



“Health Insurance Scheme for Elderly Rises to Top of Agenda”

-Financial Times, August 31, 2012

It is often said that Social Security is the “third rail” of American politics, implying that any politician brave (or stupid) enough to touch it will be electrocuted. The same could certainly be said of Social Security’s sister program, Medicare. All Americans, and particularly those in or near retirement, are concerned about rising health costs, and they are right to question whether Medicare will be there for them when they need it.

Despite the fears of electrocution, Medicare has become a major campaign issue in this year’s presidential election with the selection of Paul Ryan to be Mitt Romney’s running mate on the GOP ticket.

I am not here to endorse either candidate or to repeat tired, old political mantra. There is a time and place for that, but it is distinctly not in a discussion of client financial planning. That said, Paul Ryan’s proposals for Medicare are interesting, if for no other reason because they have started a much-needed debate on the future of a program that tens of millions of Americans will depend upon in the decades ahead.

Though we often consider healthcare to be “special” in that our lives depend on it, its basic economics are really no different than cars, houses, or sushi dinners. We can have virtually *unlimited* healthcare for all, but only if we are willing as a country to pay astronomical prices for it. On the flip side, we can have *affordable* healthcare for all too, but only if we are able to restrict access to it.

There is a tradeoff. We can have unlimited care, or we can have affordable prices. But we can’t have both.

This means making choices, which is never easy or fun when lives are at stake. As a country, America has gone a different direction than, say, the UK or Canada. We have opted to make more care available, but we also pay far more than any other country in the world as a result. The UK and Canada offer “free” healthcare (actually taxpayer paid) that is far cheaper as a percentage of the economy, but it comes at the cost of restricted access. We’ve all heard the horror stories of waiting lists for critical operations.

Which is better? That is a matter of opinion, though as a country Americans tend to freedom of choice over economic expediency.

Paul Ryan’s plan for Medicare reform is to take the U.S. government out of the role of payer. Rather than fit the bill via Medicare, under the Ryan plan the government would essentially give seniors vouchers to shop for their own insurance in the market.

Is this the right answer? Maybe, or maybe not. "Choice" is appealing to Americans, but the prospect of very elderly Americans struggling to fill out forms and navigate the complicated process of choosing an insurer is not particularly appealing.

There is still no escaping the basic economics of healthcare. We still have to pay for it, whether it is collectively via Medicare taxes or whether it is individually via personal insurance plans.

As individual investors, this means planning and budgeting. Given the political uncertainties, the best course of action for us is to focus on growing and preserving our wealth so that we will be prepared to pay for our health care, come what may.

Sincerely,

Jeremy E. Portnoff

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