



 Aging and Retirement

Are CCRCs and Senior Housing Communities a Good Choice?





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COVID-19 and Risk in Arrangements for Senior Housing and Support

AUTHOR Anna Rappaport, FSA, MAAA

Anna Rappaport Consulting
Anna.rappaport@gmail.com

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Introduction

Two recent Society of Actuaries reports, *Impact of COVID-19 on Retirement Risks* and *Impact of COVID-19 on Senior Housing and Support Choices*, provide a discussion of issues related to senior housing, support, and retirement risks. They include substantial content related to long-term care facilities, Continuing Care Retirement Communities (CCRC's), and other housing, focused specifically on COVID-19 issues. These SOA reports were informed by an on-line conversation with a wide range of retirement professionals. The prior reports do not explore in-depth the financial risks and resulting trade-offs involved in some of these housing choices. This essay supplements these reports with a further exploration of senior housing financial risks including regulation issues, due diligence, and other related issues.

I first become interested in risk and due diligence issues related to senior housing nearly ten years ago when a family member asked me for help in evaluating a CCRC near his home. That, together with personal experience dealing with my mother's long-term care needs, and conversations with many colleagues, led me to write the paper¹ *Improving Retirement by Integrating Family, Friends, Housing and Support*. Since I wrote the paper, I have identified two useful resources for consumers to understand the financial and contract arrangements for these types of housing.²

I found information about the benefits and security provided in these senior communities, but without much explanation of the trade-offs and risks.³ The COVID-19 conversation offered new perspectives. Recently, there has been an explosion of news about COVID-19 and nursing homes, pointing to the number of senior communities where there are deaths from COVID-19, and sometimes large clusters of deaths. This is a problem in the U.S., Canada, and globally. The on-line discussion focused on addressing the challenges through risk mitigation strategies and techniques. This essay deals with issues of risk and disclosure and it draws on the research from my 2014 paper, the general literature on this topic, and the COVID-19 conversation. My repeated focus on this topic over the last ten years reinforces the need for

¹ Rappaport, Anna, *Improving Retirement by Integrating Family, Friends, Housing and Support*, 2014
<https://www.soa.org/globalassets/assets/files/resources/essays-monographs/managing-impact-ltc/mono-2014-ltc-manage-rappaport.pdf>.

² Breeding, Brad, "What's the Deal with Retirement Communities?", 2017 and CARF, International, "Consumer Guide to Understanding Financial Performance and Reporting in Continuing Care Retirement Communities", 2016. The National Continuing Care Residents Association also has some consumer information which is only available to members.

³ The 2010 GAO Report, *Continuing Care Retirement Communities Can Provide Benefits, but Not Without Some Risk*, is an exception and it focuses on risks to various parties.

better information about the trade-offs and risks, so that the decisions to enter senior housing with a significant entrance fee can be made on an informed basis.

A Wide Variety of Housing Options and Financial Arrangements for Seniors

There is a wide range of housing options for seniors designed to provide different packages of services, levels of support and costs. Some arrangements integrate support and care and offer multiple levels of care. Some require an upfront payment at time of entrance which provides for prepayment of care and a monthly payment. This essay is focused on arrangements that provide for some upfront payment vs. a purely month-to-month payment for the services received. Such arrangements that provide multiple levels of care are called Continuing Care Retirement Communities or CCRC's. They have many variations in what is offered and the related financial arrangements, and the individual entering the community may have a choice of different financial arrangements.

The senior housing options that appeal to independent seniors and those with modest support needs often provide many features that help their residents have a good quality of life, provide opportunities for social engagement, and make day-to-day living easier for them. Those that offer the combination of independent living and access to care also may make it much easier to secure care when needed which gives people a sense of security about their future care needs. Many residents love these communities and they are particularly appealing to those without family to care for them. There are, however, additional costs and financial risks involved with these arrangements, and these are often not well understood. COVID-19 did not change the costs or financial risks found in these communities, but it has brought a new set of risks into focus.

