

3rd Annual FORCE D&O Leadership Conference

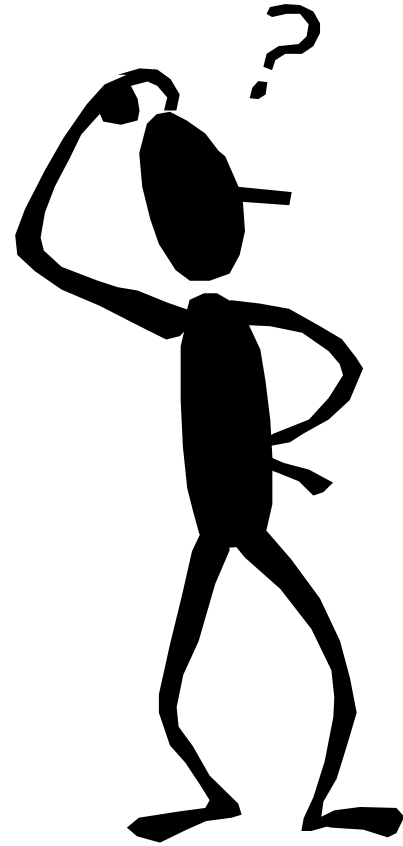
The Future of Stand-Alone CCRCs

by

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Futurism



CCRC Financial Tune-up



- Routine maintenance
- Re-engineering
- Dinosaurs

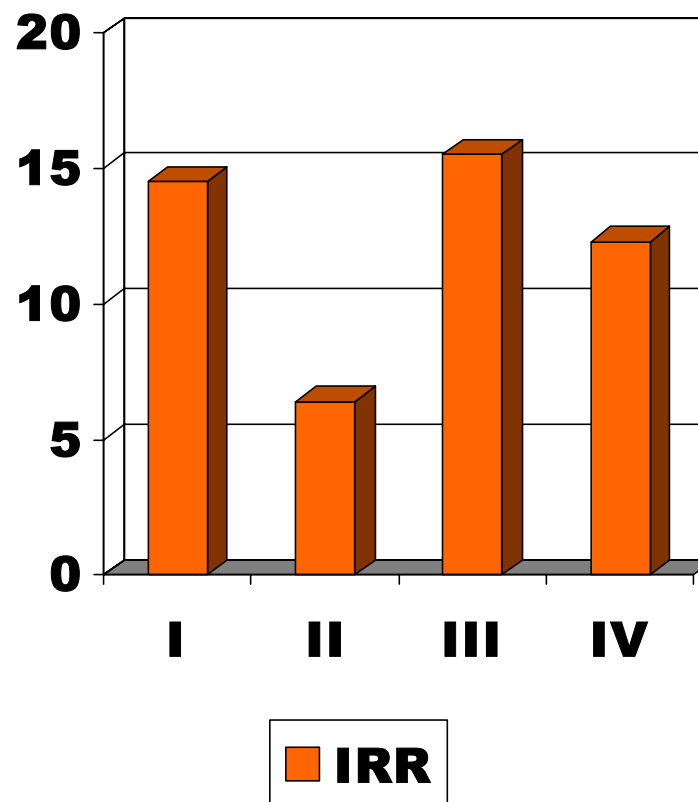
Routine Maintenance



- Financial modeling
- Marketing audits
- Risk management of contract provisions
 - Refundable fees
 - Long-term care insurance

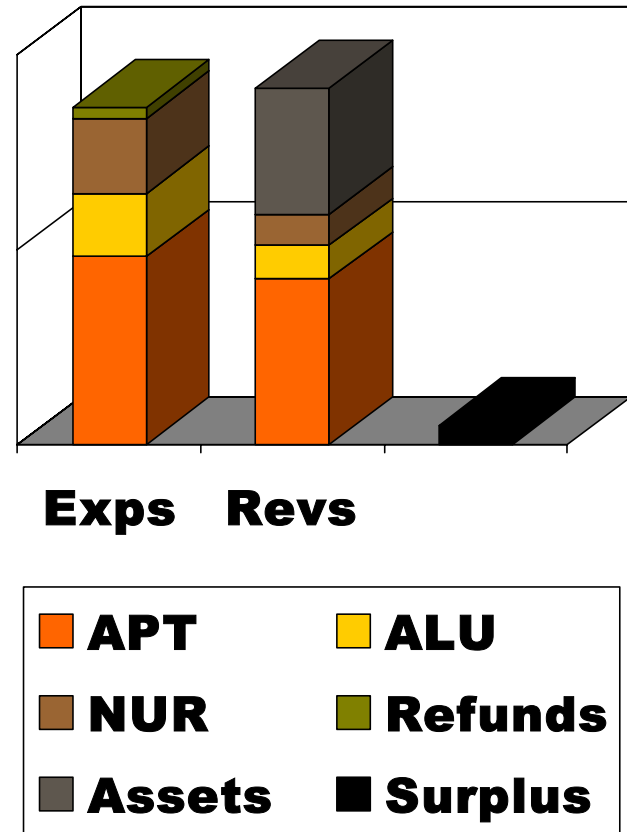
Financial Modeling: Cash Flow Projections

