

# A SHORT HISTORY OF LIFE PLAN CONTRACTS

The work of actuarial science is to substitute facts for appearances and demonstrations for impressions by analyzing the financial costs of risks and uncertainty.

## Goal of an actuary

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# Are Type A Contracts Dinosaurs?

1. Rumors about the demise of Type A contracts are greatly exaggerated
2. To answer this question one should conduct a national survey or create a random sample and calculate the distribution of active Type A, B, C, and Rental contracts among the 2,000 existing CCRCs
3. Type A, B, and C have co-existing since the 1960s
4. My guess is that among active contracts, Type A is at least 40%

# Are All Continuing Care Contracts the Same?

1. Promise a **lifetime set of services** as contractholder **transitions among wellness levels**
2. Enrollment/purchase subject to underwriting criteria
3. Includes some “managed” care coordination
4. Monthly fees, additional charges, and reimbursements fund a portion of these **costs/expenses**
5. **Entry fees must fund “costs – monthly fees”**
6. Pricing philosophy of generational self-supporting fees
7. Do contractual obligations for refunds obviate moral considerations for providers?

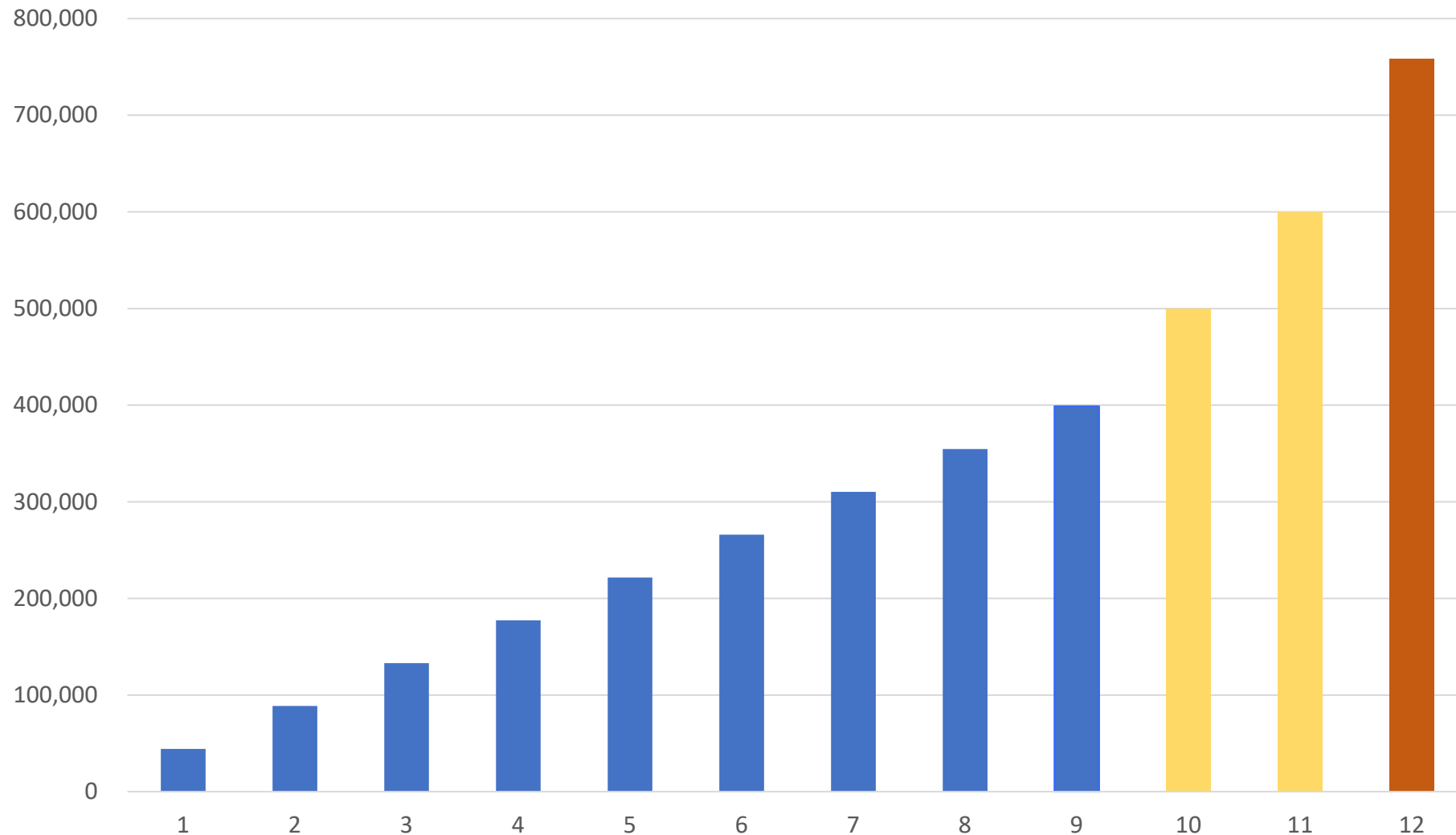
# Contracts prior to the 1980s

1. What's included in monthly fees
2. What's available for extra charge
3. Listed health care services included
  - a. Primarily nursing either:
  - b. Unlimited, or
  - c. A specified number of days
4. Defined what's excluded from medical care
5. Refunds terms
  - a. Typically no refund after 12 months

# Contracts during the 1980s and later

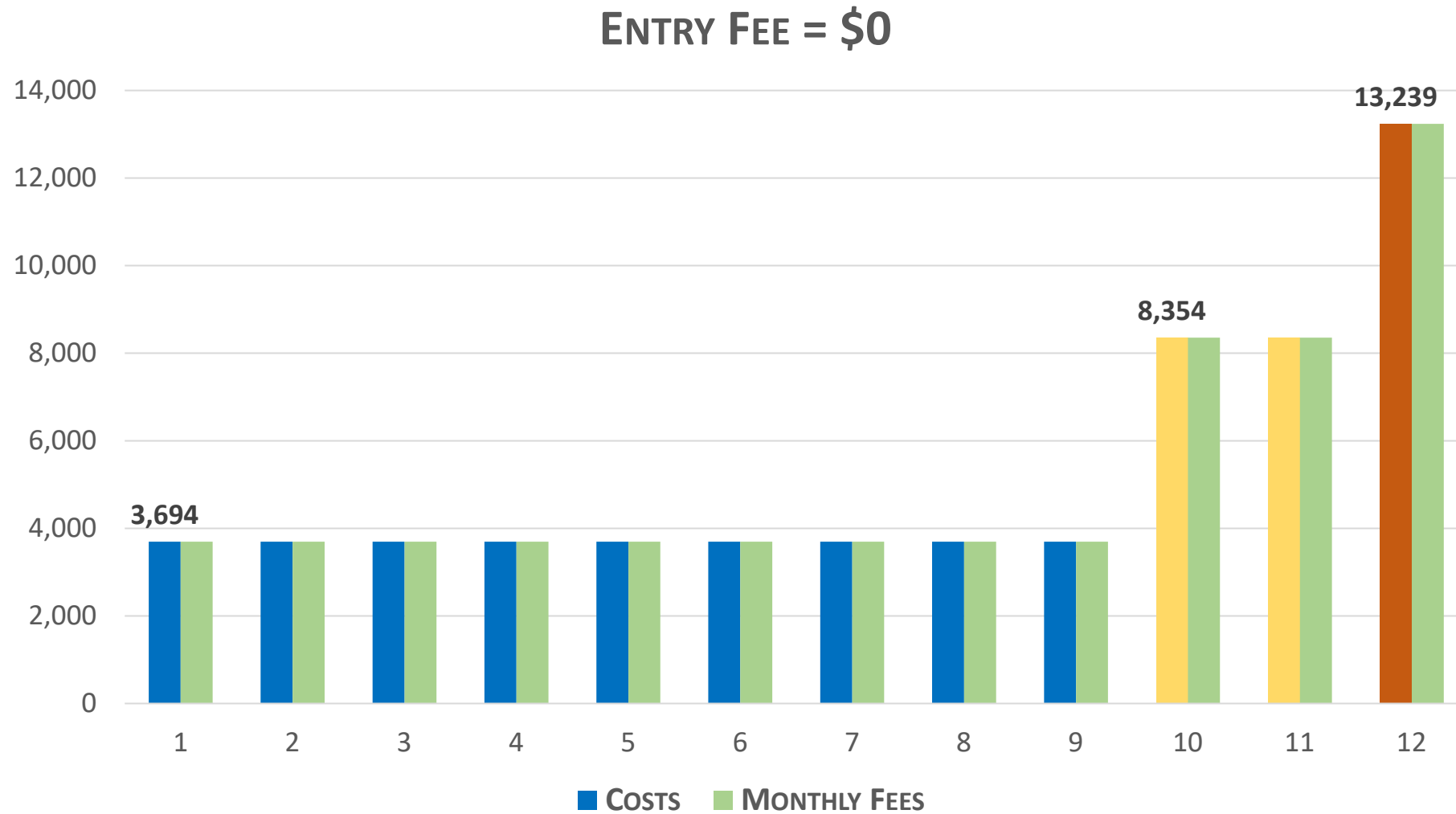
1. What's included in monthly fees
2. What's available for extra charge
3. Listed health care services adds
  - a. Nursing care **or assisted living** to :
  - b. Unlimited, or
  - c. A specified number of days
4. Defined what's excluding from medical care
5. Refunds terms
  - a. **Minimum refundable provisions**
  - b. Payment terms may be conditioned

