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The Economy No Longer Needs the Fed's Help?

by Clark Kendall

THE QUARTER IN BRIEF

Thanks to a great October offsetting a flat November and a down December, U.S. stock indices posted sizable gains during the fourth quarter. The Dow Jones Industrial Average rose 7.00% in Q4, but even so, the blue chips lost 2.23% for the year. In the last quarter of 2015, the Federal Reserve finally raised interest rates The slowdown in global manufacturing spread to America, and oil prices fell on the NYMEX. Hiring totals were impressive. Housing indicators mostly positive. Terrorism, ongoing weakness in Chinese manufacturing, the oil supply glut, and declining corporate profits and dollar strength all bred considerable anxiety among investors.

DOMESTIC ECONOMIC HEALTH

The quarter's biggest financial story was the Federal Reserve's big move – its December 16 decision to raise the federal funds rate by a quarter of a point. Investors widely expected a December rate hike, so the focus quickly turned to what the Fed might do in 2016. Its December dot-plot chart showed a median projection of 1.4% for the federal funds rate at the end of this year, 2.4% at the end of 2017, and 3.3% at the end of 2018.

In November, annualized core consumer inflation was right at the central bank's 2.0% target. The headline Consumer Price Index had risen just 0.5% in a year. Both the headline and core CPI advanced 0.2% for October; in November, the core CPI maintained that pace while the headline CPI was flat. The headline and core Producer Price Indexes both rose 0.3% in November; they had respectively retreated 0.4% and 0.3% for October.

Annualized wage growth had improved slightly to 2.3% by November, another development likely influencing the timing of the Fed's upward move. Employers added 298,000 new jobs in October and 211,000 in November. By the eleventh month of the year, the headline unemployment rate stood at 5.0% while the U-6 rate tracking "total" unemployment stood at 9.9%.

Personal spending was up 0.3% in November after a flat October; personal incomes rose 0.4% in October and 0.3% in November. Retail sales merely inched up 0.1% in October and 0.2% in November; minus auto buying, sales were actually up 0.4% for November. As for consumer confidence, the Conference Board's index went north again reaching 96.5 in November after a 92.6 reading in October. The University of Michigan's index ended November at 92.6.

> "The quarter's biggest financial story was the Federal Reserve's decision to raise the federal funds rate by a quarter of a point."

How much had the economy grown in the third quarter? As Q4 drew to a close, we received the final answer from the Bureau of Economic Analysis: 2.0%, far from the 3.9% expansion in Q2. Indicators from the fall months made analysts wonder if GDP would even reach 2% in Q4. The manufacturing PMI from the Institute for Supply Management slipped lower and lower as the quarter went on

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– 50.1 in October, 48.6 in November, and 48.2 in December. By ISM's measure, the year ended with two months of contraction in the U.S. factory sector. (In December 2014, the ISM manufacturing PMI was at 55.1.) In contrast, ISM's non-manufacturing PMI was holding up well as 2015 ended, at 59.1 in October and 55.9 in November (though the November reading was the lowest since May). Total durable goods orders were up 2.9% in October but flattened a month later. U.S. industrial output fell 0.4% for October and 0.6% for November.

GLOBAL ECONOMIC HEALTH

Leaders of China, the second-largest economy in the world, claimed that economy would meet its 7% growth target for 2015, but their claims were met with some skepticism. China's manufacturing sector appeared to be firmly in contraction territory with the nation's official factory PMI at 49.7 when the quarter ended; barely better than the 49.6 November reading that represented a 3-year low. The Caixin manufacturing PMI for China was at 48.6 in October, a 6-month peak of 48.9 for November, and 48.2 for December; it was last above 50 in February. Economists polled by Bloomberg see 6.9% GDP for China for 2015, 6.5% for 2016 and 6.3% for 2017. China's official service sector PMI did reach 54.4 in December; its best mark since August 2014. At quarter's end factory PMIs in Japan (52.6), South Korea (50.7), and Taiwan (51.7) were all showing sector expansion.

"Rising 17.83%, the Dow Jones Internet index was the top Q4 performer."

