



InvestWrite Middle School Winner

Question

Pick a sector of the economy that you feel will do well, or not do well over the next five years. Some examples of sectors other than transportation are: healthcare, financials, energy, technology, and consumer goods. Think about business and world events that may affect your sector during the five-year period. Find out what sector analysts are saying about your sector. By doing research, describe why you feel your sector will do well or not do well in the next five years. (Hint: Mutual fund companies often have sector funds, which you can look at to track performance, along with other research.)

Answer: A Healthy Investment

It is pretty hard to predict the future, but if I had to choose an investment market sector that would increase in value over the next four years, it would be the health care sector. The health care sector includes: biotechnology, pharmaceuticals, medical, and managed care providers.

Demographic studies have been made that divide the United States work force into five different age categories. The Pre-Boomer is a person who was born between the years 1934 to 1945. A Boomer is one who was born between 1946 and 1959. A Cusper was born between 1960 and 1968. Next is the Buster, who was born between 1969 and 1979. Last is the Nester, born between 1979 and 1988. The Boomers are currently between the ages of 47 and 60 years old. The estimated number of boomers in the U.S. is over 78,000,000 or 25% of the total population. In addition, they make up 48% of the work force. As these boomers age, there will be increases in health care spending, prescription drugs, nursing homes/assisted living centers, and cosmetic surgery.

A recent event that greatly affected the health care sector was the Medicare Prescription Drug Improvement and Modernization Act of 2003. Part D of this Medicare Act was initiated in 2006 and "is the biggest expansion of Medicare since the program was created in 1965" (briefing.com dated 3-3-06). Part D impacts every segment of the health care sector. Under this plan, the United States government will now help pay for prescription drugs. These payments are expected to exceed those of both individuals and the private health insurance companies. More boomers will be able to get prescription drugs through Medicare and the amount of money spent on prescription drugs will increase. It is estimated that it will rise to \$369 million by the year 2010.

Another event that will occur this year and will affect the health care sector in the next few years is the patent expiration of five widely prescribed drugs to lower cholesterol, manage depression, relieve allergies and aid sleep: Zocor, Zoloft, Prachol, Ambien, and Allegra. Once their patents expire, they will be open to



generic substitution. Although sales will decrease for the current companies who produce these drugs, this will be good news for consumers, other drug manufacturers, and the health insurance companies.

In the past ten years, health care spending in the United States has outpaced the growth rate of inflation, the population, and the gross domestic product. During the last few years, the national health care spending has increased to \$1.7 trillion, which is equal to \$5,670 per person. With the aging boomer generation, it is projected to reach \$3.4 trillion by the year 2013. Some economists have said that the rise in health care spending might increase inflation and lower the economy's employment rate. The rising cost of health care will negatively affect employers, employees, and also the federal budget. In order to fund this health care spending, the government will either have to raise taxes or increase its borrowing. The average person is affected by either paying higher taxes or higher interest rates as a result of the government's borrowing.

Other economists, however, say that the increase in health care spending will be outweighed by the improvements in technology that will result. The health care industry will be able to provide new options for treatment and treat a larger number of people. The quality of the treatment will improve and you will get more for your money.

Although the two kinds of economists cannot agree on whether the increase in spending in the health care industry will help the U. S. economy, they do agree that it will help the health care investment sector. The increase in spending will create more jobs in the health field, increase wages for its workers, and increase the demand for health care goods and services.

The market future is difficult to predict because it is so dynamic. But I estimate that the health care investment sector, which increased by 8.4 percent over the last year, will continue to do well over the next four years. Health care stocks are a good option for investors because they consistently yield profitable returns.

("Effects of Health Care Spending on the U.S. Economy". 2/25/05.
<http://www.aspe.hhs.gov/health/costgrowth>)

("Facts for Features Special Edition Oldest Baby Boomers Turn 60!" 1/2/06.
http://www.census.gov/Press-Release/www/releases/archives/facts_for_features_special_editions/006105.html)

("Healthcare" 3/3/06.
www.briefing.com/Investor/Public/StockAnalysis/SectorView.html)

(Kennedy, Marilyn Moats. "Managing Change: Understanding the Demographics of the Evolving Workforce" 2005. handout from seminar, pp. 1-5.)