

10 Questions About Financial Risks for CCRC Residents



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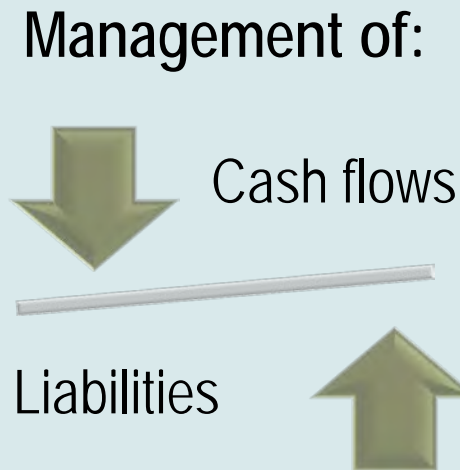
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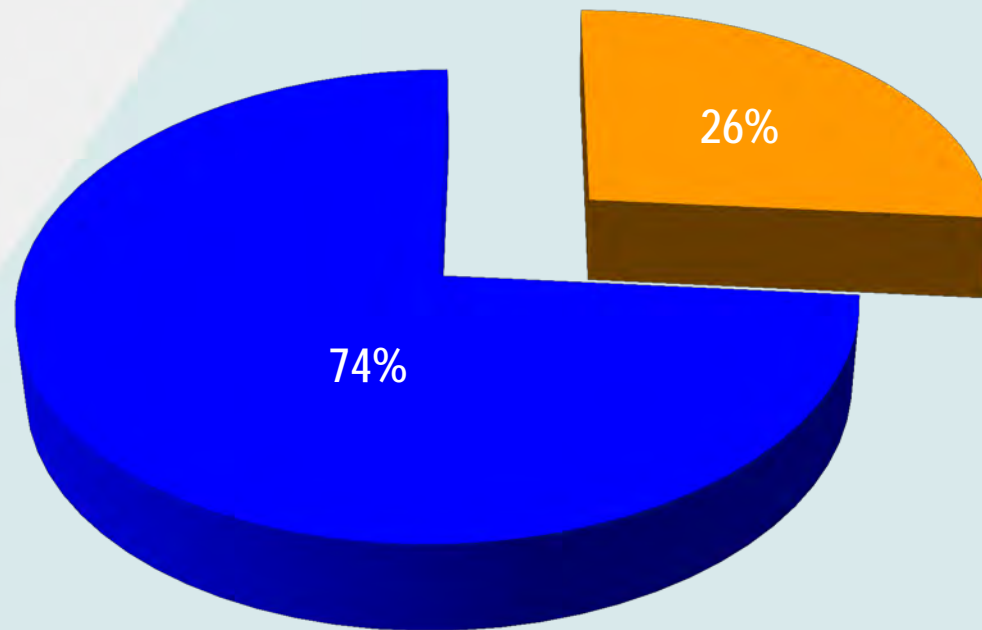
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Discussion Outline

1. **Who are AV Powell & Associates?**
2. Financial questions every resident should ask
3. Summary and Q & A

