The Sensenig Capital Advisor Letter

August 2014

Providing clients with peace of mind, through smart financial decisions.

What to Look for in a Long-Term Care Policy

TOPIC
Wealth Protection

Long-term care insurance is one of the most complex types of insurance. Due to the intricacies of these policies it can be hard to determine if you are comparing apples-to-apples when searching for what may be best for you. To that end, we have included a list of questions to ask yourself, or the agent you are working with, in order to help better understand the costs and benefits.

What types of facilities are covered? Long-term care policies can cover the following types of care:

- Nursing home care
- Home health care
- Respite care
- Hospice care
- Personal care in your home
- Assisted living facilities
- Adult day-care centers

Many long-term care policies cover some combination of these. Be sure to understand what facilities are included when you're considering a policy.

What is the daily, weekly, monthly benefit amount? Policies normally pay benefits by the day, week, or month. You may want to evaluate what long-term-care facilities in your area are charging before committing to a policy.

> Due to the complexities of long-term care insurance ***we suggest working closely with a professional that has experience in this area.***

What is the maximum benefit amount? Many policies limit the total benefit they'll pay over the life of the contract. Some state this limit in years, others in total dollar amount. Be sure to address this question.

What is the elimination period? Benefits don't necessarily start when you enter a nursing home. Most have an elimination period—a period during which the insured is responsible for the cost of care. In many policies, elimination periods can range from zero to one-hundred days after nursing home entry or disability.

Does the policy offer inflation protection? Adding inflation protection to a policy may increase its cost, but it could be important if long-term care services increase in price. In fact, for those looking to purchase a policy now for use in later years inflation protection can be a valuable planning tool.

How are benefits triggered? Insurance companies use specific criteria in order to determine when to trigger benefits. The most common trigger is the inability to complete a certain number of the activities of daily living (ADLs) without assistance. There are six activities of daily life that most insurance companies use. They are as follows:

- Bathing
- Continence
- Dressing
- Eating
- Toileting
- Transferring

And, it is important to note that policies have benefits for Alzheimer's disease, dementia, or other forms of cognitive impairment.

Is the policy tax qualified? Certain long-term care policies can offer federal income tax benefits. Generally, premiums paid for these policies can be included with other uncompensated medical expenses for deduction from income if they exceed 7½% of adjusted gross income. And benefits received generally will not be counted as income.

How strong is the insurance company? There are several companies that analyze the financial strength of insurance companies. The ratings can show you how industry watchers view various insurance companies.

What other policy options are available? There are a number of other long-term care policy options you may want to consider. *Waiver of premium* allows premiums to be discontinued once benefits are triggered. *Third-party notice* requires the insurance company to notify a third party whenever premiums have been missed — so the insured can have a child or trusted advisor make certain that premiums are paid.

THE COST OF CARE
Pennsylvania average cost of care in a *skilled nursing facility* is $104,390 a year. Care in an *assisted living center* averages $38,100 a year.
20 years from now, Pennsylvania average cost of care in a *skilled nursing facility* may be $266,107 a year. Care in an *assisted living center* may average $72,793 a year.
30 years from now, Pennsylvania average cost of care in a *skilled nursing facility* may be $424,868 a year. Care in an *assisted living center* may average $100,617 a year.
Source: U.S. Department of Health and Human Services, 2014.

There are many factors to consider when reviewing long-term care programs. The best policy for you may depend on a variety of factors. Due to the complexities of long-term care insurance it can be beneficial to work closely with an insurance expert that has the depth and level of experience required to help determine the best policy for your own unique situation. If you would care to learn more please contact our office at your convenience. S

Managing Inflation Risk

TOPIC
Investment Consulting

As the capital markets have improved, many investors have shifted their concern toward inflation. Folks are asking how they can prepare their portfolios. This article explores two basic ways to address inflation uncertainty and highlights asset groups that may prove useful.

As you consider strategies, keep in mind that there is a marked difference between *expected* and *unexpected* inflation, which is explained in greater detail below.

Hedging vs. Total Return Strategies

Investors can prepare for unexpected inflation by following one of two basic strategies—hedging the immediate effects of inflation or earning a total return that outpaces inflation over time.

