



We Survived the Fiscal Cliff Fiasco—Now What?

I suppose we should give a sigh of relief. After weeks of high drama, our fearless leaders agreed to a non-deal to resolve a non-crisis.

I'm talking, of course, about the infamous "Fiscal Cliff."

If the "problem" our country faces is that our government spends far more money than it takes in, then it's hard to see what all the fuss was about. Going "off the Cliff" would have massively slashed government spending. Isn't that what we needed?

Oh yes, there was that one little point about taxes soaring, and particularly taxes on dividends, interest, and capital gains. The fear that that investment-related taxes might rise was enough to cause a mild sell-off of income-oriented investments in the fourth quarter of 2012.

I have news for you: none of this matters. Not in the slightest.

Had we fallen off the Cliff—and had Congress not simply reneged on its resulting obligation to cut spending—the U.S. would have probably slipped into recession. Our economy is growing right now, but only slightly, and removing a large chunk of federal spending (combined with the reduction in consumer spending due to higher taxes) would have probably caused us to slip from modest growth to mild shrinkage. Hardly the stuff that crises are made of.

There is, however, a real crisis brewing, and it will ultimately mean that taxes will rise for all of us—and not just those of us fortunate enough to earn more than \$400,000 per year. And no, it's not the "debt ceiling crisis" that you will soon be reading about.

I'm talking about demographics. The House Republicans made a feeble attempt to make reform of Social Security and Medicare part of a Fiscal Cliff deal, but it never amounted to much. And that is a real shame, because it merely postpones the day that we deal with this crisis as a country.

The Baby Boomers are no longer the spending force they used to be. They are in a different stage of life now, with saving for retirement being a higher priority than buying that new house, car, or large-screen TV they might have bought in years past.

Meanwhile, millions of Boomers are retiring every year and starting to draw on the Social Security and Medicare benefits they were promised.

And here lies the problem. We have a large generation leaving the workforce at a time when economic growth is weak and not looking to get stronger any time soon.

A demographic tsunami is coming, and it will be tall enough to scale even the highest Fiscal Cliff. As investors, this means that we need to plan on shouldering more of our retirement expenses while also suffering under higher taxes.

This will involve planning—real, in-depth financial planning and honest assessments of our expected portfolio returns. And it means starting now, if you haven't already.

Sincerely,

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