Investment Report: Fall 2023

"It won't happen to Me!" Understanding Long Term Care, how some States are taking action, and how it might affect you.

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"The best tunes are played on the oldest fiddles!" - *Ralph Waldo Emerson*

GO YOUR OWN WAY

Our bodies, minds, and senses become less robust as we age, increasing our susceptibility to illness and decreasing our functional capacity. Due to this inherent process, most people eventually require assistance, first with household chores or other necessary everyday tasks like shopping or preparing meals, and then with more essential tasks, or activities of daily living like bathing, eating, and toileting.

Long-term care is care given to those who require help with everyday life activities. When does a long-term care insurance policy begin to pay out? When a condition like Alzheimer's, dementia, or amnesia occurs that requires close observation. Additionally, the policy becomes active when functions including eating, using the restroom, bathing, transferring, dressing, and maintaining continence are hampered.

Location is something that long-term care is not. Where you receive care has no bearing on long-term care insurance. It depends on whether you can carry out everyday tasks on your own or if you have a serious cognitive impairment that calls for supervision.

DON'T STOP BELIEVIN'

Who will need long-term care? Becoming disabled and requiring long-term services and support (LTSS) as we get older is generally underestimated by Americans. People also often exaggerate how little risk they themselves face. In fact, in a recent study, it was estimated that a 65-year-old had a 7-in-10 chance of acquiring a "severe" requirement for long-term services and support (LTSS), which should be concerning. This comes with a caveat. While some people may need years of round-the-clock care in a facility to manage dementia, others might require occasional assistance from family members to recover from illnesses and accidents.

However, this type of care has become increasingly expensive and is something regular health insurance and Medicaid does not cover.

A study by the Center for Retirement Research in 2021 showed that roughly one-fifth of 65-year-olds will die without requiring LTSS and one quarter will have severe needs (see white and maroon shading in Table). In between these two extremes, 22 percent will experience minimal needs (yellow shading). However, 22% of all individuals will experience a disability for a period longer than five years.

Table 3. Lifetime Probability of 65-Year-Old Developing Minimal, Moderate, or Severe LTSS Needs

	Intensity			
Duration	None	Low	Medium	High
0-1 years	17%	8%	4%	12%
1-3 years		6	4	22
3+ years		4	2	22

CALIFORNIA DREAMIN

A few States are beginning to take the lead in developing their own long-term care strategies due to the increasing strain on Medicaid due to increasing longevity. Washington State passed legislation and crafted the *WA Cares Fund*, a public long-term care insurance program, that was launched in July of this year. Similar plans are currently being crafted and considered in California.

In Washington, all full-time, part-time, and temporary employees contribute .58% of their yearly salary to the *WA Cares Fund*. Residents with private insurance were granted an exemption under the 2019 state legislation that was adopted. Later, the state set a deadline for requesting that exemption, which caused more than 480,000 people to hurry to purchase the insurance to escape the tax. They swarmed the state's remaining long-term care insurance providers, overwhelming them. Those applications had to be submitted by the end of 2022.

The debated question is whether the benefit is sufficient and justifies the increased taxes paid by all earners, especially high earners. High-wage earners may receive far less than the $36,500 (adjusted for inflation) maximum payouts. Today's median monthly cost of in-home care in Washington State would be covered for only about six months.

Right behind Washington, California is also developing a significant long-term care plan. The state is studying several possibilities for a public insurance policy for its financial viability. Potential legislative action is expected in 2024. Like Washington, California would also use a payroll tax to fund its program, but it is exploring a more "progressive" tax structure that would include a contribution maximum and a waiver for low-income citizens.

California is weighing a range of benefit designs much larger than Washington's. One idea, for instance, would offer a maximum benefit of $110,400 per year, for up to two years, covering residential facilities and home-based services.

