

The Kiplinger Letter

FORECASTS FOR MANAGEMENT DECISIONMAKING

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Dear Client:

Washington, Dec. 9, 2011

That sweeping new health insurance law? It'll help reshape the benefit landscape...

even if the Supreme Court strikes it down next June. Employers will still offer health insurance coverage, but employees will foot a bigger share of the tab.

Big companies are already slashing costs

by moving away from a conventional benefit approach of picking up most costs aside from a small copay.

HEALTH BENEFITS

Driving the changes: Relentless price hikes.

And a 40% excise tax, starting in 2018, on health benefits that exceed a set dollar amount. The tax goes away if the entire law is thrown out but would stay on the books in a narrower decision that blocked part of the law but left the rest in place.

Among ways businesses can control costs: Offer a defined-contribution approach.

This may start with low-cost core coverage for all, with an option for workers to buy richer benefits. If the law stands, meet its coverage minimums to avoid shared-responsibility penalty payments. It's also possible to cap your firm's contributions.

For example, you pay up to 3% more a year; workers pay the rest if costs go higher.

Pair a health savings account with a conventional high-deductible policy.

Workers and employers can both contribute pretax dollars to these accounts. Plus... the high deductible drives down the employer's cost but offers workers a cushion in case of a major illness. There are big savings over typical employer-funded plans.

Make some employer-paid benefits voluntary... vision and dental coverage,

for instance. Workers who want those plans can pay for them at a lower group rate.

Charge extra for coverage of dependents, especially employed spouses

who are eligible for insurance at their jobs. Another choice: Base family coverage costs on the size of the family...a worker with three kids pays more than a parent with one.

Some companies will opt to curb health benefits for retired workers, too.

More firms of all sizes are penalizing workers for unhealthy behavior:

Significant premium surcharges for smokers, for example. Or higher payments for overweight employees who don't shed pounds. Use of such penalties doubled from 2009 to 2011. New crackdowns will mean another doubling by the end of 2012.

If you do so, take care to comply with federal antidiscrimination laws.

Employers can base premiums on health status if they provide reasonable alternatives for workers with conditions resistant to treatment...perhaps mandated classes in nutrition for someone with a metabolic disorder that makes losing weight difficult.

Consider creating a healthy culture at work, too, by subsidizing healthy food in the cafeteria, encouraging exercise and walking while talking shop, for example.

ENERGY FORECASTS

Energy Source	Dec. 9, 2011	March 2012
Crude oil (WTI, per bbl.)	\$98	\$90-\$95
Natural gas (per MMBtu at wellhead)	\$3.41	\$3.50-\$3.75
Regular gasoline (per gallon)	\$3.29	\$3.10-\$3.30
Diesel fuel (per gallon)	\$3.92	\$3.85-\$4.05
Heating oil (per gallon)	\$3.89	\$3.90-\$4.10
Electricity (per kWh)	10¢	10¢-10.2¢

**SOLVING
DEBT
WOES**

The partial European deal on fiscal curbs won't ease debt market volatility. Standard & Poor's and other rating agencies won't be overly impressed

with recent efforts by leaders of 27 European nations to avoid debt downgrades.

15 European governments are in line to see their credit ratings lowered,

unless more is done to satisfy the rating agencies that real reform is under way.

Unaddressed in the deal: Sovereign debt piled up from past big spending

and how slow-growing nations such as Italy and Spain will be able to pay it down.

Downgrades could lift the U.S. dollar and Treasury bills in the short run.

But slower European growth will be a damper on U.S. economic recovery.

**THE
ECONOMY**

Pressure is off the Federal Reserve to further stimulate the economy.

With fourth quarter growth likely to be around 3%, and unemployment down to 8.6%, we don't expect Bernanke & Co. to opt for more quantitative easing at their meeting this month. Monetary policymakers fear deflation and recession more than any inflation that could result from the Fed buying more Treasury bonds.

At present, the U.S. is benefiting from the focus on Europe's debt woes

and a feeling by investors that U.S. Treasuries are safer than euro-dominated assets.

The rate on 10-year Treasury notes will climb to about 2.5% by mid-2012,

from 2% now. Meanwhile, the bank prime rate will remain the same...3.25%.

The U.S. economy won't get much help from state and local governments

in the coming months. With some exceptions, governments will continue to struggle with tight budgets and limited spending while laying off more public employees.