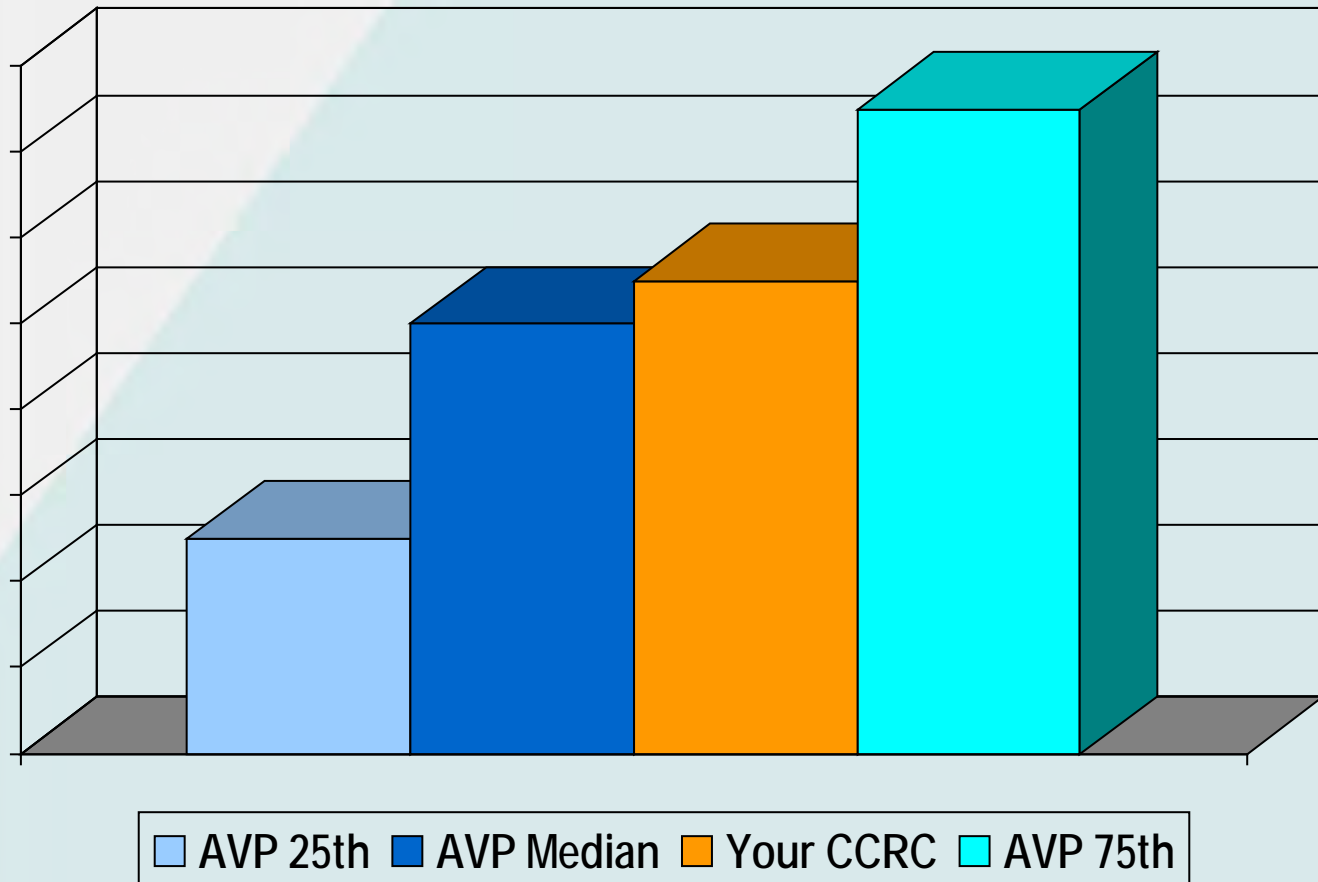


Since 1979 Consultants to 1/4th of Industry



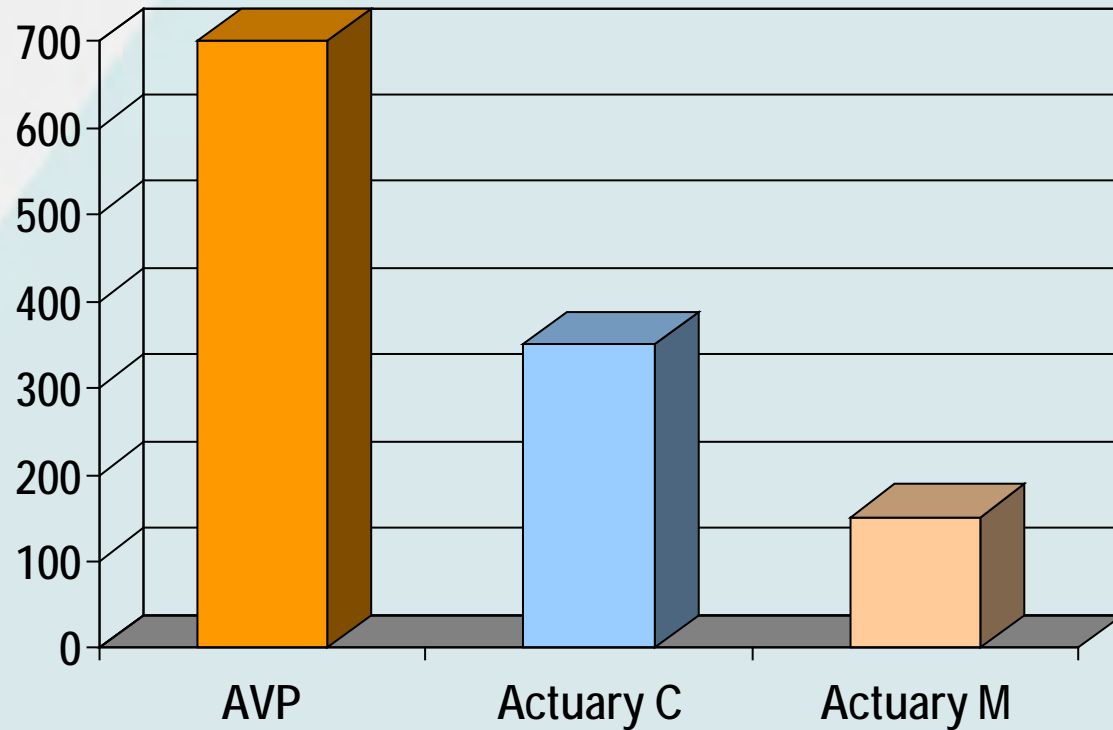
■ AVP clients ■ Other CCRCs

Actuarial Benchmarks based on 125+ CCRCs Annually



Largest CCRC Database

Thousands



Corporate Accomplishments

1. Actuary for Maryland Department on Aging
2. Actuary designated 1st choice for CaDSS reviews
3. Annually conduct 70% of CCRC actuarial studies
4. Educators at LeadingAge/Ziegler for past 30 years
5. A2Z—1st national CCRC benchmarking database

Project Directors

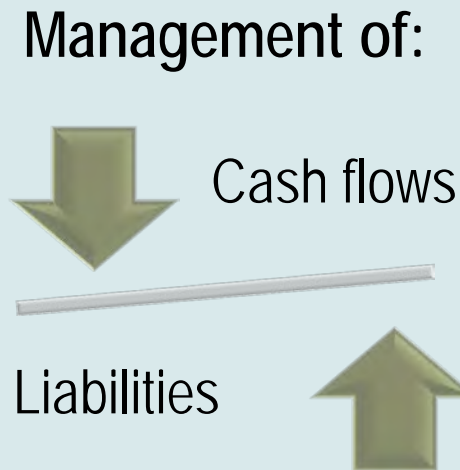
1. Three CARF Financial Advisory Panel members
2. Three actuaries; two CPAs
3. CFO for three CCRCs
4. 2x Chair of actuarial standards CCRC committee
5. Chair of AICPA CCRC audit guide committee

Innovator of Software Tools

1. FAST entry fee amortization; 200 users
2. FINAID for financial screening; 100 licenses
3. FORCAST—actuarial projection software;
150+ organizations use for annual updates
4. Software 100% developed and supported by us

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1. Who are AV Powell & Associates?
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Issues that Actuaries Address (1)

1. Is lifecare economically viable?
2. What is the "best" CCRC contract?
3. How likely am I to outlive my financial resources?
4. Can I retire from inflation?
5. What are reasonable expectations for future fees?



1. 2.13.09 request by WI Senator Kohl
2. US Government Accountability Office study
 - a. Define CCRC financial structures
 - b. Assess adequacy of regulation regarding solvency
 - c. Identify best practices for minimizing risks

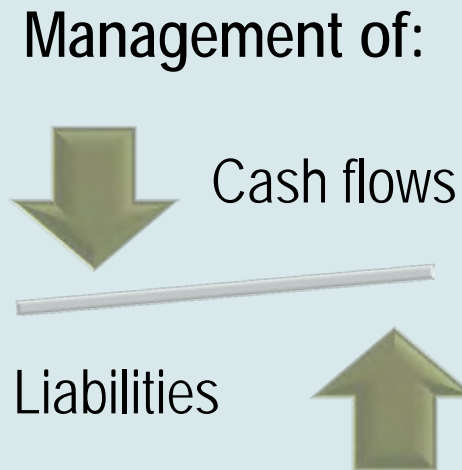


1. CCRCs face financial risks
2. "Disparate state regulations"
3. Complex financial evaluation
4. Minimum reserves
 - a. 12 months P&I
 - b. 60 days operating expense
 - c. 12 months repair and replacement
5. Periodic actuarial studies

Lifecare is Viable, but ...

1. How do you define solvency?

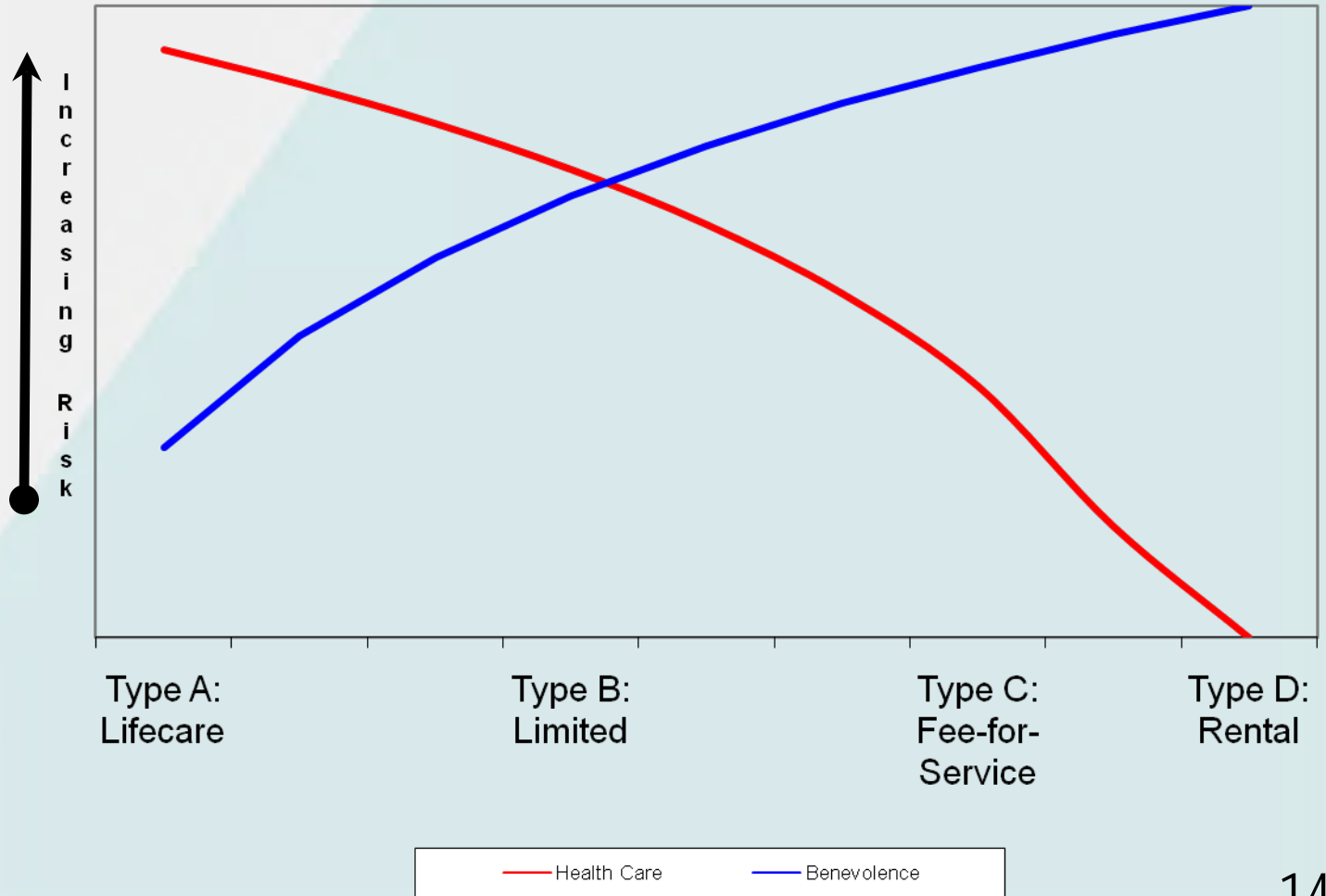
- ✓ Pay-as-go social security funding, or
- ✓ Defined benefit ERISA funding, i.e., ASOP#3



