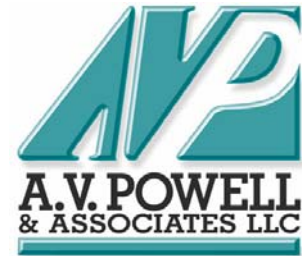


CCRCs: Financial Challenges and Strategies

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Risk Management: Financial Aid

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Risk Management: Financial Aid

- ◆ Most CCRCs have benevolence funds; but are they adequate to subsidize the financial aid needs of current residents over their lifetimes?
- ◆ Is there any capacity to take on additional financial aid risk from new entrants?

Risk Management: Current Environment



- ◆ Resident's assets and incomes have declined with market losses and low interest earnings
- ◆ CCRC's benevolence funds have declined in value and generate less interest
- ◆ Yet CCRC operating expenses continue to increase so fees must also increase

Risk Management: Current Environment



- ◆ Increasing fees has always been a challenge for boards and management
- ◆ Now, in addition to resident relations and marketing issues, communities must address the question:

*Can current and future residents **afford** these fees?*

Measuring Financial Aid Risk

Compare resident's income and assets to expenses:

- ◆ Income: Social security, pension, annuities, interest & dividends, draw on assets, LTC insurance payments, Medicaid payments
- ◆ Expenses: CCRC fees, LTC ins premiums, income taxes, personal allowance (medical & ins costs, food & utilities not in fees, clothes, gifts, travel, etc)

Financial Aid Projection Example

- ◆ EF = \$160,000 IL = \$1,200/mo
AL = \$100/day NC = \$150/day
- ◆ Assets: Cash & CDs = \$400,000
- ◆ Monthly Income:
 - Social Security = \$900
 - Pension = \$500 (no inflation)
 - Interest earnings = \$1,000 (3%)
- ◆ Personal Expenses: \$500/mo

Financial Aid Projection

Expected Subsidy - Female

Age	Total	Present Value	Probability
70	\$218,000	\$82,000	45%
80	91,000	44,000	32%
90	22,000	13,000	14%

Financial Aid Projection

Expected Subsidy - Male

Age	Total	Present Value	Probability
70	\$69,000	\$27,000	23%
80	23,000	11,000	12%
90	6,000	4,000	5%

Financial Aid Projection

Actuarial Basis



Actuarial assumptions required:

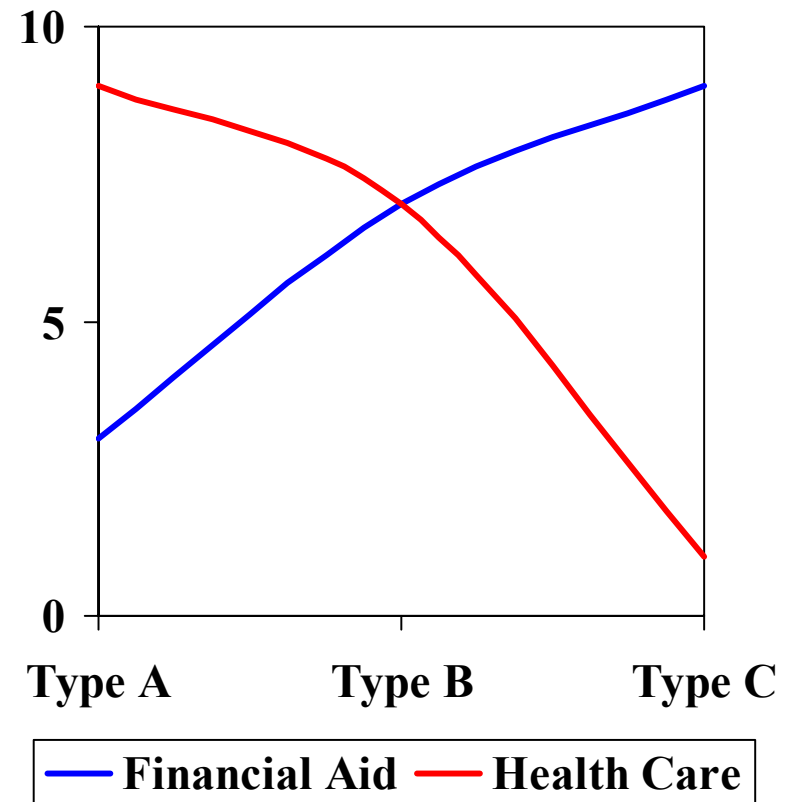
- ◆ How long will the resident live in the community?
- ◆ If fees change by level of care, when will transfers occur and how long will the resident live at each level of care?

Financial Aid Risk

- ◆ Life expectancies are an average – 50% chance that resident will die before that point, and **50% chance that resident will live longer**
- ◆ Variation by age & gender and details of financial resources make calculation too complex for rules-of-thumb

Recognizing Risk by Contract Type

- ◆ All contract types have some form of risk
- ◆ Type A contracts have more health care risk, but less financial aid risk
- ◆ Type C contracts have less health care risk, but more financial aid risk



Recognizing Risk by Care Level

◆ Independent living options:

- Move to a less expensive unit type?
- Transfer to organizations' HUD facility?
- SSI?

◆ Assisted living and nursing care options:

- Medicaid or waiver programs?

Do you want CCRC contractholders taking up Medicaid beds?

Managing Financial Aid Risk

Sophisticated tools are available to:

- ◆ Quantify current financial aid liability and assess the impact of various strategies
- ◆ Project financial aid needs of new entrants

Financial screening can also be a marketing tool to show that assets and income are sufficient and that prospective resident can afford to move in

Managing Financial Aid Risk

◆ Prevention:

- Financial screening of new entrants
- Contractual limitation for disposal of assets by resident or family

◆ Early Detection:

- Contractual right to obtain updated financial information from residents
- Periodic reviews of current data

Proactive Risk Management



- ◆ Know your financial aid capacity
- ◆ Develop goals for fundraising and policies for distributing benevolence funds
- ◆ Use financial screening criteria consistent with goals
- ◆ Quantify and report on financial assistance annually

CCAC Accreditation Standard II-B: Long-Term Financial Resources



“Describe and evaluate the organization’s policy regarding residents who need financial assistance, including how the organization projects and funds this need”