REAL ESTATE

More Retirees Are Choosing Continuing Care Communities. How to Pick One.

By Debbie Carlson Follow

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A resident sits in one of the garden areas at The Admiral at the Lake, a continuing care community in Chicago. (PHOTOGRAPH BY JAMIE KELTER DAVIS)

Key Points

About This Summary

- Continuing Care Retirement Communities (CCRCs) are gaining popularity, with a 4% growth expected this year, but require entrance fees of $100,000 to over $1 million.
- CCRCs lack federal oversight and nationwide standards, though 41 states license them with varying stringency.
- Assessing a CCRC's financial health involves checking metrics like 200 days cash on hand, 90% occupancy, net operating margin, and debt service coverage ratio of 1.3 to 1.4 times.

Glenn Spacht, 79, and wife, Carole Ann, 78, moved to The Admiral at the Lake in Chicago more than four years ago from Florida, when he was no longer able to care for her Alzheimer's disease.

Glenn says they enjoy the amenities and social life of the continuing care retirement community (CRCC), and his twice-daily visit to Carole Ann in the memory care wing are just an elevator ride away. But figuring out the total costs of his new abode was tough.

"I am not a dumb person, and I had a great deal of difficulty understanding the complexity of the finances and feel pretty lucky that I entered the right place," says Glenn Spacht, a former chief engineer at Grumman Aviation.

CRCCs, which have residences ranging from independent living to memory care in one location, are exploding in popularity among baby boomers, but are supply-constrained as building new facilities is a lengthy process. That number has hovered around 1,900 nationwide, with a 4% growth rate expected this year, according to The National Investment Center for Seniors Housing & Care.

They aren't cheap. You'll pay entrance fees of at least $100,000 and sometimes over $1 million, on top of monthly fees for housing and amenities.

Glenn Spacht, a retired rocket scientist, sits in his living room overlooking downtown Chicago from his apartment at The Admiral at the Lake. Spacht's wife Carole Ann lives in the community's memory care unit. PHOTO: PHOTOGRAPHS BY JAMIE KELTER DAVIS

Deciding if a CCRC is right for you means puzzling out a complex business model that blends real estate, healthcare and insurance. There's the risk you may pay for care you don't need, but there's also the risk the facility cannot financially fulfill its duties.

Further, there's no federal oversight of CCRCs and no nationwide standards. Forty-one states license CCRCs, says Dee Pekruhn, senior director of life plan communities and continuing care at home at LeadingAge. Usually, a state's department of insurance or public health department regulates the facilities, though the stringency of those laws vary.

Understanding the Different Types of CCRC

Communities that care for you for life are called type A and have the highest entrance cost. Residents pay the same monthly amount even if they move from independent living to higher levels of care, says Thomas West, managing senior partner at Signature Estates & Investment Advisors.

The Admiral at The Lake is a type A community. A one-bedroom, one-bath apartment in independent living starts at 740 square feet with a 2026 entrance fee of $416,000, which is up to 90% refundable when the unit is sold. A single person would pay a monthly fee of $4,230 on top of that.

If that person becomes unable to live independently, he or she would move into a wing of the The Admiral with higher care. The monthly charge would rise to $6,403 but remain stable no matter how sick that person becomes—right up until death.

Chairs are lined up in a community room at The Admiral at the Lake. The space hosts musical performances, plays, lectures, and other community events for residents. PHOTO: PHOTOGRAPH BY JAMIE KELTER DAVIS

Type B communities offer a skinnier version of the lifecare contract. Residents' entrance fees cover a limited number of days for skilled nursing or may receive discounted costs for greater care, Pekruhn says.

Type C communities guarantee access to different levels of care, but entrance fees are lower as they don't include prepayment for future healthcare. If you eventually need to move from independent living, you pay the market rate for healthcare.

How to Know If They Are Financially Solid

In the nonprofit world, financial stability is evaluated in terms of mission sustainability, but you still need to take a financial pulse of the community.

Once you get beyond the marketing material that lists entrance fees and monthly cost, contact the state agency overseeing the nonprofit CCRCs and ask for the audited disclosure documents that each facility must file. Nonprofits also must file IRS Form 990 which has additional further details.

In those reports, senior living experts say to zero in on these metrics:

Art covers the walls and shelves of the apartment of Anna Rappaport, a retired actuary and artist, at The Admiral at the Lake. Rappaport creates artwork in a variety of mediums and displays many of her pieces throughout her home. PHOTO: PHOTOGRAPHS BY JAMIE KELTER DAVIS

• Days cash on hand. This item indicates how many days a community can continue to pay its bills if no new money comes in. Margaret Johnson, sector lead for senior living at Fitch Ratings, wants to see at least 200 days of available cash.

• Occupancy rates. CCRCs' revenues come from the entrance fees and monthly fees of people in independent living, Johnson says. A healthy occupancy rate is typically 90% or higher.

Anna Rappaport, 84, an actuarial consultant and resident at The Admiral at the Lake, says generally, CCRC's core pricing assumption estimates that residents can remain in independent living for an average of three years before needing a higher level of care.

• Net operating margin. This shows if the community's operating revenues exceed planned expenses. Johnson says if the CCRC isn't fully covering its expenses, it may have to raise fees more than normal. Look in the financial disclosure forms for a sense of how much the facility typically raises fees.