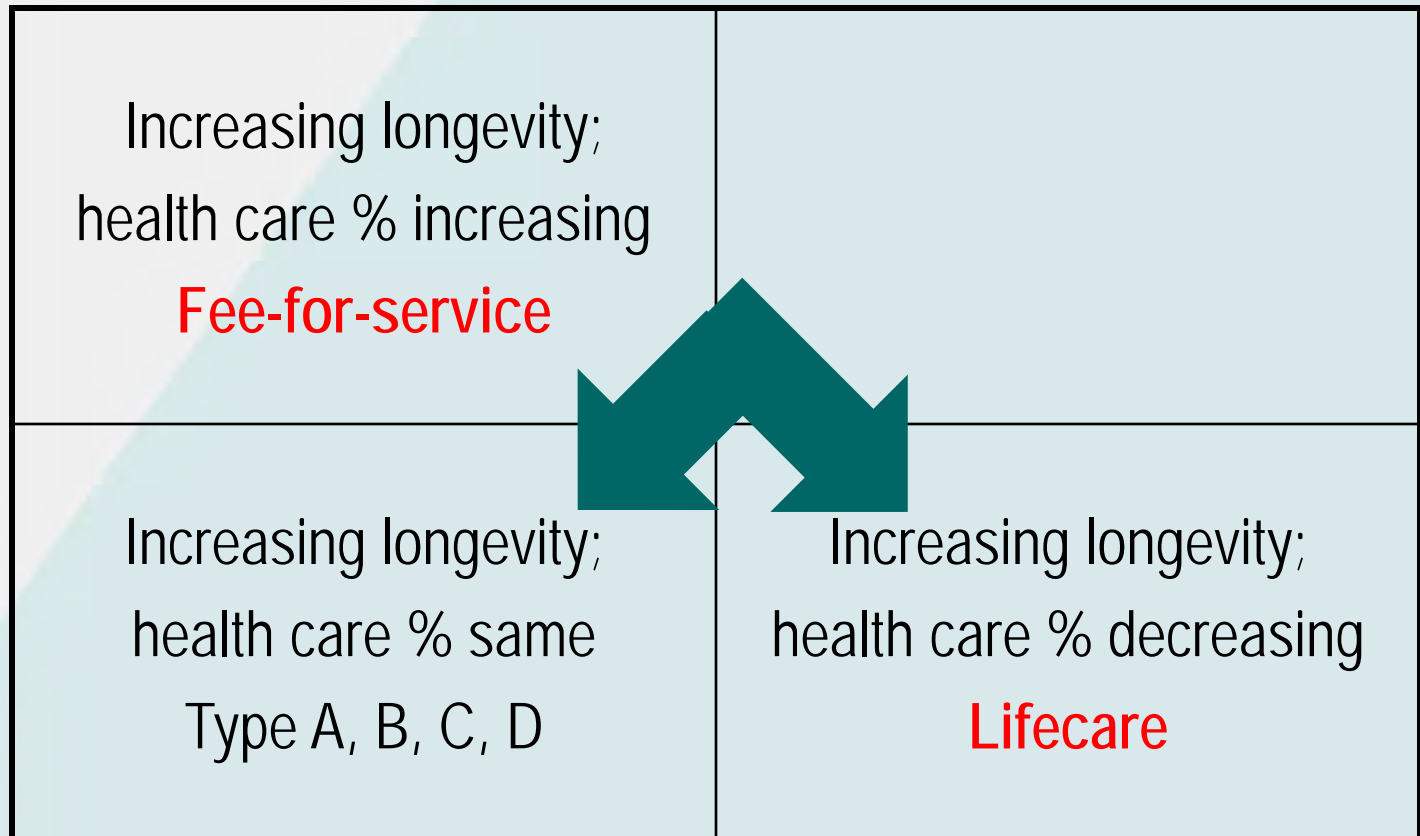
Issues that Actuaries Address (2)

1. Is lifecare economically viable?
2. What is the "best" CCRC contract?
3. How likely am I to outlive my financial resources?
4. Can I retire from inflation?
5. What are reasonable expectations for future fees?

All Contracts Have Risk!



Future Expectations Influence Your Contract Risk Profile

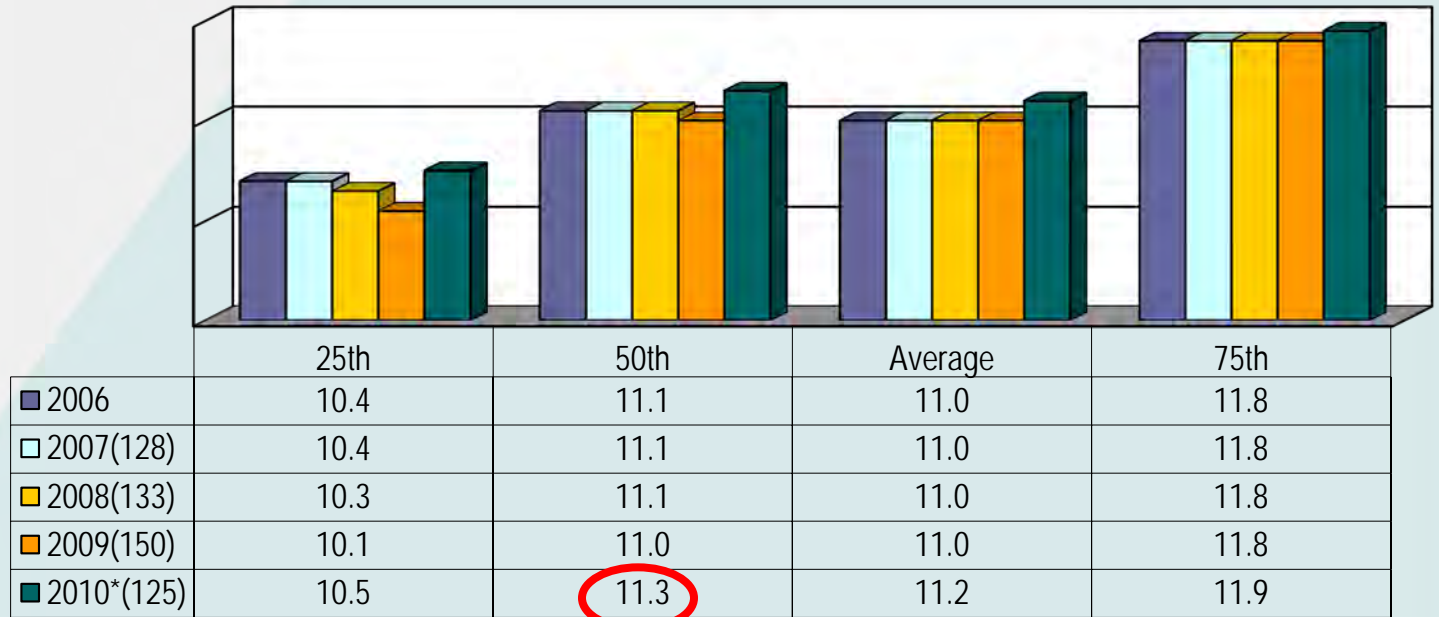


Issues that Actuaries Address (3)

1. Is lifecare economically viable?
2. What is the "best" CCRC contract?
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5. What are reasonable expectations for future fees?

