



Randy L. Flink, Principal ❖ Christopher M. Gregory, Principal  
Robert I. Kramer, M.D., Medical Advisor

May 25, 2007

In November 2006, we first introduced DocOnomics to you as a compendium of practical insights and tools designed to enhance the personal wealth of physicians and other healthcare professionals. DocOnomics is a work in progress. There is nothing for sale here. The objective of the authors is to keep medical practitioners in the black. With 80 million aging Baby Boomers beginning to queue up for larger and larger dosages of healthcare services, we are going to need every last medical professional on the front line. In this war, we cannot afford to take casualties.

Our supporting thesis is that entitlement programs such as Social Security, Medicare and Medicaid are becoming increasingly stretched due to the massive debt loads that already plague our Federal, state and local governments. There are few angels of mercy in Washington, DC and even fewer political solutions to the problems at hand. As a result, we fully expect that compensation to providers of expert medical services will continue to shrink well into the future. This means two things. First, fewer college students will choose medicine (especially primary care) as a career, thus exacerbating a shortfall of high-quality healthcare personnel. Second, healthcare professionals need to start micro-managing their financial assets, liabilities and risk in order to improve their odds for survival and prosperity. Nothing should be left to chance. Again, we can't afford to take casualties with 80 million aging Baby Boomers on the approaching docket.

We hope that you will read our missives and that we don't bore you. If indeed you do find us boring, please let us know and we'll throw in a few jokes. However, what we are facing over the next couple of decades is no joke. The authors of DocOnomics already are losing sleep over the prospect that one day soon Dr. Wal-Mart will be taking their vital signs.

## **BOOMER SOONER – ACT I**

With apologies to the University of Oklahoma alumni in our audience, this commentary is not about college sports or other pursuits north of the Red River. Rather, it is a reflection on the Baby Boomer generation and its future impact on healthcare, politics, society and our ability to build wealth.

There are nearly 80 million Americans in the post-World War II Baby Boomer generation, comprising the age group 42-61. A small percentage of these individuals will start to collect Social Security benefits in 2008 and Medicare benefits in 2011. Within a few years, the numbers will begin to gather increasing momentum.

In theory, when all 80 million Baby Boomers are retired, the US will have 100% more elderly beneficiaries than today but only 15% more workers to pay for their benefits via Social Security and Medicare contributions. At the highest level of our government, a solution does not exist for how to make good on promised retirement benefits to the Baby Boomer generation. The money is not there. For the last 75 years, it has been spent on foreign wars, social programs, agricultural subsidies, pork barrel projects, natural disaster recoveries and the like.

Adding to the plight of the retiring Baby Boomers is a slow train wreck occurring within the nation's private pension system. Due to competitive pressures from abroad and rising energy costs, a growing number of major US companies are cutting back on the provision of pension benefits to employees, making it less likely that future retirees will receive everything that they have been promised. In addition, a large number of company pension plans are in the unenviable position of being grossly under-funded and are desperate for a powerful bull market in stocks.

Let us repeat that the US Government presently does not have the means to deliver its end of the retirement pact with 80 million Baby Boomers. According to Laurence Kotlikoff and Scott Burns, co-authors of The Coming Generational Storm, a research study conducted in 2002 under the authority of then US Secretary of the Treasury Paul O'Neill pegged the total present value cost for the Medicare and Social Security entitlements at **\$51 trillion!** Medicare by far represents the largest piece of this super-sized entitlement.

More recently, this sentiment was echoed by David Walker, the US Comptroller General. In an interview on 60 Minutes (March 4, 2007), Walker repeated his stern public warning from December 2006 that the US Government would not be able to honor its entitlement obligations as presently structured. Walker drew particular attention to the Medicare prescription drug bill passed by Congress in 2003, which he called "probably the most fiscally irresponsible piece of legislation since the 1960s." The highest-ranking government watchdog clearly is barking loudly at approaching danger.

Medicare is healthcare for the aging masses. Out of economic necessity, the current healthcare system will need to be greatly modified in order to serve tens of millions of additional customers. This means that many Americans likely will wind up with socialized medicine as a standard platform for healthcare delivery. Only those with accumulated wealth or high incomes will be able to pay for private healthcare.

Even socialized medicine will have its share of red tape and practical limits, which could prompt many elderly people to leave this country and re-settle in places where they can get acceptable healthcare in a timely fashion and at an affordable price.

To this end, we think that many elderly Americans may be increasingly vulnerable to packing their bags for relatively stable countries south of the border, e.g., Mexico, Costa Rica, Panama and Belize. It is a fact that greater numbers of Latin American doctors are receiving training in the US and better hospitals and clinics are being constructed and operated in Latin American cities. The weather and geologic conditions are quite favorable, provided that one avoids the traditional tropical storm areas and earthquake zones.

One thing we can be sure of is that this coming rendition of A Brave New World for aging Baby Boomers will not make our country stronger. It is a sad commentary on the path chosen by political leadership over the past couple of generations, i.e., that dependence on the government in old age is a higher road than dependence on oneself, one's family and one's community. This is a far cry from the way it used to be.

We all should engage in some forward thinking as the aging Baby Boomer phenomenon begins to materialize. In terms of our AARP framework, it is time to react and determine how best to accumulate, allocate and protect assets under economic, political and social pressures that will begin to manifest themselves in as little as 5 years.

**In Act II, we will offer some action steps for those who are ready to react - sooner rather than later.**