domain was struck down by the Supreme Court of the United States. This decision allows Federal, State, and local governments to seize and take control of property, any property, under the premise that taking this property will benefit the general public. Who determines what will benefit the general public will be a problem. But the government prof-

iting from these takeovers won't.

The steps the government is beginning to take confirm the coming problems. The warnings by the government officials of doubling taxes and decreasing benefits by 50% are lightning strikes in the financial futures. The changes the government must make are just beginning. To verify the seriousness of this approaching storm, take a look at speeches made by David Walker, former Comptroller General of the United States, and former head of the Government Accountability Office (GAO). Specifically, take a look at "Truth and Transparency: The Federal Government's Financial Condition and Fiscal Outlook," an address delivered by Hon. David M. Walker to the National Press Club in Washington, D.C. on September 17, 2003.

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## ***Sustaining the Unsustainable: Surviving the Storm***

You cannot be aware of something you're not aware of. On the streets, American life goes on one day at a time unaware of the uncertain future. People are aware that their paychecks are not increasing as fast as the price of housing, property taxes, health care, education, gas, utilities, insurance, etc., so adjustments are made by saving less and increasing their debt a little. The financial advice they receive is equivalent to nothing more than buying an umbrella to prepare for a hurricane. Add to this the fact that the government's failure to reduce its spending increases its urgency to raise taxes in the very near future. This action will further drain personal incomes. This storm is coming.

The most important thing you can do to prepare for these events is to KNOW, beforehand, that these events are going to happen. Your newfound awareness will help you to prepare, as the answers can be found inside the problem itself. All of the solutions in preparation for your financial future should have four goals in mind.

1. These solutions should increase your money supply now

and in the future.

2. These solutions should create more or better benefits for you.

3. These solutions should reduce the amount of risk and taxation you are exposed to.

4. These solutions should cost you no additional money than you are already spending.

Now, as we mentioned earlier, everyone is involved in transfers of their wealth. The transfers are taxes, tax refunds, qualified plans, owning a home, investments, life insurance, disability, owning a car, credit cards, and financial planning.

Most people unknowingly and unnecessarily transfer away a great deal of money on the aforementioned transfers. To be continued in the June 3<sup>rd</sup> issue of the Lakelander.

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