Costs vary widely. According to Kiplinger's, as of January 2018, the entrance fees for CCRC's ranged from under \$100,000 to more than a million. The monthly fees averaged \$3,266 nationwide and ranged from about \$2,000 to \$7,000.⁴ They vary by geographic area, community, size and type of unit and type of contract. Some contracts provide for life care, some for limited long-term care, and some do not cover any long-term care. Some offer partial refunds of the entry fee on death or leaving the arrangement, and some do not.

My research on CCRC's indicates that there are several types of contracts:

- **Type A: Life Care or Extensive Contract:** This is the most expensive option initially. It provides for prepayment for unlimited assisted living and skilled nursing care without additional monthly charges at the point support is needed. This option requires substantial entrance fees and monthly charges that do not increase substantially as residents move through different levels of care. In these contracts, the entrance fee includes substantial prepayment for long-term care. My understanding is that there are fewer of these contracts available today.
- **Type B: Modified Contract:** These contracts include prepayment for long-term care services for a certain length of time. For example, a resident may receive 30, 60 or 90 days of assisted living or nursing care before there are higher charges for such care. When that time period of services has ended, services are repriced, generally through higher monthly fees. Entrance fees and initial

⁴ Esswein, Pat Mertz and Eileen Ambrose, "How to Shop for a Continuing Care Retirement Community", Kiplinger's, January 2018.

monthly charges are generally lower than under Type A contracts, and they offer much less prepayment for long-term care.

- **Type C: Fee-for-Service Contract:** This type of contract has the lowest initial fees for independent living, and costs for assisted living and skilled nursing are charged at rates determined by factors such as market level and individual provider contracts when these services are used. Entrance fees are still required but are lower. The risk of long-term care costs remains with the resident since there is no prepayment for long-term care.
- **Type D: Rental:** These contracts generally require no entrance fees but offer access to CCRC services and health care. These are essentially pay-as-you-go for the resident. The monthly fees charged vary based on the size of the living unit and the services and care provided.

The monthly charges are increased each year. Kiplinger's says to plan on increases of 4% to 6% annually while in independent living and more if you are receiving assisted living or skilled nursing services within a CCRC.⁵

There are a variety of different arrangements used with regard to the return of entrance fees.⁶ Some contracts provide for the return of a fixed percentage of the entrance fee on death or leaving, some a reducing percentage depending on how long the resident has lived there, and some do not return any of the entrance fee. Some CCRC's may not, depending on the State, be legally required to maintain a refund reserve fund, and in some circumstances where all or a portion of the entrance fee is to be returned, there may be a requirement for the unit to be occupied by a new owner who has paid an entrance fee for the unit before the previous owner's entry fee is returned.⁷

Charity Funds and Contract Provisions

Not-for-profit CCRC's often maintain a charity fund to assist residents who have depleted assets and need assistance.⁸ Some have endowments to help their finances. However, in normal economic times, the need for support should be minimal because residents are screened financially before they enter.⁹ In an article in Kiplinger's, it was stated that CCRC's typically look for entrants to have total assets that are twice the amount of the entrance fee and monthly income from sources such as Social Security, annuities and pensions (but not asset drawdown) to be one and one-half to two times the monthly fee.¹⁰ In *"What's the Deal with Retirement Communities?"* there is some discussion about charity funds. There was no data provided.

When I first focused on CCRC's in trying to help a family member who was exploring a community, the charity fund was an important feature of the security "promised." I was told that the CCRC was offering a promise of life care and that they would take care of the residents if they acted prudently and ran out of

⁵ Laise, Eleanor, "Risks and Rewards of Moving to a CCRC", Kiplinger's, January 1, 2013

⁶ Breeding, Brad, "What's the Deal with Retirement Communities?", 2017

⁷ One of the things I learned in the conversations I had about CCRC's was that some of them used all or part of the entrance fees to meet to current expenses and that they were not generally set aside to pay future long-term care expenses. This led to financial difficulty if occupancy dropped.

⁸ Revenue Ruling 72-124 bans nonprofit "Homes for the Aged" from evicting residents for inability to pay fees (on pain of losing their tax exemption) unless they are able to establish that the resident squandered funds.

