Registered Investment Advisor Firm

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Growing National Debt

Apart from a four-year period during the 1990's boon, the federal government has run a budget deficit every year since 1970. The national debt is now slightly larger than the size of the entire US economy, 106% of the US Gross Domestic Product (GDP). The Congressional Budget Office (CBO) expects the national debt to surpass $30 trillion by 2028, as Medicare and Social Security costs soar to cover aging Baby Boomers and could eventually become unsustainable.

Like any credit card user, the government must pay interest on its debt. With historically low interest rates, the past decade has not been a problem. But with rising rates, CBO estimates the cost of servicing the national debt is expected to nearly triple by 2027 – leaving the government paying more on interest payments than national defense.

Economists point out that debt can be used to fund investments like stimulating the economy. The nation's debt is different from household debt because the government can print its own money and potentially unlimited time to pay off. An emerging school of thought, the Modern Monetary Theory, argues inflation is the only obstacle standing in the way of government creating and spending as much as it wants.

About three-quarters of the US debt is held by investors in the form of Treasury securities. The rest is intragovernmental debt that comes from Washington borrowing against government trust funds, such as social security and medicare. Americans own most of the public debt, which means they benefit from interest paid. Foreign investors own about 30% with China the largest creditor, closely followed by Japan. This could be a problem if the US ever damaged its AAA credit rating, which is considered one of the world's safest assets.

The US has been in debt for nearly every year in its existence except for 1835 when President Andrew Jackson paid off the debt. The debt peaked at 119% of GDP in 1946, but shrank as the post-war boon reduced the debt to 24% of GDP in 1974, but has been rising ever since.

It is in the best interest of the economy to start to reverse the rising deficit before it becomes uncontrollable.

From a personal finance point of view, being out of debt is one of the most important decisions you can make. Chris Hogan, financial author and motivational speaker, cites 71% of millionaires are debt-free or have a very modest mortgage. He also supports the concept that the best way to get out of debt is to start with the lowest dollar debt amount regardless of interest rate. List all your debts, pay the minimum required payments for all except the lowest one and then review your budget to find enough extra money to pay off that debt within 6 months. The idea is to build momentum by paying off the smallest debt and combine that payment with the minimum on the next lowest until that debt is paid off, then the next lowest, until all are paid off. Paying off the highest interest rate first does not provide a faster path to being debt free - momentum does.

Paying off personal debt allows money to be invested to make money, not pay off interest and past purchases. Also the interest is no longer tax deductible.

If you need help designing a path to debt freedom, contact me at (707) 648-2024.

Q: Retired with earned income, can I contribute to an IRA? Do I qualify for retirement savers' tax credit?

A: As long as you are under 70 ½ and have some earned income (earned income is money earned from wages or self-employed income, not investment or pension income), you can contribute to a Traditional IRA – and you have until April 15, 2019 to contribute to your 2018 IRA. You can contribute up to the amount of income earned, with a maximum of $6,500 for 2018 if you are 50 years or older ($7,000 for 2019).

You can contribute to a ROTH IRA at any age as long as you have earned income, but your adjusted gross income (AGI) must be less than $137,000 for single filers and $203,000 for joint filers.

Depending on your income and the amount of your retirement or savings plan contribution for the year; you may qualify for the tax credit. The maximum credit is $1,000 per person which you can get if you contribute $2,000 or more to your IRA and your AGI is $31,500 or less if single or $63,000 or less for joint filers. Your credit could be reduced if you recently withdrew money from an IRA or 401(k).

FED Watch

At the January FOMC meeting, the Fed did not raise rates (as expected). The Fed language changed to "patient in determining further rate hikes" and removed "some further gradual rate guidance". They noted that inflation was still near its 2% target. The June meeting has a 15% chance of a rise in rates and an 8% chance of lowering of rates at its December meeting. The Fed will also continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them.

Next meeting:
March 19th and 20th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
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