The eurozone manufacturing sector seemed in good shape. Markit's manufacturing PMI for the euro area came in at 53.1 in December. Manufacturing output had accelerated at the fastest pace in 20 months. The European Central Bank expanded the scope of its economic stimulus as the year ended. As the deflation threat to the eurozone remained, annualized consumer inflation was at 0.2% the entire quarter, and yearly core inflation was just 0.9% in December. Nowhere near the ECB target of 2.0%.

WORLD MARKETS

Gains outnumbered losses in Q3. China's Shanghai Composite jumped 15.93%, Germany's DAX rose 11.21%, and Argentina's MERVAL surged 18.96%. Other gains: The U.K.'s FTSE 100, 2.98%; Australia's ASX 200, 5.46%; Hong Kong's Hang Seng, 5.12%; Indonesia's Jakarta Composite, 8.74%; Japan's Nikkei 225, 9.46%; Ireland's ISEQ, 10.12%; France's CAC 40, 4.08%. The major regional indices also advanced in Q3: the Asia Dow rose 3.35%; the Global Dow, 4.03%; the Stoxx 600, 5.19%; the Europe Dow, 1.32%; the Dow Jones Americas, 4.98%; the MSCI World Index, 5.11%; and the MSCI Emerging Markets Index, 0.26%.

Fourth quarter retreats varied from major to minor. Russia's RTS lost 4.14%; Brazil's Bovespa, 3.79%; Spain's IBEX, 35 0.16%; Canada's TSX Composite, 2.23%; India's BSE Sensex, 0.14%; and South Korea's Kospi, 0.08%.

COMMODITIES MARKETS

The Thomson Reuters/Core Commodity CRB Index fell another 9.09% in Q4 and sank 23.40% for the year. As for the U.S. Dollar Index, it logged a 2.37% Q4 advance and gained 9.26% for 2015.

Crude oil sank 17.85% during the quarter on NYMEX ending the year at $37.04 after cresting the $50 level in early October. Unleaded gasoline futures fell 12.11% in 2015, which paled compared to the 20.55% descent for natural gas and the 37.12% drop taken by heating oil.

As Q4 concluded, gold settled at $1,060.50 per ounce on the COMEX retreating 10.53% for 2015. Silver ended the year at $13.82 slipping 11.69% in 2015. Platinum and copper fell harder: platinum lost 26.00% for the year, copper 25.09%.

"New home sales kept rising during the fall: up 10.7% in October and another 4.3% in November according to the Census Bureau."

Soft commodities fared best in the quarter. In fact, the five-commodity block of Cocoa, cotton, coffee, sugar, and frozen concentrated orange juice rose 12.64% in Q4 with sugar alone up 18.32%. It only gave back 0.74% on the year. Coffee certainly had a rough year slipping 21.54%; corn lost 9.36% in 2015 soybeans 13.07% and wheat 18.88%. Cocoa futures advanced 9.07% in 2015, cotton futures 6.21%, and sugar futures 6.87%.

REAL ESTATE

New home sales kept rising during the fall: up 10.7% in October and another 4.3% in November according to the Census Bureau. Resales went in the opposite direction. The National Association of Realtors recorded a 4.1% drop in October then a 10.5% plunge in November, possibly influenced by new home financing regulations that delayed some closings. This development may have also affected

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Did You Hear What Just Happened With Social Security?

Congress just eliminated two popular strategies used to get greater retirement benefits.

By Carol Petrov

If you want to claim Social Security benefits soon, keep a date and a number in mind. The date is April 30, 2016. The number is 62.

Recent changes to the Social Security benefit rules have made that date and number very important, especially for those about to retire.

In October, Congress passed a new federal budget. In doing so, it eliminated file-and-suspend and restricted application claiming strategies for Social Security, which married couples used to try and maximize their combined retirement benefits.

Broadly speaking, the point of both strategies was to generate spousal Social Security benefits and allow for further growth of the primary worker's benefits until they're 70. However, this change also impacts divorcees planning to claim divorced spouse benefits using the Restricted Application, thus allowing them to delay their own benefits until age 70.

