BUSINESS > LOCAL COMPANIES

Here's how continuing care retirement communities work and why some go bankrupt

The average occupancy rate for 23 CCRCs in Dallas fell from 85% in the first three months of 2020 to 79.9% for the same period in 2022.

The luxury, Tuscan-inspired Edgemere facility was once the premier retirement facility in Dallas. But debt obligations and falling occupancy due to increased competition and the pandemic led it to file for bankruptcy earlier this month. (Dallas Morning News file photo / - Edgemere)

By Natalie Walters
9:08 AM on Apr 29, 2022

The bankruptcies of Dallas' Edgemere and three other Texas continuing care retirement communities raise questions about the viability of a business model that requires hefty entrance fees.

The entrance fee guarantees residents a spot for life at the facility, no matter the level of care they require in the future, whether that be assisted living, memory care or skilled nursing. And a percentage of the fee is often refundable to the resident or their heirs.

But CCRCs are capital-intensive projects that generally require bonds to fund construction. That means communities that use the entrance fee model must not only keep up with debt obligations to bondholders and regular maintenance costs but also with the cycle of refunding deposits as residents move out or die.

Here's what you need to know about CCRCs, from how they make money to how they're regulated and why some end up in bankruptcy court.

How CCRCs work

- For residents who pay an entrance fee to enter a CCRC, the cost is offset by the fact that their monthly fees either don't increase or increase very little as higher levels of care are needed. Supporters say it provides better predictability of expenses and saves money over one's life. Often, a percentage of the entrance fee is refundable to the resident when he or she moves out or to the heirs when they die, provided a new resident moves in and pays a new entrance fee. If a CCRC is struggling to fill units, that can take years.
- Regulations vary by state, but in Texas, CCRCs can use entrance fee payments for operating expenses and debt obligations after reaching a certain level of viability.
- The average CCRC entrance fee in the Dallas market is $435,254, according to data from the National Investment Center for Seniors Housing in Maryland.
- Some CCRCs don't require an upfront fee but charge a monthly rate. Those payments are typically higher.
- At the end of 2021, NIC data showed that about 74% of CCRC independent living units in the U.S. were paid for with entrance fees vs. about 26% collecting monthly rent. When residents move to assisted living, the percentage that relied on entrance fees dropped to 55%, then went up slightly to 60% for memory care and dropped again to 46% for nursing care. That's because if a resident moves directly into a higher stage of care, an entrance fee is often not required.
- Thomas Califano, a partner in law firm Sidley Austin's restructuring group, said he doesn't think the CCRC model would be viable without entrance deposits to fund operations. CCRCs are capital-intensive projects requiring a large campus with amenities and high levels of care, including skilled nursing. "It's not a cheap way to age," he said. "A CCRC wouldn't work if the entrance fees were set aside completely. It needs to be done to pay down the bond debt."
- CCRCs typically make money from entrance fees, monthly fees and fees for optional services like barber and beauty services. CCRCs with high occupancy rates can generally sustain a community with monthly fees and other charges generated from activities like buying meals. But when occupancy drops from increased competition and events like a global pandemic, the model starts to crumble.
- CCRCs can either be for-profit or not-for-profit, with the vast majority of lifecare contract communities being not-for-profit. Not-for-profit CCRCs are generally required to operate for charitable purposes and are therefore less likely to ask a resident to vacate if they run out of funds. For example, the not-for-profit Stayton at Museum Way in Fort Worth says on its website that for residents who outlive their resources, the Stayton has a financial hardship protection plan that lets them stay.
- CCRCs that succeed aren't too heavily weighted toward any of the four levels of care or toward entrance fee or fee-for-service payments, said Michael Lincoln, principal at GreenRock Capital in California, which provides health care and commercial real estate owners with capital for development. "Diversification goes a long way to managing operating risk," he said.

The CCRC space becomes competitive in Dallas

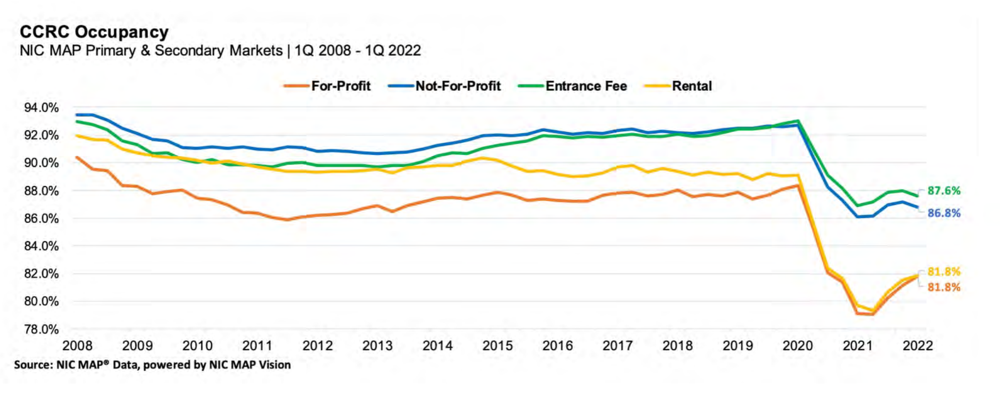
CCRCs like Edgemere cite increasing competition as a reason for filing for bankruptcy. The data below shows information on Edgemere and 11 CCRCs within 10 miles of Edgemere. The data is publicly available in Edgemere's bankruptcy filing but has not been audited. It was compiled by FTI Consulting in June 2021 after the advisory firm was hired by Edgemere.

