Questions and Answers for

Prospective CCRC Residents

Q. My wife and I are considering options for our retirement. Is it better to just stay where we are, to move to an active living community, or to move to a continuing care retirement community?

A. Moving into a Continuing Care Retirement Community (CCRC) can be almost magical in the lift that it gives to your spirits. Although giving up a home of your own can seem like a loss of autonomy, most people who have the courage to make the change are delighted with the outcome.

Immediately after moving in, new friends are found. The focus on community is the essence of a CCRC and the stimulation from the new friendships that develop can bring renewed vigor and vitality to your life. Most of us in the National Continuing Care Residents Association have made that decision and we firmly recommend it for almost everyone of retirement age.

Q. If the benefits are so compelling, why isn't CCRC living – either in apartments or in villas – the norm for people retiring in their 60's?

A. That's hard to say. Each person makes a decision about where and how to live individually and there are many reasons why people make the choices that they do. One challenge, though, for many who have long owned their own homes, is the loss of the empowerment that ownership brings. While there are some "equity model", i.e. resident ownership CCRCs, they tend to be few and far between.

The National Continuing Care Residents Association (NaCCRA) has an initiative exploring whether more widespread resident ownership might be possible.[1]

Q. Is the nonprofit CCRC business model best suited to give the benefits that you mention?

A. Whether the CCRC is nonprofit or for profit is less important than the regulatory and business protections in the state in which the CCRC is located. Almost all CCRC providers believe in their mission but some providers are more effective. Some operate efficiently; some are inefficient. Some involve residents in guiding the community; others treat residents with disdain.

Q. What do you mean? Can you elaborate on that a bit?

A. Some CCRC provider executives seem to believe that they provide charitable care. Residents, in contrast, may feel that they have paid the full market value for their Continuing Care Contract. That difference in perception can lead to resident disillusionment and dissatisfaction.

Residents may believe that they have contracted for services and so are simply receiving that for which they have paid and to which they are entitled. If the managing executives have a different perspective, tensions are hard to avoid. It's important when shopping for a CCRC to determine the underlying attitude of the executives who will be exercising the ownership authority after you move in.

Q. Aren't all CCRCs about the same in the way in which the management works with and supports the residents?

[1] See the "Conversion to Enable Resident Ownership" item in the Catalog of Standards and Model Laws at http://www.naccrau.com/Standards%20and%20Model%20Laws/CatalogOfModelLaws.html accessed April 2, 2013.

A. Not at all. The operative motto in shopping for a CCRC is *caveat emptor*, buyer beware. It's crucial to evaluate not only the obvious such as the location, the quality of the facility, the ambiance of the meals, and the congeniality of the residents, but also the less obvious things such as the willingness of the executives to respect and listen to residents, the one-sidedness of the proffered contract, the financial balance sheet, the efficiency and effectiveness of staff operations, and the provider's general reputation.

There are very profound differences from one CCRC to another. This can lead to disillusionment among some residents who move in believing that a CCRC will be a safe, protective environment that can give them peace of mind. Of course, the best CCRCs that pursue excellence of service as a core part of their mission do create a trouble-free existence to the extent that it is possible to achieve that ideal.

Q. What are some of the kinds of disillusionment that can lead to resident disappointment?

A. An inquiry by the National Continuing Care Residents Association (NaCCRA) revealed concern among many residents about a growing trend among some CCRC providers to shift risk from the provider organization onto the residents. This is particularly manifest in the dwindling commitment to full care contracts, in which residents pay about the same ongoing fees even as their need for care services increases. More and more CCRCs are moving toward fee-for-service contracts leaving the residents with the financial risk that their care costs may escalate or that they may outlive their assets.

The argument is that residents shouldn't have to pay for services that they don't use. However, there is little evidence to suggest that base fees are adjusted downward to reflect the lower cost exposure of the providers and the increased resident risk exposure requires residents to hold substantial assets in reserve against the eventuality that they may suddenly or unexpectedly require intensive care services. Moreover, most long term care insurance programs have limits and limitations that make long term care insurance an unreliable alternative to the traditional CCRC full care contract.

Q. Shouldn't residents be aware of that before they move in?

A. Evidence suggests that few CCRC residents fully understand their contracts before moving in. Frequently, residents sign a contract against the recommendations of their attorneys or financial advisors. CCRC contracts are unilaterally drafted by the providers and are often designed to maximize protections for the provider organization by deflecting possible sources of litigation or other claims.

Regulatory oversight is often limited to what the State statutes permit and those statutes are quite restricted in many states. This can result in a contract that is highly inequitable for residents but that must be accepted as presented without modification if the resident is sold on living at the particular community.

Since sales and marketing staff are skilled at presenting a CCRC in a favorable light, and since existing residents share an interest in maintaining full occupancy to keep resident costs as low as possible, entering residents may have a rosy view of the CCRC and simply accept the proffered contract despite their qualms in order to gain the perceived benefits that are offered. This can later lead to disillu-

sionment as residents become aware of the unilateral nature of decision making in some CCRCs.

Q. Are fee increases a problem?

A. Fee increases are inevitable in a society in which continuous inflation is a part of the economic direction. Still, this is another area in which the provider is able to shift the risk onto residents. If the provider has underpriced the contracts for some residents, subsequent residents may be asked to pay more to make up the deficit. Also, initial underpricing or unwarranted optimism can lead later to fee increases that are more than what may have been illustrated or what a resident may feel is reasonable. If fees increase more rapidly than do the invested assets which the residents has set aside for the purpose, then the resident may be in a financial bind.

Q. If things aren't what they seem after we move in, isn't the remedy simply to move out to find a more suitable home?

A. Moving out can be problematic if the CCRC is an Entrance Fee community. Even when refunds are offered as part of the marketing package there may be delays in receiving the funds, which can make it difficult to invest in a successor home. To better understand the limitations involved with early termination of a Continuing Care Contract click on this sentence.

Q. Since we are buying in by paying a substantial Entrance Fee, which is taking most of the proceeds that we are able to raise by selling our home, aren't we gaining some of the rights of owners in the CCRC?

A. Unless you are moving into a CCRC that specifically includes ownership either as a condominium or cooperative, then you are just paying a lump sum advance payment in consideration of benefits and services to be provided under a Continuing Care Contract. Moving to a CCRC is a wise and fulfilling choice but it is not one that is without risk. You can learn more about these risks by clicking on this sentence which will link you to a video talk detailing risks and possible solutions.

Q. We know that you are pleased with your choice to live in a CCRC. But what about other retirement options?

A. How to live in retirement is a matter of personal choice, but here are some considerations to help you to evaluate the options.

Many people choose the course of inertia and just continue living where they've lived all along. This is fine if you like solitude or if you live with a compatible partner. There is an increasing array of care options available to provide support in your home if you should ever need them. But it can be difficult to find care providers who have the heightened degree of trust and integrity to work independently and unsupervised in a home environment.

Also, if you live with a spouse, it can be devastating to lose that spouse and to find yourself suddenly totally alone and without options or ready community support. If you think you would move to a congregate setting after the death of your spouse, it's best to do so beforehand since it can be difficult to make the needed decisions when you are all alone. It's easier if you explore your options together as a couple and if you can get established in a communal living setting as a couple, rather than as a widow or widower.

Q. What about Active Living Communities for seniors? They seem to offer an attractive and vibrant lifestyle combined with home ownership.

A. An active living community offers ownership but no protection. If you fall in your home, there is no one to respond unless you have separately made arrangements for that. An active living community has no responsibility for your well-being. Moreover, although there is a communal living aspect to the community club house, the community is not likely to have the supportive intimacy that can be found in a Continuing Care Retirement Community (CCRC).

CCRC living offers the highest response capabilities for the challenges of aging. Most CCRCs, too, are relatively intimate with a high degree of mutual support and companionship among the residents. The major drawback is the lack of ownership and the access to decision making that ownership brings with it. While there are some resident owned CCRCs, they are very few and hard to locate.