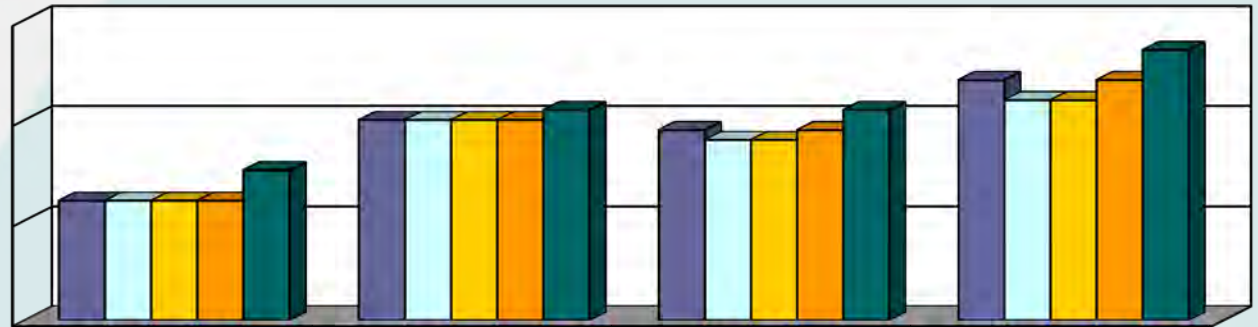
Females Live about 2 Years Longer than General Population

1 in 2 will live 11 yrs; 1 in 4, 16 yrs



Males Live about 6 Months Longer than General Population

1 in 2 will live 8 yrs; 1 in 4, 12 yrs

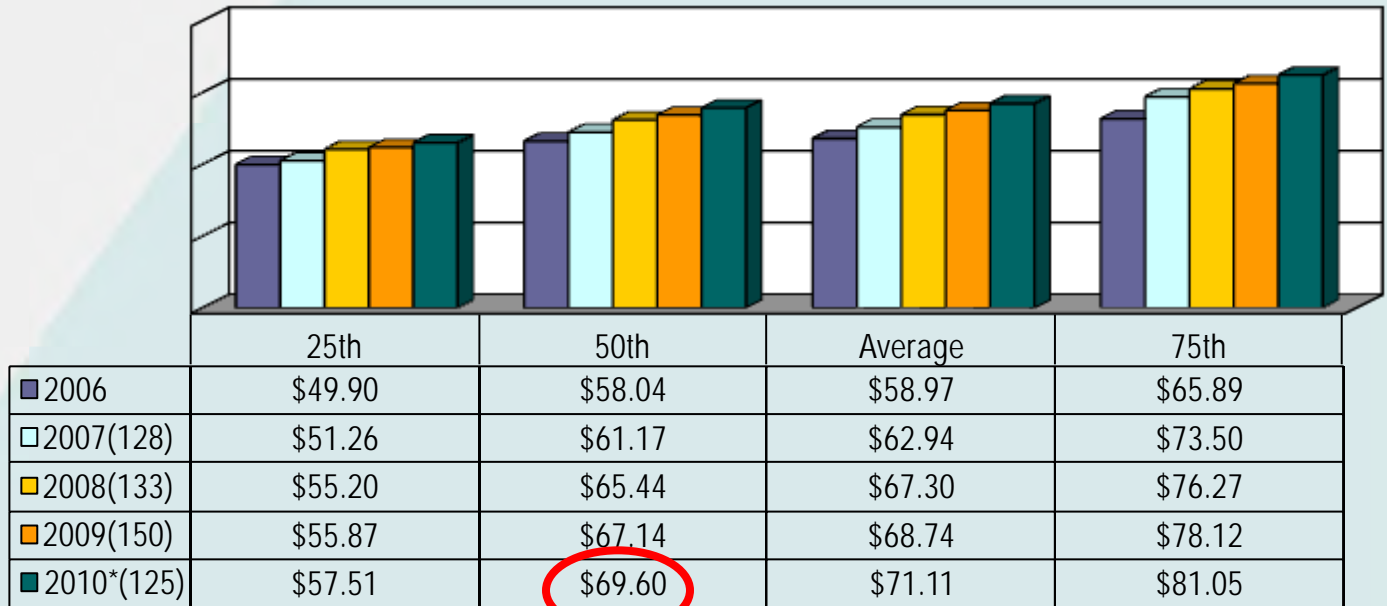


	25th	50th	Average	75th
■ 2006	7.7	8.5	8.4	8.9
□ 2007(128)	7.7	8.5	8.3	8.7
■ 2008(133)	7.7	8.5	8.3	8.7
■ 2009(150)	7.7	8.5	8.4	8.9
■ 2010*(125)	8.0	8.6	8.6	9.2

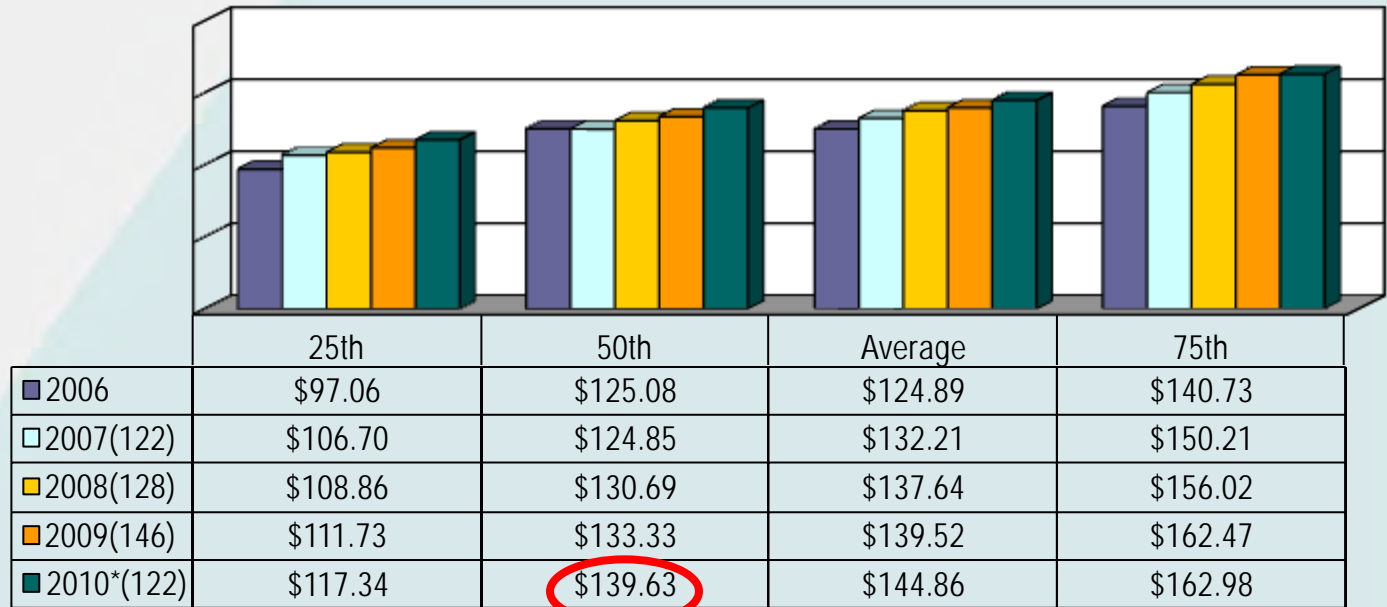
Issues that Actuaries Address (4)

1. Is lifecare economically viable?
2. What is the "best" CCRC contract?
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5. What are reasonable expectations for future fees?

ILU Expenses up 3.7% (Same-site '10-'09 up 2.5%)

