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# Did You Know...?

News you can use for your financial well-being

## February, 2007

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### New look for newsletter

Starting with our next issue (March, 2007), "Did You Know...?" will have a new look. Every month, we'll be featuring a guest column from a local business professional about interesting and timely subjects. I'm very pleased that some of the best minds in Alameda have agreed to participate: in trust and estate matters, attorneys Heather Tremain and Matthew Duncan; in taxation, CPA Kevin Kearney; in business consulting, Lorre Zuppan; in pension plan design/reporting, Ray Shojinaga; and in insurance, Harry Hartman. Each month, one of these experts will share with us news, ideas, and suggestions from their field. I'm confident that the addition of information beyond my professional scope will add great value to this publication.

## Where your tax money goes

The Feb. 9, 2007 issue of The Kiplinger Letter had a very interesting table showing the spending on different programs in the Federal budget. Here is the info that most caught my eye:

	FY 2008(Iraq War)	FY 1983 (Cold War buildup)	FY 1968 (height of Vietnam War)
Defense	21%	26%	46%
Soc Sec+Medicare	41%	30%	17%
Interest on Debt	9%	11%	6%
<i>All other categories</i>	<i>29%</i>	<i>33%</i>	<i>31%</i>

Obviously, the talk right now is about how much we're spending on Defense, but there are two other key takeaways I got from these #'s:

1. Spending on Social Security/Medicare/Medicaid has more than doubled since 1968, and is approaching half of the annual budget. The situation is expected to get much worse in the next 10-20 years. Remember, these are "entitlement" payments, not "discretionary" payments: the government must pay these bills first, and then figure out how to stretch whatever is left over all of the remaining services it provides. Looking out 20 years, if S.S. is 55% of budget (well within reason given the retiring Baby Boomers), and Interest is 12%, that means two-thirds of the budget is set in stone. Assuming Defense spending slides down to maybe 12-15% (not a very safe assumption given the state of the world), even that would only leave approximately 20% of the budget for all of the other services the Federal government provides (education, disaster relief, science, law enforcement, health, etc).
2. Interest on Debt is not the backbreaker it's made out to be. Granted these numbers can be manipulated year to year, but that's not the expenditure that will bankrupt the government (for that, see #1).

The question to ask the politicians is why they spend countless hours haggling over how to spend 29% of the money when they spend little or no time addressing the 41% expenditure (Social Security).

Conclusion: it would be political suicide to suggest cutting entitlement benefits, so the equation will have to be balanced on the revenue side. How does the government raise revenue? From you and me—taxes.

## What my CFP® certification means to you

As you probably know by now, I passed the big test I took in November to earn my Certified Financial Planner™ designation. Without a doubt it was one of the most rigorous exams I've ever taken, as the 53% pass rate substantiates. I guess the 250+ hours of preparation in September and October paid off!

Initially, my goal was simply to earn the most esteemed designation in this profession as validation of the knowledge and experience I'd accumulated during my long career. As I progressed through the educational program over the past three years (a prerequisite to sitting for the national exam), I realized that the curriculum for this program was far deeper and broader than I had imagined. I spent about 100 hours on each of five different sections covering Taxation, Investments, Financial Planning, Estates, and Risk Management. As a result, I gained an insightful understanding of areas critical to the life/wealth planning process. From knowing how trusts are structured to meet individual needs, to what tax rate you'll pay when you sell your baseball card collection, the breadth of knowledge I've added as a result of this experience will undoubtedly enhance the expertise I can bring to our relationship. It also augments my ability to help "quarterback" your planning as I can better communicate with and understand the recommendations of your tax advisor, attorney, and any other professional you employ.

### **Timely Tidbits:**

- The Personal Savings Rate fell to a 74-year low in 2006, with the average American spending more than they made for a -1% savings rate for the year. This comes after a -0.4% rate in 2005, and marks the first time since the Depression the rate has been negative for two consecutive years.
- The Federal Reserve has taken a wait-and-see approach on interest rate policy, and recent comments by Chairman Bernanke expressing a belief in moderating inflation and continued economic growth rallied stock markets to new highs. The Dow is now at a record 12,700, a 70% rally from the lows of October 2002!

**Quote of the month:** "I really do believe I can accomplish a great deal with a big grin, I know some people find that disconcerting, but that doesn't matter." Beverly Sills, *US opera singer (1929 - )*

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