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Weekly Financial Article for the Week of October 1, 2007

A Social Security Wake-Up Call

A new report says the shortfall may start as soon as 2017.

Since the mid-1980s, Social Security has generated a surplus. But a new Treasury Department report indicates that this surplus will disappear by 2017. Barring a Social Security overhaul, the federal government faces three unpleasant options in response to the drawdown: raise taxes, reduce benefits, or borrow to fully fund the program.

A sea change from black to red. Believe it or not, the Social Security program currently has a surplus approaching \$100 billion. (Some of it is invested in Treasury securities, and Congress taps some of it to offset the cost of other government expenditures.) Quite simply, baby boomers paid more than enough in Social Security taxes to fund the retirement of the preceding, less populous generation. But with the oldest baby boomers eligible for retirement in 2009, that surplus is set to shrink.

A multitrillion-dollar gap. According to a 2007 Social Security Trustees Report, the present value of scheduled Social Security benefits exceeds the value of scheduled Social Security tax income by \$13.6 trillion. Last week's Treasury Department report included a sobering conclusion: "Social Security can be made permanently solvent only by reducing the present value of scheduled benefits and/or increasing the present value of scheduled tax increases."

How to find common ground? President Bush has urged Social Security reform rather than reduced Social Security benefits or tax increases. Treasury Secretary Henry Paulson has only a year left in the current administration to encourage such reform. But in Congress, Democrats don't want to see benefits diminished, and Republicans are opposed to tax hikes to bail out the program. If both parties can't agree on reforms in the near future, raising Social Security taxes, reducing Social Security benefits, or running up debt seem inevitable.

Quote of the week. "In times like these, it helps to recall that there have always been times like these." – Paul Harvey

Riddle of the week. Some thieves were loading a van with TV sets from a warehouse when they suddenly heard the siren of an approaching police car. They could not avoid or outrun the police car. How did they escape? (Read the answer here next week.)

Answer to last week's riddle: The balloon tilts to the right. Because of buoyancy, the balloon will want to move in the direction opposite the effective gravitational field within the car. So when the car turns the corner, the balloon will lean toward the inside of the turn.
