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4 observations: former Comptroller General David Walker

By David McKnight | August 17, 2016 at 04:00 AM | Aug. 17th, 2016 Send to Kindle

As someone who believes that taxes in the future are likely to be higher than they are today, I tend to listen whenever David Walker opens his mouth.

Walker served as Comptroller General of the United States from 1998 to 2008.

Then in 2009, he famously opined that tax rates would likely have to double to liquidate our nation's debt and pay for underfunded entitlement programs like **Social Security** and **Medicare**.

Since then, Walker has been on a "Comeback America" tour. He travels the nation raising the warning cry about our country's ongoing fiscal challenges.

As part of this tour, Walker recently appeared on a nationwide NAIFA ClientCast where he made more prognostications about our country's future. Here are a few excerpts from his talk, along with my comments.

Observation No. 1: "Taxes are going up."

If Congress continues to kick the can down on implementing permanent fixes to our country's entitlement programs, taxes will likely have to rise. David Walker once declared that a single four-letter word would explain why higher tax rates are inevitable: Math.

Observation No. 2: Fix Social Security, or else.

"If Congress does nothing to fix Social Security, there will be a 23 percent across the board cut in 2033," Walker said.

He is a big fan of phasing in changes to Social Security and Medicare over time. He's also a big fan of permanently fixing these programs, not creating a temporary Band-Aid like Ronald Reagan did in 1984, and Bill Clinton did later in 1992. If Congress continues to paint itself into a corner by choosing inaction, tough fixes will eventually be forced upon us in the form of drastic across the board cuts to the programs that provide society's safety net.

The Government Accountability Office (GAO) is a government agency is run by the United States Comptroller General. The agency provides auditing, evaluation and investigative services for the United States Congress. (Photo: iStock)

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Observation No. 3: Wealth only goes so far.

"The better off you are financially, the more you'll be affected by the changes to Social Security and Medicare," Walker said.

In other words, if you've done a good job saving for retirement and are considered, by the government's standards, to be someone of means, you will likely receive less Social Security and have to self-fund more of your health care costs in retirement. Are our clients who have substantial 401(k)s and IRA's prepared for this reality.

Observation No. 4: The rich will be taxed more.

"The government will likely increase the effective tax rate for those who are better off," Walker said.

Translation: The more money you have, the greater the share of the tax burden you will likely shoulder in the future.

Walker did discuss the importance of broadening the tax base so that everyone is invested in the system, but he emphasized repeatedly that the more you have, the more you will likely pay. This could come in the form of higher marginal tax brackets, the elimination of deductions or both.

Remember, David Walker likely knows more about our country's fiscal viability than anyone on the planet so it's important that we take his warnings seriously. It's also important that we know how to prepare our clients for the challenges of which he speaks. For example, if tax rates in the future are likely to be higher than they are today, have our clients begun to reposition their assets to tax-free vehicles like Roth IRA's Roth 401(k)'s, Roth Conversions, and Life Insurance Retirement Plans?

In a rising tax rate environment, our clients have to be very intentional about the amount of money they contribute to tax-deferred investments like 401(k)'s and IRA's. Ideally, they want to have so little money in their tax-deferred investments that RMDs at 70 ½ can be offset by their standard deductions and personal exemptions. Everything else by definition should flow into the above mentioned tax-free accounts.

David Walker cares deeply about our country, and believes that our current course is both unsustainable and immoral. As financial advisors, we would be wise to heed his message.

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