Commentary

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BUFFIN PARTNERS INC. INVESTMENT AND ACTUARIAL RESEARCH

Unfulfilled Promises and Unfinished Business

PRESCRIPTION DRUGS FOR SENIOR CITIZENS

After months of political debate, Congress has sent a "promises unfulfilled" message to senior citizens who believed that both Republicans and Democrats were committed to answering the urgent needs of senior citizens who cannot afford the high cost of prescription drugs that their doctors recommend. While the blame-game and finger-pointing have found no shortage of targets to criticize for the impasse, it is now imperative to reassess the situation and find an acceptable solution to this pressing social problem. Mediating the crisis will not be easy. There is the inescapable fact that providing adequate prescription drug benefits to senior citizens is an expensive undertaking. Medicare finances are already projected as inadequate to provide the existing benefits in future years. Income tax cuts have had the effect of reducing previously projected Federal budget surpluses. Pharmaceutical companies have launched aggressive lobbying efforts to protect their financial resources and ability to engage in research and development. Low-cost generic drugs have not succeeded in reaching enough senior citizens. The political process has failed the nation on this issue. As a result, many of our senior citizens continue to go without necessary prescription drugs or make budget-straining choices between buying food, clothes and medicine. When faced with such intractable problems, it might be helpful to consider the "a minimis incipe" principle…from small beginnings, a problem can begin to be addressed. Perhaps it is time for an independent Commission to be established to address the problem and recommend a small-scale pilot program to protect the most needy senior citizens. It would seem that the costs of a senior citizens' prescription drug program should be spread as widely as possible as a national responsibility and not fall on those elderly and impoverished senior citizens who can least afford it. Perhaps it might be appropriate to provide direct tax incentives to pharmaceutical companies that agree to offer significant discounts on prescription drugs to senior citizens. Once a small-scale pilot program of this kind has been established and found to be successful in beginning to address the problem, a continuing commitment to expand the program would help in evaluating national priorities and responsibility for the well-being of our senior citizens

SOCIAL SECURITY DEBATE

In the February edition of *Commentary* we appealed for a debate on the issues presented by the report of the Commission to Strengthen Social Security. The report itself set a time frame of one year for the assessment of the principal findings of the Commission. Those who advocate individual accounts and stock market investment as the cornerstones of the future structure of the Social Security system have been relatively quiet during the recent collapse of the stock market that has witnessed considerable erosion in the value of 401(k) and other investment accounts. A recent editorial in the Wall Street Journal has returned to the debate by setting out the perceived merits of stock market investment on the basis of historical returns. While we welcome opinions on all aspects of the issues to be debated, we are left with an uncomfortable feeling that those who are so strongly committed to worship at the altar of stock market investing are neglecting some very important aspects of the present Social Security system. First, is the fact that the present system provides substantial insurance benefits for survivors (typically widows and orphans) and disability pensions. Also, the current system provides essential guarantees against inflation and the risk of longevity. By contrast, individual accounts invested in stock market securities expose account holders to uncertain volatility risks with downside potential. Another important aspect of the Commission's findings is that the proposed modifications to the system to include individual accounts depend on the assumption of a real rate of return in excess of inflation amounting to 6.5 percent per annum. Many expert economists and actuaries in the academic and financial community have taken issue with the validity of this assumption. While opinions may differ, it is regrettable that nowhere in the Commission's report or the supporting actuarial memorandum is the question of what are the implications if the real rate of return assumption of 6.5 percent is not achieved. These sources are silent on the important question of what would the financial projections indicate if based on alternative real return assumptions of 6 percent or 5.5 percent or 5 percent. The difference in the financial viability of the various proposals is hugely and adversely affected by a change of this kind in this critical assumption, particularly when the projections purport to reflect best estimates over a period of 75 years. The absolutism implied by the best estimate concept is open to challenge and debate since it is a very slender thread upon which to build a whole infrastructure of a modified Social Security system.

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