BUSINESS AND FINANCE

One Man's Opinion

By Gerry Chong

Prologue: This past January 28 economists placed full-page ads in the Wall Street Journal and the New York Times opposing Obama's approach to the economic crisis. In part, the ad said, "*we the undersigned do not believe more government spending is the way to improve economic performance. More government spending by Hoover and Roosevelt did not pull the United States economy out of the Great Depression of the 1930's…To improve the economy, policy makers should focus on reforms that remove the impediments to work, savings, investment, and production. Lower tax rates and reductions in the burden of government are the best ways of using fiscal policy to boost growth.*"

Two months later, on March 11 forty nine economists evaluated the stimulus bill's impact, and gave both Obama and Geithner failing grades for their handling of the economy and the stimulus bill.

In the Spring, Obama encouraged Japan, China, Britain, France, Germany, and Russia to follow his lead and create their version of the stimulus plan. Every country except Britain rejected his proposal.

Obama promised his plan would raise federal deficits in the initial years, but would reduce the deficit to $500 billion by the tenth year.

Results: Eight months later, how are we doing?

The stimulus package has given us the worst of both worlds. The enormity of the bill will pump our deficit this year from $455 billion in 2008, the previous highest in history; to an incredible $1.6 trillion this year. Moreover, the While House now agrees the accumulated deficit will grow to over $9 trillion over 10 years….nearly $1 trillion each year for ten years! The interest on such a debt will squeeze out our ability to solve other national priorities. Obama's projection of reducing our debt in the coming years has been proven wrong.

So did such an enormous commitment pull us from recession? No. To date, only 12 percent of the committed funds have been spent. The government promises to reach 40 percent expenditure by the end of the year. It will not have spent all of the stimulus funds until mid-2010, a time when the economy will have improved without the benefit of the stimulus funds.

The irony is that we committed too much money, but delivered it at a rate too slow to improve the economy. The worst of all worlds.

This past March, the Congressional Budget Office (CBO) had projected a positive growth in Gross Domestic Product of between 1.4 percent and 3.8 percent. In fact, it will be a negative 2 percent plus. Unemployment will continue to increase through the middle of 2010. Consumption will be sluggish until job growth has resumed. So we are years away from a real recovery. The economists were right.

The countries that rejected Obama's suggestions have prospered. China's GDP has grown by 8 percent. The economies of Japan, Germany, and France had emerged from recession by the second quarter of this

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What Should You Do with an Inheritance?

Will you ever receive a sizable inheritance? You can't plan on it. But if you do get one, you can plan on using it to help achieve some of your key financial goals. Once you get word of an inheritance, what steps should you take? Above all, don't rush to act. If you are in the midst of the grieving process, it's hard to make good decisions about money. Consequently, you may want to consider "parking" your inheritance temporarily in a liquid vehicle, such as a cash or cash alternative investment. Don't fret if your inheritance isn't really growing much for a few months ˜ you'll have time to put it to work later. After you've parked your money and some time has passed, you can think about what to do with your inheritance. Here are a few ideas:

Get rid of debts. Use your inheritance to pay off as many debts as you can, especially those consumer loans that are not tax-deductible and that carry high interest rates.

Establish an emergency fund. This fund should contain six to 12 months, worth of living expenses. Without it, you may be forced to dip into your investments to pay for unexpected costs, such as an expensive car repair or a hefty medical bill.

Review and adjust your financial strategies. If your inheritance is large enough, it may be a "game changer" in terms of how you pursue your financial strategies. For example, you may now be able to speed up your timetable toward retirement, if that's what you want. Or you may be able to pay more of your children's college education, thus freeing up more funds for your own retirement savings. In fact, by investing your inheritance in certain ways, you can influence many desired outcomes that you've identified in your overall financial strategy. Your financial advisor can help you make those moves that are most appropriate for your individual needs.

Plan for taxes. Unless you are "inheriting" your spouse's assets, you may be subject to some type of taxes when you receive an inheritance. Some types of inheritance, such as the proceeds from a life insurance policy, are tax-free. On the other hand, if you inherit a non-spousal 401(k) plan and are forced to take the money as a lump sum, which is likely because most 401(k) providers would prefer to remove the account from their books, your inheritance will be subject to federal, state and local income taxes. However, thanks to recent tax law changes, as a non-spouse beneficiary you can now transfer an inherited 401(k) to an IRA, which allows you to avoid immediately paying taxes on your inheritance. You'll still be required to take annual withdrawals, which are taxable, but the amount will be based on your life expectancy, so you can spread out your tax burden. To make sure you're making the right moves with an inherited 401(k), consult with your tax advisor.

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