# Life Plan Contract Funding Combines Long-term Care, Life Insurance, and Shelter Services worth over \$750,000



# Rental Monthly Fees Fund 100% of Lifetime Costs

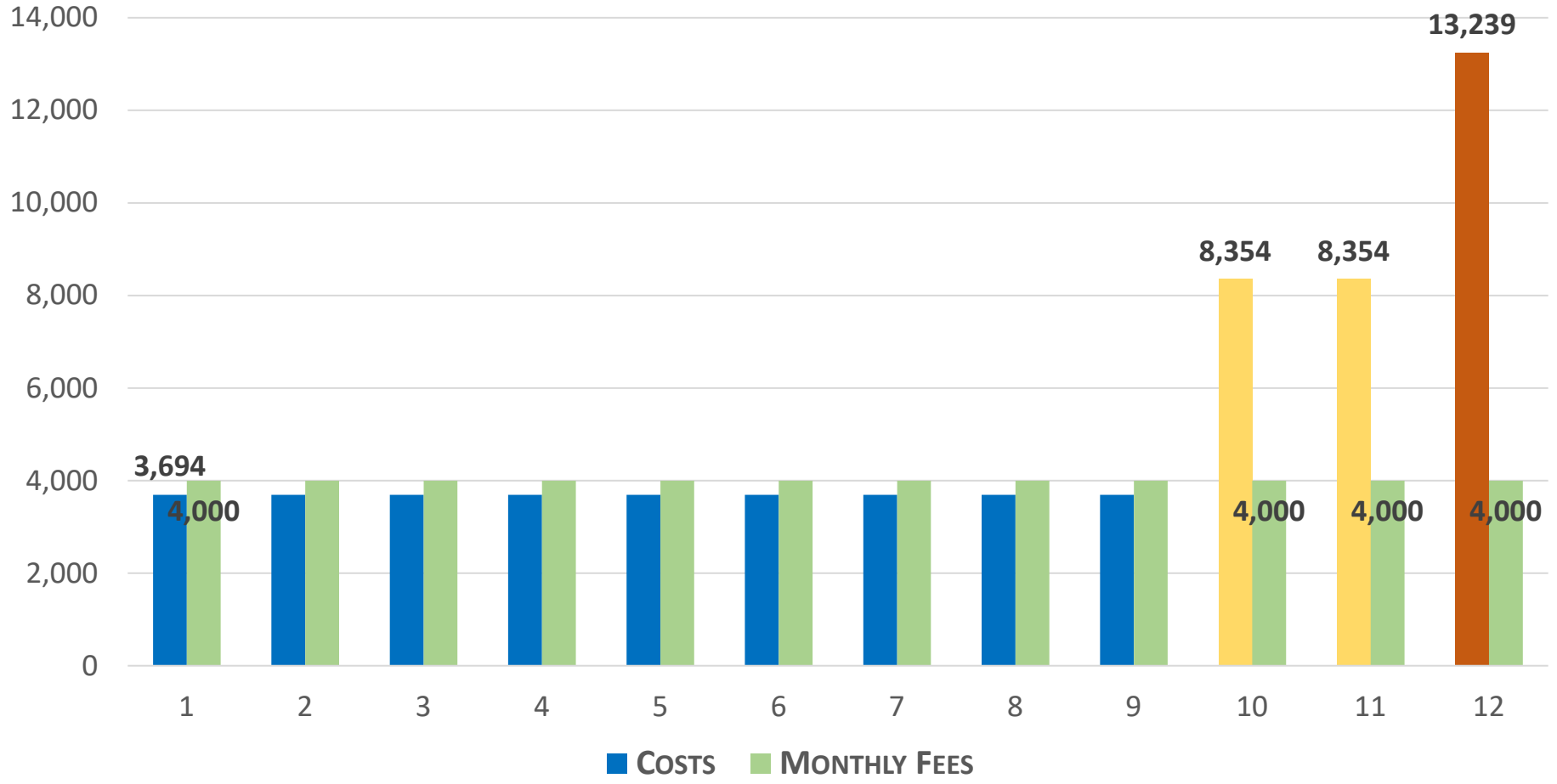
