

Retirement Advisor

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ECONOMY

What's the difference between the GDP and the GNP?

What do gross domestic product and gross national product mean? With the economy at the forefront of the news, it is almost impossible to avoid the terms gross national product (GNP) and gross domestic product (GDP). But what exactly are they?

GDP is generally defined as the market value of the goods and services produced by a country. It is the most widely used measurement of a country's economic output.

A country's GDP can be calculated in three ways. With the expenditure approach, GDP is the sum of the country's consumption, investment, government purchases and net exports. The product approach uses the market value of goods and services produced in the country. The income approach is based on the total income received by all producers in the country.

When GDP is down, it means the economy isn't doing very well. In fact, some economists define a recession as a period when GDP falls for at least two quarters. If GDP goes down by 10 percent or persists for three or four years, a country is said to be in an economic depression.

The GNP also is a convenient indicator of the level of economic activity, based on the labor and production output within a country. The GNP is the total dollar value of all final goods produced (such as cars and groceries) and services provided in daily living (such as education and health care) in a country in one year. It also counts the income earned by its citizens abroad but not the income earned by foreigners in country.

GDP and GNP are almost identical. The main difference between them is that GDP is the total output of a region, for example, the entire United States. GNP measures the output of a nation's production, whether or not the factors are located within the country's borders. So while the output of Americans located in other countries would be included in the GNP of the U.S., it is excluded from its GDP.

While GDP and GNP are comprehensive measures of the overall amount of economic production taking place, they are considered far from perfect estimates of what they are supposed to measure. At best, they can only gauge recent levels or rates of productive activity.

In one of his most memorable speeches, Robert F. Kennedy said that GNP does not measure the health of our children, the beauty of our poetry, wisdom or compassion. "It measures everything, in short, except that which makes life worthwhile," he said. "And it tells us everything about America except why we are proud that we are Americans."

TAX AND LEGAL

How do you use depreciation in your taxes?

Depreciation is an annual income tax deduction that allows taxpayers to recover the cost or other basis of certain property over the time the property was used for business activities. Basically, it is an allowance for businesses for the wear and tear, deterioration or obsolescence of assets.

Most types of property (except land) can be depreciated if they meet certain requirements – including buildings, machinery, company vehicles, office furniture and equipment. Certain intangible property also can be depreciated, such as patents, copyrights and computer software.

To be depreciable, the asset property must meet all the following requirements. It must:

- Be owned by the taxpayer
- Be used in the taxpayer's business or income-producing activity
- Have a determinable useful life
- Be expected to last more than one year

The amount of tax deduction as a result of asset depreciation can be calculated using different methods allowed by the tax code. Straight line, units of production, sum of years and double declining balance are all acceptable ways to determine depreciation.

The most popular and easiest method is straight line depreciation. This provides an equal distribution of asset depreciation over the useful life of the asset.

For example, a company purchases a van for \$22,500 with a useful life of four years. After four years, it is said to have a salvage value, or the value of the asset at the end of its useful life, of \$2,500. To calculate the deduction, subtract the salvage value from the purchase value ($\$22,500 - \$2,500 = \$20,000$). Divide the balance by the number of years of useful life to get the annual depreciation deduction ($\$20,000 / 4 \text{ years} = \$5,000$).

Unless there is a big change in the adjusted basis or useful life of the van, the \$5,000 will stay the same throughout the time the taxpayer depreciates the property. If, in the first year, the property is used for less than a full year, the taxpayer must prorate the depreciation deduction based on the number of months in use.

HEALTH AND WELL-BEING

What's the cost of obesity?

Everyone knows that obesity in the United States has reached an epidemic level, but few people are aware of the staggering direct and indirect economic implications of obesity on the country's health care system.

An adult with a body mass index (BMI) of at least 25 is considered overweight. An adult with a BMI of

30 or above is classified as obese. Compared with people of normal weight, severely obese people have about twice as many chronic medical conditions associated with excessive weight. These include heart disease, hypertension, diabetes, sleep apnea, stroke, gallbladder and liver disease, arthritis, urinary incontinence and certain types of cancer.

Direct medical health care costs of the epidemic include preventive, diagnostic and treatment services for all the diseases related to being overweight or obese. The value of income lost from decreased productivity, restricted activity, absenteeism and sick days as well as future income lost by premature death account for the indirect costs.

More than 72 million Americans over age 19 were obese in 2005-2006, according to the Centers for Disease Control and Prevention (CDC). CDC statistics for 2007 show that 30 states had a prevalence of obesity of at least 25 percent. Between 1987 and 2005, the prevalence of BMI greater than 40 (about 100 pounds overweight) increased by 500 percent, while the prevalence of BMI greater than 50 increased by almost 1,000 percent, according to a study by the RAND Corporation. Someone 5 feet, 10 inches tall who weighs 280 pounds has a BMI of 40; someone that height who weighs 350 pounds has a BMI of 50.

In terms of health care dollars, obesity costs more than smoking or drinking. "Nearly half the people in the United States suffer from preventable chronic conditions, which accounts for 75 percent of health care spending," said American Dietetic Association President Jessie Pavlinac.

Each year, the total cost of obesity reaches \$117 billion, based on the latest available report by the U.S. surgeon general. Of that amount, \$61 billion was attributed to direct costs, about 50 percent of which was paid by Medicaid and Medicare. In 2001, the cost of obesity was reported at about \$123 billion by the National Institute of Diabetes and Digestive and Kidney Diseases.

Obesity is a major cause of disability at all ages. Experts say the cost consequences of disability among young people could overwhelm any savings made by Medicare and Medicaid due to increasingly good health among the elderly.

The cost of obesity is so high that President Barack Obama said investing more in preventive care to avoid illness and disease in the first place is one of

the necessary steps that must be taken to make the health care system work better.

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