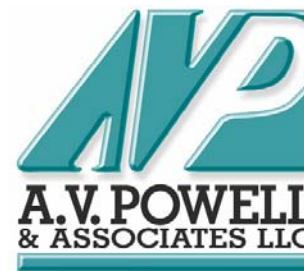


Managing Financial Resources with Changing Consumer Expectations

AAHSA 2003 Annual Meeting – Session 40D
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Contract Design and Actuarial Pricing



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CCRC Contract Design



- What product will you provide?
- How will it be paid for?
- What incentives are you creating?

Product Trends



- Larger units, more storage space
- Cottage-style housing
- Wellness/fitness facilities
- Payment options/choice

All markets are similar

Payment Options



- Entrance fee/monthly fee structure
- Health care benefits
(discounts, free days, LTC ins coordination)
- Refund benefits

Preferences vary by market

Incentives

- Cottage-style housing: attracts younger/healthier entrants
- Congregate-style housing: attracts older/frailer entrants
- Refund benefits: appeal to younger entrants?
 - AVP data does not indicate younger entrants at CCRCs that only offer refundable
 - AVP data indicates older average age choosing refundable at CCRCs with options

Contract Options & Pricing

Marketplace

**Costs
(Actuarial Focus)**

**Board and
Management
philosophy**

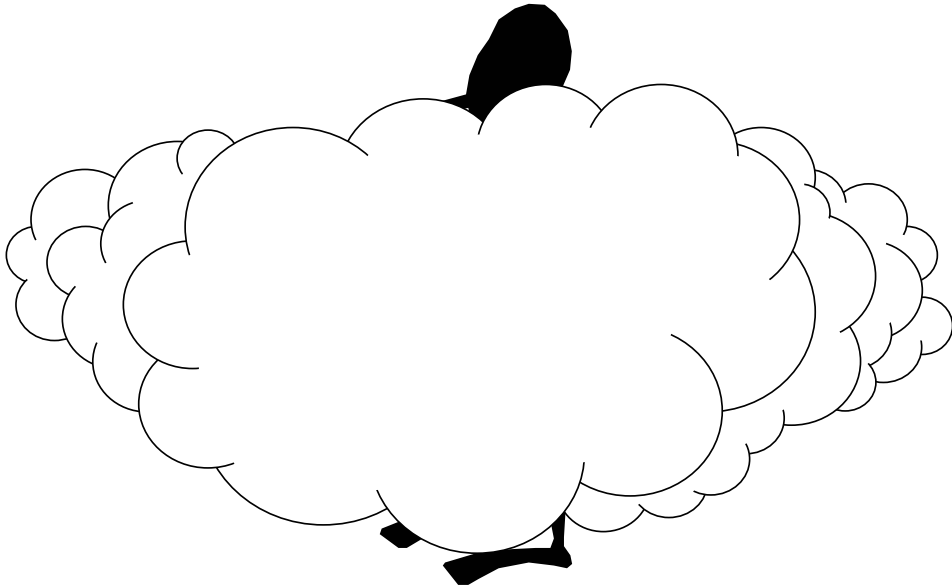


Risk by Contract Type

All contract types have some form of risk

- Lifecare contracts have more health care risk
- FFS contracts have more financial aid risk
- Higher entry fees have more inflation risk
- Refundable contracts have more longevity risk and selection risk

Uncloaking the Actuarial Black Box



- Entry fees are simply a prepayment of future monthly fees
- Entry fees plus monthly fees must cover operating, capital, and refund costs

