

July 1, 2012



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### Welcome to the Change Challenge Newsletter

Welcome to July's issue of *The Change Challenge*. Since my birthday was last week, I am more conscious of another year passing - and the divergence between my economic interests and those of younger generations. That's the subject of this month's feature article titled "**Who Will Pay?**"

The Leading Change article titled "**What Will You Stop?**" asserts that in business as well as government, ending old programs is just as crucial as starting new ones - and is usually more difficult. The Personal Change article titled "**Too Many NOs**" shows that NO can damage relationships and become a barrier to your success.

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

**Dick Stieglitz**

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## Feature Article

### WHO WILL PAY?

My birthday was last week, so I'm conscious of another year going by. When people ask how I feel about being older, I say: "It's better than the alternative." But my hands don't flex as easily, I don't hit a golf ball as far, and even when I hit it well I can't see it. I also look at the younger generations differently. The divergence between their interests and mine is an undercurrent in the battle over the Federal deficit and national debt. Can the country afford to maintain Social Security benefits and low student loan interest? Can it spend trillions on the last year of old people's lives (30% of Medicare budget) and increase support for K-12 education? The U.S. must stop spending more than it collects in taxes, but will the gap be closed on the backs of the young or the old?

**Smoke & Mirrors Strategy.** As government control over the economy expands and the federal debt soars, there should be heated debate over priorities - but there hasn't been. Many want the federal government to spend whatever it takes to create new jobs, resuscitate the housing market, and curtail the financial industry - but not raise taxes or cut benefits. It is a smoke-and-mirrors strategy that tries to create something from nothing - like taking out a second mortgage on your house because you can't pay the first one. By promising pain-free solutions to desperate voters, Congress and the President are selling the economic equivalent of a miracle weight-loss program that requires no exercise or dieting.

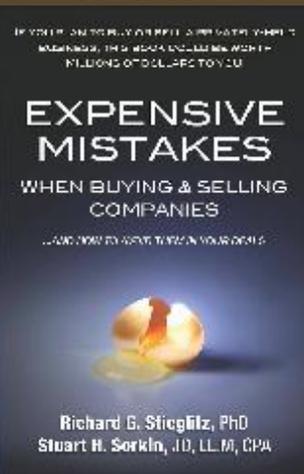
**Illusion of Creating Something.** The truth is the government doesn't create anything, it merely reallocates resources. When the government spends, the money must come from somewhere either today or in the future. If government has no reserves, it must come from higher taxes. If taxes don't go up, the money must be borrowed. If no one is willing to lend, the government must print new money which diminishes the value of people's savings and assets. Similarly, when the government protects inefficient jobs in one industry, more efficient jobs are not produced in others. As the government controls more and more economic factors, the economy becomes more inefficient. And inefficiency lowers productivity, reduces living standards, and reduces the country's international competitiveness.

**Are Our Best Days Behind Us?** Many generation Xs and Ys are afraid that peak U.S. prosperity is in the past. Opportunities taken for granted for decades have vanished - like a guarantee of high-paying jobs after college graduation. Even Americans who still have jobs feel like they have lost a decade of progress because wages are flat in terms of buying power. Consequently, the younger generations have a different attitude toward money than my generation - they are consumers. Most would rather spend money today than plan a retirement that seems so far in the future. If they save at all, it's only because they want to buy something big next year. They have high expectations, but feel like the American Dream is being taken from them.

**Concerns of the Old.** The older generation is complaining too - they have security concerns of their own. Economists say Social Security will run out of cash in roughly 20 years. But that shortfall is just one of the economic issues the older generation faces. The value of their homes, which many had treated like a savings account, has fallen; their IRAs have lost value since 2008; and their expected life span extends into the 80s. As recent retirees ourselves, our financial planner says there is a 50% chance that my wife or I will live into our 90s. Will our savings last that long?

**Who Will Pay for Future Benefits?** Workers pay a 6.2% Social Security tax on earnings up to a \$110,000 income cap, as do their employers. Congress temporarily cut the employee tax to 4.2%, but that cut will expire at the end of 2012. According to AARP, eliminating the cap could end the Social Security shortfall in one stroke. Similarly, raising the tax rate above 7% for employees and employers would do the same. But those solutions would force the younger generation to pay for Social Security benefits that contributions from the older generation were insufficient to cover. Cutting benefits could close the gap too, but that would mean the older generation would not receive benefits they counted on in their retirement planning. Increasing the minimum retirement age (now 67 for those born after 1960) is a sensible long-term solution, but it doesn't solve the short-term cash shortfall in Social Security.

