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Your guide to understanding
today's economy and
financial markets

May 27, 2009

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NAP Time

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

A Bit of History

(from our book, [econAmerica](#),
released in July 2007 by major
publisher Wiley & Sons)

Social Security faced a funding crisis in the mid-1980s, with both major political parties in quiet agreement that something needed to be done. The bipartisan Greenspan Commission, chaired by future (and now former) Federal Reserve Chair Alan Greenspan, was created to study Social Security funding issues and make recommendations for long-term improvement.

The bipartisan recommendations that emerged provided meaningful improvement and fiscal solvency for decades to come, with most of the changes to take place in future years. A series of modest tax increases were phased in over a dozen years. In addition, the prior reality of full benefits at age 65 for all was stretched out. A later retirement age for Boomers was phased in, ranging from 65 years and two months up to age 67 for even later retirees.

Rising Pressures Today

Severe U.S. recession has sharply reduced the flow of funds to Social Security and Medicare, tied to declining payroll taxes resulting from the loss of 5.7 million jobs during the past 18 months. According to the Social Security and Medicare Trustees in a report issued on May 12, 2009, Social Security is now expected to stop running modest surpluses in seven years, one year earlier than previously estimated.

Moreover, the Social Security Trust Fund is expected to run dry by 2037, four years faster than last year's projection. Similar changes have occurred with Medicare's funding as well, which is in far worse shape.

Social Security tax revenues of the past 30 years have provided excess funds to be used by the Congress for hundreds of other programs. Contrary to the belief of

many, excess Social Security funds are not "saved" for the future, but are aggressively spent and replaced with government IOUs, known as non-marketable U.S. Treasury Notes.

The current Social Security Trust Fund has roughly \$2.4 trillion in such Treasury Notes in it, to be "cashed in" when the annual surplus concludes, tied to the impending retirement of 78 million Baby

This nation will reach a point in coming years when politicians are simply forced by the pressure of powerful financial markets and by constant media attention to set aside political rancor and work together to solve the entitlement funding and benefit issue

Boomers. Note: This will be an internal government accounting issue, since there really is no money. To redeem Trust Fund notes, the Government will have to raise funds (borrow) in the public debt markets or increase taxes.

President Obama has mentioned the need for entitlement program reform a number of times in recent months. U.S. Treasury Secretary Geithner noted following the release of the report that "after we have passed health care reform," the President would then turn to Social Security. Another commission may well be created.

Enormous Numbers

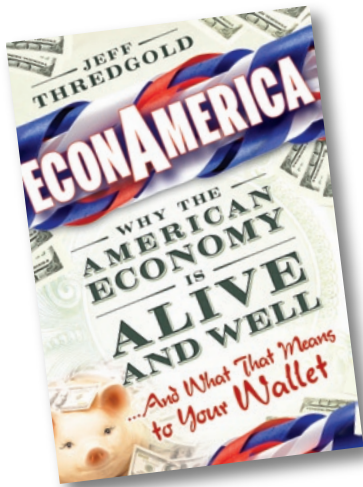
Various critics of the government throw around unimaginable numbers... as high as \$84 trillion...as the dollars that have been committed to funding these programs in the future, with no way to meet such obligations, without a massive increase in taxes.

These programs will be funded in the future, although such programs will be modified to be financially viable. Small

modifications made now will provide massive savings down the road. We do not have to *cut spending* in any program... we simply need to *slow down the growth rate*...that is a major difference.

Again From econAmerica...

What the Social Security program requires is some "tinkering around the edges" to make the program financially viable for future generations when funding pressures are more painful. These changes will require bipartisan cooperation.



My parents both draw Social Security. I tell them they have nothing to worry about relative to Social Security viability in their lifetimes. As a Boomer, I will not draw full benefits until age 66. Younger Boomers won't draw full benefits until 67. I tell my married kids that Social Security will be there for them, but not to plan on drawing it until they are 68, 69, or 70 years of age.

I favor proposals that stretch out the retirement age for younger people. This change reflects the reality that younger people will be able to work longer if they wish, will live longer and will, correspondingly, draw Social Security payments longer.

A minor change in the inflation calculation used to determine initial benefit payments for higher income earners is desirable. Such higher income workers would have their future payment schedule inflation-adjusted by the change in consumer prices. Lower income workers could

continue to have initial payment levels inflation-adjusted by the average annual growth in wages, resulting in their getting a slightly better deal in the future than higher income workers.

I would suggest a slightly faster boost in wages subject to current taxation. For example, the annual adjustment to the wage cap might be the change in consumer prices plus an additional 1 percent each year during the next decade.

Providing greater incentives for people to save for retirement is advisable. Additional or expanded programs like the 401(k) would help minimize the role played by Social Security for millions of future retirees.

The following statement, also from **econAmerica**, is the second of four major developments, referred to as Silver Bullets, that drive my optimistic view of the American economy in coming years.

SILVER BULLET #2: NAP TIME IS COMING

This nation will reach a point in coming years when politicians are simply forced by the pressure of powerful financial markets and by constant media attention to set aside political rancor and work together to solve the entitlement funding and benefit issue. We refer to this as NAP (No Alternative Politics) time.

Neither party will be willing then or able to make such changes alone. Strong political leadership will see a bipartisan commission created, with required program changes debated in a civil environment. The full Congress will likely be asked to approve changes as proposed by the study group, with no ability to make modifications. Members of both major political parties will agree to avoid finger-pointing and accusations, recognizing that a cooperative effort is mandatory.

We have been at this point before and responded. We will do so again. We simply have no alternative.

"TEA"ser

If at first you don't succeed, skydiving is not for you.

—S. Johns



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