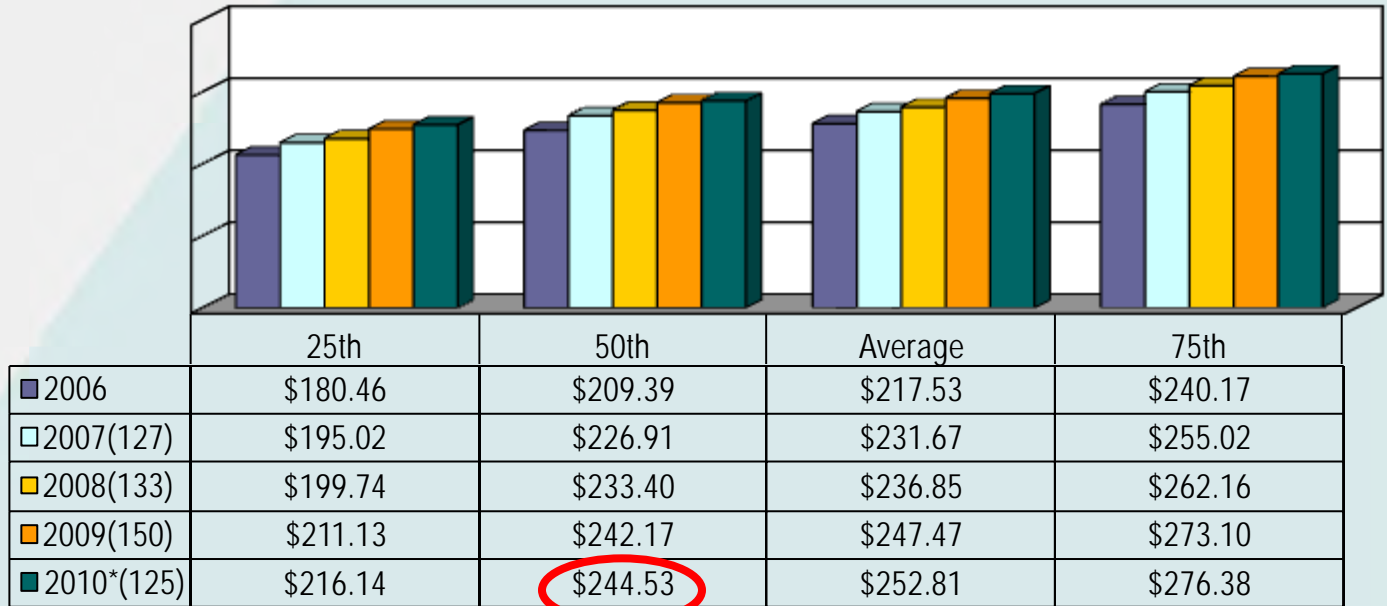


ALU Expenses up 4.7% (Same-site '10- '09 constant)

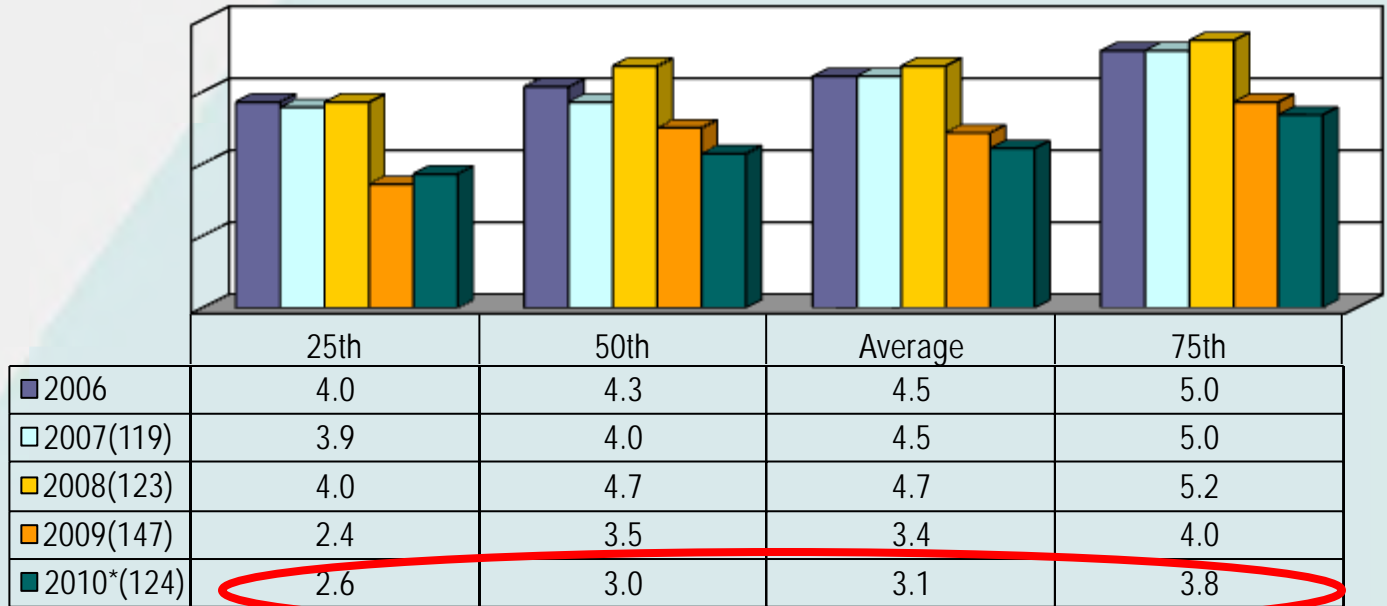


NCU Expenses up 1.0%

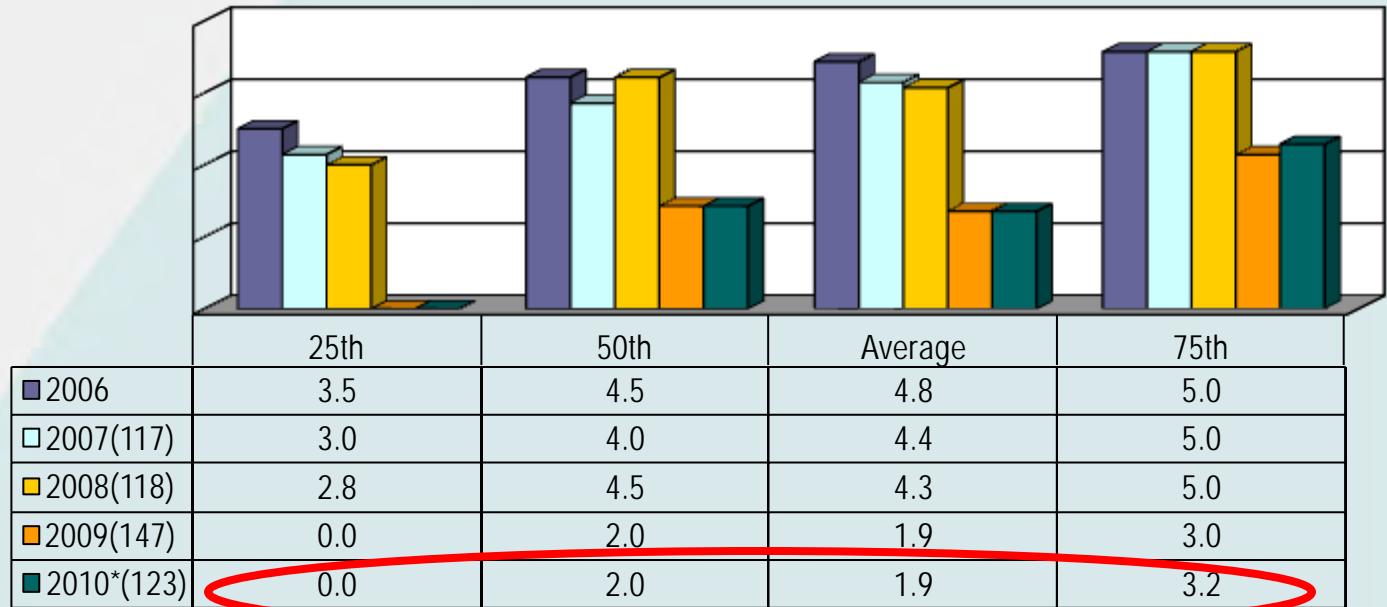
(Same-site '10-'09 up 2.0%)



Monthly Fees Increased 2.5% to 4%



Entry Fees Increased 0% to 3%



Issues that Actuaries Address (5)

1. Is lifecare economically viable?
2. What is the "best" CCRC contract?
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5. What are reasonable expectations for future fees?

What is Your Pricing Philosophy?