⁹ Laise, Eleanor, "Risks and Rewards of Moving to a CCRC," Kiplinger's, January 1, 2013. For a discussion of the charity funds, see "Differences Between For-Profit and Not-for-Profit CCRC's", Oct, 2018, <https://www.kendal.org/news/differences-between-for-profit-and-not-for-profit-CCRC's/>. This information is provided on the Kendal website. Kendal is an operator of Not-for-Profit CCRC's.

¹⁰ Esswein, Pat Mertz and Eileen Ambrose, "How to Shop for a Continuing Care Retirement Community", Kiplinger's, January 2018.

money. The sales people promoted this security, but there was no mention of the charity fund in the contract, which said that the CCRC could ask a resident to leave if they did not pay the monthly fees. In exploring this topic, I found from several sources the existence of discretionary charity funds, at least in some not-for-profit CCRC's. There does not seem to be an established resident right to such funds or detail about the funds. In the event of an adverse economic climate, these funds might not be adequate at a time when many more people may need them. The economic downturn accompanying COVID-19 could well lead to such situations in some CCRC's.

Understanding the Financial Situation and Due Diligence

The recent on-line discussion touched several times on the financial arrangements in this type of housing and raised concern about residents understanding them. The discussion also served as a strong reminder that due diligence is difficult, written material often lacks details, and that there are financial and other risks connected with these arrangements.

“What’s the Deal with Retirement Communities?” includes a discussion of some of the things to look for in doing due diligence. This is particularly important when there is an entrance fee. The book mentioned focusing on both financial viability of the community and the quality of the health care provided. It is also important to focus on the fit to personal needs and lifestyle. Quantitative measures suggested for review are occupancy level, financial ratios, the actuarial report and debt covenants. Qualitative indicators recommended to be reviewed include leadership, track record, accreditation, debt ratings, length of wait list, types of contracts and future plans. Health-related measures suggested to review include CMS ratings, record of complaints, and staff turnover. This resource was written before the COVID-19 outbreak so I would add reviewing their experience with managing specific COVID-19 challenges including maintaining proper staffing, controlling public exposure, and inventory of protective equipment for viral and bacterial exposure. They also suggest onsite observation and talking to persons associated with the community.

Some of the risks my research and the conversation identified include the following:

- Change in operating environment due to an epidemic or pandemic such as COVID-19, making the community no longer attractive or safe to live in
- Risks of infections spreading quickly and easily in communities
- Bankruptcy, although some communities have emerged from bankruptcy
- Discretionary action by the management of the community – which may or may not be in compliance with the contract
- More people needing long-term care than there is space and budget for
- Drop in occupancy rates leading to the need to raise fees; my understanding is that a portion of entrance fees may be used to meet current expenses
- Costs rising so that monthly fees become unaffordable to residents without access to a charity fund
- Difficult economic situations leading to residents being no longer able to afford units and/or potential new residents being unable to afford the entrance fee
- Unrealistic expectations about the availability of a charity fund
- Inability to refinance loans and bonds on a satisfactory basis
- Residents can be asked to leave if the CCRC feels that they can't take care of them
- Inadequate definition and recognition of residents' rights
- Aging facilities leading to growing maintenance costs

My observation is that while there is a great need for due diligence, I have been unable to locate a well-laid out and accepted process that covers all of the financial and other risks.

Regulation and Safety of Senior Housing, Assisted Living and CCRCs

The regulation of CCRC's is mixed, with most states having some regulation and some not having any at all. The type and strength of the regulation also varies greatly.¹¹

Regulation potentially should extend to financial stability, health care standards and participant rights.¹²

While CCRC's are not regulated in all states, they are accredited by CARF International.¹³ All nursing homes¹⁴ that participate in Medicare or Medicaid programs are subject to Federal oversight. This includes nursing homes that are part of a CCRC.¹⁵

Type A and B contracts include features which are somewhat analogous to insurance contracts but are not regulated as insurance products. My understanding is that many of the state insurance departments have not acted on the regulation of the finances and contracts of these businesses. We can compare the portion of the entry fee used to prepay for future care to an insured life annuity, which is quite heavily regulated to ensure its long-term stability. There appears to be no parallel regulation. The regulation of the life annuity focuses on both the financial stability of the insurance organization and the rights of and benefits promised to the purchaser.

