

MAKING YOUR MONEY LAST

CCRCs Raise Financial Questions for Retirees

Continuing-care retirement communities seem enticing, but study the owner's financials before taking the plunge.



Getty Images

By ELEANOR LAISE, Senior Editor 

December 21, 2018

From *Kiplinger's Retirement Report*

For Jennifer Young, a continuing-care retirement community seemed the ideal place to spend retirement. These communities typically offer independent-living units as well as assisted-living, skilled-nursing and memory-care facilities, allowing seniors to “age in place” even as they require higher levels of care. Young, a 71-year-old retired human

resources manager who has no children, saw the benefit of having a circle of friends close by and ready access to health care services. “I thought, ‘I’m here for my parents, but there won’t be anyone here for me,’ ” Young says. “I knew it was a lifestyle I wanted.”

SEE ALSO:

Retirement Mistakes You Will Regret Forever

The lifestyle, it turned out, wasn’t quite what she bargained for. Young moved into Meadow Lake, a CCRC in Tyler, Tex., in the spring of 2012, paying about \$250,000 in entrance fees, she says. Two years later, Sears Methodist Retirement System, the nonprofit entity that owned Meadow Lake and a string of other Texas retirement communities, filed for bankruptcy, saying in court filings that it had suffered lower than anticipated occupancy rates as prospective residents struggled to sell their homes during the housing market downturn. Instead of relaxing in her newly built cottage, Young spent the next year immersed in bankruptcy law—even representing residents on the bankruptcy court’s unsecured creditors committee.

Young ultimately left Meadow Lake and moved into another CCRC in North Carolina—but only after studying its financials. The new community had a strong balance sheet, she says, and “that was music to my ears.”

Nearly 2,000 CCRCs nationwide are attracting seniors with promises of lifelong care, stylish villas, heated swimming pools and fine dining. But behind the slick sales pitches lie some nettlesome financial questions: Will the community last as long as you do? Can you get a refund if you move out? How much might your fees increase over time?

Such questions are critical because the financial stakes are high. Entrance fees are often several hundred thousand dollars but may top \$1 million. Monthly fees typically range from \$2,000 to \$4,000.

Despite the cost—and the occasional high-profile bankruptcy—a growing number of seniors are choosing CCRCs as a one-stop retirement-living solution. After tumbling in the wake of the financial crisis, CCRC occupancy has ticked up in recent years, reaching 91% in the third quarter of 2018, according to the National Investment Center for Seniors Housing and Care.

The ABCs of CCRCs

Many CCRCs offer multiple contract types with wide variations in costs and benefits. The most common is the “Type A,” or life-care contract, which requires a hefty entrance fee but holds monthly fees relatively steady (apart from inflation adjustments) as you require higher levels of care. A portion of fees is considered a prepayment of health care expenses and may be tax deductible as a medical expense.

SEE ALSO:

12 Reasons You Will Go Broke in Retirement

Another popular contract, the “Type C” or fee-for-service contract, may require much lower up-front and monthly fees, but monthly costs can spike up when you move into the assisted-living or skilled-nursing facility. This contract type may be a good option for people who have long-term-care insurance to help pay for higher levels of care, says Jim Ciprich, wealth adviser at RegentAtlantic, in Morristown, N.J.

No matter what type of contract you sign, there may be annual inflationary increases in your monthly fees. The average annual increase was 3.1% in 2017, according to Ziegler, an investment bank that tracks CCRCs. To get a sense of how much your costs might rise, ask the facility to show you the past five years’ worth of fee increases, says Brad Breeding, president and co-founder of **myLifeSite**, which helps consumers compare CCRC fees and amenities.

Ask how the community treats residents who outlive their assets. The community may tap into the refundable portion of the entrance fee to cover costs in such cases. The vast majority of CCRCs are run by nonprofit organizations, and they typically have benevolent funds to provide care for residents who have exhausted their resources, says Stephen Maag, director of residential communities at LeadingAge, an industry group for nonprofit providers of aging services, including housing. Some—but not all—for-profit CCRCs make similar provisions.

If you’re paying a hefty up-front fee, consider what—if any—refund you or your heirs may receive if you move out or die. Most communities have contracts offering partial entrance-fee refunds, but all else being equal, up-front fees for those contracts will be higher than those without a refund option.