After April 30, 2016, the door will shut on the file-and-suspend strategy. The strategy worked like this: when one spouse reached Social Security's Full Retirement Age (66), that spouse claimed Social Security but then immediately suspended their retirement benefits. The other spouse could then claim a spousal benefit while allowing the Social Security benefit based on their own income to grow 8% annually. If you are already 62 or older, you will be grandfathered and still eligible to file for a spousal benefit (aka Restricted Application) when you reach your Full Retirement Age.

Under the new law, one will receive either their own benefit or half the spouses (or former spouses), whichever is higher, and your own benefit would not continue to grow.

You may still be able to use the file-and-suspend strategy before the deadline. Are you married? Are you currently 66 or older, or will you be 66 years old by April 30, 2016? If your answer is "yes" to both those questions, then you and your spouse still have a chance to use the strategy, which disappears forever on May 1. (It may be risky to wait until April, when the Social Security Administration may have a backlog of applications on its hands.)

If you are still eligible to file-and-suspend, and you miss the April 30 deadline, you could end up leaving anywhere from $10,000-60,000 in lifetime Social Security income on the table.

What if you're single? The file-and-suspend strategy will still be permitted for individuals. A person can still file for Social Security benefits and voluntarily suspend them, with his or her deferred, individual Social Security benefit increasing by about 8% a year until age 70. However, under the new regulation, you can no longer request a "lump sum" retroactive payment of the benefits you deferred. File-and-suspend is a very attractive option for those who file single returns and wish to continue to work past 66 or 67. If they file-and-suspend and then suffer from a health crisis, they could collect a one-time payment of past benefits at a time when it's needed most.

Does waiting to claim Social Security until age 66 or 67 still make sense? For many couples – particularly those in good health – it still does. While the sun is setting on the chance to receive some spousal benefits while you wait, the basic math of Social Security remains the same. The longer you wait to file for benefits the larger it will be, and remember, you don't have to wait until you're 70 either.

Beware! Someone may be reading your emails and Spoofing you!

Recently, we caught a fraudster who had *Spoofed* one of our client's email addresses and requested we wire cash from their account to another party. In the past, you could easily tell the author was of foreign descent with poor grammar and an utterly ridiculous request to wire funds out of the country. But this time was different. The email was well-written with a reasonable request for a domestic wire transfer. Clearly, the fraudster had spent time reading emails to determine that the client kept an account with us, used the proper nickname and had very thoughtful questions to make it sound legitimate as they were ready to sign a transfer form authorizing the transfer. Unfortunately, this scam works, and often, but not with us. We called the client to verify the request and immediately notified the FBI when we realized it was not her sending the email.

So, assume a hacker is reading your email and please remember not to include account numbers, Social Security Number or Birthdate in your emails. We should take additional precaution not to be so detailed in writing about your financial matters. For example say, "bank on file" instead of "my Citibank account ending in 4567". Also, if you must return a signed document via email, learn how to use the Encryption feature on Adobe Acrobat to Password Protect your document and then simply call the recipient with your password or simply send the document via fax. This way, if someone does read your emails, they won't be able to use them against you.

You can rest assured we're taking these precautions with our correspondence and should expect a phone call from us if you ever request a cash transfer to somewhere other than your bank account on file.

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NAR's pending home sales index, which fell 0.9% in November after a 0.2% October gain.

Looking at some other key housing market indicators, October's Case-Shiller Home Price Index rose 0.1% and displayed a year-over-year increase of 5.5% (this is the 20-city composite). U.S. housing starts declined 12.0% for October, but groundbreaking picked up 10.5% in November. October saw a 4.1% increase in building permits, and November brought an 11.0% gain in that category.

When the quarter started (October 1), Freddie Mac measured the following average interest rates on home loans in its Primary Mortgage Market Survey: 30-year FRM, 3.85%; 15-year FRM, 3.07%; 5/1-year ARM, 2.91%; 1-year ARM, 2.53%. On December 31, everything was higher: 30-year FRM, 4.01%; 15-year FRM, 3.24%; 5/1-year ARM, 3.08%; 1-year ARM, 2.68%.

