

# FINAID

FINAID is a software tool designed to assist marketing departments and financial managers of retirement communities in objectively quantifying their policies and decisions in regard to financial screening of prospective residents. FINAID can be used to determine whether a prospect can afford fees for the desired unit, as well as indicate the portion of financial aid reserves that should be designated to cover the prospect's expected needs.

The demonstration database contains two sample prospects: a single female age 82 with \$1,200 in Social Security income and \$150,000 in assets after paying the entry fee, and a couple (male age 82 and a female 80) with \$2,400 in Social Security and pension income and \$202,500 in assets after paying the entry fee.

FINAID projections for the couple are shown in the following exhibits. Exhibit A shows selected distribution points (i.e., probability that subsidy will not exceed these amounts during the residents' stay in the CCRC) for cumulative financial aid paid and the present value of financial aid. The average total cash subsidy is projected to nearly equal \$75,000 and the expected present value is nearly \$40,000.

**EXHIBIT A**

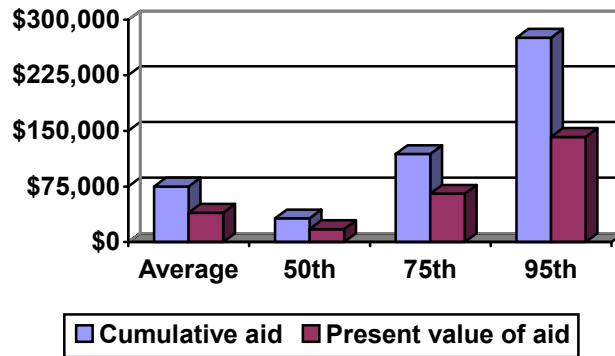
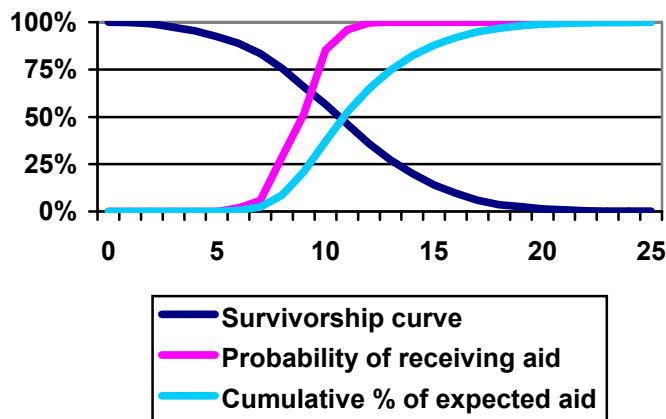


Exhibit B shows (a) the chance of survivorship in future years after admission; (b) the probability of receiving financial aid if one of the residents survives to a specific year; and (c) the accumulated financial aid received as a percentage of the expected financial aid to be received. For this example, the graph shows that if the couple resides to their last-survivor life expectancy (between 11 and 12 years), they will receive half of their expected lifetime aid. Charting the probability of receiving aid with the length of time that at least one member of couple survives shows a dramatic increase in that probability

**EXHIBIT B**



and is more than 90% by the last-survivor life expectancy.

The FINAID calculation takes into consideration all types of income, such as Social Security, pensions, Medicaid, long-term care insurance, survivorship benefits for couples, alimony, and interest earnings. Asset definitions include stocks and bonds, life insurance, IRAs, 401(k) benefits, and annuities.

FINAID uses an actuarial projection model to estimate how long a resident will live and in which levels of care, which may affect fees. The actuarial assumptions are tailored to each community based on an experience study of their current and prior residents' history of health care utilization, move-out, and survivorship. This is a key feature of FINAID since variations in these assumptions will result in different projected financial aid needs, especially if the continuing care contract charges monthly fees that change when a resident moves to a different level of care.

FINAID also has user-changeable assumptions for Federal and state tax rates, economic assumptions about future increases in fees, income, asset appreciation, and interest earnings. Parameters can be set to indicate the amount of personal allowance that a resident is allowed to keep if receiving monthly aid and the disposition of excess income each year before monthly aid is required. Also, the community's own spend-down floors, which may be higher than Medicaid, can be set to trigger aid payments.

All of the prospect-specific information is used by the FINAID methodology to project a reliable estimate of future aid needs. Moreover, what-if analyses can be run by changing assumptions, and all data can be stored for the individual prospect(s).

Since we know that approximately half of the residents will live longer than the life expectancy for their age and gender, FINAID goes further than just making an estimate over the prospect's lifetime. The results show the expected liability, as well as the 50<sup>th</sup>, 75<sup>th</sup>, and 95<sup>th</sup> percentiles, along with the present value of the results. This information enables management to identify funds to cover future aid since in many cases the need for a financial aid subsidy may not occur until several years after initial move-in.

To place an order for FINAID or discuss its capabilities and how it can be used to help you make more informed and better decisions, contact either Kathie Harris at 636.530.1072.x1 or AV Powell at 404.845.0360.x1.