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Issue: 38



### Welcome to the Change Challenge Newsletter

Welcome to the June issue of *The Change Challenge*. My first Social Security check will arrive later this month, so I'm following the federal budget debate closely. I'm frustrated that Congress is afraid to fix Social Security and that some politicians even deny that a problem exists. That's the subject of this month's feature article titled "**Another Trillion Dollar Bailout**."

This month's *Results Through Relationships* article "**Shared Joy & Shared Pain**" points out there are problems today (e.g., recessions, crime and war) that no one wants or feels responsible for. Some of us aren't directly affected by those problems, so the joys and pains of others are not our joys or our pains - or are they? This month's *Personal Change* article "**Hard Choices**" suggests that some of us avoid hard choices. We'd rather elect others, support the status-quo, and hide in a large organization - but that approach isn't solving the problems we face.

Your feedback and recommendations to improve this e-letter are always appreciated via email or through *The Change Blog* at [www.dickstieglitz.com](http://www.dickstieglitz.com).

*Dick Stieglitz*

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Business Consultant, Author  
and Keynote Speaker

### This Month's Articles

[Another Trillion Dollar Bailout](#)

[Shared Joy & Shared Pain](#)

[Hard Choices](#)

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## Feature Article

# ANOTHER TRILLION DOLLAR BAILOUT

A few months ago the Social Security Administration sent a notice saying I was eligible for full benefits now that I'm 66. The notice reported that my employers and I had paid over \$340,000 into Social Security and Medicare since my first job in 1962 stocking shelves in an A&P supermarket. That's a lot of money - but Social Security is way ahead since my lifetime benefits will be far less than \$340,000 plus 50 years of interest. I don't take issue with the shortfall though, because one principle of Social Security is that high-earners subsidize low-earners. Even though I won't get out what I paid in, I object strongly to the head-in-the-sand way that Congress is managing Social Security.

**A Lurking Monster.** These days everyone in Washington is talking about the debt ceiling and budget cuts. But lurking in the future is a monstrous Social Security bailout that would dwarf the banking, auto and insurance bailouts. At \$680 billion per year, Social Security is our largest social program. Its costs grow annually, and its long-term projections are deteriorating. Possibly as early as this year, Social Security could change from a program that finances other federal operations to a program that sucks cash from the Treasury. Left to operate as it does today, Social Security will drain a trillion dollars a year from the Treasury in 30 years.

**Trust Fund Funny Money.** Until recently, I was confident that Social Security would provide benefits for the rest of my life. Today, I worry when the president and congressmen say Social Security fixes can be deferred because the trust fund will last until 2036. That's an accounting sleight-of-hand because the trust fund doesn't own real assets like property, gold or blue-chip stocks. Instead, it holds \$2.5 trillion in Treasury bonds, and those holdings will grow to \$4 trillion. For example, in 2020 Social Security will receive roughly \$200 billion less in payroll taxes than it will pay out in benefits. But on paper the trust fund will still grow \$15 billion because it will "earn" \$215 billion in new Treasury bonds. Enron executives went to jail for bookkeeping like that! When Social Security takes in less than it needs to pay benefits, it will raise cash by redeeming Treasury bonds. This Ponzi scheme collapses in 2037 when payroll taxes aren't enough to pay Social Security benefits and the trust fund has no bonds left to redeem. And the scheme only lasts that long if the Treasury Department can borrow \$4 trillion from commercial and international markets to redeem Social Security's Treasury bonds!

**The Crisis Worsens.** Social Security faces a worse crisis today than in 1983, the last time Congress enacted changes. As recently as 2008, the Social Security Trustee's Report projected a cash surplus of \$87 billion this year and \$88 billion next year. But persistent unemployment has reduced tax receipts and dropped the projections to \$19 billion and \$18 billion, respectively. Three other factors intensify the crisis. First, people are living longer and retiring earlier, so they collect higher lifetime benefits. Second, the large baby boomer generation is retiring, but following generations are smaller which reduces the number of workers that support each retiree. And third, the stock market collapse and decline in home values makes retirees more dependent on Social Security. Social Security will provide a majority of the income for about half of the baby boomers who will retire in the next 30 years.

**Life Expectancy.** When Social Security began in 1935, the retirement age was 65 and life expectancy was 62. Today, men live to 76 and women to 82 on average. Furthermore, if current cancer and heart disease research is successful, life expectancies could reach 100. Obviously, linking retirement age to life expectancy is essential to preserve Social Security. Having older people stay economically active longer has four advantages:

- Workers earn more and can save more for retirement,
- The government receives more in taxes and pays less in benefits,
- Serving older workers would be a new market, and
- The economy grows faster because there are more workers.

It's true that workers who do manual labor may not be physically able to work past 65, but that's less of a problem today because age is not a disadvantage in the service and knowledge-based jobs that dominate our economy.

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**Ticking Time Bombs.** The growing number of baby-boomer retirees and increasing life expectancy are ticking time bombs. Congress must defuse those issues today to prevent Social Security from becoming an economy-threatening trillion dollar bailout in 2036. You might ask: *What's the worst that could happen?* If Congress did nothing until 2030, taxpayers would be paying nearly \$300 billion annually in income taxes to redeem the bonds required to pay Social Security benefits. In that situation, Congress would be forced to choose between reducing benefits and increasing taxes. Always able to defer hard choices, Congress would likely choose to fund Social Security annually from the general revenue pool. That would be the end of Social Security as we know it because thereafter retiree benefits would compete with other federal spending priorities. Life expectancies approaching 100 years will have an even more explosive effect. Most 100-year old Americans will have spent their savings and need bigger Social Security benefits just to survive.