LOOKING BACK…LOOKING FORWARD

Along with the Q4 gains for the three major indices, the Russell 2000 improved 3.20% in the last three months of 2015. The CBOE VIX, the "fear index," lost 25.67% for the worst Q4 performance of any U.S. benchmark. Rising 17.83%, the Dow Jones Internet index was the quarter's top performer. On December 31, the most-watched U.S. indices settled as follows: DJIA, 17,425.03; NASDAQ, 5,007.41; S&P, 2,043.94; RUT, 1,135.89; VIX, 18.21. The 2015 performances of the "big three" are noted just below; the RUT lost 5.71% on the year and the VIX 5.16%.

How will stocks fare in the first quarter of 2016? They certainly fared poorly on the year's first trading day, when another global selloff prompted by a poor factory PMI reading in China sent equity indices on three continents down 2-8%. One bad day need not foretell the whole quarter, however. For stocks to regain momentum in this and subsequent quarters, oil prices have to rebound at least

% Change	2015	Q4 Change	1-Yr Change	10-YR Change
DJIA	-2.23	+7.00	-2.23	+6.26
NASDAQ	+5.73	+8.38	+5.73	+12.71
S&P 500	-0.73	+6.45	-0.73	+6.37
Real Yield	12/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR Tips	0.73%	0.49%	1.00%	2.06%

Source: online.wsj.com, bigcharts.com, treasury.gov – 3/31/15
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

slightly, corporate profits have to rise (Thomson Reuters data shows they were flat last year, in contrast to 8.3% improvement in 2014), Wall Street has to accept the long-planned slowdown in China's economy, and the dollar needs to be a little less dominant…a rather long wish list. Even if the Fed winds up making just one or two upward moves in 2016, the bulls will have some formidable challenges to overcome. Stocks advanced nicely in the previous decade when monetary policy was tightened; with luck, perhaps they will do just that this quarter and this year.

Financial Literacy is the Answer, Not Retirement Plan Mandates

By Clark Kendall

In Annapolis, state Democratic legislators are at it again. In bills introduced in the 2016 legislative session, they are trying to force Maryland employers with five or more employees to automatically enroll their workers in a mandatory state-run retirement program – if they do not offer an employer-sponsored retirement plan. That means companies, mainly small businesses, would be required by state law to take at least 3%, the minimum required by the U.S. Department of Labor, out of every employee paycheck.

Democrats proposing this bill include Sen. James Rosapepe (Prince Georges), Sen. Richard Madaleno (Montgomery) and Del. Tom Hucker (Montgomery) say not enough Marylanders are planning for retirement and government needs to do something to make them save. They are right on the first point: roughly 900,000 people in State of Maryland have no retirement plan whatsoever.

But they are dead wrong on the second point. Instead of trying to legislate retirement plan participation by Marylanders, state lawmakers should be legislating financial literacy by requiring that it be taught in our high schools. Here in Montgomery County, although high schools are teaching career tracks such as healthcare and engineering (to name just two), they do not have a financial literacy track.

What is the connection between financial literacy and retirement plans? People who are financially literate realize the need to take advantage of and participate in retirement plans. In Montgomery County, the state of financial literacy is so poor that half of County employees do not participate in the County-sponsored 403(b) plan.

Sadly, financial literacy is not just lacking in Montgomery County or the State of Maryland. It's a problem for the nation as a whole, as demonstrated by a new survey by the S&P organization, S&P Global FinLit, that measured finan-

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Congress Gives Some "Holiday Gifts" to Taxpayers

Some key federal tax breaks are made permanent...at last.

By Paola Bruening

During the past few Decembers, taxpayers and tax preparers have waited anxiously for Congress to rescue expiring federal tax provisions. Usually, legislators pass an eleventh-hour bill extending certain tax perks for another year and reinstating them for the current year.

The Protecting Americans from Tax Hikes Act of 2015, or PATH, recently signed into law, not only renews 52 expiring tax provisions but makes some permanent. You may be a taxpayer who benefits from PATH.

> "The Protecting Americans from Tax Hikes Act of 2015 (PATH) renews 52 expiring tax provisions and makes some permanent."

