

# Baby Boomers Fuel Thriving Health Industry

**Bright Economic Picture, but High Medical Costs Hurt Consumers**

By **SUSAN DONALDSON JAMES**-July 17, 2008

Americans accustomed in recent months to a daily dose of gloomy economic news may find a silver lining in the health care industry as aging baby boomers fuel demand for drugs, health services and medical supplies, boosting the companies that make them.

Employers and investors have fought for relief this year as housing prices fall, gasoline and food prices rise and credit and financial markets continue struggle for stability.

But health care, which today makes up 16 percent of gross national product, three times as much as in 1960, according to Kaiser Foundation, is one of a handful of sectors like mining, farming and natural resources to thus weather the economic storm.

While some experts fear rising costs for drugs and services could eventually mean bad news for individual Americans, small business and government spending, the thriving health care industry is welcome news for company profits and many investors.

Companies like Johnson & Johnson, the biotechnology company Genentech and Abbott Laboratories saw big second-quarter profit gains. And the sector has steadily created new jobs during the past year.

The quickening economic strides come as more Americans are slowing down and getting older, but also living longer.

The number of Americans over the age of 45 has jumped from 77 million in 1990 to about 112 million people in 2006, according to AARP, the organization that advocates the rights of older people.

And according to a recent Kaiser Family Foundation report, the average American spends \$7,000 annually on health care, much of that coming from growing millions of baby boomers approaching old age. "As baby boomers we have more access to health care," said Oscar Gonzalez, economist for John Hancock. "We are living longer, we use it more



The health care sector of the economy is soaring, but so are medical costs, say economists and consumer advocates. (ABC News Photo Illustration)

and we demand more from the system. You can have every kind of test from an MRI to replacement of hips and joints."

## **Drug Profits Soar**

It's been a steady earnings season for many of the companies that make medical products.

Health care giant Johnson & Johnson posted an 8 percent jump in their second-quarter profits, with a boost coming from the new non-prescription allergy pill, Zyrtec, new Acuvue contact lenses for astigmatism and surgical products for treating obesity.

Sales of medical devices and diagnostics, led by joint replacements and diabetes and vision care items, jumped 12 percent.

"The penetration of drugs has increased, so more are available," said John Hancock's Gonzalez. "How can you blame us when they do us good? Why not take them?"

Genentech, the biotech firm, saw second quarter profits rise 5 percent due to strength from its blockbuster cancer drugs. The company added breast cancer to its list of uses for its drug Avastin earlier this year, in addition to colon and lung cancer, resulting in a 15 percent sales increase.

Sales of Rituxan, which treats non-Hodgkin lymphoma and rheumatoid arthritis, gained 12 percent.

And Abbott Laboratories Inc. announced a 34 percent jump, driven by robust international sales of its arthritis drug Humira and other medical products and its cholesterol pill Niaspan.

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### **Health Care Jobs Booming**

Along with the steady demand for health care products, the industry seems to be bucking the employment tide.

Total U.S. job losses for the first six months of the year have hit 438,000, with an average of 73,000 jobs lost each month, many in construction, manufacturing and employment services. Construction alone has lost 528,000 jobs since its peak in September 2006

But job openings in the health care field continue to grow, according a July 3 report from the Bureau of Labor Statistics. Since June 2007, health care has added 348,000 jobs. In June alone, 15,000 jobs were added in the field, 13,000 in ambulatory services.

Meanwhile, financial planners say health care companies are a good investment in bad economic times.

"I don't want to be giving stock tips," said Mark Johannessen, president of the national Financial Planning Association. "But for a long term investor, related stocks in the pharmaceutical industry and extended-care facilities are a reasonable place to be, especially if you take into account the baby boomers and their medical needs when they come of age."

Johannessen advises following tried-and-true investment rule of diversifying your portfolio, but he added that mutual funds that specialize in health care issues are a good bet.

## **Offering Second Careers**

The burgeoning industry also offers job opportunities for baby boomers, many of whom are staying in the work place longer or returning to second-career jobs in health care after retirement, according to AARP, the organization that advocates for the rights of older Americans.

"But this positive economic news is not necessarily a good sign," AARP spokesman Jim Dau told ABCNEWS.com.

AARP commissioned a nationwide survey to determine how people age 45 and older were responding to the current economic slowdown. It found that 17 percent of younger boomers — ages 45 to 54 — were making cutbacks on their medications because of the economic downturn.

Taking those types of medical shortcuts can have long-term medical and financial consequences, according to Dau.

There are also concerns that the growing acceptance and array of medical choices could lead to difficult economic decisions that don't always pay off in better health.

"Health care costs are exploding, and it has a huge impact on individuals, employers and government spending. This is the biggest issue we are looking at for the next administration," Dau said.

"The health care system's rapid adoption of emerging medical technologies has, in many instances, provided enormous clinical benefits, such as prolonged life and improved quality of life," according to a recent Congressional Budget Report.

Those technologies come at a price.

"Newer, more expensive diagnostic or therapeutic services are sometimes used in cases in which older, cheaper alternatives could offer comparable outcomes for patients," it said. "And expensive services that are known to be highly effective in some patients are occasionally used for other patients for whom clinical benefits have not been rigorously demonstrated."

### **'Walking a Thin Line'**

The companies reaping profits say the effective and cost-conscious delivery of medical care is on their agenda as well.

"Access to health care is a critical issue to the country, and we are working with our industry peers to develop programs and make it more affordable through patient assistant programs and sensitive pricing," Johnson & Johnson Corporate Communications Director Bill Price told ABCNews.com.

Still, Gonzalez says Americans should not get too excited about the strong health care indicators, despite the bright — albeit short-term — investment and employment opportunities.

"The truth is on both sides," said Gonzalez. "Clearly, people are living longer. At the same time, there are more types of treatment available and new drugs that are costly to develop. Some of the costs come through increased profit, but over a long period of time, consumers, patients, Medicaid and Medicare absorb the costs.

"We are walking a thin line."