If lifetime costs = \$500,000

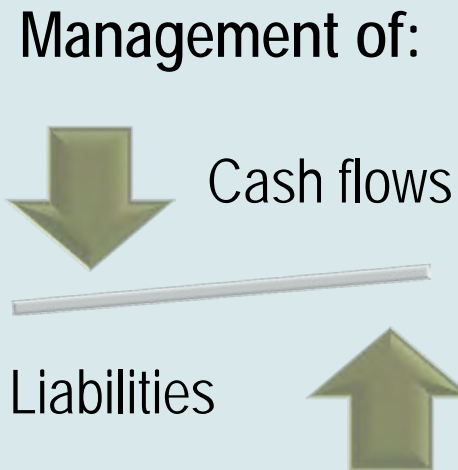
Should you collect < \$450,000

or

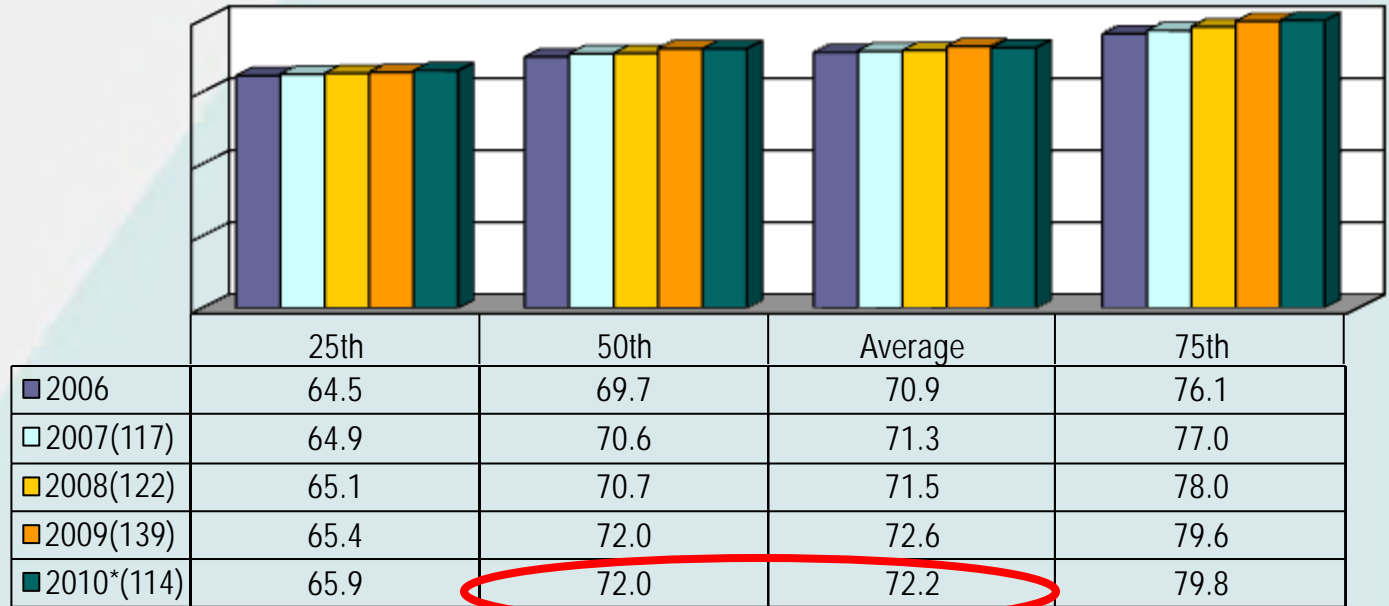
\$550,000 or more

Fundamental Pricing Policy

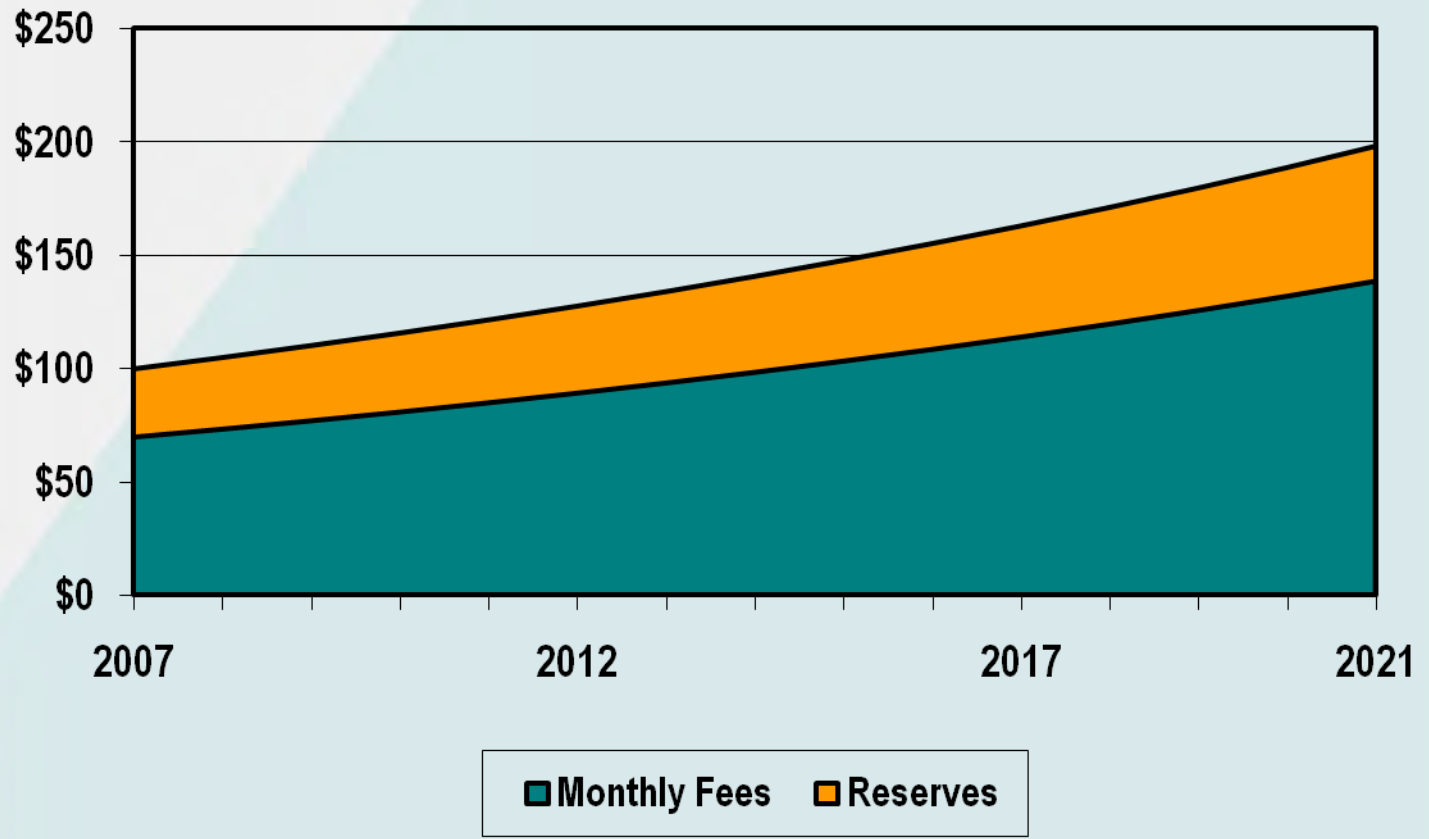
1. Pay-as-go social security funding
OR
2. Defined benefit ERISA funding, i.e., ASOP#3



More than 30% of Costs are Prepaid



Prepayment and Inflation Drives Reserve Accumulation

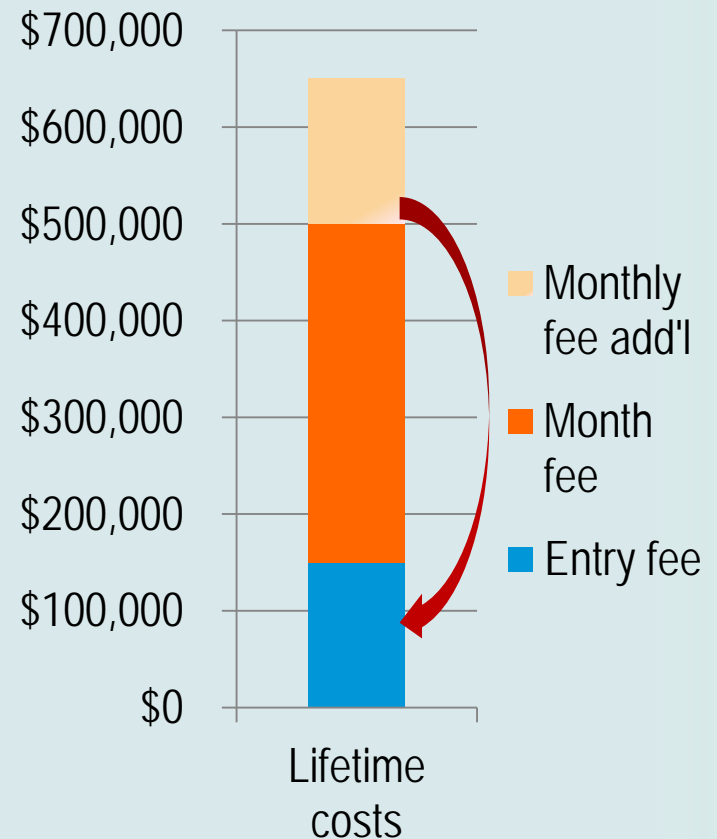


Issues that Actuaries Address (6)

6. Are refundable fees worth the risk?
7. How should solvency be measured?
8. How have actuarially sound CCRCs fared?
9. Does financial regulation work?
10. Can I assess relative financial risk among CCRCs?