- Reserve accumulations
- Bond covenants
 - Debt service coverage
 - Cash-to-debt
- Financial ratios
- IRR calculations for evaluating expansions



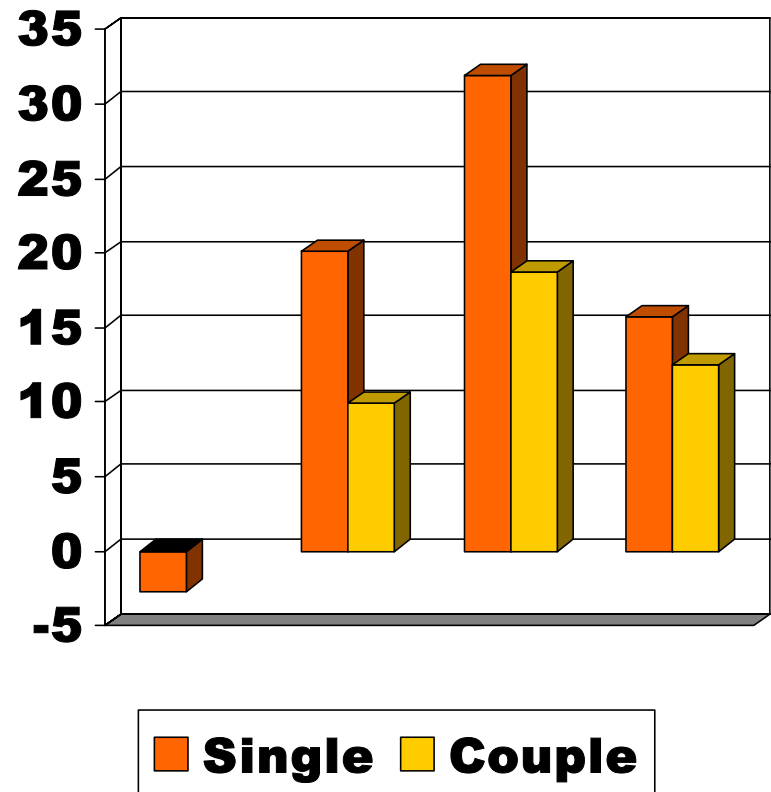
Financial Modeling: Actuarial Balance Sheet

- Funded status is a barometer of health
- Actuarial ratio is a indicator of risk
- Quantifies how much cash should a CCRC accumulate



Financial Modeling: New Entrant Pricing

- Requires judgments about allocations of costs by level of care, unit size, and number of residents and units
- Determines fee adequacy
- Reflects equity in fees



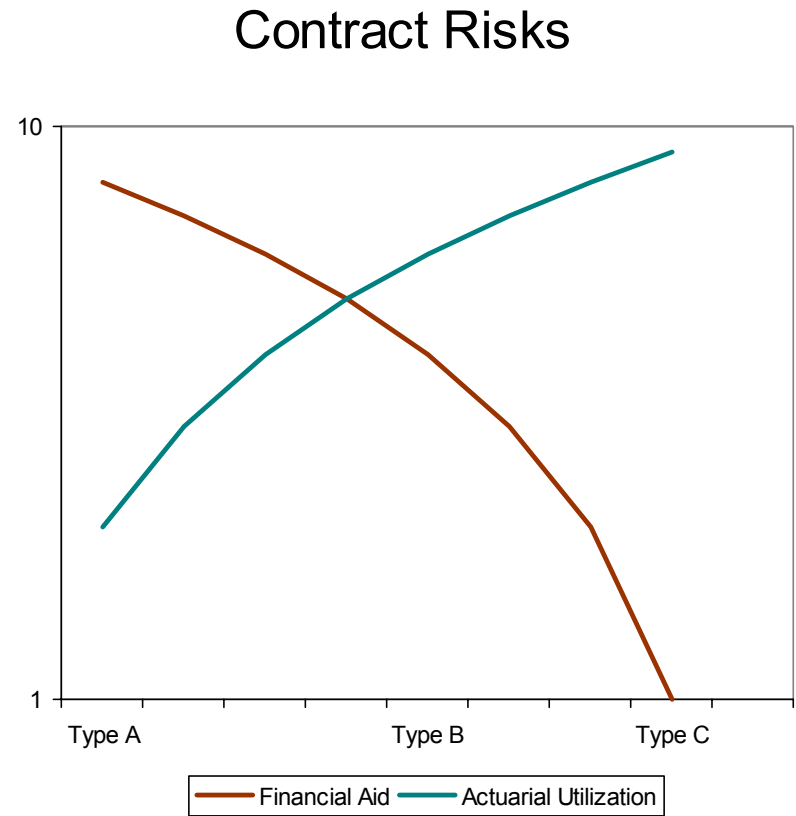
Market Assessment



- Competition audit
- Focus groups
- Current resident opinions
- Heuristic testing