CCRC	City	Profit status	Year opened	Primary payment type	Total units available
Edgemere	Dallas	not for profit	2002	entrance fee ($349,000 - $1.6 million)	504
The Forum at Park Lane	Dallas	for profit	1968	rent	276
Ventana by Buckner	Dallas	not for profit	2019	entrance fee ($445,000 - $1.4 million)	322
Walnut Place	Dallas	for profit	1980	rent	341
The Tradition - Lover's Lane	Dallas	for profit	2010	rent	311
CC Young	Dallas	not for profit	1922	entrance fee ($262,700 - $795,000)	516
The Legacy at Midtown Park	Dallas	not for profit	2021	rent	86
Juliette Fowler Homes	Dallas	not for profit	1911	rent	161
Presbyterian Village North	Dallas	not for profit	1980	entrance fee ($77,000 - $591,200)	665
Signature Points On The Lake	Dallas	for profit	1998	entrance fee ($140,000 - $623,000)	288
Autumn Leaves of White Rock Lake	Dallas	for profit	1971	rent	165
Highland Springs	Dallas	not for profit	2006	entrance fee ($140,000 - $623,000)	1,079
Grace Presbyterian Village	Dallas	not for profit	1962	rent	307
Christian Care Center	Mesquite	not for profit	1949	entrance fee ($104,805 - $223,445)	452
The Legacy at Willow Bend	Plano	for profit	2008	entrance fee ($218,400 - $837,000)	232
Parkwood Healthcare Community	Bedford	for profit	1986	rent	327

Table: Natalie Walters • Source: FTI Consulting • Get the data • Created with Datawrapper

How CCRCs are regulated

- There is no federal oversight for CCRCs. The Texas Department of Insurance is the state's main regulator of CCRCs, and the attorney general's office is its enforcement arm.
- Some states require CCRCs to keep a certain level of cash reserves so they can pay back resident refunds if they run into financial distress or a catastrophic event. Texas does not. "I think most residents feel like that money is always going to be there. And if everything works great, then it will be," said David Drumm, a partner at Dallas-based law firm Carrington Coleman, who represents a family in the Edgemere bankruptcy case. "But if the stability can't be maintained and the landlords and secured creditors grab all assets, then what?"
- Katherine Pearson, a professor of elder law at Penn State University's Dickinson Law School and a national expert on CCRCs, said Texas is in the middle of the pack when it comes to how closely the state regulates CCRCs. Texas has a disclosure-based regulation system that requires CCRCs to provide consumers with accurate information about how they operate, what their contract provides and how they handle finances.
- [illegible]
- [illegible]



How CCRCs run into trouble

[illegible]

Edgemere's bankruptcy follows filings by three other Texas age-in-place communities

How the pandemic pushed some to the brink

[illegible]

What happens to residents in bankruptcies

[illegible]

- [illegible] security interest in assets of the CCRC, Wesch said. What unsecured creditors get back is dependent on how financially secure the CCRC is when it comes out of bankruptcy, she said.
- Califano said he has seen CCRCs come out of Chapter 11 and thrive. In the 1980s and 1990s, there were CCRC bankruptcies where residents were evicted. But Califano and Pearson said they don't know of any recent cases where residents were displaced.
- CCRCs are often looking to reduce debt, which takes about six to eight months, or to sell to a new owner, which generally takes longer, depending on the state's regulatory process.

What's on the horizon

- GreenRock's Lincoln said he could see consolidation among CCRC operators. "Operators look for size and scale to spread operating costs across a greater population and greater geographic region and that helps with access to capital," he said.
- Pearson said she can see CCRCs moving toward a fee-for-service model to eliminate concerns about losing entrance fees. "The unfortunate part of that for the communities is that the entrance fee model is what allows them to have a well-funded, well-capitalized operation," she said.

Natalie Walters, Money Reporter. Natalie is an award-winning reporter who covers banks, crypto, fraud, deals and other money topics for The Dallas Morning News. She was previously based in New York where she reported for The Motley Fool, TheStreet and Business Insider. She grew up in Augusta, Ga. and holds an MA in Investigative Journalism from The Cronkite School.

natalie.walters@dallasnews.com NatalieReporter