Hedging involves choosing assets whose value tends to rise with inflation. Although holding these assets may reduce the total return of a portfolio, the positive correlation with inflation can help an investor keep up with rising consumer prices, at least over the short term. (Correlation refers to the co-movement of asset returns. When two assets are positively correlated, their returns tend to move together; when negatively correlated, their returns are dissimilar.)

In a total return strategy, an investor attempts to outpace inflation by holding assets that are expected to earn higher real (inflation-adjusted) returns. This investor is willing to give up short-term inflation protection for an opportunity to grow real wealth.

To insulate a portfolio from unexpected inflation risk, both strategies may employ some combination of stocks, short-term fixed income, and Treasury Inflation-Protected Securities (TIPS). Let's consider each of these:

Stocks

Equity securities have provided positive inflation-adjusted returns over the long term. From 1926-2008, the total US stock market, as measured by the CRSP 1-10 Index, outpaced inflation by an average of 6.16% per year.[1] To achieve this higher expected real return in stocks, however, an investor had to accept more risk, as measured by greater volatility in returns, and endure periods when stocks did not outpace inflation. As a result, stocks may be less effective for hedging short-term inflation and more suitable for investors who want to beat long-term inflation by earning a higher total return.

> As capital markets have improved, investors have shifted their concern toward inflation. ***Folks are asking how they can prepare their portfolios.***

Some investors assume that high inflation leads to lower stock market performance, while low inflation fuels higher stock returns. In reality, inflation is just one of many factors driving stock performance. US market history since 1926 shows that nominal annual stock returns are unrelated to inflation.

Fixed Income (Bonds)

Higher inflation can hurt bondholders in two ways—through falling bond market values triggered by rising interest rates, and through erosion in the real value of interest payments and principal at maturity. This inflation exposure tends to impact the prices of long-term bonds more than those of short-term bonds, and investors can mitigate the effects of rising interest rates by holding shorter-term instruments.

Many types of investors may benefit from holding short-term bonds. When interest rates are climbing, a portfolio with shorter-term maturities enables an investor to more frequently roll over principal at a higher interest rate. This can help inflation-sensitive investors keep up with short-term inflation and enable total return investors to reduce portfolio volatility, which can lead to higher compounded returns and growth of real wealth.

Treasury Inflation-Protected Securities

Treasury Inflation Protected Securities (TIPS) are fixed income securities whose principal adjusts to reflect changes in the Consumer Price Index (CPI). When the CPI rises, the principal increases, resulting in higher interest payments. At maturity, an investor receives the greater of the inflation-adjusted or original principal. The inflation provision enables TIPS to preserve real purchasing power and hedge against unexpected inflation.

TIPS are generally a good short-term inflation hedge since principal is adjusted for changes in the CPI. They are also a good portfolio diversifier for long-term investors due to negative correlation with equities and relatively low correlation with most types of fixed income.

However, keep in mind that TIPS prices also have been affected by changes in real interest rates, so TIPS may not track inflation one-to-one in the short term or over longer periods of time. In fact, TIPS can lose market value if real interest rates increase.

Commodities

Commodity futures, as well as gold and oil, are perceived as effective inflation hedges because their returns are positively correlated with inflation. But commodities are more volatile than stocks, and their returns do not always rise with inflation because of this significant volatility. So adding these assets to a portfolio may increase real return volatility, which could offset the benefits of hedging.

Investors should also consider the economic argument against holding commodities. Unlike stocks, commodity futures do not generate earnings or create business value. They are essentially a speculative bet in which there is a winner and loser at the end of each trade. Moreover, a broad-based stock portfolio already has significant commodity exposure through ownership of companies involved in energy, mining, agriculture, natural resources, and refined products.

As you assess your exposure to a high-inflation scenario and form a strategy that reflects your financial goals and risk tolerance, consider that:

- **Expected inflation is built into asset prices.** In our view, markets efficiently integrate all known information into prices. Thus, current prices already reflect expectations of future inflation. Only unexpected news will affect the inflation outlook.
- **Hedging unexpected inflation has a cost.** Investments traditionally regarded as effective short-term inflation hedges have lower historical returns than stocks—and some have much higher volatility.
- **Volatility matters.** Evaluating assets solely on their ability to track inflation disregards the effect of volatility on returns and risk. Some assets that are positively correlated with inflation have large return variances, and adding these to a stock and bond portfolio may increase overall volatility.

