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**In the News...**

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## Programs in Peril

Fed chief: Reform Social Security Retiring baby boomers could 'seriously weaken' economy

By Jeannine Aversa, AP economics writer  
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WASHINGTON — Federal Reserve Chairman Ben Bernanke warned Thursday that the economy could be gravely hurt if Social Security and Medicare aren't revamped, and he urged lawmakers to tackle the nation's thorny fiscal issues sooner rather than later.

"If early and meaningful action is not taken, the U.S. economy could be seriously weakened," Bernanke told the Senate Budget Committee. Future generations, he said, will bear much of the cost.

It marked the Fed chief's most forceful warning to date on the potential problems facing the United States with the looming retirement of 78 million baby boomers, the oldest of whom will start retiring next year.

This huge wave of retirees will hit the U.S. budget as well as the economy, Bernanke said.

"The longer we wait, the more severe, the more Draconian, the more difficult the objective — the adjustments are going to be. I think the right time to start is about 10 years ago," he told lawmakers when questioned about the urgency of the situation.



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**Ben Bernanke's most forceful warning to date on the potential problems facing Social Security and Medicare the United States.**

Absent policy changes by Congress and the White House, rising budget deficits are likely in the years ahead to increase the amount of federal debt outstanding to unprecedented levels, Bernanke said.

That could propel interest rates for consumers and businesses upward, which would be a worrisome development, he said.

"Thus a vicious cycle may develop in which large deficits lead to rapid growth in debt and interest payments, which in turn adds to subsequent deficits," he said. Ultimately, a big expansion of the nation's debt "would spark a fiscal crisis, which could be addressed only by very sharp spending cuts or **tax increases** or both," Bernanke warned.

### Federal deficit forecast is grim

After a bitter election season, both Democrats and Republicans on the Senate panel have promised to try to deal with the spiraling costs of federal entitlement programs.

Sen. Judd Gregg of New Hampshire, the committee's top-ranking Republican, called Bernanke's warning "right on, and a clarion call that I hope folks will listen to."

Senate Budget Committee Chairman Kent Conrad, D-N.D., said: "We hope people are listening about the need for us to address these long-term imbalances, to take these challenges on, and the sooner we do so, the better."

The budget deficit last year totaled \$248 billion, a four-year low. Bernanke noted the improvement, but likened it to a "calm before the storm."

Spending on entitlement programs will begin to climb quickly during the next decade, he said. Federal spending for Social Security, Medicare and Medicaid will total about 15 percent of the gross domestic product by 2030, compared to roughly 8 percent of GDP in 2006, he said.

Forecasts call for the deficit to worsen for the 2007 budget year. The Congressional Budget Office is projecting \$286 billion in red ink, while the White House is predicting an even bigger shortfall of \$339 billion.

Bernanke said economic growth alone is unlikely to solve the nation's impending fiscal problems.

Fixing the problems, he said, will take persistence and a willingness by Congress and the White House to make difficult choices. It will be up to those policymakers to find the right balance between taxes and spending, he said.

The Fed chief steered away from offering specific solutions.

"In the end, the fundamental decision that Congress, the administration and the American people must confront is how large a share of the nation's economic resources to devote to federal government programs, including transfer programs such as Social Security, Medicare and Medicaid," he said.

## **A call to action**

President Bush wants to work on the looming insolvency of the Social Security program. But his one-time plan to add private accounts to the system withered in 2005 after meeting resistance from Democrats and Republicans alike, and is a nonstarter now that Democrats are in charge.

Bush has tapped Treasury Secretary Henry Paulson to gather ideas on how to restructure the program. And the president says he wants to work with Congress on a plan to balance the budget in five years.

Bernanke, who took over the Fed in February, made his case in somewhat starker terms than his predecessor, Alan Greenspan, who had repeatedly sounded the alarm about the dangers to the economy from exploding entitlement costs, some economists said.

"Bernanke didn't mince his words. He wasn't trying to candy coat the situation," said Brian Bethune, economist at Global Insight. "I think Greenspan was a little more diplomatic... but at this point, a little more frankness is maybe what Congress needs."



**OFG: This article clearly exploits the growing crisis in America relating to Social Security, Medicare, and Retirement. With Social Security and Pensions insufficient to maintain their standard of living, retirees are left with two options: 1) Go back to work, or 2) Live on the equity in their home that they spent the last 30 years paying-off.**

**Rather than relying on entitlements, homeowners can take control of their own retirement and Home Equity can play an integral part of the solution. Homes were meant to store families, not cash. When leveraged into a safe, liquid side account that offers Tax-Free Accumulation, Tax-Free Withdrawal and Tax-Free Transfer, you can catch up on 20-30 years of retirement savings through the one time separation of Home Equity that can maintain your standard of living through retirement while maximizing your Tax-Deductions.**