## MF = Costs in ILU, ALU, SNF



# Type A Monthly Fees Fund a Portion of Lifetime Costs

MF = \$4,000 in ILU, ALU, and SNF

ENTRY FEE = \$180,000





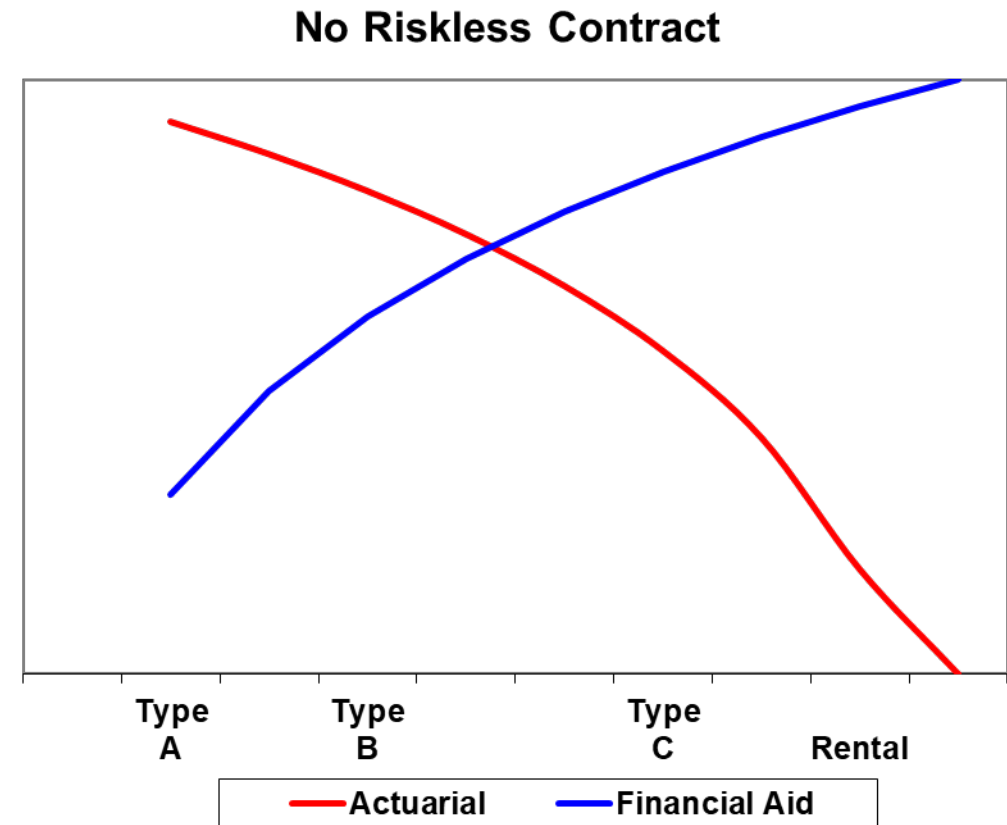
# Type B/C Monthly Fees Fund a Greater Portion of Lifetime Costs