Even with the prospect for higher inflation, investors who take a total return approach may be better served than those who choose assets based on correlation with the CPI. By choosing assets with higher expected long-term returns and maintaining broad diversification, investors can seek to grow real wealth and preserve the purchasing power of their dollars. S

1. Real return calculation: (1+CRSP 1-10 Index return)/(1 + US CPI)-1. The CRSP 1-10 Index is a market capitalization weighted index of all stocks listed on the NYSE, Amex, NASDAQ, and NYSE Arca stock exchanges. CRSP data provided by the Center for Research in Security Prices, University of Chicago.

10 Elder Care Legal Issues to Consider

✦ TOPIC ✦
Wealth Transfer

Elder Law is a complex and diverse category of the law that will eventually touch someone in your family … be it your mother, grandfather, or yourself. The following are 10 elder care issues to consider.

What is an Elder Law Attorney? An Elder Law Attorney is one who focuses their practice on issues facing the aging population. He or she usually has extensive experience with issues such as retirement planning, qualifying for medicaid or medical assistance, estate planning, and representing Powers of Attorney or Guardians. Anyone can call themselves an Elder Law Attorney so make sure to ask about their experience.

What to expect from an Elder Law Attorney? You can expect to discuss your present financial and health situation, as well as your personal history and goals for the future. They would also request to see any current estate planning documents. In addition, they will also help guide you through complex issues and confront difficult decisions. In most cases, they will work closely with your financial planner or accountant. It is also important to know the attorney's fees up front to avoid misunderstandings later on.

When to prepare a plan: When you are healthy and competent, creating a plan can ensure your objectives are met. The plan can change over time and adjustments will need to be made but it is important to be prepared. In addition, adult children can find it difficult to talk with their parents about certain issues. A good attorney knows this and understands that part of their job is to make the client feel comfortable.

Documents to consider: There are 4 major legal documents that you should consider:

- **Will:** A Will allows you to dispose of your assets in a manner that you desire and allows you to designate who will be your Executor or Trustee. Each individual has his or her own Will.
- **Durable General Power of Attorney:** This document allows you to appoint someone to act on your behalf if you become unable to make choices on your own. This individual can make financial decisions such as writing checks, selling real estate, or signing a contract.
- **Health Care Power of Attorney:** The same concept as the Durable General Power of Attorney but deals with health care matters such as what type of treatment you should receive, where you should receive that treatment, or what type of medications you should be on.
- **Living Will or Advance Health Care Declaration:** This document allows you to choose whether you would want "heroic measures" taken to extend your life if you were in a permanent state of unconsciousness with no significant hope of recovery.

> ***With the help of an experienced Elder Law Attorney,*** the complex task of planning for the aging process can be manageable.

Power of Attorney vs. Guardianship: As stated above, the Power of Attorney can make decisions regarding financial and health care matters. In most circumstances a Power of Attorney can handle the situation and there won't ever be the need to get a Guardianship. Guardianship is a legal proceeding in which the Court directs who will oversee the affairs of an individual without sufficient competency. A Guardian is appointed to protect the health, safety, and financial well being of the incapacitated person.

Know the difference between Medicare and Medicaid (Medical Assistance): Many of us know what Medicare is and seniors over the age of 65 typically qualify for Medicare depending on their work history. Medicaid provides health coverage to more than 4.6 million low-income seniors where qualifying will depend on your assets and income. If your assets are in a range where getting sick or getting long-term care would decimate your finances then having a financial plan would be vital to your future. As the cost of long-term care is skyrocketing, consulting an experienced attorney in Medicaid rules can be crucial.

Transferring Money: Ensuring that you can provide for yourself and spouse in retirement is crucial. Planning can involve asset protection and/or qualifying for Medicaid. By gifting money and transferring it out of your estate you may be disqualifying yourself and your spouse from obtaining benefits. Most benefits have a five-year look back period where the government scrutinizes your financial records. If you gifted money within five years of applying for benefits you could be disqualified. The best advice is to plan ahead.