Q. My friends all think that moving to a CCRC is unimaginable but you moved there. What has been your experience?

A. We are very glad to be living in a CCRC and would make the move again, but we know of the social disdain for CCRC living and we find it perplexing. As best we can tell, the fear is that of institutionalization and, yes, some owners, executives, managers, and directors of CCRCs could be more open to residents and their concerns. Still, the benefits of communal living far outweigh the factors that lead people to resist making the move.

Q. We don't feel that we are ready for a CCRC yet. When is the right time to move to a CCRC?

A. Today's typical CCRC pricing favors those who move in at an early age. Yet there is a widespread sense that a CCRC is something that is halfway between living in the larger community and assisted living. That perception is unfortunate since it inhibits many people who might otherwise benefit by living in a CCRC from considering that possibility while they are still able to derive the maximum benefit.

Q. Is there a reliable indicator such as nonprofit status to indicate that a particular CCRC is one that can be trusted with our Entrance Fees and future well-being?

A. Although there is an accrediting entity, CARF-CCAC which stands for Commission on Accreditation of Rehabilitation Facilities and Continuing Care Accreditation Commission, accreditation is undifferentiated and merely suggests that a community has paid to be found acceptable.

There is an extensive review process, based on "field-driven" standards, but few communities fail to qualify as accredited. The watchword for a prospective resident considering CCRC living is *caveat emptor*, buyer beware, since there is no reliable standard other than the provider financed accreditation process to indicate which CCRCs are desirable and which are to be avoided. This question and answer discussion can give you some suggestions for what you should look for during your evaluation.

Nonprofit status merely means that the organization has been awarded tax exemption by the Internal Revenue Service or the State Attorney General's Office. Nonprofit CCRCs do not typically operate as charities. They are fee supported businesses led by executives. There is a savings from the avoidance of taxes though that may be offset if operations are not as efficient and cost effective as

otherwise. Also, residents do not have the benefits that accrue to taxpayers who own their own homes.

Q. The marketing staff at the CCRC which most appeals to us have shown us favorable results from a Resident Survey. Isn't that a reliable indicator that the CCRC would be a good choice?

A. Positive survey results are a good sign but there are many things – for instance, financial matters – affecting a CCRC which may be beyond the knowledge of most residents. Also, some of the survey companies which are active in the CCRC industry use pseudo-scientific approaches to skew the results in favor of the provider organization. After all, it is the provider organization that retains the survey firm and that pays for the survey.

For instance, a survey may have ambiguous questions, e.g. is staff friendly? (Some staff members may be friendly while others may be condescending), etc. Since residents want to be cooperative, they are likely to interpret ambiguity in favor of a positive response. Some surveys follow the usual five point scale, in which a middle rating is generally seen as neutral, but the response designations are phrased to mislead as in "Far Exceeded", "Exceeded", "Met", "Nearly Met", and "Not Met". In the interpretation the survey firm then combines the top three ratings as indicating a positive response which they label a "competitive advantage." Since residents who are unsure or undecided or neutral are likely to choose the middle response, it is misleading to characterize that as a "competitive advantage" and the very use of that term shows the survey firm's view that its client is the provider rather than a prospective resident. *Caveat emptor*.

Q. You're making me uncomfortable. Is it best just to stay away from CCRCs?

A. Not at all. The CCRC concept is the most dependable way for responsible people to provide for their own old age. The challenge is that there are few standards or regulatory safeguards that a prospective resident can look to as assurance that a particular CCRC is all that the marketing staff presents it to be. Unfortunately, until dependable standards are implemented across the industry, and in all states and jurisdictions, the burden falls on prospective residents to do their own research as to which CCRCs are desirable. Fortunately, that is not an impossible task and this Q&A can help you to become a better informed evaluator of the choices available to you.

Q. I still don't feel adequate to size up the options. Can I rely on a referral service or a financial planner to help me?

A. Many referral services and financial planners are paid by providers in return for the channeling of new residents to their facilities. This compensation from the provider can bias the information and that is something that you need to be wary of. Of course, there are some fee based advisors who have the requisite expertise but it may be as difficult for you to evaluate the qualifications of the advisor as it would be to do your own analysis.

Q. What about me? I'm not married. Does that make a difference?

A. If you are comfortable living on your own and like the home you live in, there's no need to make a move, though you may eventually encounter the need for care. Care provided in the home is expensive – since it's less efficient for caregivers to travel a distance to give care than to work within the close confines of a campus environment – and the issues of trust can be even more pronounced for a person living alone than for someone living with a partner.

On the other hand, if you would like the security of knowing that care is always nearby and available instantly on call, and if you would enjoy the communal living life, then a CCRC would be a wise option for you to consider.

Q. Let's say that we decide that a CCRC offers the best balance of independence and standby support. How then does one go about choosing among the many CCRCs?

A. Again, this is a matter for personal choice. For many people location is their top priority. They may want to be near their children. Or they may want to be in a place with ample public transportation in case the time comes when they can no longer drive. Others are attracted to a gentle climate. Beyond location, though, other factors affect how comfortable you might feel living in a CCRC for the rest of your life. And that is something that should be emphasized. Most CCRCs are structured so that moving to a CCRC is a lifetime decision. There are often severe penalties or forfeitures for people who leave.

Q. That sounds daunting. The thought of moving to our last home is a bit disconcerting. What is your experience with people facing qualms about making such a final move?

A. It's important that you feel comfortable in any CCRC that you might seriously consider as a home for life. You can ask to spend a weekend or several days in a guest apartment at the community so that you can mingle and dine with the residents and get a sense of whether this is a place you would want to live or not. Most communities will offer such arrangements, either on a complimentary basis or for a nominal charge. It's a clear negative for your evaluation, if a community

doesn't allow prospective residents to experience the community with a short term stay prior to making the commitment to move in.

Q. How important are the amenities at a CCRC?

A. Many people form impressions about the CCRC where they would like to live on the basis of the quality and variety of the food and the availability of other amenities on the campus. Such matters are, of course, important to how you will feel about living in the community, but there are many other hidden factors that are also of great weight. It's important to keep the superficial factors in perspective so that you are not misled by other less obvious factors.

Q. The CCRC that is nearest to us seems institutional with its cluster of large block-like apartment structures? Is that typical for CCRCs?

A. Many CCRCs do fall into architectural patterns and many are even designed by a small group of architectural firms that specialize in CCRCs and healthcare facilities. There are a number of questions that a prospective resident might be interested in when comparing the physical design appeal of alternative CCRCs or stay at home options.

- Attraction: Is this a place that you would be proud to present to your friends and relatives as your new home? Is the appearance of the community welcoming and do you find comfortable places in which to relax or to get to know new friends?

- Suitability: Is the outward appearance of the building consistent with the setting in which it is situated? Do you draw a sense of comfort and well-

being from the thought of living here? Does the building seem in character with its surroundings and with the history of the area in which it is located?

- Parking: Is outdoor parking the only alternative or is there sheltered indoor parking? Is there adequate storage other than for cars? Do the parking lots detract from the livability of the community? Is the outdoor area designed for recreational use, or is the property dominated by automotive access and parking?

- Technology: Is the facility outfitted with communications conduits allowing upgraded cabling to be easily installed as technology advances? Is there sufficient communications connectivity to each living unit and area of the CCRC to enable the rapid deployment of new technologies as they become available? Does the facility have an integrated electronic system or is it paper dependent?

- Green Commitment: Is power used generated on the premises or is the CCRC dependent on the local power supplier? If power comes from the local electric utility, is the CCRC equipped to transition seamlessly to local power generation as that becomes more economical?

- Ability Transitions: Is the facility designed to accommodate changing needs for people who may lose capabilities as they age? Are cabinets, shelves, sinks, and other elements of independent living hydraulically adjustable to adapt to changing needs? Are doors automated to accommodate people who have to use wheelchairs or walkers?