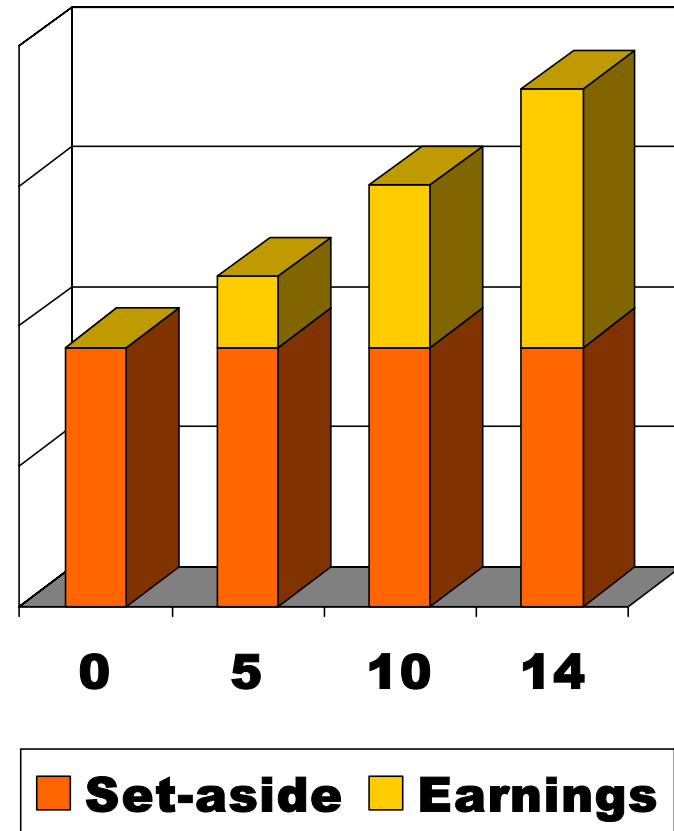
Risk Management: Lifecare Contracts

- All contract types have some form of risk
- Type A maximize actuarial risk, but minimize charity
- Type C minimize actuarial risk, but maximize charity



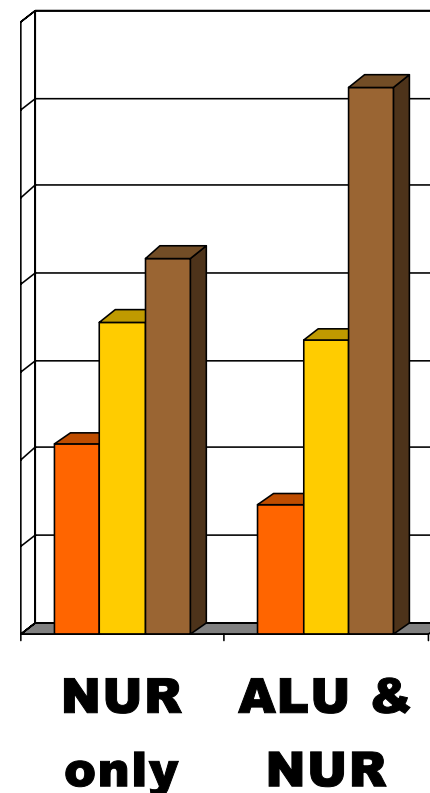
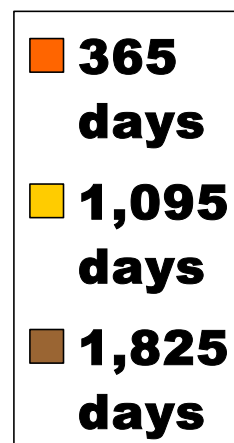
Risk Management: Refundable Fees

- Unlimited number of refund options
- Current practice often understates spread between refundable and non-refundable fees



Risk Management: Long-Term Care Insurance

- Residents want credits to money fees for LTC insurance
- No standard LTC provisions
- Design CCRC contracts to wrap around elimination period



Re-engineering



- Operational review and benchmarking
- Flexible contract designs
- Resident assessments
- 3rd generation actuarial models

