



Sigma Summaries

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Reminiscence

Every Monday, my brother Joe and I eat lunch at my grandparent's house, which is about a mile from our offices. We feel extremely fortunate to be able to enjoy a weekly meal with them. Grandma lavishes a five-course lunch on us complete with stories from her childhood. I know my grandparents very much look forward to our visits, as my brother and I do.

Sadly, my grandfather is suffering from dementia. He has no short-term memory. This man can still play bridge and tell us about the time he took us to the baseball game and got us into the dugout. However, he can't remember that he told us this story last week, and the week before that, and the week before that, too.

My grandmother has exceptional long-term memory. While her short-term memory is not as strong as it once was, it doesn't slow her down. She is a stereotypical, strong-willed Italian grandmother. She took care of her father about ten years ago while he was in the last years of his life and now she is doing the same with her husband. Either she doesn't understand the disease or she just refuses to believe what it has done to her husband. Nonetheless, she perseveres. I aspire to be as strong as she is.

A typical lunch hour includes many fascinating stories ranging from the times spent at a summer cottage to the trials and tribulations of living through the Great Depression to a few war stories. During this time, my grandfather is usually silent with a glazed look in his eyes. I remember one time when my grandmother was talking about taking the trolley for five cents to downtown Detroit during the Depression, and my grandfather chimed in with, "We sure were lucky..." My brother and I waited in anticipation for a little more color to the story. We were amazed that he finally wanted to contribute to a story. The end of his sentence was quite a let down... "the garbage guys came early today." The garbage pickup has become an obsession of his.

We try not to get discouraged. We remember the great man he once was. That's the memory we'll cherish once he passes on. At this point, we are just trying to make the rest of his stay on this planet as pleasant as possible. Sometime in the future, he may need more help than my grandmother or our family can provide. Besides suffering from dementia, he is also a diabetic. It's important to monitor his blood sugar level and for him to regularly take medications. We just don't know

how long my grandmother will be able to provide the care my grandfather needs.

I can't foresee my grandmother ever voluntarily going into an assisted living home, but if God forbid, she died first, my grandfather would have no choice. This is a predicament many families will face in the coming years. According to the U.S. Census Bureau, the segment of the population over 85 years old will grow in numbers by 34% between 2000 and 2010. The population as a whole will only grow 9%. The rapid increase in the number of elderly persons does not stop in 2010. By 2050, there will be over 18 million seniors over the age of 85 versus only 4 million in 2000.

We can thank modern medicine for our increased longevity. Unfortunately, modern medicine has not yet conquered ceasing the basic aging process; our cognitive and physical skills still diminish at about the same rate as ever. According to the Joint Center for Housing Studies of Harvard University, over half of those aged 85 and over will need help with at least one activity of daily living (ADL). Examples of activities of daily living include bathing, eating, taking medicine, maintaining continence, etc. Most people

needing help with one or more ADL rely on family members for assistance. However, as the severity and number of needs increases, the burden can become overwhelming for the family. Traditionally, it was at this point a person was placed in a nursing home. What comes to mind when you hear the term “nursing home?” Many people think of the smell of urine soaked beds and decay, the sight of sterile rooms, the taste of bland, soft food, the sounds of discomfort and pain, and the feeling of hopelessness. A common statement I hear is, “I hope to go before they put me in one of those places.”

Fortunately, this version of a nursing home environment is not the only choice for senior citizens in need of care. Paul and Terry Klaassen, the founders of Sunrise Senior Living, have developed a new type of home for seniors. They are committed to maintaining the independence for their residents while also providing the services they need. The prototype Sunrise home resembles a Victorian mansion. While researching this company for possible investment purposes, Steve Catallo and I took a tour of the Troy, Michigan Sunrise Senior Living home. It is as charming on the inside as it is on the outside. The facility had the look and feel of an upscale bed and breakfast. There was a central dining area where they offer three new food choices every day plus their usual standards. It also had a snack bar. The living room had an enormous television set with a surround sound system.

What impressed me the most about this “home” was the attention to detail. The pill containers were made

to look like furniture. The handrails were built extra wide for support so a sterile looking metal bar was not needed. The entrance to each room had pictures of the family who lived there to give the staff a quick look into the resident’s life. Each room had a large hallway space that had comfortable chairs or couches and televisions that could be used by the visiting great-grandkids. I didn’t notice any terrible smells usually associated with nursing homes until we went by the room of the lady who was addicted to Ben Gay.

Residents who are at risk of wandering off because of dementia are tagged with a bracelet that will automatically lock the doors if they get within 15 feet of one. But even for them, the company has tried to create a comfortable environment by including a fenced-in backyard where they can garden or walk in the sun. I walked away from this tour with a whole new perspective on what a senior home is today. It’s a home where my grandmother could comfortably live – not that she would.

The financials of the company also make it an attractive investment. It is able to charge between \$85-\$120 per day for a room depending on its size and amenities. This fee includes meals, housekeeping, laundry, daily activities and other services you might find at a hotel. Dispensing medicine or other ancillary care is extra and can add an additional \$50 per day to the bill. The inflation rate of these fees is approximately 6% per year. Given the difficulties of obtaining permits for new homes (many communities are still opposed to having a “home” in their backyard), the inflation rate of the

rooms will most likely continue to be high as supply will not keep up with the growing demand.

While this is great for investment purposes, it will put a financial strain on many families. As investment counselors, we need to consider the very real possibility that our clients may one day need the services of a home like Sunrise. One way to minimize the impact of this large future expense is to purchase long-term care insurance. While we do not sell insurance products at Sigma, we do have an understanding of them and will recommend a qualified insurance agent should we feel an insurance policy fits within a client’s financial plan. In December 2001, our former colleague and long time friend, Ann Conrad, CFA wrote a Sigma Summary on the pros and cons of long-term care insurance and who might benefit from it. You can obtain this piece on-line at www.sigmainvestments.com in the publications section or by contacting us directly.

The one point I would like to emphasize is that long-term care insurance is not for everyone. It is expensive if only because so many people will end up needing it. In a way, it’s like prepaying your lunch. One of the most important considerations in determining how appropriate it would be to get the insurance is to understand your emotional needs. Do you not want to, or even could you, rely on anyone else for help as you age? Do you fear running out of money because of unforeseen events? Does that fear interfere with you enjoying life? The answers to these types of questions coupled with your financial situation can help you determine your need for

this type of insurance.

My grandparents do not have this type of insurance; it was not available back when they could have qualified for it. Regardless, my grandmother's belief in the family as the sole source of support makes the point moot. Still, watching my grandfather slowly, mentally leave us

week after week has started me thinking about all of these issues. I know that before researching Sunrise, I would have never been able to get past the guilt if we ever had to put him in a home. Knowing there are homes out there like Sunrise gives me a little bit of comfort. Still, I couldn't tell you exactly what I hope will happen in

the next several years for my grandparents. All I know is that next Monday, I plan on eating lunch with them and enjoying their company. Sometimes, the simplest plans are the best.

Written by:
Anthony J. DiGiovanni, CFA

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