- Cluster Flexibility: Are neighborhood clusters within the CCRC readily adaptable from one configuration to another to accommodate a changing resident mix as people age? How does the facility maintain internal neighborhood affinity for compatibility and congeniality?

There are many factors which a provider must take into consideration when deciding what kind of CCRC to build. Financial considerations tend to be paramount. The provider seeks maximum revenue relative to the cost of the development. Prospective residents are looking for value. They want to be sure that the cost they pay is the lowest feasible cost consistent with the benefits and quality that they expect.

Q. How can we know if the cost to move in is compatible with the value that is offered?

A. This balancing of cost with value is the key business judgment made in conceptualizing a new community or in repositioning a community to adapt to a changing demographic. As is true for the cruise ship industry, the larger a CCRC complex, the lower the cost per resident, assuming a market large enough to ensure full occupancy. This means that a larger complex has greater margins to meet resident needs and still stay competitive, but some of the intimacy that comes from knowing your neighbors can be lost in the process.

The answer is to structure the community with many cluster neighborhoods, each of which can attract an affinity of people likely to meld well together, and each with its own dining facilities. Thus, in looking at a larger CCRC it is important to get to know the neighborhoods that comprise it. Likewise, in looking at a smaller community, which may have an inherent affinity character, it is important to en-

sure that the CCRC will be able to meet all your needs even if your circumstances change. Many smaller CCRCs transfer residents outside the community if they develop special needs.

The attractiveness, convenience, and practicality of the physical CCRC are only part of the evaluative process for prospective residents, but it's an important part and one that is worth thoughtful consideration.

Q. Will my Entrance Fee give me ownership? The marketing people talk about "sales" and "buy ins" which imply that I am buying something.

A. Generally Entrance Fees convey no ownership. This is particularly true of non-profit organizations in which the organization remains the owner even though the Entrance Fees may provide a substantial portion of the capital of the corporation. An Entrance Fee is simply a payment in partial consideration of a Continuing Care Contract. The contract is a contract of adhesion, meaning that the provider drafts the contract and the entering resident has to accept that draft as a condition of entry. Some states nominally regulate contracts but the standard is often to permit a provider to include anything in a contract that is not explicitly contrary to statute.

Q. How can we be sure that what is offered to us is the same as what others are offered?

A. Prospective residents can ask for, but may not receive assurance that the contract that they are being offered is at least as favorable to the resident's interests as is any contract that the facility has made available to residents. If current residents are being offered only a more costly or less liberal contract than that which

other residents have, it is reasonable to ask how the provider justifies the resulting inequity. Those residents with higher priced, lower benefit contracts will be subsidizing earlier residents who have better contracts. Prospective residents, who find themselves in this situation, need to consider whether they are willing to provide this subsidization.

The provider is likely to respond that the contracts are priced to what the market will bear and that more favorable terms were needed in the past when market resistance was greater. Since the entering resident will be locked into the contract for life once it is accepted, and since the contract gives the resident no equity in the market value of the enterprise, that is something to which a prospective resident will want to give serious consideration before consenting to the terms offered.

Q. Are there protections that ensure that CCRC contracts are fair toward residents and reflect a mutuality of agreement between the needs of the provider and the interests of the entering resident?

A. Since providers and their attorneys are concerned to protect the enterprise, such contracts can be one sided. Here is a sentence from an actual contract used by a provider (in this context "I" is the entering resident and "you" is the provider organization).

> "I understand and agree that at any time and from time to time, all without notice to me and without affecting your rights or my obligations hereunder, you may:…"

The contract then goes on to detail things that the provider can do unilaterally, including amending the contract itself. Clearly, signing such a document deprives the entering resident of virtually all rights.

Q. Is that typical in the industry? Aren't all CCRCs roughly the same in the terms that they offer?

A. No two CCRCs are alike. There is a saying in the industry that "if you've seen one CCRC, all you've seen is just one CCRC."[2] There is no standardization of practice beyond the common structure that multiple levels of care are offered on a single campus. Some CCRCs are very responsibly managed by competent business people. Other CCRCs may be led by executives who lack business experience but who view a CCRC as a ministry. The result is that there is wide variance in the financial soundness of CCRCs; in the inclusion of residents as partners in decision making; and in the transparency with which the executives share the bases for their decisions and the financial results they achieve.

Q. You're making me nervous again. Should I rethink the advantages of CCRC living?

A. There is no better setting in which to age well than in the communal living environment of a CCRC. The benefits are so great that you should enthusiastically embrace the active life that will be yours after you move to a CCRC.

With that in mind, however, great caution is needed. Although the CCRC industry caters to customers who have reached a vulnerable stage of life, there is a surprising lack of regulatory oversight to ensure that expectations can be fulfilled.

[2] http://www.elderlawanswers.com/continuing-care-retirement-communities-ccrcs-12050 accessed on April 2, 2013.

The watchword for the prospective resident, therefore, is to be cautious. *Caveat emptor*, buyer beware, should guide all consideration of the pros and cons of specific CCRCs. Some are excellent. Others are best avoided.

But you should definitely stick with your attraction to the CCRC lifestyle. If you are careful, you won't be disappointed.

Q. We're concerned about our health and we've heard of a senior living community in which a woman died after being left unattended until the paramedics arrived even though she needed resuscitation that any willing, healthy person could have provided. Is the care in a CCRC reliable or overregulated?

A. You may be thinking of an instance in Bakersfield.[3] Communal housing for the elderly is generally licensed and closely regulated. A provider may fear that providing assistance may be outside the scope of the provider's license. Or the provider may fear that assistance may lead to legal liability if the assisted person perishes.

These are societal challenges that we need to try to address in a principled way together as a society. Considering the specific case which may lie behind your concern, it seems likely that the outcome would have been the same had the woman been living on her own at home. Nevertheless, one would hope that there would be more safety and security in a communal home than in the isolation of living on one's own.

You may be thinking that the governing principle in a community for the elderly should be to preserve life as long as hope for a meaningful life persists. That is

[3] http://www.kget.com/news/local/story/CPR-Controversy-Elderly-woman-dies-at-senior/zDDjozQr00CLX9rwY4vfDA.cspx accessed March 3, 2013.

how one would look at the matter from a resident or a resident's family's perspective. The facility operator, though, considers its legal and financial exposures and may take a different direction. It is difficult for a provider organization to respond proactively in an environment characterized by reactive, zero-tolerance regulation and a fear of unbridled litigation. It's best for a prospective resident to learn the provider's policies concerning intervention before committing to residence.

Q. Is living in a CCRC healthier in terms of food and exercise compared with what is possible living independently at home?

A. Although many new residents expect that the living will be healthier, the practice varies widely from one community to the next. Of course, central food preparation is likely to result in wholesome eating. Some CCRCs have very effective wellness programs including exercise and dietary counseling. Other CCRCs may emphasize luxury living, which can extend to restaurant style meals, which are not always the healthiest choice, and to elaborate but underutilized fitness facilities. The degree to which a particular CCRC adopts a healthy living environment reflects both the culture that the residents develop among themselves and the effectiveness of the provider to support healthy aging.

Q. Do CCRC residents live longer than people who live independently?

A. This is a widespread myth.[4] The most often cited authority for this belief is a Federal government publication which states, "It is widely recognized that the

[4] See for instance http://www.retirement.org/support-studies-proof-that-ccrc-living-is-beneficial accessed March 3, 2013.

life-span of a CCRC resident is longer than the typical older person."[5] Unfortunately, the objective evidence does not support that optimistic wish.