A lap pool and wellness room at The Admiral at the Lake. PHOTO: PHOTOGRAPHS BY JAMIE KELTER DAVIS

• Debt service coverage ratio. CCRCs often have a heavy amount of debt from construction and building operations, Pekruhn says. Most lenders look at a ratio of 1.3 to 1.4 times range to underwrite.

Johnson also looks at a CCRC's future capital plans since many tend to finance those with additional debt. She says the sector is in "fairly good shape" currently.

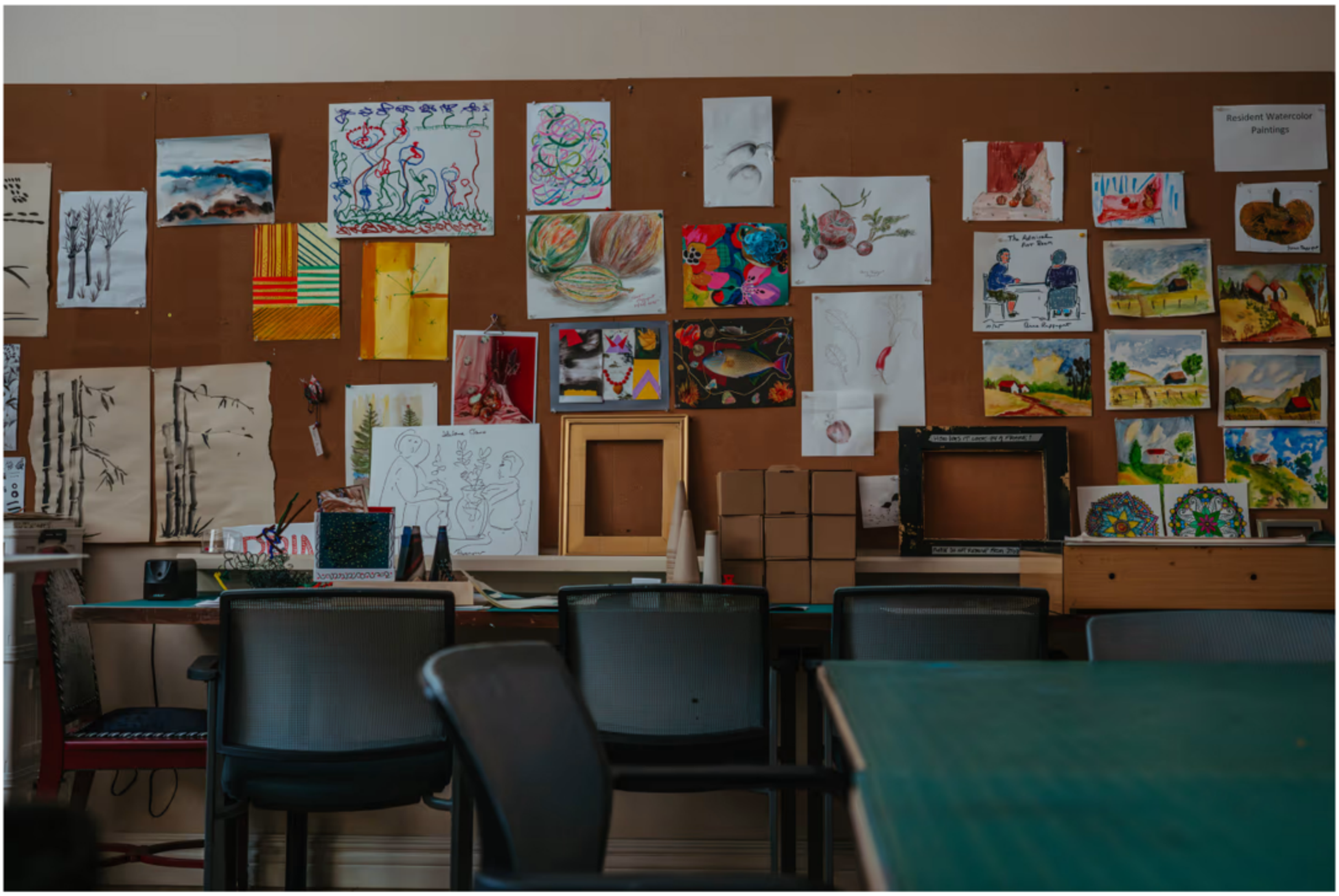
In addition to the individual residences' disclosures, retirees can look at consumer guides from websites such as the National Continuing Care Residents

Association, and financial tools from myLifeSite.

Potential risks to CCRCs

The sources say recessions and stock market declines may limit how many new residents enter since those events may affect people's ability to pay for these upscale consumer products.

Many CCRCs have foundations to support residents who can no longer afford care due to unforeseen circumstances. However, CCRCs can go bankrupt and they may change ownership, Rappaport says. "It's not like an insurance company where there's a state guarantee fund," she says.



Artwork and art supplies fill an art studio at The Admiral at the Lake. PHOTO: PHOTOGRAPH BY JAMIE KELTER DAVIS

She recommends retirees seeking this lifestyle talk to residents, such as those who serve on the CCRCs resident councils to get an insider's view. Walk away if you can't speak to residents or meet with the chief financial officer.

Rappaport loves living at The Admiral at the Lake. "From my perspective, it's the best thing I could have possibly done at this stage in my life. And I think most of the residents feel that way."

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