Would you like to make a tax-free transfer of IRA assets to a charity? PATH makes that opportunity permanently available to you. A traditional IRA owner at least 70½ years old may make a charitable gift from their IRA to a qualified charity and exclude the transferred amount from their gross income for the tax year in which the gift is made. This is a tax-efficient move for wealthy, older IRA owners who see their annual Required Minimum Distribution (RMD) as more of a tax issue than a necessity.

Are you a teacher who takes the above-the-line deduction for K-12 school supplies? PATH makes that deduction permanent (currently set at $250) as well and indexes it for inflation.

Would you like to claim the American Opportunity Tax Credit? If so, you will be pleased to know that this college education credit will remain at $2,500 thanks to PATH. The current phase-out levels ($80,000 for single filers, $160,000 for joint filers) will also remain in place.

Do you live where there are no state income taxes? PATH makes the itemized federal deduction for state and local sales taxes a permanent option for you.

PATH extends some tax perks only through 2016. Most notably, it continues the tax exclusion on canceled home loan debt for another year. It also preserves the current $4,000 limit for the above-the-line tuition deduction for college education.

Tax breaks rewarding homeowners, homebuilders, and contractors for energy efficiency are also preserved for another year by PATH. Builders and contractors may still take advantage of a credit as large as $2,000 for manufacturing energy-efficient residences, and the 179D deduction is still available for those who build green or make qualifying HVAC and lighting improvements to commercial properties. Home energy tax credits of up to $500 will continue rewarding taxpayers who make energy-saving upgrades to their primary residence.

And for you Business Owners…..

Does your business do any research or development? The federal R&D tax credit is now permanent and even sweeter. Any company with less than $50 million in gross receipts may use the R&D credit to counter the Alternative Minimum Tax. Thanks to PATH, even some start-ups not yet facing income tax may be able to offset payroll taxes via this credit.

Businesses get a 2-year reprieve from the Cadillac tax. Companies sponsoring high-priced health insurance plans will not have to face this tax until 2018 thanks to PATH.

Are you thinking about remodeling your restaurant or retail business? PATH preserves and makes permanent the 15-year period for depreciating remodeling and other improvements. No going back to the old 39-year period.

> *"A Strong U.S. Dollar is a double-edged sword….*
>
> *On the one hand, it shows that the U.S. economy is growing faster than anywhere else and allows us buy foreign stock and imported goods more cheaply, thus putting more cash in our pockets.*
>
> *On the other hand, it makes U.S. products and services more expensive in the world markets putting pressure on the profits of those companies who sell overseas, thus eventually driving down earnings and their stock prices."*

2015 Fourth Quarter Report: The Year in Review

By Jason Tkach

In the past year, we experienced many things—a prelude to a Presidential election, a renewal of terrorist concerns, a trip to Pluto—but in the investment markets, we will look back and yawn. Despite some entertaining ups and downs, particularly in the third quarter of the year, the markets ended pretty much where they began.

The final three months of the year provided investors with gains that were tantalizingly close to wiping out the losses of the previous three months. The Wilshire 5000, the broadest measure of U.S. stocks, gained 5.89% in the fourth quarter of 2015 ending the year down a mere 0.25%. Large cap stocks, as measured by the S&P 500 index, was up 6.45% in the fourth quarter but finished down 0.73% for all of 2015. Its first yearly loss since 2008.

2015 was a year to forget for investors in small and mid-sized company stocks. The Russell Midcap Index lost 2.44% in 2015, and the Russell 2000 Small-Cap Index finished the forgettable year down 4.41%. The technology-heavy Nasdaq Composite Index enjoyed one of its best years of the century. Tech stock investors saw the Nasdaq rise 19.40% during the year.

International investments contributed a slight decline to overall portfolio returns. The broad-based EAFE index of companies in developed, foreign economies gained 4.37% in the fourth quarter of the year but finished the year down 3.30% in dollar terms. Emerging markets stocks of less developed countries, as represented by the EAFE EM index, lost 16.96% for the year.

> "The final three months of the year provided investors with gains that were tantalizingly close to wiping out the losses of the previous three months."

Looking over the other investment categories. Real estate investments, measured by the Wilshire U.S. REIT index, gained 7.47% during the year's final quarter wiping out previous losses to finish up 4.23% for calendar 2015.