In "What's the Deal with Retirement Communities?", Brad Breeding commented that he was not able to locate research indicating that CCRC's in states with regulation performed better financially those in states without regulation. The GAO report indicated that regulators, participant representatives, and industry participants held different views on the effectiveness of state financial oversight of CCRCs.¹⁶ It should be pointed out that even if the CCRC is not regulated, the health care providers serving the CCRC will probably be subject to state regulation.

¹¹ Breeding, Brad, "Regulation of Continuing Care Retirement Communities Explained". <https://www.mylifesite.net/blog/post/how-continuing-care-retirement-communities-CCRC's-are-regulated/>

¹² The GAO report, GAO-10-611 provides insights into state regulation based a sample of states for which they reviewed regulation. The report also provides a map of all of the states showing whether they have state regulation and which department regulates the CCRCs as of 2009. The report indicates that 38 states had some regulation of CCRCs, and 12 plus the District of Columbia did not. That report also shows the number of CCRCs as of 2009 by state. See Figure 2 on page 17 of the GAO report for this data. Insurance departments are involved in about 1/3 of the states.

¹³ CARF provides a list of accredited CCRC's <http://www.carf.org/ccrcListing.aspx>. CARF also offers a Consumer Guide for Evaluating CCRC's. CARF is an international organization that accredits a variety of types of health and service facilities. It was founded in 1966 as the Commission on Accreditation of Rehabilitation Facilities. The GAO report discussed the CARF accreditation as of 2010 and indicated that some of the people that they had talked indicated that the accreditation reflected best practices and that it included a focus on long-term financial stability.

¹⁴ Other health care components of the CCRC also may be subject to state regulation even if the CCRC overall is not regulated.

¹⁵ GAO-10-611

¹⁶ GAO-10-611.

The Importance of Sound Decisions

CCRC decisions have a major impact on finances and quality of life. These decisions can turn out to be very positive and result in a satisfying quality of life. On the other hand, things can also go seriously wrong. It seems clear that due diligence is challenging, and few people know all of the issues and how to evaluate them.

The SOA on-line conversation also included some personal advice given by some of the individuals to others:

“Don’t go to a CCRC that requires a large down payment that you can’t afford to lose. I strongly prefer month-to-month contracts that you can get out of at any time.”

“Take the time to shop and read the fine print. It took my wife and I many days to do the due diligence for her mother. We must have investigated 20 places and visited 10 before settling on a residential care facility for the elderly. It was time well spent.”

My advice is that CCRC’s are often a very good choice for receiving care and having a good life, but at a cost and with risks. My advice is don’t enter into an arrangement that you can’t change later if things go wrong. You need to have enough resources so that you have an exit strategy if a choice does not work out later. Know the circumstances under which the CCRC can terminate the contract and understand the financial consequences and what portion of the entry fees will be refunded and how if you terminate the contract.

The comments in this section represent the opinions of three individuals and there is no consensus on these points. They are not an opinion of the Society of Actuaries or any committee of the SOA.

Conclusion

Seniors and their families make choices about where and how to age and how to get help. Some involve going to communities which offer a lot of support but require entry fees. The new resident may have a choice of payment options. All of this involves trade-offs and risks that are complex and difficult to understand.

COVID-19 could change the view that these organizations are safe and very desirable places to age. While infectious diseases have long been a risk, COVID-19 presents extreme risk to the residents of these communities, and it brings a spotlight to the related issues. The variation in the way different communities have responded indicates that residents may face very different situations. Such communities remain an important option for seniors, but they involve a complex set of risks and require thoughtful consideration of the trade-offs before they are selected.

More consumer protection and disclosure would help consumers make more informed choices.

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Society of Actuaries
475 N. Martingale Road, Suite 600
Schaumburg, Illinois 60173
www.SOA.org