Operational Reviews



- Site visit
- Benchmarking
- Best practices
- Commitment of management team
 - Willingness to be introspective
 - Willingness to change

Benchmarking

- Challenge in defining comparative CCRCs
 - Number of eligible facilities
 - Collecting comprehensive data
- At best, benchmarking identifies areas for further empirical analysis

Flexible Contract Designs

■ Current variations

- Unit type
- Number of occupants
- Changes in living status
- Return of "equity"

■ Future variations

- Age and gender
- Health status
- Life style
- Diagnosis
- Resident designed funding

Resident Assessments: Health & Lifestyle Review

- Part of a unified program of assessment, research, and health promotion
- Potential to be used for resident underwriting for appropriate contract risks
- HLR screenings include: vision, hearing, incontinence, nutrition, home environment, social support, mental status, mobility, self care, and chronicity

Resident Assessments: SF-36™



- Developed by John Ware for RAND Corp
- Self administered
- Predicts health care usage
- Norms based on military population

SF-36™

Eight basic measures

■ Physical component

- Physical functioning
- Role physical
- Bodily pain
- General health
- Vitality

■ Mental component

- Social functioning
- Role emotional
- Mental Health

3rd Generation Actuarial Data Requirements

■ Demographic data

- Name
- Entry date
- Birth date
- Fees

■ Transition data

- Last assessment date
- Gatekeeper
- Contract type
- Status

■ Assessments

- ADLs
- IADLs
- Cognitive impairments
- Diagnosis

■ Care utilization

- Home care
- Tray service
- Assisted living
- Nursing care

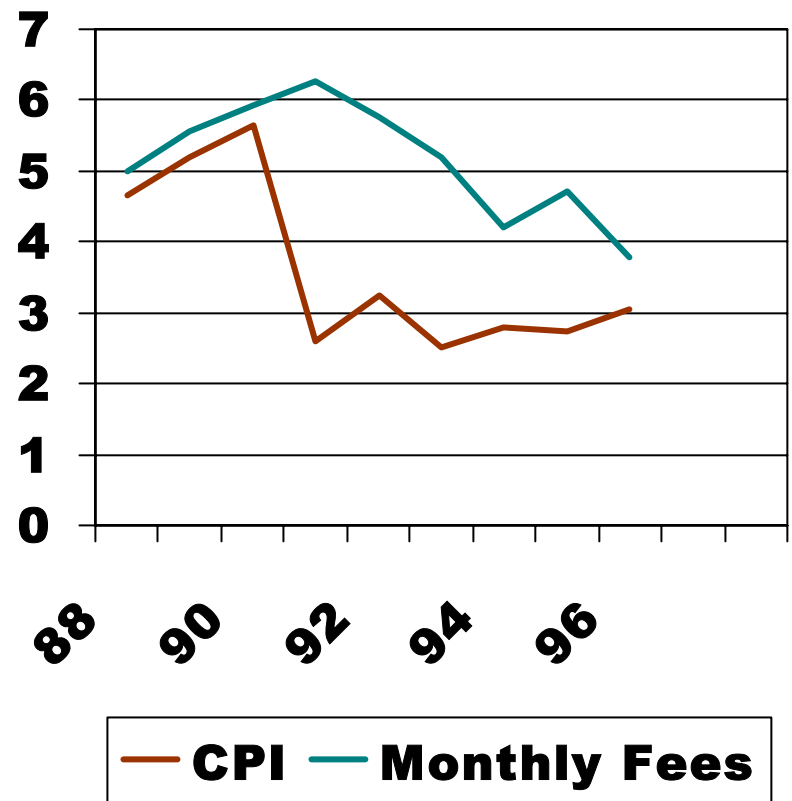
Dinosaurs



- Single contract community
- Non-refundable fees after 12 months
- Inflation-constrained monthly fees
- Mobility restrictions for admission to ILUs
- Isolation from competitive pressures

Inflation-constrained Monthly Fees

- Some older contracts include this provision
- Appropriate measure is your internal budgeted increases
- If you were to compare with a CPI, should use medical services



Mobility Restrictions for Admission to ILUs



- Will the American Disabilities Act and Fair Housing Act eliminate CCRC's ability to restrict admissions to independent living for health reasons?
- One multi-facility client has been advised that use of mobility aids is not an allowable restriction

Isolation from Competitive Pressures



- Many options are now available for senior housing and health care dollars
 - Full range of retirement housing centers with various entry/monthly fee contract options
 - Long-term care insurance
 - Home care services
 - Life care at home opportunities
 - Medicare Risk HMOs

Summary



- AV Powell says...
 - The rate of change is increasing
 - If you do not grow and anticipate or adapt to changes, you place your organization's future at highest risk of catastrophe