Many investors will look at their statements and see lower returns than the indices indicate simply because they have a diversified portfolio. This is in part because a portion of their portfolio was invested in commodities—by far the biggest loser of 2015. Commodity investments are considered an excellent diversifier, but they continued a long-standing losing streak with the Standard & Poor's GSCI falling 16.63% in the fourth quarter. Some have speculated that the largest contributor, a surprising continuation of the decline in oil prices, may have been accelerated by a Saudi Arabian attempt to flood the oil markets as a failed strategy to put American fracking companies out of business.

Don't look for a return to high oil prices in the near future. Oil production from post-sanctions Iran will soon hit the market adding to what economists are already describing as an oil and gas glut. Additionally, gold prices were off 10% in 2015, and gold investments actually outperformed silver, copper, platinum and palladium. The latter losing more than 30% in the past 12 months.

Meanwhile, bond investors started the year expecting that 2015 would finally see interest rates rise across the board. Many professionals have been holding very low-yielding, short-term instruments or cash in their bond portfolio allocations as a defensive measure and had to endure almost zero returns without the satisfaction of having ducked the long-anticipated nasty downturn in bond values.

According to Barclay's Bank indices, U.S. liquid corporate bonds with a 1-5 year maturity are yielding 2.74% on average. Almost a third of a percent less than a year ago. Moving out to 5-10 years brings the yield up to 6.40%. About 0.84% lower than the beginning of last year. 20-year Treasuries are yielding 2.95%, and 10-year Treasuries currently yield 2.46%.

What's going to happen in 2016? Of course, nobody knows with any certainty. Many professional investors are approaching the new year with an unusual degree of caution. By most metrics, U.S. stocks are pricier than their historical averages. That doesn't mean they can't get more overpriced which is why it is important to look for reasonably priced investments.

There are also some warning signs on the horizon. Nobody seems to know exactly what to make of the high-yield bond market. Is the recent downturn a sign of some long-term problems or a blip on the screen?

Another possible warning sign is China, which is becoming the 800 pound gorilla of the global markets. The Shanghai Composite Index lost 43% of its value during a frightening summer selloff, and China's economic growth has clearly slowed from the pell-mell, double-digit growth rates of the past 20 years. Lost in the hand-wringing is the

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fact that China's primary index finished the year with a 9% gain overall. The selloff simply wiped out most of an enormous bull run in the first three months of the year. More troubling than the losses is the government's willingness to try to manipulate its equity markets, which means it's hard to discern the fair value of individual Chinese stocks.

Finally, we've finally seen the Federal Reserve Board's first tentative effort to let the short-term, fixed income markets find their natural level which has already led to higher mortgage rates. Nobody knows if or when the Fed will raise rates again in the new year or the impact of a rate increase. The fact that it's an election year, and the economy is still not exactly robust suggests that the central bank's policymakers will proceed very cautiously.

None of these factors are a traditional recipe for a powerful bull run in 2016, but the truth is we have no idea what returns will be in the coming year. We do, however, have confidence that any future bear market will be followed by a subsequent recovery, and eventually, the U.S. and European markets will again be testing and surpassing their previous record highs.

Will that happen in the next 12 months? All we can say is that the markets often punish those who try to outsmart them. If the market goes down in the coming year, it will mean that we will be able to buy stocks at cheaper prices in anticipation of the next rise—whenever and however it arrives.

Financial Literacy, *continued from page 4*

cial literacy across a wide spectrum of countries around the world. More than 150,000 randomly selected individuals in 140 countries were asked to answer five multiple-choice questions regarding the ability of income to stay on par with spending (or vice versa), interest payments and compounding investment returns. If individuals could correctly answer three out of the five questions, they were deemed to be financially literate.

How did the U.S. do? Only 57% of Americans surveyed correctly answered three of the five questions, ranking the U.S. number 14 behind Finland (#10), Australia (#9), Germany (#8), the Netherlands (#7), the UK (#6), Canada (#5), Israel (#4) and the three top-scoring countries: Sweden, Denmark and Norway.

The survey found wide discrepancies between adults living in the richest 60% of households in each country vs. those in the poorest 40%. For instance, the U.S. saw a disparity of 64% literate (wealthiest households) vs. 47% (poorest). The conclusion: financial ignorance can carry an invisible lifetime cost, and the burden falls most heavily on those who can least afford it.

