FAMILY WEALTHREPORT

Family Offices, Medicine And Medical Advancement - Part One

Steven Abernathy, June 1, 2018

Family offices don't have to think of health and medical issues as purely as a cost - there are also ways of investing in these areas to benefit their members and wider society, so the author of this article argues.

Aging and illness is no respecter of wealth and an important of the conversation that should go on among families is keeping physically and mentally well, and if trouble arrives, setting in place plans and resources. This article explores what family offices can do to help members in these areas in sourcing medical and health resources, as well as understanding health-related business and technologies as important economic growth areas.
This article is written by Steven Abernathy. He counsels affluent families on multi-generational wealth management strategies and corporate retirement plans. He contributes articles and commentary to a variety of publications. In 2010 he founded the Abernathy Group II Family Office. (Details below.) The editors are grateful for the chance to share these insights with readers; email tom.burroughes@wealthbriefing.com

As clients age, there is much to consider regarding both their physical health and the "ongoing health" of their assets. Depending on how resources are allocated, if the head of the family has not hedged against the cost of long term care for one (or more) relatives, this could risk the growth of multi-generational wealth. Family offices anticipating conversations about aging and medical needs may dovetail with estate planning. No one wants to talk about aging - or about death - yet it is critical to guide families through conversations for long term planning.
Long term care may initially seem like it is simply a sunk cost. However, for families with the foresight to plan ahead, it is possible to offset some of these expenditures. How?

Real estate investing. While this will not be right for everyone, families with experience in the commercial real estate market could benefit from investing in elder care. Options vary and range from high end independent living facilities to outpatient rehabilitation centers. Assisted living stocks also may be an investment option. One eye surgeon, who found a way to reduce both the operating and the waiting time of his surgical specialty, which often served older patients, bought several properties which housed surgical centers to perform his patented technique. The property investment yielded great returns as he 1) could see as many patients as possible in the independent facility, therefore turning a greater profit; and 2) the value of his real estate holdings grew and yielded an excellent return.

Technological investing. Technological innovation is happening in medicine globally. Misaligned incentives in healthcare, particularly in the US, are poised to change so as to deliver care more efficiently and cheaply to the largest number of participants. Some specialties may be eliminated altogether. Companies like Zebra Medical are using artificial intelligence (AI) to not only speed up how data is gathered, but, find a diagnosis faster. Given the efficiency and accuracy of the metadata collected by AI, where one patient's scan is compared to other similar images in milliseconds, the practice of radiology is likely to change significantly over the next decade. Individuals and families who understand the impact technology will have on the future of healthcare, may reap large dividends over the long run. As an alternative, families less interested in profits, and more interested in helping healthcare solve the chronic maladies affecting humans of all races, may find it rewarding to support research for an illness affecting a family member that could to serve the greater good.

Philanthropy. Similar to technological investing, charitable giving for specific research, supporting hospitals with an endowment, or otherwise earmarking funding for a specific purpose can be an effective way to create a tax benefit while potentially creating a cure. This "selfish philanthropy" is often seen in charities of varying sizes. However, the family may opt to be highly specific (i.e., the head of the family makes a sizable gift to pay for research of a rare disease) which may expedite the process if the lion's share of the funding is coming from the family - and they have a say over the activities and priorities of the research team (or facility). Several hospitals house sizable staff, however, additional funding allows for a greater effort (i.e., more research scientists, equipment, testing) to enhance the process. Cycle for Survival, the fundraising partnership between Equinox Fitness and Sloan Kettering Cancer Center, is specifically set up to fund rare cancers - every dollar raised is allocated for research. The families who participate may have teams which include doctors, researchers, and hospital staff members. This "all hands on deck" approach is centered on targeting cures - and building relationships.

Preventative medicine. While much of the healthcare system treats illness, focusing on the preventative side of medicine may be where investors offer the largest significant future impact. As healthcare becomes more cost-focused over time, to cut the costs of long term illnesses significantly, preventative tools and actions will be imperative. The pharmaceutical industry continues to earn vast sums by producing expensive drugs and treatments which control, yet do not cure, the illness. This broken system incents profit by keeping patients on medications.

However, low cost or no-cost preventative medicines are poised to replace the emphasis on pharmaceutical intervention. The multi-billion-dollar wellness industry has gone well beyond yoga and meditation. Opportunities abound in nutritional supplements, anti-aging technology, and other simpler preventative measures, such as eating less meat. But, not all investments go as planned. While shareholder activists are often credited with unlocking value, the public brawl between shareholder activists Bill Ackman and Carl Ichan over Herbal Life, which was reputed by Ackman to be a pyramid scheme, would not have been a wise horse to back.

Direct investment. If a family is interested in influencing outcomes, or, expediting a particular area of research, they are far more likely to achieve this with direct investment. Accumulating shares in a public company (even if they are substantial) or investing in a private company does not have the same impact as direct investing. Management, whether private or public, always has their own goals and the company must answer to shareholders. It is difficult to re-align or re-prioritize objectives once they're established, regardless of the resources available to pursue the company's goals.

No matter what a family is considering, it is our recommendation to have conversations about long term healthcare (and medical investing if appropriate) when estate planning conversations are initiated. There is no perfect way to discuss growing older. But we can aim to prepare our clients and their families for it, with sensitivity and lead time.

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