Does FFS Reduce Resident Risk?

1. Higher probability of depleting resources
2. Refund resale risk transferred to resident
3. Reality is unregulated whole life insurance



Issues that Actuaries Address (7)

6. Are refundable fees worth the risk?
7. How should solvency be measured?
8. How have actuarially sound CCRCs fared?
9. Does financial regulation work?
10. Can I assess relative financial risk among CCRCs?

The SOLVENCY Criteria

1. Current reserves funded
2. New entrant fees adequate
3. Meet debt covenants
4. Unified funded status

Satisfactory Actuarial
Balance (ASOP #3)



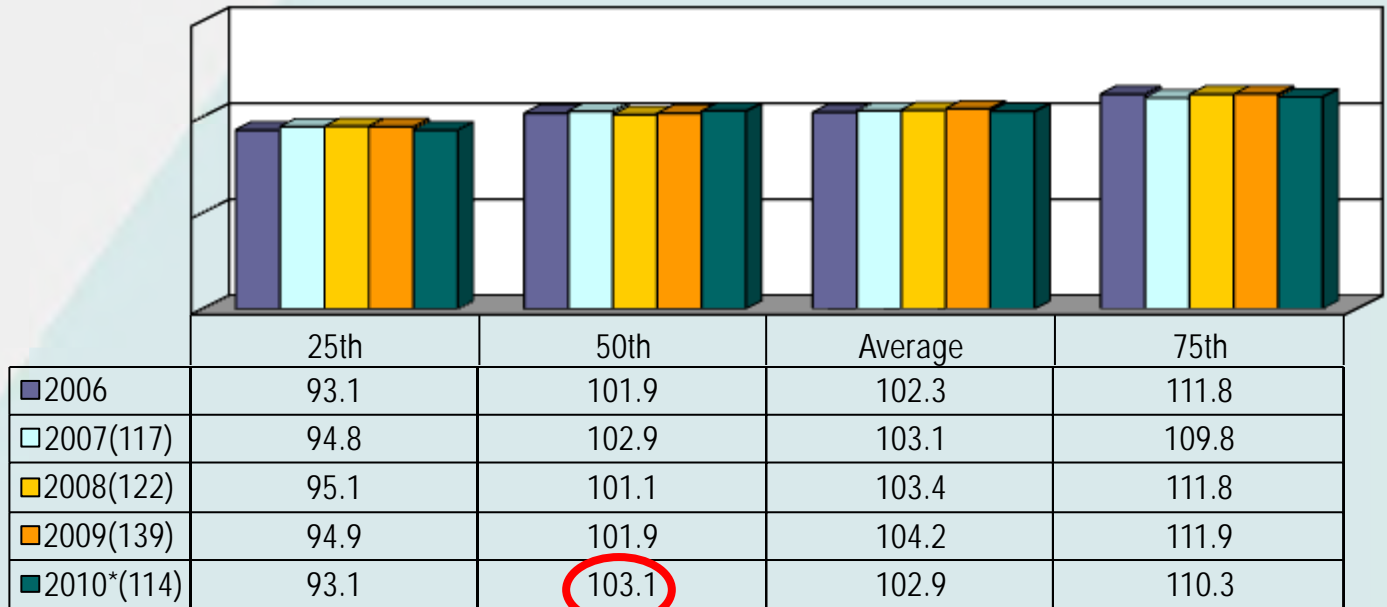
What If Don't Adopt ASOP #3?

1. Doesn't meet regulation in some states
2. Won't necessarily run out of cash
3. Ponzi-like fee structure
4. Legacy passed on to future Boards
5. Not meeting fiduciary responsibility?
6. Unable to avoid potential financial crisis

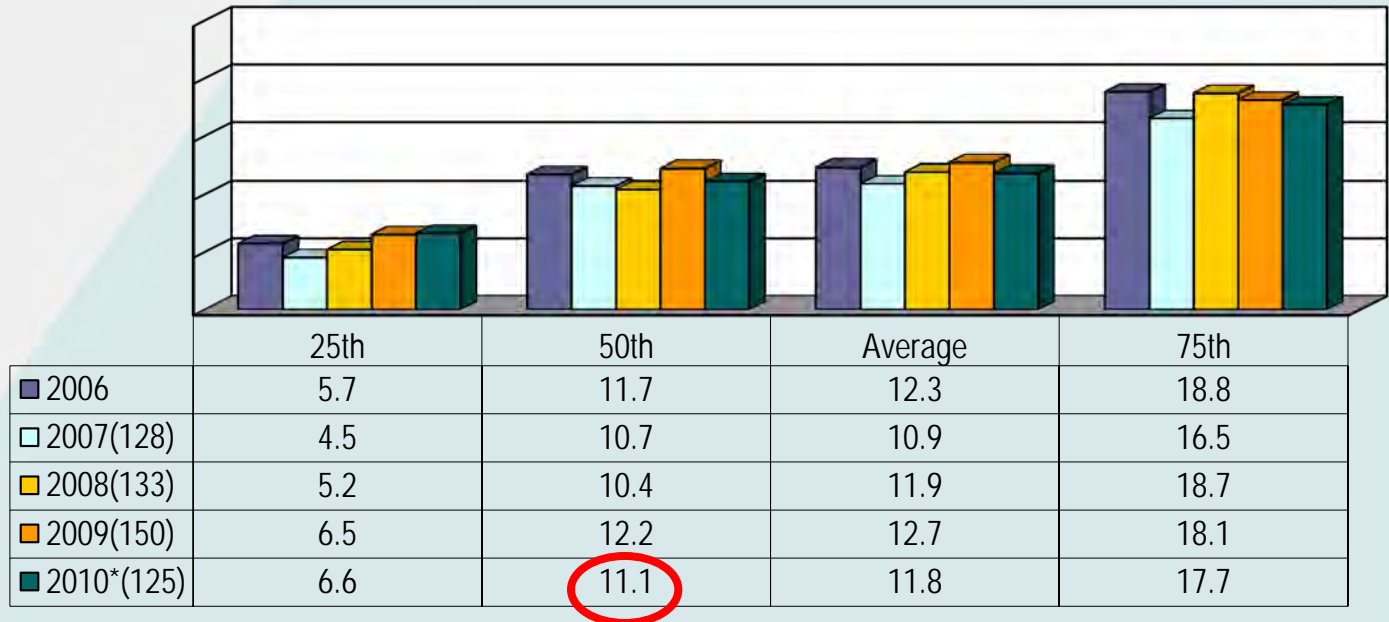
Issues that Actuaries Address (8)