**Simple Solution.** If Congress considered Social Security objectively instead of treating it like a sacred cow, the solution could be written on a cocktail napkin:

- Index retirement age to life expectancy as we've already discussed,
- Make payroll taxes progressive, and
- Gradually shift the trust fund from bonds to a balanced portfolio.

These three fixes would preserve the program in perpetuity. Today, employees and employers pay Social Security tax on incomes up to \$106,000. That means people who earn \$100,000 a year pay the tax on every dollar, while someone who earns \$1 million pays tax on only 10% of his/her income. It's doubtful that Congress would impose the Social Security tax on all income because that would be a large tax increase on middle class households. Rather a donut-hole approach would be effective: keep the ceiling near \$100,000, exempt income from \$100,000 to \$200,000 (for example), and reinstate the tax on all income above \$200,000. That change alone would pretty much wipe out the 2036 shortfall all by itself. In addition, Social Security trustees should gradually redeem the trust fund's Treasury bonds and invest in assets like blue-chip securities, properties, and high-grade commercial and state bonds. That way, interest/principal payments from companies and borrowers would cover Social Security's cash needs, rather than Treasury borrowing money to pay benefits. Taken together, these three simple solutions would insure I receive the Social Security benefits that have been promised. More importantly, my children and grandchildren could rest comfortably knowing they will get benefits someday, even if they have to work longer to get them.

**Conclusion.** President Obama and Congress face the most important strategic choice since choosing to put health care reform ahead of everything else. Financially, the U.S. is teetering on the edge of a cliff that jeopardizes the economic well-being of our children and grandchildren. Today's economic debate centers on three issues: cutting expenditures, restructuring the tax code, and reforming entitlements like Social Security. All three are urgent, essential and politically explosive; but Social Security reform may be the easiest. Such reform would produce a more progressive and sustainable system, ensure the government can pay for the benefits it promises, and show global creditors that the U.S. really is capable of governing itself. It's obvious that Americans must work longer before they retire, and that high-income retirees like me will see our benefits reduced. I don't like that possibility, but it's better than pushing the country into bankruptcy. With the detonator ticking on Social Security spending as baby boomers retire and grow older, the terms of the debate are clear: (a) *What should we expect from government?* (b) *How much are we willing to pay?* and (c) *What are we willing to do without?* Let's answer these questions for ourselves and communicate our wishes to Congress in order to make their hard choices easier and avoid another trillion dollar bailout.

## Results Through Relationships

### **SHARED JOY & SHARED PAIN**

Clinical studies show that newborn infants feel sympathetic joy and pain for each other. When one infant in a nursery giggles with glee or cries in pain, it's likely that other infants will giggle or cry too. However, by the age of two we discover that we exist as separate beings, and the joys and pains of others are not our joys or our pains. Or are they?

We say problems exist today that no one wants or feels responsible for. However, those problems were created and are sustained by our actions or

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### **QUICKLINKS**

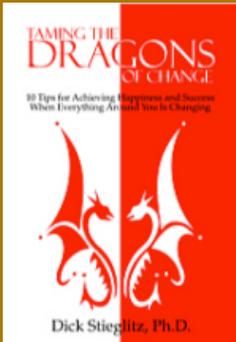
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inaction. Recessions, financial crises, violence, crime, war and hunger are by-products of our collective behaviors. Individually, we may not be affected by them directly and therefore do nothing about them except to protect ourselves. However, by doing nothing along with billions of others who also do nothing, we enable those problems to continue and even worsen. Then when crime, economic collapse, or other problems shake our lives, we deny responsibility and loudly complain that the government has failed again.

The 21<sup>st</sup> century shows signs of a collective awakening that could change the world for the better. Actions by small groups of thoughtful, committed people have started the changes. The groups are growing in number and influence. They don't have a specific name and, for the most part, they don't know each other or work together yet. Rather they have many names, operate in many places, speak many languages, and address diverse issues. Some seek to preserve Planet Earth. Others want to eradicate disease. Still others enjoy teaching children, or focus on other worthy causes. These groups are ordinary people in your family, at your work place, and in your community who share a vision for how the world should be and take action to make it so. I hope you are already a member of one or more of these groups. Acting together, our world will be what we say we want it to be. If you and I don't do it, who will? Who else is there? We're in this together - and that means sharing our joys and our pains to make the world a better place.

## **Personal Change** **HARD CHOICES**

Many people don't like making hard choices, they don't want to lead. It's easier to elect others, to support the status-quo, to espouse popular views, and to hide in a large organization. They expect others to set the rules and to tell them what is expected. They ask: "*Make it simple. Tell me what to do. Tell me how and when.*" Then they become frustrated or angry when they have less than they want. They followed the rules and did what they were asked. What went wrong? When did life get off-track? Maybe the train derailed when they avoided hard choices - when they surrendered to compromise, comfort, and complacency.

As a young boy, my dad encouraged me to be a leader. He said: "*Do what nobody else is willing to do, and your dreams will come true beyond your wildest imagination.*" Leaders aren't satisfied with the way things are. Sometimes they find themselves alone because they see possibilities that others don't see. Leaders seek things that need changing and problems that need solving. They don't care if it's never been done before because they enjoy the challenge of being the first.

Leaders make the hard choices when the current way isn't working. They risk new ideas, new methods, and new technologies to make things better. Jack Welch, the former CEO of General Electric, said: "*Too many leaders avoid making hard choices and thereby hurt not only their organization but, in the long run, the very people whom they are trying to protect.*" Are you making the hard choices in your organization and your personal life?

### **Friends & Colleagues,**

If you're looking to make some hard choices in your organization, contact me to discuss the possibilities. If you found this e-letter to be useful, forward it to a friend. If not, please let me know why at [dick@dragonsofchange.com](mailto:dick@dragonsofchange.com).

Until Next Month,

DICK

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