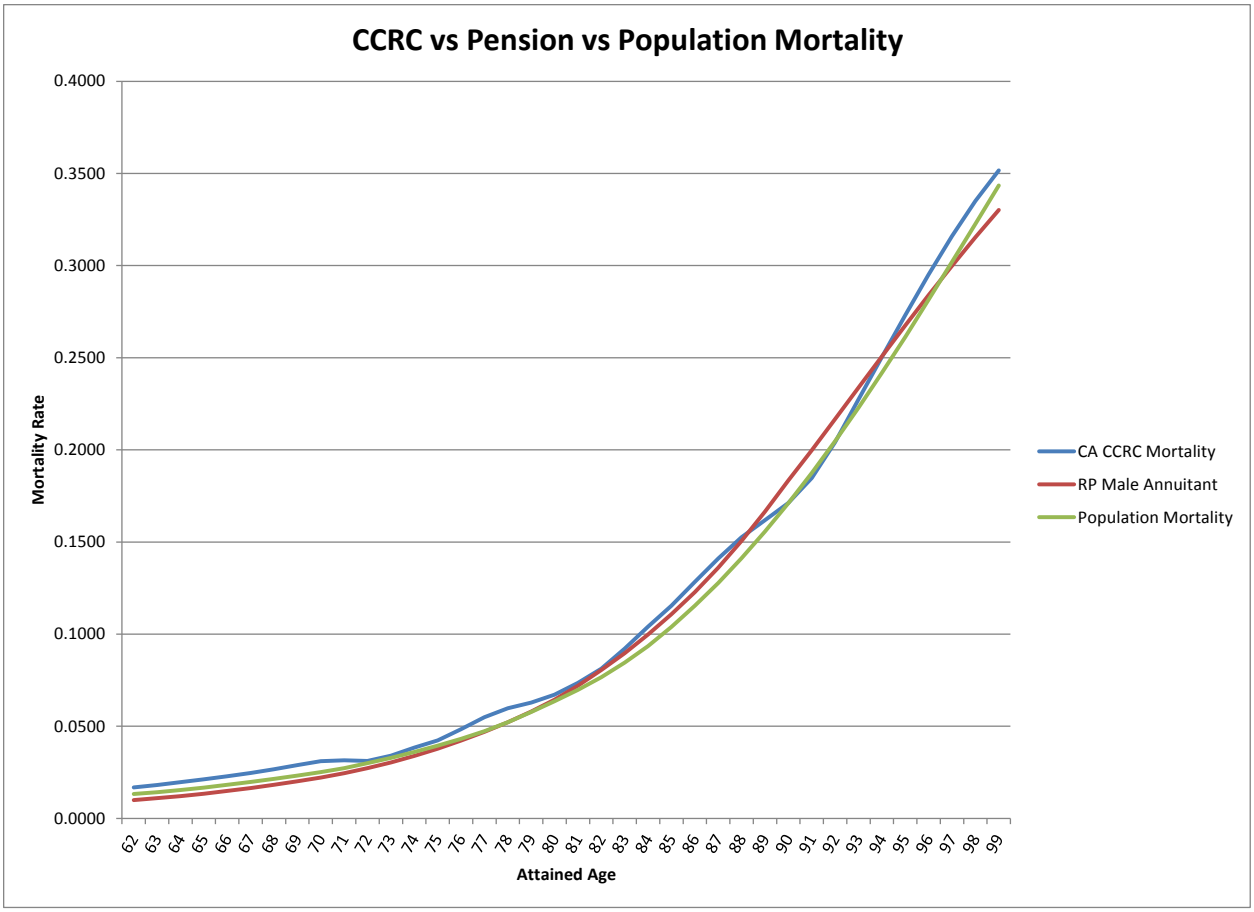
The following Chart compares the most recent study of CCRC Mortality[6] with comparable Pension[7] and General Population Mortality.[8] From this it is evident that CCRC mortality is comparable to other mortalities except that it is slightly elevated during the early retirement years. There are few scientific studies of CCRC mortality and the study used here is the most recent that is publicly available. The slightly higher CCRC mortality likely is manifest because people who have or think they may have health challenges are more likely to choose CCRC living so that they can have ready access to the care that is available there. Hence, there is a tendency for those who are somewhat less healthy to be more likely, on the whole, to choose to live in a CCRC.

[5] http://aspe.hhs.gov/daltcp/reports/ccrcrpt.pdf accessed March 4, 2013.

[6] http://library.soa.org/search.aspx?go=True&q=&page=1&pagesize=10&or=True&refine=ARABSGFyb2xkIEwuIEJhcm5leRYBYXV0aG9yc3NlYXJjaGFibGVtdWx0aQECXiICliQ=&taxid=4294967539 accessed March 3, 2013.

[7] http://www.soa.org/research/experience-study/pension/research-rp-2000-mortality-tables.aspx accessed March 3, 2013.

[8] http://www.cdc.gov/nchs/data/nvsr/nvsr61/nvsr61_03.pdf accessed March 3, 2013.



Nevertheless, many CCRCs offer amenities and access to care that can be expected to have a salutary effect on mortality and to help residents to maintain their vitality and vigor longer.

Q. Can I rely on the audited GAAP (Generally Accepted Accounting Practices) statements as an indication of the financial stability of a CCRC?

A. GAAP is focused on the enterprise as a going concern. It is the enterprise which is the auditors' customer and not those the enterprise serves. GAAP is determined by a set of rules promulgated by a seven person Financial Accounting Standards Board (FASB) which is located in Norwalk, CT. It does not purport to consider questions of consumer security or individual equity. A recent FASB dis-

cussion of CCRC accounting including the following revealing statement: "The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions."[9] Customers, beneficiaries, residents, and similarly situated consumers are omitted from this recital. Entering residents, who pay large Entrance Fees, are not treated as investors. Accounting is focused on the capital markets.

Q. But given the size of the Entrance Fee aren't CCRC residents investing in a security? Isn't that regulated by the state or Federal securities authorities, and shouldn't GAAP, therefore, consider Entrance Fee payments to be a capital market transaction?

A. Well, your question is a valid one, but it's far more technical than what most prospective CCRC residents consider when evaluating CCRC options available to them. Of course, an Entrance Fee Continuing Care Contract might be regarded as a security in light of the large upfront investment that such a contract requires. That large initial investment combines with the reduced discernment and increased vulnerability which are common – though far from universal – among the prospective customers for CCRC living. Still, despite these compelling elements, we know of no state or Federal oversight that approaches such investments as a security, nor do we know of any explicit exemption of such contracts from the securities laws such as the exemptions that apply to conventional life and annuity insurance contracts.

[9] ASB, Accounting Standards Update, No. 2012-01, July 2012, Health Care Entities (Topic 954), p. 9.

The clear evidence is that CCRC GAAP accounting gives little heed to the interests of residents or prospective residents and that it doesn't require a standard of accounting for Entrance Fee proceeds that even has the rigor which is required of the accounting for insured annuity contracts which provide the closest financial analogy.

Q. The marketing staffs at the CCRCs which we've visited us have given us copies of the GAAP audited financials. How should we view such financials?

A. Since today's CCRC accounting does not match revenue recognition from Entrance Fees to the benefits promised, it's hard to use accounting data as a guide. Many CCRC managers believe that they are managing acceptably if their cash flow is positive, giving them enough cash to be able to pay the current bills and to meet debt service requirements as they come due. Since Entrance Fees inherently generate large amounts of cash, the cash flow threshold is a relatively low standard as far as residents are concerned.

The result is that today's GAAP accounting overstates revenue recognition in the early years of a community leading to shortfalls in the later years. Today's CCRC GAAP accounting tends to make CCRCs appear initially to be financially healthier than they are in fact in light of the deferred commitments they have undertaken. Hence, it's fair to say that a dismal GAAP accounting picture is a financial red flag. Since many CCRCs are nominally nonprofit, the accounting terminology used in the CCRC industry can be somewhat difficult to interpret.

Q. Our preferred CCRC has a "negative net asset position." What does that mean? The marketing people have said it's not significant and should be of no concern to us.