Nursing Home and Health Care Costs: Make sure to consider the cost of health insurance, retirement homes, and long-term care. Nursing homes offer different options like assisted living or Alzheimer's care. Investigate what you are getting for the money. An elder law attorney will likely not have expertise in these areas but these topics should be discussed in the context of your financial and estate planning.

Family Dynamics and Disagreements: Do you have more than one child? Are you in a second marriage? Do you have stepchildren? Is there one child that you have financially supported more than the others? Sometimes this anxiety can be multiplied if the same child is the power of attorney. It is important to make your choices clear early on, so that everyone is on the same page. Disagreements and arguments sometimes lead to court battles that can break up families.

Elder Abuse: Elder abuse claims are rising every year. Abuse can take different forms, from physical or mental to financial abuse. There are civil and criminal remedies if there is the suspicion of fraud or abuse. If questions arise concerning a power of attorney's actions, an accounting could be ordered by the Court. If someone is taking advantage of another, a Guardianship could be needed. It can be beneficial if a team of individuals are the elder's advocate to create a check and balance.

With the help of an experienced Elder Law Attorney, the complex task of planning for the aging process can be manageable. S

Steve Potts
Herr, Potts & Potts

Steve is a partner at Herr, Potts and Potts. In his practice, he handles a variety of matters including estate planning, estate and trust administration, federal and state income tax, real estate, family law, and elder law matters. Steve is a member of the Pennsylvania Bar Association and the Chester County Bar Association. He is licensed to practice law in the state of Pennsylvania and before the United States Tax Court. He has given numerous lectures to disability groups concerning guardianships and the benefits of special needs trusts.

Steve received his B.A. from Franklin and Marshall College in 1999 and received his J.D. from the University of Pittsburgh School of Law in 2002. He served on the Board of Bournelyf Special Camp and currently sits on the ARC of Chester County Board. Steve lives in West Chester, Pennsylvania with his wife Julie and three children.

the Sensenig Capital Advisory Team

Carl B. Sensenig
President

Carl Sensenig earned his Bachelor of Science degree in Business Management from York College of Pennsylvania and his Certificate of Professional Studies in Finance from Ursinus College.

Carl served as Vice President and Portfolio Manager for nearly twenty years at Arthur E. Spellissy & Associates (Wayne, PA) before founding Sensenig Capital Advisors in April, 2007. From 1972 to 1987, he held sales and marketing management positions with two public companies. A veteran, he also served four years in the United States Air Force.

In addition to being active in church leadership, Carl currently serves on the boards of several non-profit organizations in the local community, including Advanced Living Communities, The Center for Loss and Bereavement, and The Schwenkfelder Library and Heritage Center.

Jeremy C. Brenn, MBA, CFP®
Vice President

As Vice President, Jeremy Brenn is responsible for many of the firm's client relationships, as well as managing the strategic direction and wealth management process for Sensenig Capital. Jeremy earned his Bachelor of Arts degree from York College of Pennsylvania, as well as his MBA in Finance from Hood College, Frederick, MD.

Jeremy is an active member of the Financial Planning Association (FPA). He also holds the distinguished CERTIFIED FINANCIAL PLANNER™ professional designation. He has been quoted in the Philadelphia Inquirer and other personal finance related sources. In addition, Jeremy currently serves on the Board of Directors at Meadowood Senior Living, a non-profit continuing care retirement community located in Worcester, PA. He lives in Montgomery County with his wife and three sons.

TOPIC GUIDE

Genuine wealth managers use a consultative approach to construct solutions that encompass all types of financial needs. At its core, our wealth management approach is comprised of the subject matter areas listed below. We organize our newsletter around these topics and highlight each one for your benefit. Each article is tagged with the specific topic so you can relate the information to your own unique situation.

Investment Consulting
Maximizing the probability of investment success

Wealth Enhancement
Tax mitigation and cash flow planning

Wealth Transfer
Transferring wealth effectively to heirs

Wealth Protection
Transferring & mitigating risk through insurance

Charitable Giving
Maximizing the charitable impact

Relationship Management
Building deep, fulfilling relationships with our clients

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...AT NO OBLIGATION

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