Local governments will lay off 200,000 more workers in fiscal year 2012,

on top of the 275,000 employees who got pink slips during the previous fiscal year.

States aren't finished shedding workers, either. Expect 25,000 employees

to lose their jobs, following 43,000 cuts in FY 2011. Workers run the gamut from first responders and nurses to librarians, social workers and educators.

Job cuts will help state and local finances, though it'll be a year or so

before they'll stop being a ball and chain on overall U.S. economic growth.

Look for state revenues and spending to rise 5.6% and 2%, respectively, in FY 2012.

Cities will see higher income tax and sales receipts but property taxes will still lag.

But even as state and local governments recover, larger problems loom.

Medicaid spending by states will surge 30% next year as Washington shifts more costs to the states. The hikes in mandated spending will spell more belt-tightening.

And meeting pension promises will become a major burden for many states by 2018.

TAXES

As governments of all stripes look high and low for additional revenue...

Businesses can expect to see more tax audits. About 60% of tax executives who responded to a recent survey saw a jump in IRS audit activity over the past year, and more than one-third noted a rise in state tax exams, too. Moreover, multinationals are feeling the heat abroad, especially in China, Brazil and other fast-growing markets.

It won't be easy, but Congress will extend the payroll tax cut for workers.

The political stakes are too high to allow a higher rate in an election year,

especially after GOP opposition to raising taxes helped kill a deficit-cutting proposal.

With no extension, the 6.2% rate would cost an average family about \$1,000 next year.

Look for a final deal just before Christmas, maintaining a 4.2% tax rate

for individuals paying into the Social Security system...or cutting it further to 3.1%.

The cost will be made up by slashing funds for other programs and raising some fees.

A tax on incomes above \$1 million, sought by Democrats, won't make the cut.

The share of the tax paid by employers will remain unchanged at 6.2%.



FINANCIAL SERVICES

Odds are Congress will give banks a break, and small ones will benefit most. Lawmakers are working on legislation that would set up a mechanism for banks to appeal bank examiners' rulings. They're getting an earful from bankers who say that regulators frequently overreach, criticizing performing loans simply because the value of collateral has declined. The bill wending its way through Congress, with passage likely in 2013, would let bankers argue decisions to an administrative judge or a new ombudsman housed at an interagency council.

The move promises to spell more lending and better terms for borrowers.

Banks contend that examiners often deem nondelinquent loans to be nonperforming, requiring them to hold larger reserves and borrowers to put up more collateral. Banks will also get more time to deal with loans that examiners view as problems.

HUMAN RESOURCES

If your firm doesn't have an internal social network for tech-savvy workers... Watch out. They may build an unofficial one. More workers are turning to networking websites to create in-house social networks, letting them keep in touch with colleagues and share work-related documents. But such unofficial networks can pose security risks, exposing office computers to viruses and promoting leaks. In contrast, company-sanctioned networks can boost productivity and sales. Plus the enhanced communications and sense of community can improve morale.

As 10,000 more soldiers return to the U.S. from Iraq by year-end...

Several states are making it easier for veterans to quickly get civilian jobs.

New York will soon speed up the process for obtaining commercial driver's licenses for soldiers who drove trucks while in uniform. Wyoming is cutting red tape to allow military medics to qualify faster for work as emergency medical technicians. Texas and Minnesota will reduce credentialing requirements for veterans with plumbing, pipe-fitting and electrician skills. And Ohio and Indiana want vets with biochemical preparedness training to jump into similar work at home.

Temporary tax breaks for employing veterans will also speed hiring.

PERSONAL FINANCE

Though half of homeowners' home equity has been wiped out since 2006... A whopping \$6 trillion remains. That's more than the total value of all mutual funds and about the same as the value of all CDs and savings accounts.

About \$2 trillion is held by retirees, a large, untapped resource that can help make up for likely Social Security benefit cuts and lagging 401(k)s. But many retirees, even those strained for income, are reluctant to tap housing wealth, viewing the equity in their home as an asset to be drawn on only in emergencies.

Nonprofits and governments are discussing how to unleash more equity for seniors beyond reverse mortgages, while guarding against potential abuses.