**Buying or selling a business can be a lucrative but risky transaction**

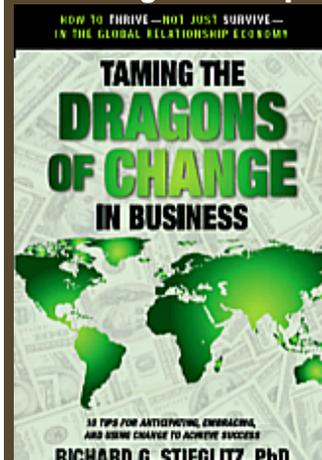


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**Medicare is Worse.** Similar considerations apply to Medicare - except the problem is worse. Workers are covered earlier (at age 65), a growing number of disabled workers are included in the program, and health care costs continue to rise. Any proposal to change Medicare alarms older Americans, who see Medicare as an essential part of retirement security. As with Social Security, ideas to save Medicare for future generations are plentiful. Some proposals, like raising the eligibility age and raising payroll taxes, primarily affect the young. While proposals like cutting payments to doctors and requiring some Medicare beneficiaries to pay high premiums primarily affect the old. Again, cuts in Medicare mean the old suffer, while higher payroll taxes mean the young are paying for the old. In either case, the something-for-nothing government has promised benefits it couldn't afford.

**The Painful Answer.** Logically, government priorities should be to invest in the future through research, infrastructure and education - give the youth the opportunities the older generation has already enjoyed. However, the older generation is a powerful, well-funded special interest group. They vote in large numbers, which is why Medicare and Social Security are considered the "third-rail" of politics. At a minimum, we need a vigorous and frank debate about priorities and balance. In keeping with our American heritage, the conclusion would be that everyone sacrifices a little for the common good of all. Do you think the President and Congress we will elect in November will see it that way? Whether you are old or young, are you willing to sacrifice?

## **Leading Change**

### **WHAT WILL YOU STOP?**

At a strategic planning retreat for a federal agency, the executive team was facilitated through the process of identifying shortfalls in current results and generating ideas to improve performance. The list of potential new initiatives was impressive - nine great ideas prioritized based on estimated cost, risk, and return-on-investment. But when the executives tried to allocate resources, the process came to a screeching halt. No resources were available for even the highest priority new initiative.

The next logical question, of course, is: "*What will you stop doing so you can make these changes?*" The executives had agreed quickly on new programs to improve results, but their inability to agree on a single program to terminate ultimately squashed the initiative to improve performance. They put the ideas into next year's budget submission, but the budget for that year was cut.

In business as well as government, ending old programs is just as important as starting new ones - and it is often more difficult. But new initiatives are doomed to failure unless you simultaneously stop doing something else. One way to balance the time-resources equation is to set up a ledger with columns for budget, your staff's time, and your time. List the new initiatives and the budget and staff each will require. Do the same for things you plan to stop. Since you probably won't have more resources next year - and for sure you will still only get 24 hours each day - the amounts you save from ending programs must equal or exceed the amount you require for new ones. Otherwise, your results will be the same next year as this year - or worse.

## **Personal Change** **TOO MANY NOs**

During a trip to Italy my wife and I visited Fiesole, a town near Florence known for Roman ruins that date before the time of Christ. We took an hour-long bus ride from Florence to reach the hillside town. After a splendid day in town and dinner at a local restaurant, our traveling companions returned to Florence. I wanted to return too, but my wife wanted to see Villa San Michele which had been designed by Michelangelo. As we walked up the winding hill to the villa, we heard a piano on the balcony playing

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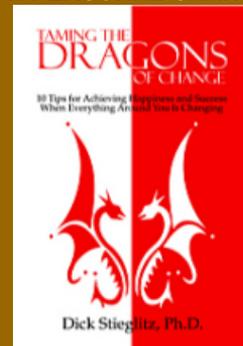
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*Phantom of the Opera*. My wife wanted to go in, but I worried about missing the last bus. As we entered, the bellman offered a cordial welcome and pointed us toward the lounge. After a relaxing drink and conversation, we raced down the hill and caught the last bus to Florence laughing all the way.

NO can be a barrier to enjoying life. Several times on the trip to the villa, I felt like saying "*NO, I don't want to*" even though there was no good reason for NO. NOs erode relationships. Unless NO is to a bigger purpose, "*NO, I don't want to do...*" can be heard as "*I don't want to be with you.*" On the other hand, my reward for taming the NO dragon in Fiesole was a marvelous memory instead of a disagreement with my wife.

Similarly, your first reaction to a change or a new activity might be: "*NO, I can't.*" But that usually is not true. Unless you are a quadriplegic or hospitalized in a full-body cast, "*NO, I can't*" really means that something else is a higher priority. A more honest response than "*I can't*" might be "*something else is more important than you.*" That may sound harsh, but direct NOs make priorities clear to everyone. Too many NOs weaken relationships. Isn't that what we've seen in Congress over the last few years?

## **Friends & Colleagues,**

If your organization is struggling to make the changes necessary to maintain success in the future, contact me to discuss the possibilities. If you found this e-letter to be interesting and useful, send it to a friend. If not, let me know at [dick@dragonsofchange.com](mailto:dick@dragonsofchange.com).

Until next month,

DICK

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