A. It's not uncommon for a CCRC to report a "negative net asset position" on its financial statements. On its face that sounds innocuous, and CCRCs that have such an accounting position tend to dismiss that fact as irrelevant, arguing that all that matters is that their payments are current and that they are in compliance with their bond covenants. Still, the plain fact of the matter is that a "negative net asset position" simply means that accounting basis liabilities are greater than the assets, which in most business contexts means that the business is impaired unless it is simply an undercapitalized start up. Hence, I think that you can consider a "negative net asset position" to be a warning sign.

Q. Does that mean that a "positive net asset position" is a sign of balance sheet strength from which we can take comfort?

A. No, the departure of CCRC accounting from the universal accounting principles that revenue recognition should be matched to the obligations they fund (the matching principle), and CCRC GAAP's departure from the consistency principle, which holds that similar transactions should be treated similarly regardless of the industry giving rise to the transaction, means that CCRC GAAP financials are only a crude and distorted indicator of the true financial health of a CCRC.

Q. What can I do, then, to find a CCRC that is operated on a financially sound basis?

A. CCRCs are inherently actuarial in that they promise, at a minimum, an availability of future care services when and if they become needed. Actuaries are trained in the probability and statistics of finance, and schooled in the judgments needed to match contingent future events to what is most likely to occur, and so they form the profession best equipped to make these prognostications. The

most highly qualified actuaries are Fellows of the Society of Actuaries, a standing for which they qualify by undergoing a lengthy and rigorous set of professional examinations, demonstrating relevant experience, completing ongoing continuing education, and by establishing their ethical standing.

A well-managed CCRC not only has a positive accounting position and offers a full care contract but the pricing and contract reserves are developed with the active, ongoing involvement of qualified actuaries. It's always desirable to ask the marketing people to let you see the actuarial report. Although GAAP for insurance companies requires that reserves be actuarially determined, CCRC GAAP does not and simply incorporates a life expectancy rule of thumb which is the reason so many CCRCs appear financially healthier in their early years of operation than they do after the lapse of a decade or so.

Q. Do you mean that we should avoid any CCRC that doesn't hold actuarial reserves and that relies solely on accountants?

A. In the absence of actuarial involvement in the pricing and reserving of a CCRC, there can be no assurance that reserves are related to the promises made or that the experience used to establish contingent liabilities is related to the entrance screening and other practices of the CCRC. To the contrary, accountants use a relatively arbitrary life expectancy approach that tends to underestimate the escalation of contingent costs with the natural aging of a CCRC population.

Accountants are not trained to match contingency assumptions to a specific CCRC's experience, nor are they skilled in the financial implications of deferred future contingent benefits. Despite this, CCRC GAAP includes the rule of thumb

alluded to above and many accountants simply apply the rule of thumb uncritically without the input of experienced and qualified actuaries.

Q. Do CCRC providers recognize this inconsistency of CCRC GAAP with universal accounting principles? In other words is the provider community working to improve CCRC financial accounting or do providers make allowance for the challenges in the accounting?

A. Our impression is that most in the industry simply defer to the "experts" in the American Institute of Certified Public Accountants and at FASB headquarters. Many providers just follow the guidance given by their auditors without questioning whether it is sound.

Since many in the industry have not embraced the actuarial concept that Entrance Fees required of new residents should be matched to the contractual and other commitments made, many providers may equivocate when asked about their working with actuaries. The absence of actuarial involvement in the pricing and reserving of a CCRC, and especially managerial dismissal of the value of actuarial studies, is a red flag, and a concerned consumer should avoid any provider that does not show a strong grasp of the actuarial nature of the undertaking.

Q. We've heard that occupancy is a challenge in a down economy and that makes sense because CCRC costs would then have to be spread over a smaller base of residents. How concerned should we be with occupancy levels?

A. Occupancy is a measure of market acceptance of the pricing and product offering of the particular CCRC, and low occupancy should, of course, be a warning that there may be other unmet managerial challenges. To some extent a provider

can scale down to reduced occupancy, thereby matching resources to the reduced resident population, but fixed costs will have to be spread over a smaller base, so unit costs are likely to rise.

Some new properties have low occupancy because initial fill up takes longer in challenging economic times. The provider may be tempted to discount fees that can advantage the early move-ins at the expense of those who move in later, since it is likely that the discount will have to be made up elsewhere if the provider is operating at the lowest feasible cost. Also, extended high vacancies in a new project mean that apartments that were new, say, five years ago, may seem dated after sitting unoccupied for an extended period even though there has been no use of the unit.

High vacancy rates are even more troubling in an older facility since it may reflect deferred renovation and maintenance that makes the facility seem unattractive, old and tired. No one wants to move into a home that has not been kept up to date and in good working order.

Q. How then should we view occupancy?

A. Occupancy is the metric that CCRC managers focus on most closely. Clearly it is desirable that the CCRC be as close to fully occupied as possible. Occupancy levels below 90% or so are a danger sign, and one would then have to question if management has a plan to redress that challenge. On the other side, though, some managers maintain high occupancy by admitting increasingly decrepit new residents. That, too, can have adverse financial implications especially in a CCRC with a full care contract. Beyond the financial impacts an influx of less functional

residents is likely to make for a less attractive communal life and can create a depressing living environment.

Q. If new residents already have early dementia or other debilitating conditions, won't that affect the living experience?

A. When you visit the CCRC for a trial stay, try, particularly, to meet new residents since they are likely to be the source of your friends shortly after you move in. Some CCRC marketing departments seek to build a compatible community while others just try to keep occupancy at a peak. An undue emphasis on occupancy rather than on suitability can result in the admission of more decrepit people with whom you may not feel fully comfortable. The best marketing departments try to counsel people to help them find a CCRC that is best suited to them, their health conditon, their background, their interests, and their wherewithal.

Q. Why do some CCRCs require Entrance Fees while others just charge a monthly fee or a nominal initial processing fee?

A. Some CCRCs are structured solely as rental properties and obtain their capital from outside sources. Recently, some CCRCs, which ordinarily offer only entrance fee contracts, have begun to offer straight rental contracts in an effort to increase occupancy. Rental contracts may attract a more transient resident population and may affect the quality of the community. On the other hand, the rental option gives people a chance to experience CCRC living before they commit fully to the concept. It also allows a discerning analyst with the requisite mathematical skills to calculate the degree of equivalency between rental charges and those for entrance fee paying residents. Your short term trial stay will give you a chance to

meet a variety of residents so that you can decide for yourself whether you are able to identify with the resident community.

Q. How do CCRCs manage their finances in the absence of data matching revenues to the promised commitments? How can they know if the pricing is working out as anticipated or if it understates, or overstates, the costs to which the CCRC is committed?

A. One CCRC CEO told me that he uses the Entrance Fees to cover the nursing facility costs and that all other costs are paid for from the monthly fees. This would be valid only if the discounted value of the additional costs of nursing confinement were equal to the Entrance Fees, but the CEO told me that this was just his experiential rule of thumb. Hence, in this case the CEO has recognized the need for some sort of matching albeit using a crude rule of thumb. Using this rule of thumb can lead to problems if the CCRC starts admitting new residents who are less healthy and, therefore, more likely to need nursing care sooner than the historical experience. This is likely to cause future financial problems.

Q. Are there FDIC protections, like those for bank deposits, in case something goes wrong?

A. The FDIC (Federal Deposit Insurance Corporation) is a Federal program of intervention to protect most bank depositors from loss if the bank fails or is impaired. There is no comparable protection for CCRCs and resident Entrance Fees are at risk capital, which is subordinate to the bondholders in the event of a bankruptcy. It would be possible to give CCRC residents the same protections that life and annuity insurance policyholders now enjoy through legislation enacted in every state, but any protection like that is now likely to be far in the future. For

now life and annuity insurance policyholders are better protected from loss than are CCRC residents who invest what is often their life savings.

