

## **The Boomers are Coming, So Be Prepared**

The first wave of the Baby Boomers, those born between 1946 and 1964, will turn 65 in 2011. The first wave of 3.4 million gradually increases to 4.0 million per year. The initial impacts range from replacing bifocals with progressive lenses to the pharmacy staff greeting you on a first name basis.

Other changes coming our way can be seen without progressive lenses. Our social insurance programs are heading for trouble and we Boomers need to face that reality. The first social insurance program to run into trouble isn't Social Security; it is Medicare.

Let's take a look at the various funding sources. Part A which provides limited hospitalization coverage is paid through payroll tax deductions. Part A expenses exceeded payroll tax collections in 2005 and will continue until the problem is addressed.

The other major Medicare programs, Part B for doctor's visits and outpatient services, and Part D prescription drugs, are on a pay-as-you-go system. Retirees pay 25% through premiums and the Federal government pays 75%. Looking out of the top of my lenses I can see a problem. It looks like 78 million aging Baby Boomers.

One of the changes buried in the legislation that gave us Medicare's prescription drug program was a tiered pricing for Part B. The good news is that it only hits the wealthy. Who are the wealthy? Right now they are single retiree's earning in excess of \$80,000 per year or a married couple earning \$160,000. There is some bad news. This social insurance program is now based on ability to pay and the Federal government's definition of "wealthy" which has a tendency to change based on revenue needs.

Social Security is heading for a similar problem but it doesn't hit us until 2017 when payroll tax collections are exceeded by Social Security payments. The Social Security and Medicare Trust was described by the Office of Management and Budgets as "claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, reducing benefits, or other expenditures."

I don't see a threat to the Greatest Generation's benefits. They are one of the largest voting blocks in the nation and the Boomers would not allow a cut to their parents' benefits. It is strange that we Boomers have accepted a pending cut in our own benefits yet many of us have not planned on eventually retiring.

Each year the Trustees of the Social Security and Medicare Trust report on the current and projected financial status of the two programs. The actuarial studies are complex and always subject to debate; however, the key assumptions include longevity, tax revenues and payments. Basically, we need to increase revenues, reduce benefits or some combination of the two. I'm in favor of longevity, the other two I don't like. The real questions are when the changes will be made and how much it will cost.

The retiree healthcare benefit is about to be placed on the endangered species list. Fewer companies are offering this benefit simply because they cannot afford the cost. Companies who offer the benefit have a significantly unfunded liability. Does that sound familiar?

If you have access to a tax-deferred saving program, take advantage of this benefit and make certain that you capture any company match. Check out one of the free retirement calculators and see if you are on track for an eventual retirement. Hopefully my fellow Boomers who came of age in the 60s will exclaim “Right On” rather than “Far Out.”

Get involved in the solution. Every year the Trustees of the Social Security and Medicare trust funds publish a report on the two programs. You can find it online at [SSA.Gov](http://SSA.Gov). Read the summary. You won't particularly enjoy what you find but you will know more about the future we are facing.

I believe we are going to see some level of reduction in our social insurance programs. It is not a question of if, it is a question of when and how much. Plan for your future, it has a tendency to arrive unexpectedly.