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UNRAVELING NOM AND HOW TO IMPROVE FISCAL PERFORMANCE

PRESENTED BY

Dan Gray
President
Continuum Development Services

Amy Lampo
Chief Operating Officer
A.V. Powell & Associates

MODERATED BY

Tommy Brewer
Managing Director
Ziegler

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3: ACTUARIAL IMPLICATIONS

Amy Lampo
Chief Operating Officer
A.V. Powell & Associates

ASOP#3 CRITERIA FOR SOLVENCY

1. Are reserves adequate to meet obligations to current residents?
2. Are fees charged to new entrants adequate to cover their lifetime costs?
3. Will projected cash flows be positive and meet any bond or statutory covenants?

ASOP#3 TERMINOLOGY

Condition 1	Condition 2	Condition 3
Funded Status 100%+	Pricing Margin > 0%	Positive projected cash balances

Unified funded status "UFS" combines criteria 1+2

Satisfactory Actuarial Balance

INTERPRETING ASOP#3 REPORT

Key Actuarial Measure	12/31/2018	12/31/2017	AVP Median
Funded Status	113.2%	112.2%	104.7%
New Entrant Pricing			
Lifecare Contract	15.4%	14.9%	
50% Refundable Plan	12.5%	12.2%	
Modified Contract	14.0%	13.5%	
Weighted Average	15.4%	14.9%	11.8%
10-Year Reserve Increase Factor	2.13	2.03	2.40
Unified Funded Status	122.1%	121.8%	113.4%
Satisfactory Actuarial Balance?	Yes	Yes	
AVP Seal?	Yes	Yes	
Health Care Capacity Adequate?	Yes	Yes	

FUNDED STATUS UNDER 100%?

- Improve occupancy
- Increase fees at a higher rate than internal expense inflation
- Refinance/restructure debt
- Decrease future health care utilization

Table 4.1

Life Plan Community Actuarial Valuation Statement
As of December 31, 2018
Based on Database Census as of December 31, 2018
Survivorship Probabilities Projection Methodology

	Current Valuation	12/31/17 Valuation
(1) NET ASSETS:		
Current Assets	$ 44,796,580	$ 39,313,501
Other Assets	1,242,785	6,706,110
Actuarial Present Value of Net Fixed Assets ..	70,438,781	69,778,896
Current Liabilities	(3,023,838)	(2,796,629)
Other Liabilities	(57,642)	0
Actuarial Present Value of Long-Term Debt	(40,456,573)	(43,880,749)
Subtotal	$ 72,940,093	$ 69,121,129
(2) ACTUARIAL LIABILITIES:		
PV Independent Living Operating Expenses	$ 66,661,299	$ 69,588,417
PV Assisted Living Operating Expenses	29,479,631	26,720,996
PV Skilled Nursing Operating Expenses	40,718,747	39,389,404
PV Independent Living Capital Expenses	29,888,801	30,919,315
PV Assisted Living Capital Expenses	4,805,996	4,556,472
PV Skilled Nursing Capital Expenses	8,156,412	7,888,306
Subtotal	$ 179,710,886	$ 179,062,910
(3) ACTUARIAL ASSETS:		
PV of Monthly Revenues	$ 132,070,333	$ 133,223,324
PV of Monthly Revenue Additions	971,473	1,160,133
Subtotal.................................	$ 133,041,806	$ 134,383,457
(4) EXCESS OF ACTUARIAL LIABILITIES OVER ACTUARIAL ASSETS {(2) - (3)}:...........	$ 46,669,080	$ 44,679,453
(5) ACTUARIAL REFUND LIABILITY:	$ 2,260,457	$ 2,283,877
(6) ACTUARIAL SURPLUS (DEFICIT) {(1) - (4) - (5)}:	$ 24,010,556	$ 22,157,799
(7) FUNDED STATUS {1.0 + [(6) ÷ [(2) + (5)]]}:	113.2%	112.2%
(8) ACTUARIAL RATIO {(3) ÷ (2)}:	74.0%	75.0%
(9) LIQUID RESERVE RATIO {Liquid assets ÷ (4)+(5)}:	85.2%	90.4%

NEW ENTRANT PRICING CHALLENGES

- Deficit for typical entrant
- Different contracts not generating same surpluses
- Singles vs. couples

Table 5.1

Analysis of New Entrant Fees
for Contract Type 10 (LIFECARE CONTRACT)
Entrants to Life Plan Community

SINGLE ENTRANTS *	Single Entry Fee	Single Monthly Fee	PV of Monthly Fees	Actuarial Assets NEF+PVMF	Actuarial Liability PVFE	Percent Surplus (Deficit)
101 STUDIO	157,850	3,425	471,090	620,703	726,199	(14.5) %
102 1 BR	256,270	4,150	570,810	813,706	782,905	3.9
103 1 BR WITH DEN	380,700	4,760	654,712	1,015,545	842,947	20.5
104 2 BR	410,410	5,550	763,373	1,152,365	860,737	33.9
105 2 BR WITH DEN	486,540	5,990	823,892	1,285,042	907,436	41.6
WEIGHTED SINGLE:	348,470	4,701	646,532	976,817	828,700	17.9 %

COUPLED ENTRANTS *	Both Entry Fees	Both Monthly Fees	PV of Monthly Fees	Actuarial Assets NEF+PVMF	Actuarial Liability PVFE	Percent Surplus (Deficit)
102 1 BR	291,875	6,175	852,545	1,126,848	1,202,315	(6.3) %
103 1 BR WITH DEN	416,305	6,790	952,311	1,343,553	1,275,967	5.3
104 2 BR	445,915	7,580	1,080,952	1,500,021	1,297,789	15.6
105 2 BR WITH DEN	522,145	8,020	1,152,600	1,643,310	1,355,074	21.3
WEIGHTED COUPLE:	458,544	7,453	1,060,265	1,491,203	1,309,008	13.9 %
TYPICAL ENTRANT:	405,488	6,126	860,844	1,243,267	1,077,498	15.4 %

EQUITY AMONG DIFFERENT CONTRACT TYPES

Contract Type	Premium	Pricing Margin	1 BR Single Entry Fee
Traditional	1.00	15.4%	$250,000
Current 50% Refundable	1.23	12.5%	$307,500
Equivalent 50% Refundable	1.34	15.4%	$335,000
New 90% Refundable	1.94	15.4%	$485,000

CASH FLOW IS KING?

Key assumptions:

- Demographics for current census and new entrants
- Occupancy
- Contract distribution
- Rates of mortality and morbidity

Key results:

- Projected entry fees and refunds
- Projected health care utilization and associated discounts
- Growth in cash and investment balances

HOW DOES IMPROVEMENT IN NOM CHANGE KEY ACTUARIAL MEASURES?

Key Measure	Baseline	$500k Lower Expenses	$500k Lower Expenses + $500k Higher Rev
Net Operating Margin	2.4%	4.9%	7.3%
Funded Status	113.2%	115.6%	118.0%
New Entrant Pricing Margin (Traditional)	15.4%	17.5%	20.1%
10-Year Reserve Increase Factor	2.13	2.30	2.48

QUESTIONS & ANSWERS

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