6. Are refundable fees worth the risk?
7. How should solvency be measured?
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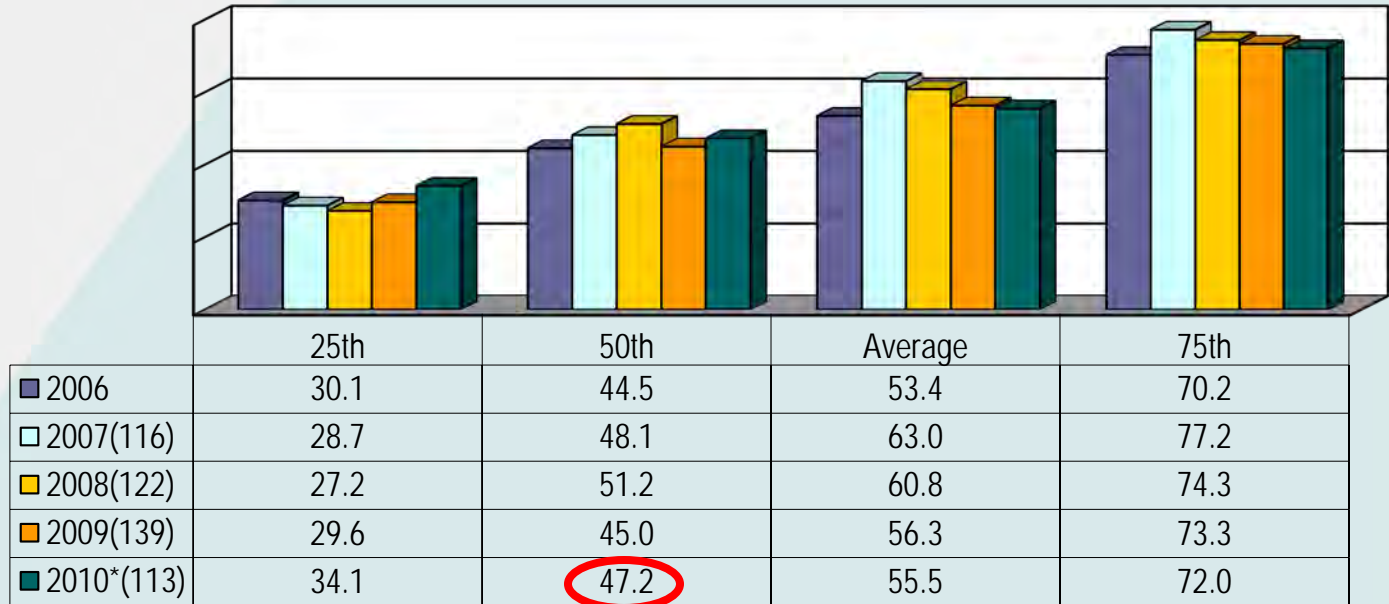
Actuarial Funding is Marketable (Same-site '10-'09 up 1.2%)



Typical Fees Show 11% Surplus (Same-site '10-'09 down 1.1%)



Nearly 50% of Reserves are Liquid



Issues that Actuaries Address (9)

6. Are refundable fees worth the risk?
7. How should solvency be measured?
8. How have actuarially sound CCRCs fared?
9. Does financial regulation work?
10. Can I assess relative financial risk among CCRCs?

Can Regulation Be Effective?

1. Can't legislate full occupancy
2. Allows some entry fee contracts to opt out
3. Designating as "challenged" exacerbates issues
4. Conflicts with GAAP interpretations
5. Financing institutions already "regulate" cash

Issues that Actuaries Address (10)

6. Are refundable fees worth the risk?
7. How should solvency be measured?
8. How have actuarially sound CCRCs fared?
9. Does financial regulation work?
10. Can I assess relative financial risk among CCRCs?

Can You Quantify CCRC Financial Risks Credibly & Reliably?

1. Assumptions, Assumptions, Assumptions
2. Trends in ILU occupancy
3. Relationship between revenues, expenses, and earnings
4. Plans for capital renovations
5. Greenfield and rebuilding occupancy



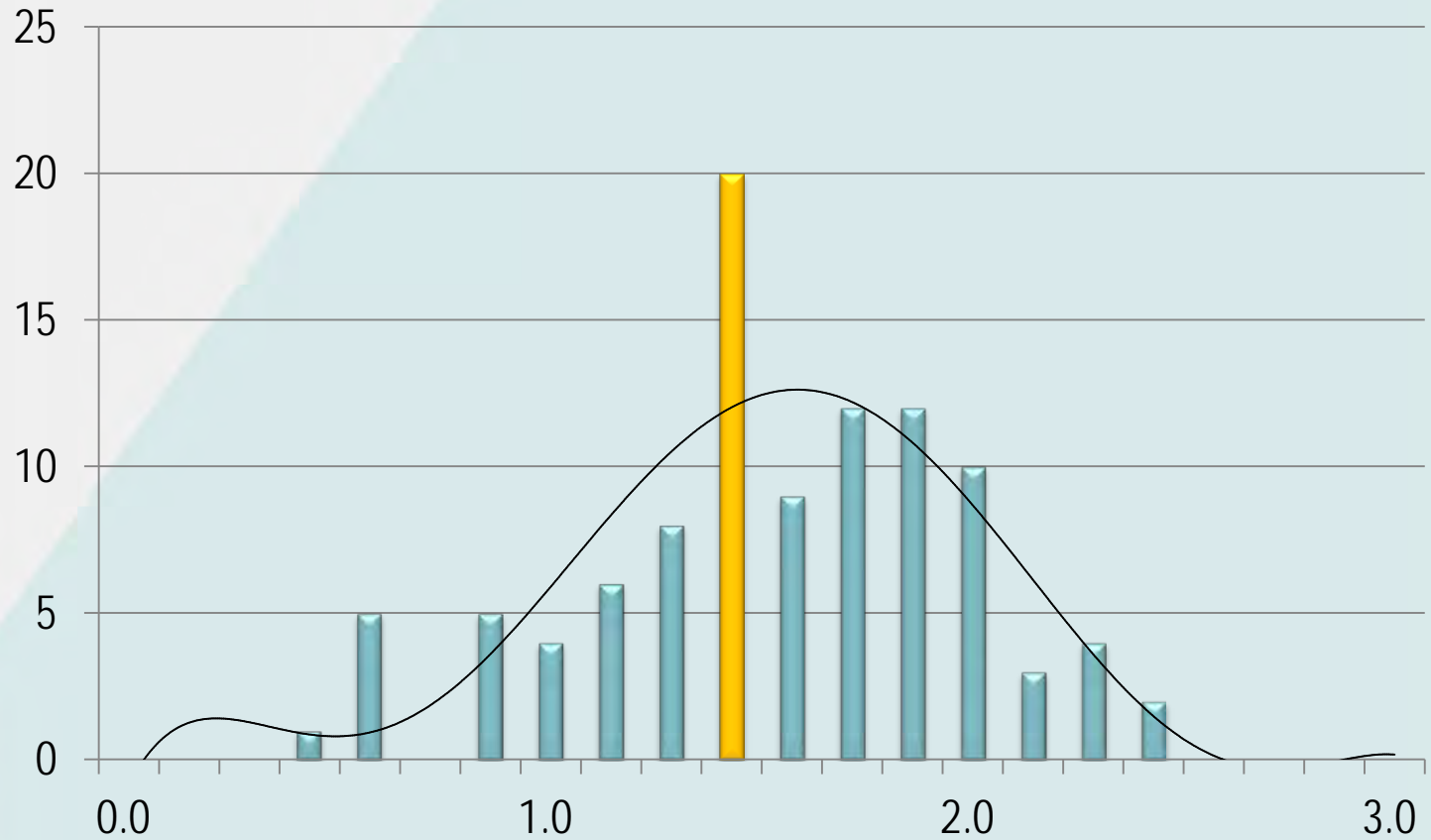
Actuarial CCRC Risk Metric Score

7 Factors Score = 1.1

	High (3)	Moderate (2)	Low (1)	Mitigated (0)
Funding philosophy				✓
Refundable entry fee	✓			
Occupancy 3-yr experience				✓
Occupancy projection			✓	
ASOP#3 Rev-Exp relationship			✓	
Exp-Earnings relationship		✓		
Capital plans			✓	

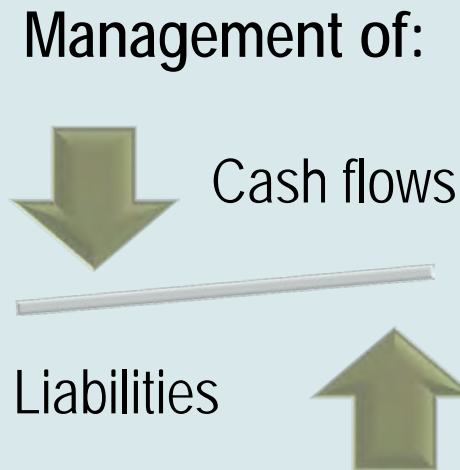
ARMS™ range 0.0 to 3.0

“prototype” Median is 1.4



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AVP's Alternative CCRC Financial Regulation

1. Industry accept funding liabilities, not cash flows
2. ASOP #3 not required for all entry fee contracts, but highly recommended
3. Purchase insurance policies for refundable fees
4. Provide ARMS™ to compare relative risk

Implementation Challenges

1. Consumer education
2. Universal stakeholder buy-in on approach
3. Perceived value of additional costs
4. Definitions of:
 - ✓ What constitutes an entry fee
 - ✓ Minimum number of contracts for application