Q. The provider has offered us a contract that provides a substantial refund if we move out or die. Isn't that a desirable protection?

A. Refunds are another industry practice to be wary of. Some few CCRCs offer true Entrance Fee refund contracts. Others – as far as is known, for profit CCRCs – consider the refundable Entrance Fee to be a mortgage loan, secured by the property, so that if the provider goes bankrupt the ownership of the property reverts to the residents.

But many CCRCs offer nominal "refund" contracts, providing that all or part of the entrance fee will be refunded if the residents leave the facility or die. The catch is that the payment of the promised "refund" may be contingent on the resale of the CCRC apartment unit. The payment of such "refunds" can be delayed substantially, sometimes for years, though some states may have a limit on the delay period (Florida, North Carolina, and New York have relatively strong CCRC oversight, given the current weak state of CCRC regulation generally).

Q. Why do CCRCs offer a conditional refund, i.e. conditioned on a subsequent resale?

A. CCRC GAAP accounting allows CCRCs to recognize income from amounts that are otherwise subject to call as refunds. This differs from the practice for refund commitments in other industries. The providers book Entrance Fees which are subject to refund into income ratably over the life of the building, thus ignoring the contingent liability to pay a refund. In rationalizing this recognition of a liabil-

ity exposure as income, the FASB (Financial Accounting Standards Board) justified its rule as follows: "The basis for this exception is that in this instance the continuing care retirement community is merely acting as an agent between the current resident and the subsequent resident and bears no risk associated with the refund."[10] Of course the enterprise "bears no risk" solely because the risk is left with the resident who is entitled to the refund. The "exception" is a departure from the more stringent standard required by GAAP for other entities, which would have the refund booked as a liability and, thus, not available for revenue recognition. Thus, the answer to your question is that the providers offer such conditional refunds because it allows them to have the appearance of carrying a refund liability while they take a ratable share into income in every accounting period.

Concerning this practice of double counting refund liabilities as income and commitment, the AICPA (American Institute of Certified Public Accountants) stated in a recent letter to FASB relating to CCRC accounting rules, "… the CCRC's own funds will never be used to make the refunds to the prior resident; instead, the CCRC is effectively facilitating the transfer of cash between the successor resident and the prior resident."

In other words the payment by the successor resident goes to pay the predecessor and does not benefit the paying successor at all, thus benefitting the CCRC enterprise which takes the refundable Entrance Fees into income. Prospective residents may want to make sure that their Entrance Fees will be used to provide benefits for their cohort of residents based on expectancies and not diverted to

[10] FASB, Accounting Standards Update, No. 2012-01, July 2012, Health Care Entities (Topic 954), p.7.

prior residents. Accountants' primary loyalty to their clients may affect their rulemaking.

Q. Is a nonrefundable or limited refundability contract, therefore, better than a refund contract?

A. That again is a matter of personal preference though it's wise to be aware of the limitations that may delay or impair the payment of refunds when the time comes that you might expect the refund to become payable. Before entering into a refund contract it's important to research the conditions under which the provider commits to the payment of the refund.

Q. What about a nonrefundable contract? One CCRC we've met with has what they call a "standard" contract which reduces the refund amount ratably by 2% a month. Is that a desirable arrangement?

A. If the CCRC is just pricing to the market, there can be no assurance that the relative pricing for a nonrefundable contract is mathematically related to the refundable contract options that are offered. One CCRC, for instance, offers a 90% refund contract for an Entrance Fee that is double the Entrance Fee required for a limited period, declining balance refund contract. If you plan to live in the CCRC until death, the 90% refund is no more than a death benefit such as you might have with a life insurance contract. Depending on your age it may well be more advantageous to buy life insurance rather than to pay the upcharge for the refund contract. There are also estate tax advantages to funds paid from a life insurance policy as opposed to the receipt of an Entrance Fee refund from a CCRC.

Additionally, the doubling of the Entrance Fee means that the 10% deduction inherent in the 90% refund contract is 20% of the limited refund Entrance Fee amount. That further diminishes the value of paying the extra charge to have the 90% refundable contract. On the other hand, the 90% refund can be advantageous if your circumstances change and you have to leave the CCRC before death.

Ideally, all contracts would have a refund built in so that the CCRC provider neither gains nor loses when residents die or leave the community. With a "standard" contract like that described above, the provider can have an unearned gain from withdrawals or early deaths. It is a questionable practice for a CCRC to depend on forfeitures as a source of income.

Q. You've made me uneasy again. How can we find trustworthy CCRCs that are operated on a conservative financial basis?

A. That requires conscientious search, thorough analysis, and astute comparisons. You have a major advantage if you simply realize that the market is one that the providers dominate so that buyers are dependent on the good will, integrity, and competence of the provider executives, staff, and their outside advisors. More than perhaps in any other sphere of today's financial world, consideration of CCRC choices is one in which buyer wariness is essential.

There are, however, some excellent and well managed CCRCs and, if you search long and diligently, and if you solicit expert evaluative assistance as needed, you will be able to find an excellent well-managed CCRC that you will be proud to call home. There is nothing like the friendships and support that are available within the extended family that CCRC residents become.

Q. You've mentioned expert assistance. How can one find that expertise?

A. It is very difficult to find objective financial advisors, in general, and there are even fewer who specialize in CCRCs. Many "advisors" are compensated by a fee or commission paid by the provider organization after a new resident moves in. This tends to bias the advice toward less desirable facilities since it is those facilities that have to resort to paying sales incentive payments to "advisors".

The need for better guidance for prospective residents is something that we have been considering within National Continuing Care Residents Association (NaCCRA), i.e. how to give folks better guidance than what is now available. So far, we have developed the materials that you can find on the internet by clicking on this paragraph. You can get more of a sense of how one person views the choices in the item there titled, "CCRC Living as Choice and Investment."

Q. Does NaCCRA maintain a list of suitable experts?

A. NaCCRA doesn't have a directory of suitable financial planners. Most financial planners are either purveyors of financial products, or accountants, or wealth managers, few of whom have the depth in the analysis of CCRCs that you might wish for. In addition there are elder law specialists and some placement advisors, most of whom are compensated by a commission from the provider CCRC. Of course, the reputation of CCRCs in your area is likely to be well-known among the financial planning community, but that may relate more to the current lifestyle that the community offers, than it does to its prospects for future financial soundness.

You may decide to do your own analysis, which for those who have the needed analytical skills is the most informative approach. If you do that, we suggest first eliminating any CCRCs with a negative net asset position unless you have sufficient resources so that you can withstand the potential loss of your Entrance Fee investment. You can lay out the criteria across the top line on a spreadsheet, with a list of all potential CCRCs that you would consider down the right column. That grid can give you a good start on your own fact finding, analysis, and comparisons.

Q. Can we get a tax advantage by exchanging the equity value in our home for an Entrance Fee investment so that we can retain the capital gains basis of our home? We bought our home many years ago and it has appreciated in value substantially since then.

A. Internal Revenue Code Sections 1031 and subsequent define the rules for tax free exchanges. A reading of the code suggests that an exchange of a home for an Entrance Fee contract would not retain basis unless the Entrance Fee contract provides ownership and most do not. In the majority of CCRCs the ownership is vested in a nonprofit corporation which precludes any ownership interest by residents.

Q. Isn't there an exemption for home sales by older people?

A. There has been a one-time exemption allowance for the sale of a home. At one time the exemption was limited to people age 55 and older but more recently the exemption has been extended to all ages. This newer allowance exempts from capital gains taxation the first $250,000 of gain for a single person and $500,000 for a married couple. Since the home has to be sold and not exchanged to qualify for this exemption allowance the sale of a home to invest in an Entrance

Fee contract qualifies. As far as can be determined this exemption has not been revoked in The American Taxpayer Relief Act of 2012 (the so-called Fiscal Cliff Bill).

Q. What are the tax implications of moving to a CCRC? Marketing has told us of a medical deduction. Can't that offset part of the Entrance Fee required?

