CCRC Financial Aid Risks

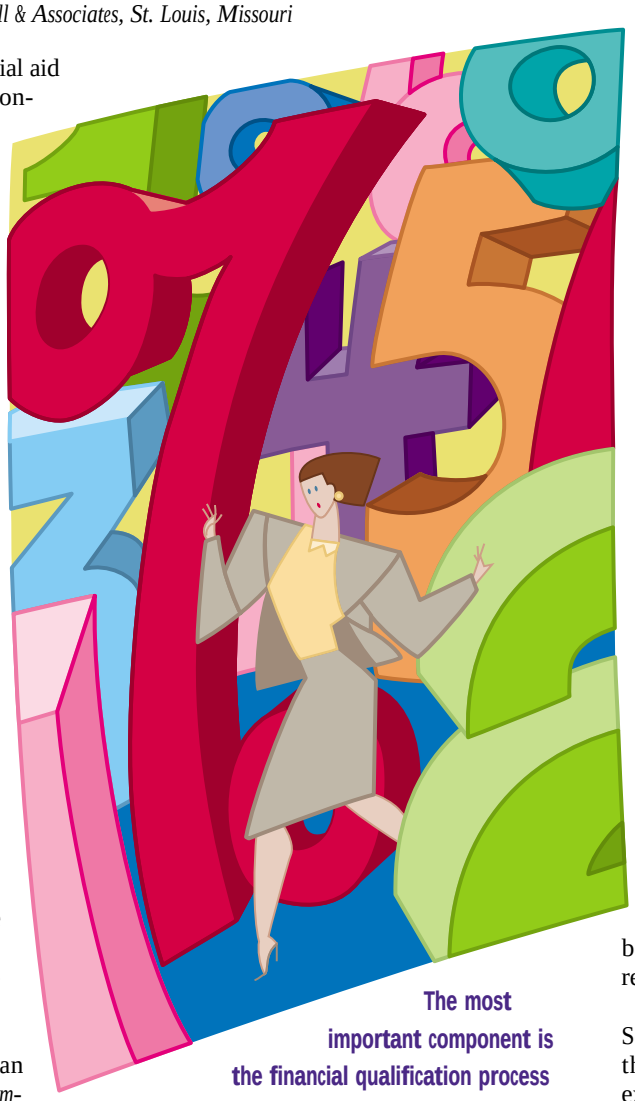
By Kathleen Harris, Director, A.V. Powell & Associates, St. Louis, Missouri

How do you manage the financial aid risks associated with CCRC contract holders? Once residents move into a CCRC, they generally will not be forced out if they are unable to pay their monthly fees. Non-profit CCRCs are bound by their tax-exempt status to continue to provide care to residents who become indigent. For-profit CCRCs are often bound by goodwill standards to continue to provide care.

Most CCRC contracts specify that the community can terminate the contract if the resident has willfully mismanaged his assets. Contract provisions of this nature are an important component in managing financial aid risk. Such provisions help protect against spend-down practices, although they may be difficult to enforce.

The most important component, however, is the financial qualification process used to determine eligibility before a resident enters the community. At many CCRCs, financial screening consists of rule-of-thumb qualifications such as, "assets greater than two times the entrance fee and income greater than two times the monthly fee." *This simplified approach may suffice for a Type A contract where fees don't increase when the health center is utilized, but it won't work for an unbundled (Type B or C) contract.* A more conservative rule-of-thumb approach for an unbundled contract would be to qualify a prospective resident based on income relative to the highest level of fees—but this test may be too stringent and result in disqualifying too many potential residents.

To project the potential financial aid liability for a resident most accurately, the CCRC must be able to estimate the timing and duration of stays at each level of fees. For most communities, this means an estimate of life expectancy in independent living, assisted living, and nursing care. With this knowledge, fees at each level of care can be inflated to the appropriate time period, and then compared to income.



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Other expenses must be considered in addition to monthly fees at each level of care. A personal allowance must be calculated for each potential resident that includes spending for insurance premiums; food, utilities and other items not covered in the CCRC contract; ancillary medical services; and other personal expenses, such as clothes, gifts, and travel. Other sources of fee payments must also be considered along with income, such as long-term care insurance and Medicaid reimbursement.

Residents' assets (cash and investments) should be drawn down to make up any shortfall between income and expenses, until the assets are depleted. After assets are depleted, the difference between income and expenses is the amount needed in subsidy. The stream of subsidy payments can be discounted to a present value and then assessed in terms of qualification standards.

After the present value of the subsidy is determined, the community needs to apply its standard criterion for financial qualification. The criterion should reflect the community's goals and philosophy relative to charitable care. It may be necessary to assess the financial aid risk already incurred relative to existing residents, and compare that value to the value of benevolence funds. Then targets can be determined for the maximum amount of financial aid liability that can be accepted in a given year.

In order to assess the financial aid risk on current residents, the CCRC needs updated personal financial data. CCRC contracts should specify that the community has the right to obtain periodic updates regarding resident finances.

Financial aid liability is becoming more of an issue for CCRCs for several reasons. First, CCRCs may need to demonstrate a potential financial aid liability to justify their tax-exempt status. They may also be required to demonstrate that they use reasonable and objective criterion.

Second, residents may be living longer than their life expectancy at entry. Life expectancy reflects the average length of stay, so some residents will live longer than the life expectancy. Therefore, using life expectancy as the measure of length of stay may underestimate the risk. Assumptions for longer lengths of stay should also be tested in order to assess the impact on financial aid liability.

Finally, it is important to consider that while unbundled contracts have less health care risk, they present more financial aid risk. The old "rules-of-thumb" probably are not good enough in today's environment.

Kathleen Harris has conducted over 100 CCRC actuarial studies since 1991. She is responsible for designing and testing actuarial software, and providing training and support to software users.