As we move into the next decade, 25 percent of California's population will be 65 or older, or about 8.4 million Californians. This will put a tremendous amount of pressure on the state's finances while leaving many California seniors to fend for themselves if nothing is done. On the flip side you can be assured that by providing these policies to the public, taxes will go up.

HERE COMES THE SUN

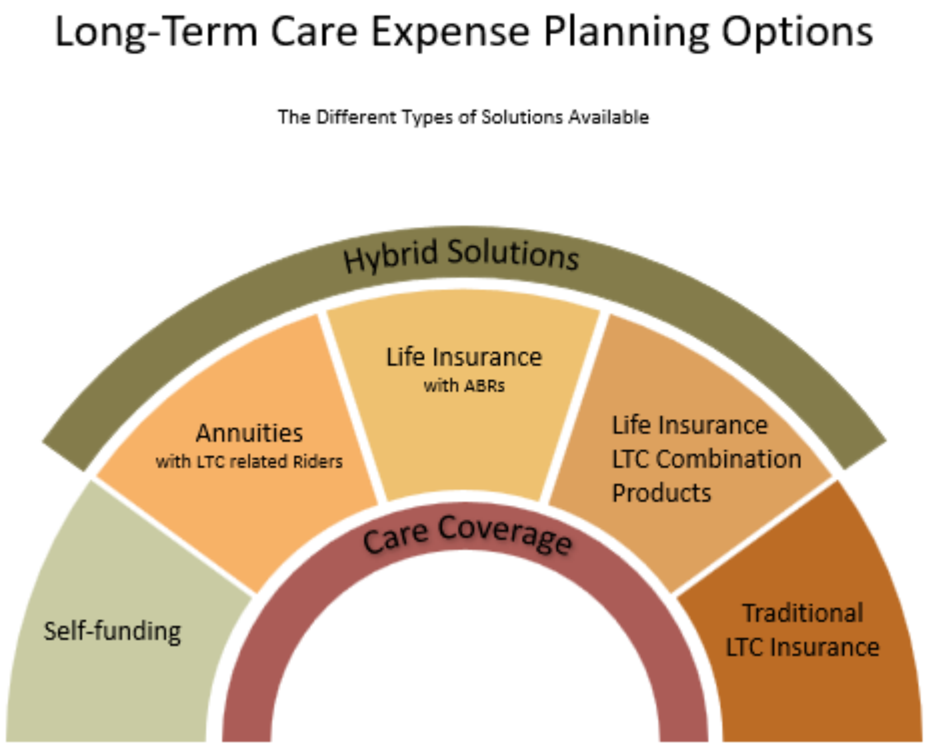
What to do? Financial experts found that clients with unanticipated care incidents may spend their savings 2-3 times faster than expected. In fact, it has been estimated that individuals who do not have a dedicated funding solution for long-term care services may see their portfolio withdrawal rate increase from 5 to 11% annually.

It's a function of whether you will leave it to chance or "make a plan". Sons, daughters, and close relatives often struggle with the emotional toll, time commitment, and strain on their families when providing care for their parents. Not to mention the physical and mental effects. We also know that women (wives and daughters) often carry a disproportionate amount of the responsibility for providing care.

Lack of planning can result in inadequate care and resentment towards family members. No parent ever intends to leave their children to deal with their care, but it happens often. Having a plan in place will bring more joy to everyone around you in your later years. Your first concern should be "How will I pay for care?" Also important is considering who will provide care if you need it, where you want to get it, and how much it will cost.

Finally, by developing a plan that will cover the cost of care, provide your family with the option of managing care rather than providing it, and protect the legacy you've worked so hard to build.

There are multiple options that you can consider that will mitigate or alleviate the financial strain of a long-term care plan. A variety of potential solutions are shown in the table below:



At Sequent we can work with you to determine whether traditional long-term care insurance, hybrid options, or self-funding is the best option for your long-term care strategy. Addressing the issue and developing a plan is critical as you move into your retirement years. Successful planning can help avoid burdening others and enable you to create a stress-free retirement for yourself and your loved ones.

