

# These Financial Times

The following is a reprint with the author's permission from the book Unintended Consequences by Leonard A. Renier.

Another demographic challenge is that with the increase of retirees, more investment money will move away from the stock market and end up in less risky investment vehicles. Retirees will be looking for more secure, safer rates of return. This is a natural thought process, but it may have devastating results. In 3,000 days, for the first time in stock market history, more money may be moving out of 401(k) plans and the market in the form of retirement incomes, than new money going into such investments. It has been my observation that when more stocks are sold than bought, prices of those investments fall, along with the values they hold in retirement programs. Can one-third of the working population in 3,000 days purchase the stocks sold off by retirees and maintain share values even though there are less workers and less buyers to maintain company profits?

In remarks at the 2002 National Summit on Retirement Savings, Alan Greenspan stated that because of the demographics of the country, it will be a real challenge to maintain the value of these retirement assets. He states, "This

ever larger retired population will have to be fed, clothed, housed, and serviced by a work force growing far less rapidly. The retirees may have accumulated a large stock of retirement savings, but the goods and services needed to redeem those savings must be produced by an active work force assisted by a stock of plant and equipment sufficiently productive to meet the needs both of retirees and a work force expecting an ever increasing standard of living." He goes on to say that "...the focus of the economy as a whole, of necessity, must be on producing the real resources needed to redeem the financial assets."

In that same speech, Greenspan goes on to state that "[i]f the Social Security Trust is depleted, the law requires that benefits are paid only to the extent that they can be financed out of current payroll tax receipts." Do you really think that a politician will allow this to happen? No, but it will take increased taxation and less benefits to keep them in existence.

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The government knows that it is between a rock and a hard place on the issue of Social Security. Greenspan's comments are an "I told you so" type of statement. "In addressing the impending retirement of those born just after WWII, we will need to consider whether Social Security should better align itself with the funding provisions of our private pension and annuity system. Policy makers need to consider these issues now if we are to ensure a comfortable retirement for the post-war generation, while at the

same time according due consideration to the needs of the later generations that now make up our work force."

The problem is the politicians spend our Social Security revenues faster than they are collected. If they would create a Social Security system with a public investment option, the government would lose control of that money. Remember, they consider it *their* money, not yours.

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In recent years, the government has become obsessed with imposing and collecting taxes. The collection of taxes has become job one and they do their job well. We are now being taxed at the highest levels in our history. Yet, even after collecting historical amounts of revenue in the form of taxes, the government continues to outspend these revenues and posts record amounts of debt. Even with all the proclaimed surpluses of the '90s, neither did taxes go down, nor did government debt. In recent years, taxation has grown 42% faster than incomes.

One could argue that we have experienced tremendous growth in our standard of living. However, those increased standards have been fueled by a record amount of personal debt. Personal bankruptcies are at all time highs along with credit card debt. For the last several years, the average household has saved at a negative rate. Any sustained economic downturns or lethargic stock market results, or both, will do serious damage to future savings. Even though market losses can occur

at any time, taxes will continue to increase. Why? Because they have to. The demographics of this country demand it.

Why did the government recently increase the levels that an individual can contribute to 401(k) plans and IRAs? Was this change initiated because they were concerned about your financial future OR THEIRS? They already know they are going to need larger pools of money to tax at whatever rate they can justify to finance the government's future liabilities. Read that again. They will tax retirement incomes at the highest rates achievable without jeopardizing their chances to get re-elected. A 401(k) or IRA simply defers taxation to a later date. It would be a different story if the government would guarantee that you would be taxed at the same tax level you were at when you put the money into these plans. Will they ever do that? No! They need and want as much of that money as they can get.

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Other than the obvious differences in appearance, what does a heifer and a \$1,000.00 bill have in common? You will see that the common bond the two opposites have is quite astonishing.

The heifer has the opportunity to become a proud mother cow and bless herself and her owner with a yearly healthy calf.

The \$1,000.00 bill, if given the opportunity to earn many years of annual interest, can bless its owner with a growing "herd" of \$1,000.00 bills.

Who gives or takes away the opportunity of the heifer and the thousand dollar bill to expand their range? You do!

You may have a real "feel good" feeling about paying with cash, but remember the net effect is exactly the same as paying with credit.

Remember this: Paying cash is Credit in Reverse! It is nothing more than raising up a heifer just to sell her before she has a calf. That means you save/spend, save/spend, save/spend.

Remember, traditional thinking and conventional wisdom:

- A. Teach us to place our money in their financial vehicles: Bank CDs, 401Ks, IRAs, 403Bs, SEPs, mutual

funds, stock market, selected real estate properties, and commodities (out of our reach and control and under theirs).

- B. Tell us that our money will grow in their investment vehicles (we bear all the risk) and the money will be available for our use in 20 to 50 years. With all the government bail-outs (and we taxpayers picking up one hundred percent of the tab) there is no telling what the income tax rate will be 20 to 50 years in the future.
- C. Benefit those who hold our money. They are in full control even when we lose 20-40% in value. They are still getting paid by us when we lose. Can you believe this? Can you believe that you are allowing this? I know --everyone else is doing it! When has everyone else ever been right about anything?

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