A. If you now own your home, and you move to a CCRC which is owned by the provider, you lose all the tax benefits of home ownership including the deduction for mortgage payments and property taxes. Those tax benefits are available, though, in the few resident-owned CCRCs for residents with an ownership interest in the facility.

There is also a prepaid medical deduction, which is an offset to the Entrance Fees, and which continues for the recurring fees of later years on a much reduced basis. Since the rationale for the deduction is the advance, or current payment of medical expenses, CCRCs that don't offer full care contracts should generate a materially reduced medical deduction.

Some providers, however, manipulate the determination of the deductions. Thus, there can be distortions in what is appropriate. I don't know of any case in which the Internal Revenue Service has audited the representations that providers make about what is deductible. Responsibility for the deduction rests with the individual taxpayer, and not with the provider, so residents who rely on the provider's guidance do so on their own recognizance. Clicking on this sentence will take you to a very thorough discussion of these issues by Robert Atkins Walker PC, CPA, PhD.

Q. You've referred to CCRC providers with higher standards. I forget your words… "Good will, etc." something like that. Can we rely on church affiliation as an assurance that a CCRC will be well run?

A. Churches often initiate and control the leadership of CCRCs, and at one time some churches stood behind the financial commitments made to CCRC residents. That changed in 1977 with the collapse of Pacific Homes, the operator of several CCRCs sponsored by the Methodist Church. It appears that the executives had underpriced the Continuing Care Contracts, leading to shortfalls, which they then tried to cover by expanding, using the cash from new Entrance Fees to meet the commitments made to earlier generations of residents. Thus, there was a cascade of overstated promises – comparable to a Ponzi scheme – which collapsed only after a deficit of $27 Million had been incurred.[11]

In the aftermath of the collapse the residents impacted by the bankruptcy sued the United Methodist Church for the damage they had incurred. The accountants, Coopers & Lybrand, paid $1 Million to settle the case. Eventually, "The Pacific and Southwest Annual (regional) Conference took on a $21 million financial commitment to save Pacific Homes. Two general agencies and other annual conferences around the country rallied around the cause and raised money."[12]

At the trial, William Lerach, the plaintiff's attorney asked the jury, "How could something that should have been so good end up so bad?" He recognized that the Methodists had had good intentions, but the answer to the question he had

[11] Ian Morrison ed., *Continuing Care Retirement Communities: Political, Social, and Financial Issues*, Haworth Press, 1986, p. 22.

[12] http://archives.umc.org/umns/news_archive1999.asp?ptid=&story=%7B50D9D98A-8D38-47E6-BB06-5505FC3B320E%7D&mid=3368, accessed January 6, 2013.

posed to the jury was that "Incompetence and cowardice—with a dose of fraud—were the answers…" The parade of elderly witnesses, devastated by their losses, lent credibility to his case.[13]

As a result of that settlement churches since then have generally disclaimed sponsorship of CCRCs though they maintain affiliation. Most of today's CCRC contracts disclaim any sponsorship or guarantee for the contractual commitments made, which are solely an obligation of the CCRC organization itself.[14] Church affiliation is likely only to determine the leadership and resident group attracted to a CCRC.

Q. What of nonprofit organization? Aren't nonprofit's inherently better than for profits?

A. People are people and the market for executive talent extends over both the nonprofit and for profit sectors. We can distinguish though between revenue supported nonprofits and donor supported institutions. Most CCRCs are supported by the fees paid by the residents with donations constituting only a minor source of revenue. Hence, there is little inherent difference between nonprofits and for profits other than what appears on the surface.

Nonprofits are tax exempt and do not distribute profits to the providers of equity capital. For profits pay taxes and are expected to reward shareholders. But donors to nonprofits, or residents who contribute Entrance Fees to a nonprofit CCRCs, expect that there will be efficient use of their capital just as the investors require of a for profit company. Nonprofit executives may be more compassion-

[13] Patrick Dillon, Carl Cannon, *Circle of Greed: The Spectacular Rise and Fall of the Lawyer Who Brought Corporate America to Its Knees*, Broadway Books, 2010, p. 27.

[14] http://www.canhr.org/publications/PDFs/CCRCGuide.pdf, p. 4, accessed January 6, 2013.

ate and altruistic in their business values, though not necessarily, and a nonprofit may have higher costs from keeping people on staff who are not effective or by being more lenient with compensation. There is an extensive discussion of this topic which can be reached by clicking on this sentence. Prospective residents should not simply assume that a nonprofit is likely to be more trustworthy or more committed to residents than a for-profit CCRC. That may be true but not necessarily.

Q. What happens if rate increases after I move in deplete my savings and I outlive my assets?

A. Internal Revenue Ruling 72-124 requires nonprofit CCRCs to keep residents in residence even if their resources are exhausted. This is a condition for the maintenance of nonprofit standing. Most, perhaps all, for profit CCRCs have adopted a similar policy.

The CCRC is free to solicit benevolent funds from philanthropically minded residents and others to meet this obligation but, if the benevolent funds are insufficient, then the nonprofit must maintain the residency from its general funds. Specifically, the ruling provides: "This may be done by utilizing the organization's own reserves, seeking funds from local and Federal welfare units, soliciting funds from its sponsoring organization, its members, or the general public, or by some combination thereof."[15] The nonprofit CCRC, however, can be freed of its obligation to support indigent residents if it is found that the residents have unduly divested themselves of funds that might otherwise have provided their support.

Q. Do all CCRCs offer all the services that I may come to need?

[15] http://www.irs.gov/pub/irs-tege/rr72-124.pdf, p. 3, accessed on January 6, 2013.

A. There is no uniformity concerning what CCRCs offer. Some CCRCs, for instance, have memory care units that can allow Alzheimer sufferers to stay in residence. Other CCRCs send Alzheimer patients out to other specialized facilities. A CCRC is only permitted to offer those services which are encompassed within the scope of its license. For instance, a resident may reach a stage at which two people are needed to assist the resident with toileting. Not all facilities are staffed to provide such an intense level of nursing care and such a resident may then have to move to an alternative facility.

Q. Are all CCRC contracts the same?

A. Decidedly not. This is one of the most perplexing challenges for a prospective resident since the prospect is not likely to be shown the contract until the prospect is mentally committed to moving in. It takes great forbearance at that stage to back off from what seems like a promising future life even if an attorney who reviews the contract recommends against accepting it. The prospect has to accept the contract as proffered or go elsewhere which is a Hobson's choice. CCRCs do not typically make available sample contract forms as part of their marketing package.

Ideally, CCRC contracts would balance the interests of residents and providers and would be written in simple language so that anyone with a basic education can understand the agreement into which they are entering. That is not the case today when many contracts include one-sided terminology like the following statement, excerpted from an actual Continuing Care Contract, that differences will be resolved "…as determined by [the provider] in its sole discretion."

Although some states require regulatory approval for Continuing Care Contracts, a common regulatory position is that anything is permitted in such a contract unless it is explicitly prohibited by statute. Thus, the use of phrasing like "in its sole discretion" is not regulated. Hence, buyers must be particularly wary and vigilant in reviewing contracts. The phrasing of the contract can reveal a great deal about what the prospective resident can expect from the CCRC management.

Q. One CCRC we've visited emphasizes the liberal long term care protection contained in its full care contract. They assert that not all of their competitors offer the same protection. Don't all CCRC contracts provide comparable benefits?

A. In addition to the latitude that CCRC providers have in writing the contract, they also differ widely in the degree of protection given to residents. Some years ago the providers' organization, which is now LeadingAge, developed the following typology for the primary contract categories.

