

## **Country's in deep trouble, so we need to save**

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The federal deficit? Social Security? Medicare and Medicaid?

These chronic fiscal problems haven't been on the front burner recently, but that could soon change. Democrats, who worry deeply about such matters, now control Congress.

And last week, Federal Reserve chairman Ben S. Bernanke, speaking at a Senate Budget Committee hearing, warned of the perils of letting these problems fester.

So gloomy are his projections that ordinary folks like you and me should be reworking our retirement plans. We may need to work longer or live on less than we'd expected.

Bernanke warned that "a vicious cycle may develop in which large deficits lead to rapid growth in debt and interest payments, which in turn add to subsequent deficits."

By 2030, interest payments on the federal debt will equal 4.5 percent of the gross domestic product – the country's economic output. That's triple today's level.

Because people are living longer and not having so many children, in 2030 there will be only three people between ages 20 and 64 for every one who is 65 or older. There are five today. That will make it harder for taxpayers to support retirees' Social Security and Medicare benefits.

So what's the solution?

**We don't know what Washington will do, but it's sure to involve tax increases or benefit cuts, or some mix of the two.**

One can hope tax increases would fall on someone else, but that doesn't mean the bullet is dodged completely. If your boss has to pay more toward Social Security, you're less likely to get a raise, for instance.

Some remedies could be benefit cuts in disguise. For example, the “full” retirement age, now the mid- to late-60s depending on your birth year, could be pushed back to 70 or later.

Even if you were willing to take a smaller benefit to retire at, say, 62 or 65, you might find the early-retirement penalty worse than today. After you start receiving benefits, the annual cost-of-living adjustments might be stingier than they are now.

Can the economy grow its way out of this mess? Bernanke says no.

“Economic growth leads to higher wages and profits and thus increases tax receipts,” he told the senators, “but higher wages also imply increased Social Security benefits, as those benefits are tied to wages. Higher incomes also tend to increase the demand for medical services so that, indirectly, higher incomes may also increase federal health expenditures.”

Moreover, the cost of living could go up because interest rates would rise as the government’s borrowing needs get more and more desperate.

As rates go up, more investors would put their money into government bonds offering high yields rather than stocks or corporate bonds, siphoning away money companies need to grow and create jobs.

It’s an ugly picture.

For you and me, there’s no painless way to insulate against it.

Don’t assume you’ll get the Social Security benefit described in the mailing that comes before each birthday. Try to figure how you’d manage if it were 20 percent to 40 percent smaller.

Don’t assume Medicare will cover the lion’s share of your health care needs in retirement. You may need tens of thousands of dollars to stay healthy, perhaps much more.

Think about “downshifting” – working part-time in retirement, or full-time at a job that’s less stressful than the one you have now.

Look for cheaper alternatives to the retirement lifestyle you’ve planned. Maybe backpacking the Appalachian Trail would be as much fun as a luxury Mediterranean cruise.

Then: save, save, save.

Start with the mediocre meals out and other frills that aren’t worth it.

Remember that every dollar invested today could be worth three to five dollars in 20 years, assuming average stock market returns.

Maybe we'll be pleasantly surprised and things won't be so bad.

But I'd prefer to play it safe – to be thrifty now so I won't be needy later.

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