Eric Scaff
Founder, Managing Director

Charles Strickler
Managing Director

References

1.) LTCG, “2021 Lincoln Financial Cost of Care Survey,” March 2022, www.whatcarecosts.com/lincoln
2.) LongTermCare.gov, https://acl.gov/ltc/basic-needs/how-much-care-will-you-need
3.) Center for Retirement Research at Boston College, “What Level of Long-Term Services and Supports do Retirees Need? June 2021, Number 21-10
4.) ASPE Research Brief, “Long-Term Services and Supports for Older Americans: Risks and Financing, 2022”, August 2022
5.) NORC Center for Public Affairs Research, “Long-Term Care In America: Americans Want To Age At Home” May 2021

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Statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. Forecasts and estimates are inherently limited and do not guarantee future results.

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There are material risks associated with investing in private placements, DST properties and real estate securities including illiquidity, general market conditions, interest rate risks, financing risks, potentially adverse tax consequences, general economic risks, development risks, and potential loss of the entire investment principal.

An UPREIT (umbrella partnership real estate investment trust) is a REIT structure that allows property owners to exchange their property and defer taxes on the sale of property in exchange for UPREIT units though capital gains taxes on UPREIT units are subject to standard REIT taxation. UPREITs are generally subject to Internal Revenue Code (IRC) Section 721 exchanges.

There are retirement account risks that could diminish investor returns, such as, but not limited to: low interest rates, market volatility, withdrawal timing and sequence of returns risk, government policy uncertainty and increased longevity. Prospective investors should perform their own due diligence carefully and review the “Risk Factors” section of any prospectus, private placement memorandum or offering circular before considering any investment.

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SEQUENT
REAL ESTATE + WEALTH MANAGEMENT

Comprehensive Planner

Client Goals: To delegate analysis and decision-making to a trusted advisor regarding all aspects of holistic financial life. These clients see total wealth management as the ability to have their financial lives planned completely in a thoughtful manner.

Our **Total Wealth Management** clients require total management of holistic wealth. Investment, Insurance, and estate planning issues.
We will review, every quarter, all financial issues relating to:

1. Growth and creation of wealth
2. Preservation of wealth
3. Distribution of wealth
4. Maintenance of wealth and wishes after death

Minimum annual fee: $12,000

We do our best work with clients who have at least $1,500,000 in net worth.

Engagement is renewed annually.

Additional charges apply for ad hoc services not covered under the service model.

Confident Investor

Client Goals: To delegate investment decisions to a trusted advisor who has the experience and resources to manage investments in clients' best interest, in line with their goals. These clients see investment management as a way to achieve financial goals but free up time.

Our **Investment Management** clients seek only investment services through a fee-based investment account.
We will review goals and risk tolerance parameters, as well as maintain all aspects of the investment accounts. We will provide an annual investment review to make sure your goals are still aligned with your investment strategies.

Min. Investable Assets: $500,000

Annual Asset Management Fees:
$500K 1.50%
$500k-1M...................... 1.25%
$1M-2M 1.00%
$2M+ .... negotiable

We do our best work with accounts greater than $500,000.

Related minimum is $100,000.

Collaborator

Client Goals: To address specific financial issues such as:

- Real Estate Portfolio Review
- DSTs/721 UPREITS
- 401(k) rollover / IRA's
- Insurance Planning
- Saving/budgeting

These clients want guidance on specific solutions for a specific situation or goal.

Our **Project Planning clients** have more limited or specific needs. They may have questions about unique issues or products that we can help establish or resolve.

We will engage in an initial review to determine the scope of work or questions. The engagement ends once the product is established or the question is resolved.

Hourly Fees:
Planner: $300/hour
Administrative: $100/hour

Project Fees:
By quote

Product Sales:
Fees are not charged on top of commissioned sales.

Engagement ends at the completion of the project or sale.