

# THE STAPPAS PERSPECTIVE

Paul G STAPPAS/ 908-369-6843

## PREPARE FOR THE NEW HEALTH CARE BILL

We now have a new health care law whose primary objective seemed to be expanding health care to millions of uninsured persons while not increasing taxes or costs to the American public. Is this really true or can it really be true? Well let's examine some history.

How about social security:

- a) Started in 1937, the initial tax was 2% up to the first \$3,000, \$30 max.
- b) In 1950 went up to 4% up to the first \$3,000, \$120 max
- c) By 1963 went to 7.25% up to \$4,800, \$348 max
- d) In 2006 went to 15.3% up to \$94,200, \$14,412 plus no cap on hospital insurance at 2.9%
- e) When social security taxes first started an informational booklet published by our trustworthy government stated -- "And finally, beginning in 1949, 12 years from now, you and your employer will each pay 3 cents on each dollar you earn, up to \$3,000 a year. That is the most you will ever pay."
- f) Also according to justfacts.com -- "After adjusting for inflation, the result of this calculation equates to a maximum tax collection of \$1,630 per person. In 2007, the maximum tax collection per person was \$12,090, or more than seven times this amount."
- g) Not only have costs substantially exceeded government estimates/projections, retirement age has now been increased, depending on date of birth, from 65 to 67 and will probably increase further.
- h) And how about our benefits. They were to be tax free and, according to the government booklet referred to above "*You will get them regardless of the amount of property or income you may have.*" Well, today up to 85% of our benefits can be taxed.
- i) With all this actual history regarding this government plan can we really have confidence that the costs for this new health care law will decrease rather than increase? We can hope but..... I fear not.

How about taxes

- a) Already since the bill passed several large firms have taken substantial 1st quarter charges as a result of the bill: ATT \$1 billion, John Deere \$150 million, Caterpillar \$100 million. Accounting rules REQUIRE this be done. Plus, as a result of the new bill and taxes firms such as this MUST PAY, they are now considering whether they can continue to provide prescription drug coverage to their retirees. This will probably ADD to Medicare costs.
- b) How can our government pay for the added expense for this health care and the current HUGE government debt? There are only two options: reduce expenses, reduce benefits, or increase taxes. Which do you think is more likely? Hint: look at social security above.

## PG STAPPAS

760 Vanessa Lane  
Neshanic Station,  
NJ 08853  
USA

PHONE:  
908-369-6843

FAX:  
908-364-9449

E-MAIL:  
pgstappas@  
comcast.net

Visit our web site  
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- c) How about Medicare premiums
  - a. As reported in the 2/20/10 article in the STAR LEDGER, a recent study found premiums for Medicare Advantage plans increased a large 14.2% on average in 2010 and this is after a 5.2% increase the previous year.
- d) Now, let's review our tax rate history:
  - a. In 1991 our government reduced our tax rate to just three – 15%, 28%, and 31% and we were told that this would be our tax rates forever.
  - b. Well, what our government giveth it taketh and our tax rates increased to five: 15%, 28%, 31% 36%, and 39.6%.
  - c. We now have six brackets: 10%, 15%, 25%, 33%, and 35%, but we did get a tax brake in that the top bracket was reduced from 39.6%
  - d. The question is: how can we trust our government to leave our tax rates alone so we can actually plan effectively? This author suggests we cannot and need to plan accordingly.
  - e. In the 80's the tax laws regarding real estate investors was changed and made retroactive. As a result those who invested in real estate under the old laws suffered substantial losses even though the initial investments were LEGALLY MADE UNDER THE THEN CURRENT LAWS.

### CONCLUSION

It is best to assume that health care costs will continue to increase and prepare accordingly by:

- a) Budget for increasing health care costs. I suggest projecting annual expense increases of at least 15% per year. If costs come in below target, then you just increase your firm's net profit. Underestimate and you reduce your estimated net profits. It is best to plan high.
- b) Review your insurance program annually with a reputable agent that handles multiple carriers. Better yet, in order to provide greater options, check with several agents.
- c) Review alternative plan options with the insurance agent such as high deductible plans, health savings accounts etc.
- d) Make plans based on the current laws and benefits the current laws provide NOT what the laws MAY be in 10, 20, or 30 years. This is why I do not subscribe to sacrificing current tax deductions for IRA plans for ROTH IRA plans. Roth IRA funds are SUPPOSED to be tax-free in the future. What are the guarantees? Based on history, none!

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