The National Association of Personal Financial Advisors (NAPFA) and other financial planning organizations have been pushing for financial literacy education in the nation's schools. Yet, in the Greater Washington area, only Howard County has a financial literacy curriculum for high schoolers, and it is weak at best.

Let's step back a moment and consider the effects of this proposed legislation on the business community. By raising the cost of doing business, potential new business owners in Maryland may choose not to start a business in the first place, or decide to start the business in another state. At a certain point, fewer jobs will be created in the State of Maryland.

Meanwhile, in the short term, the increased cost to small businesses of setting up and administering a mandatory employee retirement plan would likely increase the cost of dining out, getting a haircut, having the lawn mowed or the house painted, and so on. That's because, if this legislation passes (in last year's session, it did not make it to the floor for a vote), it will become more expensive to employ people in lower-wage, manual labor occupations. Instead of encouraging a vibrant business community, which ultimately strengthens the larger community, the proposed legislation puts a damper on business.

But the fundamental problem is not the need for businesses to force their employees to save for retirement, it is the lack of financial literacy education in our county and state. Two changes in our society and workplace over the past 30 years have heightened the need for financial literacy. First, people are living longer; in our grandparent's generation, life expectancy was in the 70s. Now, for a married couple age 65, there is a 50 percent chance that one of them will live past their 90th birthday. This stretches the time horizon for retirement planning.

Second, the traditional **defined-benefit** pension plan is becoming a thing of the past. Now we have **defined-contribution** plans such as 401(k)s, 403(b)s, and 457s, which places the onus is on individuals to save and be responsible for their own financial future. People who are financially literate realize that making small changes can have a profound effect. Saving a little bit, starting when we're young and being disciplined about it over time enables us to benefit from the compounding effect of interest into the future.

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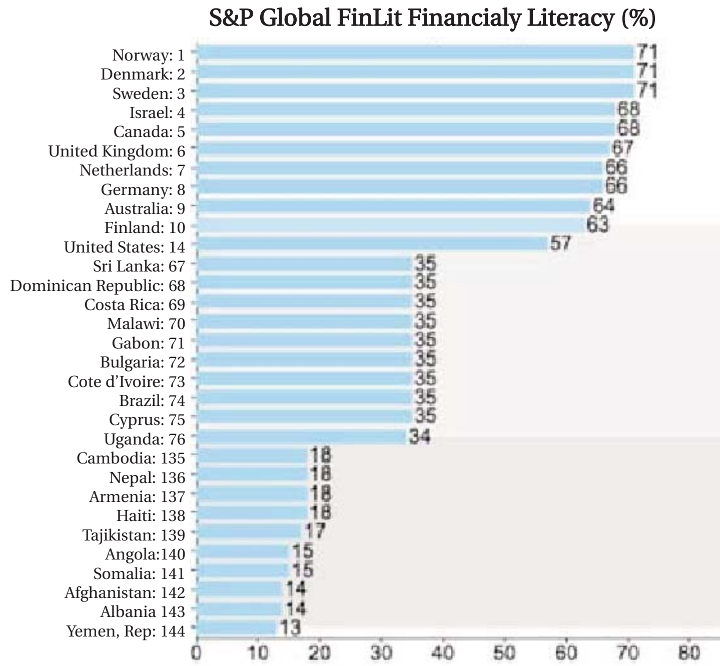
In sum, legislation to mandate a State-run retirement program is a bad idea for the citizens of Montgomery County. This legislation will have a chilling effect on the business community by discouraging talented individuals from starting new businesses and/or hiring additional local employees. It will likely raise the cost of doing business, which would in turn lead to higher prices for consumer.

Instead, the State of Maryland should focus on educating and encouraging its citizens to save for themselves to ensure a happy and healthy retirement for all Marylanders. The way to do that is to add a financial literacy curriculum to our high schools. Given the troubling results of the S&P financial literacy survey, are state lawmakers prepared to mandate that? Don't hold your breath.

S&P Global FinLit Financialy Literacy (%)



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