TECH

In the works: 3-D moving images projected by lasers into the air or water. The technology leapfrogs conventional 3-D systems that convey images onto two-dimensional surfaces. Developed by Burton Inc., a Japanese company, the True 3-D Display creates images in midair by shooting out 50,000 points of light at 10-15 frames per second. Eventually, the firm wants to increase the frame rate to 30 per second, the same as that for movies and TV, making for smoother viewing.

Advertisers will be among the first adopters of the new 3-D technology, using it to project company logos or models of their products, for example. Besides projecting signs and other ads, the aerial 3-D could be used to analyze items before building them with a 3-D printer and, down the road, in video games.

New hybrid hard drives will be 70% faster and much more energy-efficient than traditional hard drives, boosting the utility of laptops and notebook computers, which have limited storage space. The new drives from Samsung and Seagate... on sale early next year...combine flash memory with regular hard drive technology.



SMALL
BUSINESS

New rules make a U.S. loan program more enticing for small businesses.
Owners can use proceeds of refinancing as working capital... to pay salaries and bills or to buy inventory. They can now use residential property to secure loans, not just commercial real estate. Firms can borrow up to 90% of the value of collateral. The Small Business Admin. also agreed to reduce requirements for third-party lenders. They have to put up only as much money as the SBA, not at least half of the loan, as was required earlier. The changes aim to boost participation by firms and banks.

But smalls must act quickly to participate. The program ends Sept. 27, 2012.

AUTOS

Sales of new cars and light trucks will continue their solid run next year...
Expect sales to hit 13.5 million vehicles, vs. this year's 12.8 million.

Pent-up demand, low interest rates and many financing options are driving sales.

Note lean inventories of well-liked compact cars, such as the Ford Focus.

Dealers don't have to rely on cash rebates and other incentives to sell them.

But good deals can be found on some popular models next year. For example, Jeep's 2012 Grand Cherokee SUV will start at \$3,220 below its 2011 version.

Toyota's Camry sedan, a perennial strong seller, sheds up to \$2,000 for 2012.

And compacts from Subaru and Honda will hold the line on price, despite upgrades.

Converting truck and van fleets to run on propane can save big bucks.

Liquid propane, or autogas, tends to run \$1 to \$2 per gallon less than gasoline and enables comparable towing and hauling capabilities. State and federal tax credits can further sweeten the deal but aren't necessary to make the investment pay off.

Other alternative fuels, such as natural gas, entail much pricier fueling infrastructure. Another selling point: Clean-burning propane helps project a greener image.

Interest in autogas is starting to perk up. Ford and GM both offer programs to convert stock pickups or work vans to propane, and early demand looks promising.

THE
WORLD

Talk of a European embargo on Iranian oil is keeping crude prices bubbling.
 With Europe's leaders sounding the alarm over Tehran's nuclear program, oil traders will keep a nervous eye on Iran, the world's third-largest crude exporter.

But odds are Europe's leadership will move slowly on any sanctions designed to discourage and crimp Iran's progress on developing nuclear weapons.

European buyers would struggle to replace Iranian imports with other sources.

The loss of Libyan oil earlier this year caused a painful spike in oil prices in Europe, and policymakers won't be keen to compound their economic woes with another one.

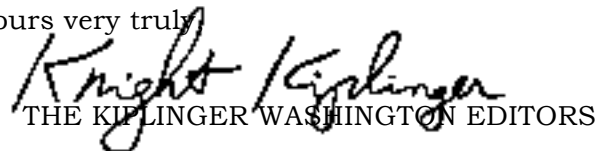
POLITICS
2012

Tea partyers are throwing a snag into GOP hopes for a Senate slam dunk.

With Democrats having to defend 23 Senate seats, Republicans are poised for a watershed year. But they're finding it tough to get good mainstream candidates to run in a couple of states where Democrats are particularly vulnerable. In others, tea party contenders are making mainstream candidates sweat out primary challenges.

Senate control next year is still the GOP's to lose. But the bruising challenge facing Senate statesman Richard Lugar of Indiana gives a clear-cut illustration of the kind of election season heartburn being felt by establishment Republicans.

Yours very truly



THE KIPLINGER WASHINGTON EDITORS

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P.S. Coaching problem employees can be difficult, but we can help. Join us on Dec. 20 for an interactive webinar on tackling tough workplace conversations. Register for the 90-minute session at krm.com/kiplinger or by calling 800-775-7654.