

As is commonly reported, within the next few years, one of the largest demographic groups in our nation's history, the so-called Baby Boomer generation, will begin reaching retirement age. Because of its size, this group is expected to have significant influences both on our society and our economy. With this expected retirement, boomers will be looking to fulfill long-held dreams of leaving careers, travel, moves to warmer climates and other normal activities of retirement. With this life change, boomers are also expecting to maintain, in most respects, their income and lifestyle throughout their senior years, including receiving Social Security pension benefits and health care benefits through the Federal Medicare system. Due to the current state of these entitlements systems and the size of the Baby Boomer population and their expected effect on these systems, problems are likely to arise which have the potential to impact many aspects of their finances, their health care and our economy in general.

To start, senior finances alone are not in good shape. Up to one third of boomers have little to no retirement savings at all and another third have insufficient retirement savings to sustain them through their life. In the financial planning profession concerning seniors, there is a popular notion that the lives of many will outlast their money. The irony of the medical advances and greater longevity of people these days is that it takes much more of a retirement nest egg to finance that longer life. Unfortunately, a sizeable portion of seniors today and seniors tomorrow do not and may not have such resources, forcing them to turn to governments, families and other alternative sources to help them meet their living expenses. Other contributing factors, such as the devastating losses incurred in many retirement investment accounts after the Internet bubble burst, overspending of incomes and debt accumulation, and losses or insufficient increases in pension income have also made personal finance very difficult for many in the senior community. In addition, rising health care costs, such as needed prescription medicine and rising healthcare premiums, are continually crimping senior fixed incomes. As a result, many have had to delay retirement or even return to part-time work in order to supplement lost income or retirement assets. As I will discuss, some of the support historically offered by governments may not be as readily available in the future and seniors, as well as the healthcare professionals who care for them, must be prepared for a potentially difficult environment going forward.

Government entitlement programs, such as Social Security, Medicare and Medicaid programs are not in good shape either. Although not yet in "CRITICAL" condition, I would certainly classify these programs as "Serious", with the great potential to slip into critical condition unless immediate attention is given to the patient. Part of the problem stems from our government's reluctance to recognize "the Elephant in the Room". Due to easy monetary policy in the form of historically low interest rates and a series of massive Federal tax cuts coupled with rampant deficit spending, our nation is currently running ballooning budgetary and trade deficits and an unprecedented national debt. In dollar terms, our Federal government is continuing to overspend its revenue by nearly \$500 billion dollars per year, our nation is overspending its income by nearly the same amount, and our accumulated national debt stands at nearly \$7.5 trillion; over 60% of our Gross National Product. In the meantime, an anticipated surge in federal spending will

be needed for the retiring baby boomers. The question then becomes: Where will we find the money to finance the pension and healthcare benefits expected by these new retirees?

According to the Social Security Administration, the SS pension system is currently running a sizeable surplus, meaning that SS taxes collected from the working public is enough to cover pension benefits to today's senior beneficiaries. At the same time, however, the Medicare/Medicaid system is running an equal deficit amount, soaking up the pension system's surplus dollars. It is projected, however, that in 15 years, 2019, both programs will need to pay out far more in benefits that will be collected in taxes. In fact, the Congressional Office of Management and Budget has projected that by 2020, the Social Security and Medicare deficits could reach \$783 billion per year or over half a trillion in today's dollars. These numbers are truly staggering.

These deficits could have unpleasant and significant effects both on individual seniors as well as our economy. For one, such financial shortfalls and obligations may force our government to choose between senior entitlements and other programs. Politically, some compromise is generally reached, but that would entail a reduction of healthcare or pension benefits or higher taxes for the general public. Neither is palatable to seniors and as seniors will constitute more of a large voting block in the future, such reduction proposals could be a very hot political potato for our elected officials.

Despite these funding shortfalls, our Federal government continues to approve tax cut packages, such as the \$142 billion tax cut extension bill approved by Congress last week and awaiting the President's signature. The Office of Mgmt and Budget is predicting that continued deficit spending and extending tax cuts due to expire in the coming years could increase our yearly deficit to Two Trillion Dollars within 10 years.

There are few solutions to these deficit problems and contrary to Vice President Cheney's comments earlier this year, Deficits Do Matter, especially if they are large, structural and reoccurring. With the so-called "Jobless economy" slowing and healthcare costs rising dramatically, primarily due to advances in technology, high drug costs, and higher wages needed to attract and keep health care professionals in the field, it is more and more likely that our Medicare system will be able to sustain itself without massive tax increases, reduction of benefits, or both.

This situation could have profound effects on the quality and amount of care received by seniors today and in the future. Already, we are seeing cracks in the system,