Many CCRCs will refund entrance fees only when the unit is reoccupied—and that’s a potential problem for former residents or their heirs. If the economy is sluggish, it may take quite a while to find a new occupant, and if the community has other units available

that will bring in higher fees, “the CCRC is not highly motivated to reoccupy a unit that has a refundable fee attached to it,” says Katherine Pearson, law professor at Penn State’s Dickinson Law. In some cases, she says, it can take years to receive a refund.

Young was fortunate. Meadow Lake’s new owners honored her contract, she says, and gave her the 90% entrance-fee refund she was due about a year after she moved out.

SEE ALSO:

27 Cheapest Places Where You’ll Really Want to Retire

CCRC Solvency

When Dr. Melvyn Tockman was searching for a CCRC about five years ago, University Village in Tampa seemed to have it all: vibrant cultural activities, buses to downtown Tampa and proximity to major sporting events. “It was almost like living in a cruise ship—until we struck an iceberg,” says Tockman, 75, a retired physician. The community was thrown into turmoil in recent years after ownership changes that the Florida Office of Insurance Regulation deemed unlawful. The CCRC’s operators, Westport Holdings Tampa, filed for bankruptcy in 2016.

During the regulatory battle and bankruptcy proceedings, key personnel were let go, and building maintenance was put on the back burner—leading to air conditioning problems during the hot Florida summer, says Tockman, president of the CCRC’s residents association. Attorneys for Westport did not respond to requests for comment. A court-appointed trustee is now overseeing University Village and preparing it for sale.

Even a healthy economy and a growing senior population can’t fully insulate CCRCs from financial woes. Prospective residents need to scour CCRC financial statements for potential problems—yet regulation of these communities varies from state to state, and there’s no uniformity in required financial disclosures.

For nonprofit CCRCs, a good starting point is Form 990, which tax-exempt organizations must file with the IRS. (Find an organization’s Form 990 at **Propublica.org**.) The 990 will show the organization’s net assets—the difference between assets and liabilities. All else being equal, a higher net asset figure indicates a more stable financial position.

You can also ask the CCRC directly for audited financial statements and a recent actuarial study, which will help you determine whether the community has sufficiently funded its future obligations to residents. For tips on sizing up these documents, see the free guides on evaluating CCRCs' finances available under the "resources" tab at carf.org, the website of CCRC accreditation organization CARF International, and under "free resources" at mylifesite.net. At myLifeSite, you can also run side-by-side comparisons of financial ratios and other details for CCRCs in 12 states, for a fee of \$29 per month.

Ask the community to show you occupancy rates over the past five years. Ideally, you want to see a rate of 90% or higher. Any future housing market downturn could spell trouble for CCRCs that are still in the process of filling units, says Thomas Califano, a lawyer at DLA Piper who has worked on a number of CCRC restructuring cases.

Prospective residents "usually have a significant entrance-fee obligation they're looking to fund from their home sale," he says, so a real estate downturn "will definitely have an impact."

If the worst happens and a CCRC goes bankrupt, residents are generally considered unsecured creditors—meaning other creditors' claims may be given higher priority. Bankruptcy plans often ensure that any new operator who steps in to run the CCRC commits to honoring residents' original contracts, including any refund provisions. But in some cases, residents have to make significant concessions. To help University Village exit bankruptcy successfully, current and former residents agreed that certain amounts owed to them—including entrance-fee refunds—will be paid out over a 10-year period.

SEE ALSO:

Best States to Retire 2018: All 50 States Ranked for Retirement

Yet Tockman, for one, remains committed to the CCRC. It's "a wonderful community," he says. "I wouldn't want to live anywhere else."

SHOW COMMENTS

Sponsored Financial Content

dianomi



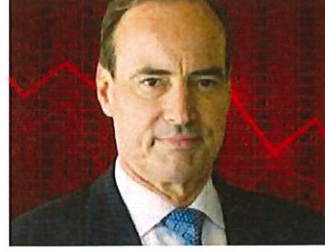
Transfer Debt, Pay \$0 Interest Until 2020 With This Insane Credit Card

The Ascent



Here's The Highest Paying Cash-Back Card On The Market

Credit.com



Economist Warns: "This could be worse than 1929."

Dent Research



See How Some Retirees Use Options Trading As A Safe Way To Earn Income

TradeWins

All Contents © 2019, The Kiplinger Washington Editors