

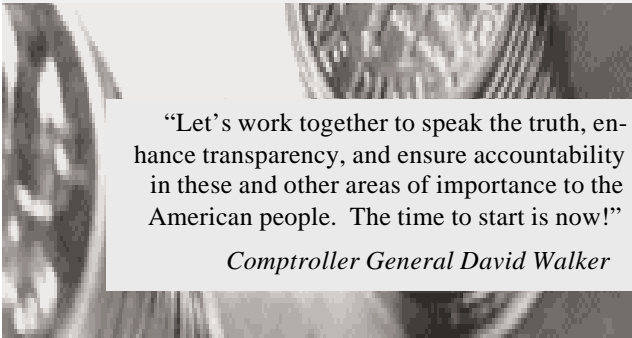


About the **Institute** for Truth in Accounting

The mission of the Institute for Truth in Accounting is to enhance the credibility of public and private sector financial reporting by encouraging the issuance of understandable, reliable and relevant information. Responsible economic decisions can be made only with truthful and timely information.

The Institute believes that as the world's largest fiscal organization, the U.S. government must be the leader in providing complete and understandable financial information.

The Institute for Truth in Accounting is a nonprofit organization with no political affiliations. Our organization is comprised of business and academic leaders who are committed to high standards of honesty and integrity, and who support these principles in the public and private sectors.



"Let's work together to speak the truth, enhance transparency, and ensure accountability in these and other areas of importance to the American people. The time to start is now!"

Comptroller General David Walker

Help make a difference

You can help us to:

- To provide the public with the information needed to make knowledgeable decisions about Social Security reform and other federal budget issues
- Publish a complete financial picture of the Federal government
- Create and implement a national education campaign about our country's fiscal challenges and responsibilities.

Contributions

Send your contributions to the Institute for Truth in Accounting at the address below. We welcome your support through ideas and donations. To join this worthwhile organization, give us a call. For more information about our organization, visit our website at www.truthinaccounting.org.

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Working to bring credibility to financial reporting

*A Guide to Truth in
Social Security Reform*

Simplifying Social Security Reform

The politicians make Social Security reform seem like something very complicated. The simple fact is that the federal government has a \$46 trillion cash flow problem. *The 2004 Financial Report of the United States Government* states our long term cash shortfall is almost \$46 trillion over 75 years. This represents our assets minus our liabilities and the unfunded Social Security and Medicare promises. Social Security's share of the shortfall is more than \$12 trillion.

There are only two ways to fix the cash shortfall: Our government needs to bring in more cash and/or have less cash going out.

President Bush's idea to reform Social Security starts with establishing personal accounts. He proposes that younger workers be allowed to put 4 percent of their salaries (up to \$1,000) into their own personal accounts instead of paying this amount in Social Security taxes.

In reviewing reform plans, all you need to determine is: Does the plan bring more cash in or take less cash out? Obviously, this part of the President's plan does the opposite. It brings less cash in, thereby worsening the problem.

The goal of Social Security reform should be to reduce this long term cash shortfall. Therefore, the President and Congress need to develop a plan which would reduce benefits and/or increase taxes.

Demystifying Trust Funds

Many people question why Social Security needs to be reformed now if the trust fund is not exhausted until 2042. Unfortunately, the Social Security and Medicare trust funds have already been wiped out.

The confusion surrounding trust funds stems from the use of the words "trust fund." In the real world, trust fund refers to funds of one party held and managed by a second party (the trustee) in a fiduciary capacity. This is not the case in Washington, D.C. The Congressional Budget Office has indicated, "Trust funds have no particular economic significance. They do not hold separate cash balances; instead, they function primarily as accounting mechanisms to track receipts and spending for programs that have specific taxes or other revenues earmarked for their use."

In President Bush's State of Union Address he commented, "Thirteen years from now, in 2018, Social Security will be paying out more than it takes in." Because we are running huge budget deficits, the President and Congress already take more out of Social Security than the program takes in. It is impossible to use Social Security taxes to pay for current expenses, like defense, homeland security and education, and to put the same money into trust funds.

The Social Security system can only be reformed with an influx of real cash and/or a material reduction of benefits. Reforming Social Security should not be delayed based upon fictitious trust funds.

"The existence of large trust fund balances, does not by itself, increase the Government's ability to pay benefits."

The President's 2006 Budget

Playing Chicken with Our Country's Future

President Bush's plan of personal accounts is like giving candy to a sick child. It tries to pacify younger workers, but actually worsens the problem. President Bush and the Democrats have not proposed any of the hard medicine that the country will need to take to reform Social Security.

This is a big game of chicken in which whomever blinks first may pay a huge political cost. The same game was played with Medicare reform in the mid-1990's

In 1996 the Medicare trustees projected the program's imminent bankruptcy. Even though both parties understood the necessity to slow the growth in Medicare spending, neither party wanted to face the possible senior backlash for proposing such a plan. Finally the Republicans took the bold first step by proposing legislation that slowed down the unsustainable rate of growth in Medicare benefits from 10% a year to about 6.5%. Benefits would increase each year, just at a slower rate.

The Republicans had blinked. Even though President Clinton's budget had included a similar plan, the Democrats pounced with unprecedented, aggressive demagoguery. The Democrats ran a huge "Mediscare" campaign, which included running countless television ads portraying poor seniors who would "suffer" under the Republican plan. Many believe this resulted in Republicans losing Congressional seats during the next election.

Currently, both parties are scared to even suggest changes to the entitlement programs. Reforming Medicare or Social Security is known as "the third rail of politics." Both parties need to agree to not attack the other party for proposing the necessary tough choices. The large senior voting bloc needs to be open to all reform options and not politically destroy the brave politicians who propose needed changes.