> Life-care (extensive) contract (Type A)
>
> This is the original full-service contract in which individuals (or couples) agree to pay an entrance fee and ongoing monthly fees in exchange for living accommodations and an extensive range of services and amenities. A Type A contract generally provides for a resident's transfer to the appropriate level of care—assisted living or nursing, either on-site or accessible off-site—for an unlimited time at little or no additional cost. The CCRC bears the majority of the financial burden of the resident's long-term care.
>
> Modified contract (Type B)
>
> With this type of contract, the resident pays an entrance fee and ongoing monthly fees for the right to stay in an independent living unit and receive certain services and amenities. The Type B contract obligates the CCRC to provide residents with appropriate assisted living or nursing care for a specified number of days at no extra charge and/or at rates that are discounted from those charged to those admitted from outside the CCRC. The number of covered days and/or the discount varies from community to community. The CCRC bears the financial burden of the resident's long-term care during the covered period; thereafter, the financial responsibility for long-care shifts to the resident, who must pay the regular per-diem rate charged to those admitted from outside the CCRC.
>
> Fee-for-service contract (Type C)

> Fee-for-service continuing-care contracts require an entrance fee and ongoing monthly fees but do not include any discounted health-care or assisted living services. Rather, the resident receives priority or guaranteed admission for these services, as needed, but must pay the regular per diem rate paid by those admitted from outside the CCRC. With this type of contract, the resident bears the financial burden of his or her additional long-term care needs. The charges will vary, depending upon the services needed.[16]

Other commentators add Type D to cover the rental only communities that don't charge an entrance fee and that offer all services *à la carte* on a fee-for-service basis.

In addition to these variations in the protections provided there are also wide variances in the refund provisions. Many CCRCs offer what is referred to as the standard refund contract under which the Entrance Fee is refundable with the amount of the refund declining 2% per month, for each month the resident is in independent living and 4% per month for each month the resident is in the nursing unit. Thus, after 50 months of residence the Entrance Fee investment is fully forfeitable to the provider. At the other extreme are CCRCs that offer a 100% refund contract. As mentioned elsewhere in this Q&A prospective residents should be wary of the conditions associated with refund contracts.

This variability is described as follows in the booklet excerpted above, "As CCRCs evolved, additional contract types were developed to provide choice for prospective residents and options for the providers." Few residents are able to assess the choices given and most CCRC providers limit choice. Contract type is another area in which prospective residents need to be circumspect in making their comparative assessments.

[16] Taken verbatim from the booklet, "Today's Continuing Care Retirement Community (CCRC), published in July 2010 by the American Association of Homes and Services for the Aging (now LeadingAge), p. 7.

Q. Why don't all CCRCs offer contract options to allow them to compete with other CCRCs in the area?

A. Only the CCRC executives can know what motivates the decisions that they reach. What is surprising is that most CCRCs offer very few contract choices. All contracts types can be mathematically equated financially with all other types that are offered. There is no reason, other than a possible lack of sophistication, why providers can't simply offer all contract variations and make the choice of contract a choice that the incoming resident can make based on that resident's circumstances.

Providers often cite an unwillingness to assume risk as a reason for offering less comprehensive contracts, but reinsurance is available which could allow providers to cover that risk. It's simply an artifact of conventional thinking in the industry that providers don't offer a range of contract options. There is a Continuum of Care chart that accompanies the "CCRC Living as Choice and Investment" presentation which will give you a sense of the range of choices (click on this sentence to go to it).

Q. We have long term care insurance. Can't we use that to cover the cost of long term care?

A. Many people believe that long term care insurance is similar to the added protection included in a full care contract, in which the resident's recurrent cost remains unchanged regardless of the intensity of the level of care that the resident needs. It is not, since long term care insurance includes limitations that are likely to leave gaps between provider fee charges for more intensive care and the benefits provided by the insurance.

Also, most long term care insurance has a heavy expense load to pay the sales commission to the selling agent and that diminishes the ratio of prospective benefits to required premiums (this is not true, though, of the Federal employees long term care insurance program or of some similar group basis programs). Since the full care contract allows for better cost management and lower sales cost, it is a better consumer value than is long term care insurance sold by insurance agents.

Thus, for people who don't have the wealth to self-insure their care if they ever need escalated assistance – assisted living or skilled nursing care – a full care contract is an important protection to expect.

Q. Long term care insurance rates vary with age and health condition. Why don't CCRC Entrance and Monthly Fees also vary with age and health condition?

A. Many industries start with crude pricing practices and become more sophisticated as competitive pressures force change. An historical example will make this clear. Except for some incidental efforts, medical care insurance got its start in the 1930s when the American Hospital Association started a prepaid hospital insurance plan. That program was conducted under the brand name "Blue Cross."

The problem during those Depression years was that workers would lose their jobs when they were injured or became sick, meaning that hospitals had trouble collecting for the care they provided. The answer was to allow workers to subscribe to prepaid hospital insurance so that their hospitalization was paid by subscription payments before the hospitalization ever became necessary.

The Blue Cross program was not set up by actuaries. The concept that was used, one monthly subscription fee for people of all ages, genders, and health condi-

tions became known as community rating. It depended on their being some correlation between the payments received and costs of providing the promised benefits but since the hospitals were receiving more payments than they had earlier, that balance was not always refined.

Blue Cross expanded rapidly during World War II because there was extraordinary demand for labor but wages were frozen by a wartime decree. Despite the wage freeze employers were able to compete for employees by adding fringe benefits so group insurance and pensions flourished.

Later, insurance companies with actuarial expertise began to enter the group health insurance field, and they introduced age and gender pricing, which allowed the insurers to skim off from Blue Cross those employment groups with a younger healthier workforce. This left Blue Cross with the less healthy groups and their claims costs began to spiral upward.

Eventually, Blue Cross, too, responded by employing actuaries and introducing differentiated pricing in place of the earlier "community rated" subscription model. Today, there is little discernible difference between companies operated on the Blue Cross model, Blue Cross and Blue Shield, and insurers though they are still separately regulated in California and, perhaps, in other states as well.

This history is instructive since it indicates where the CCRC industry is today on the rate making trajectory. Of course, the risk and cost exposure faced by a CCRC varies, as you surmise, by age, sex, marital status, and health condition, but the CCRC industry still uses "community rating," i.e. one rate structure for all residents who enter at the same time. There may be some minor individual negotiation, e.g. upgrades to apartment amenities, and rates do vary among generations

of residents by year of entry, but the former does not seem to be common and the latter is not yet widely recognized as inequitable.

The result is that, for most though not all Entrance Fee CCRCs, people who are older at move in subsidize those who are younger since the younger people are sustained in residence for a longer period for the same initial outlay. It's not clear, though, whether this is true for older people who are already infirm or in decline when they move in. If the CCRC guarantees health protection, as is the case for an inclusive care contract, then the cost of care for elderly move-ins may well exceed the fees that they are asked to pay.

Q. Is pricing likely to change to a more equitable model, more closely matched to the expected costs of residency?

A. Unlike the economically sophisticated purchasers of group insurance, who moved to differentiated pricing during the postwar years, prospective CCRC residents tend to be relatively unsophisticated in their evaluation of the economics of the residence decision. Not only do residents lack the quantitative tools to allow them to make proper price comparisons that take into account the varying CCRC offerings and their own health condition, but most providers also simply follow the status quo in the industry without a full understanding of the underlying quantitative reality.

It was the aggressive pricing of the insurance companies, who saw opportunity in Blue Cross's "community pricing" model, that led to change in group health insurance pricing. It is unlikely that change will come to CCRC pricing unless, or until, some organization – most likely an investor owned corporation – sees opportunity by differentiating competitive pricing from today's uniform pricing structures.

At this point there is no evidence that pricing will change anytime soon to a more differentiated, more equitable pricing structure.

Accordingly, prospective residents should evaluate their own condition relative to the pricing offered to see whether they are advantaged or disadvantaged by it. In general, younger, healthier people will be advantaged though some elderly people who qualify quickly for skilled nursing may be benefited if they can persuade a CCRC to give them a full-care, inclusive contract despite their imminent poor health.