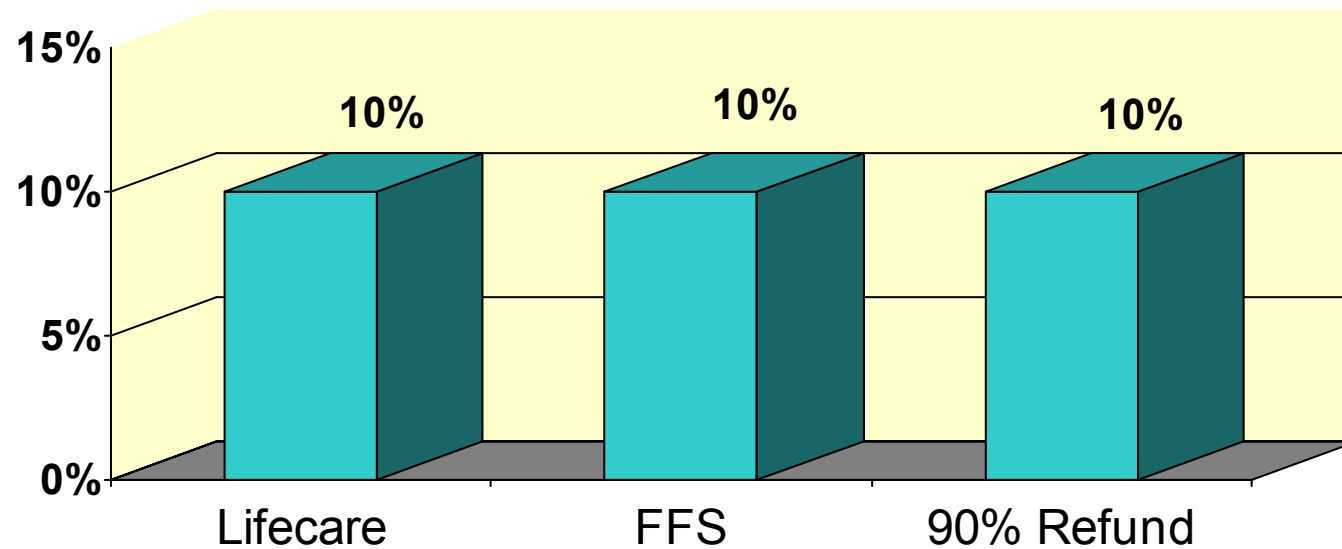
Actuarial Fee Adequacy

- New entrant pricing:
Compare future costs (actuarial liabilities) with combination of entry fee and monthly fees (actuarial assets)
- Assets must be equal to or greater than liabilities or subsidy will be required
 - Future generations of residents
 - Future “correction” fee increases
- Include a margin to cover experience deviations, contribution to surplus, risk variations

Equivalent Pricing

Different fee structures and benefits

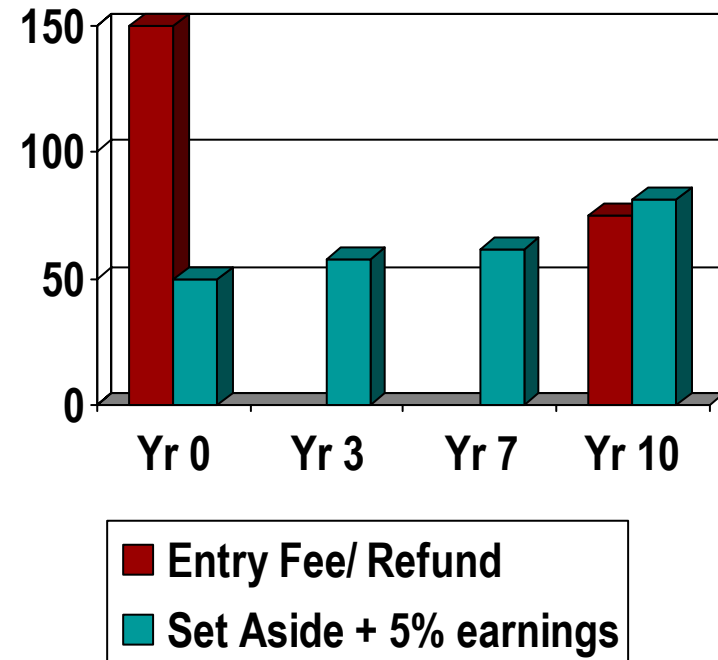
Same present value of revenues and same surplus margin



Refundable Entrance Fees

- Refunds are a future cost that must be prefunded; *even if refunds are only paid upon unit reoccupancy*
- Actuarial funding of refunds: Portion of entrance fee will accumulate with interest to equal expected refund payout

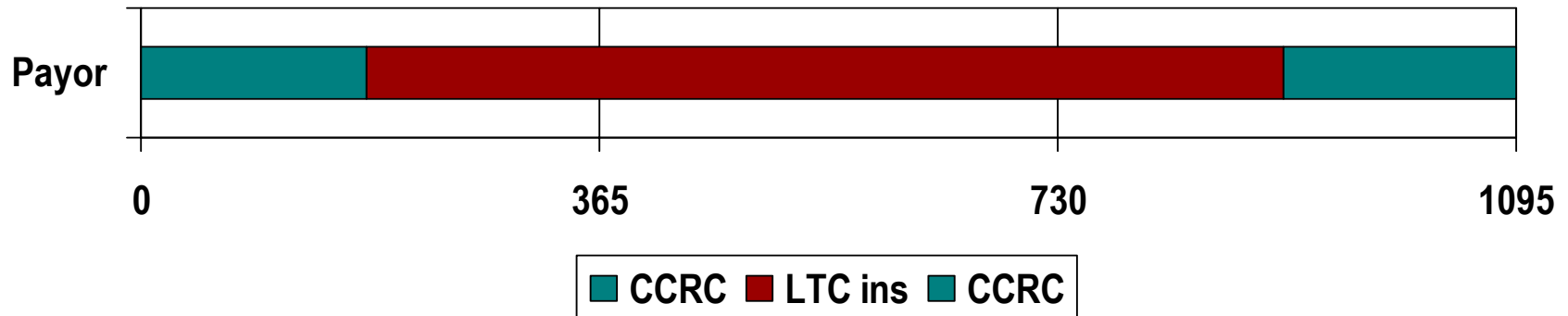
50% Refundable; Age 80-84



Flexible Entrance Fee/Monthly Fee Combinations

- Residents want a fee structure to match their net worth and income streams
- Exchange entrance fee/monthly fee payments
(example: \$100 monthly fee = \$10,000 entrance fee)
- CCRC wants to collect equivalent amounts over resident's lifetime and cover expected costs of care

Long-Term Care Insurance Coordination



- LTC ins: no coverage for temporary stays, elimination period before coverage begins on permanent stays, limited benefit periods
- CCRC contract can provide health care benefit to fill in coverage

Risk-Based Pricing



Fee variations based on:

- Age (younger live longer)
- Gender (females live longer and use more health care than males)
- Marital Status (couples live longer and use less health care than two singles)
- Health Status (assessment of individual needs)

Impact on Financials



- Need a model to project impact of contract changes on financial ratios
- Can CCRC sustain any negative short-term impact?
- Educate internal & external stakeholders about future expectations