MF = \$3,500 in ILU; \$8,350 in ALU; \$13,200 in SNF



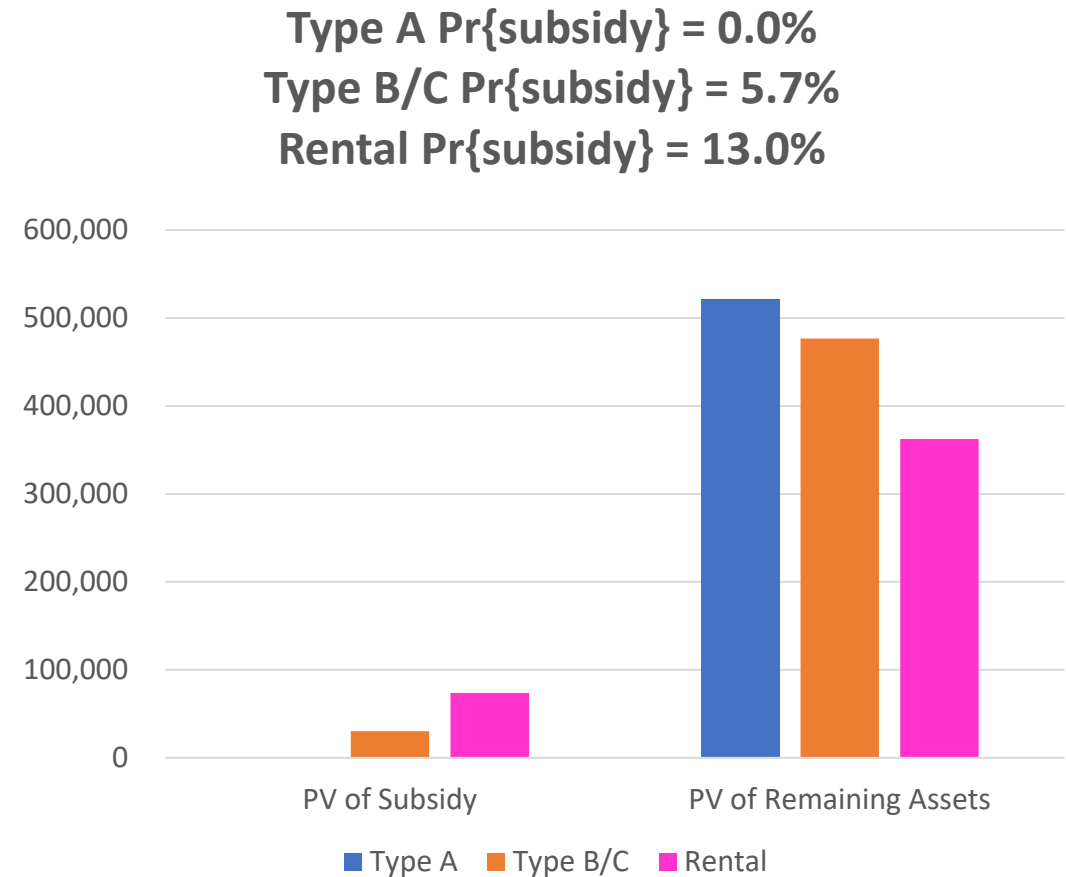
# Challenges to Future Proofing Life Plan Contracts

1. Unknown changes in services
  - a. Such as eliminating SNFs
  - b. Higher assisted living acuity
2. Mitigating risks
  - a. Health care/Actuarial
  - b. Financial aid
  - c. Mortality and move-out
  - d. Anti-selection



# Financial Aid Risks are Often Overlooked

1. Actuarial preference is indifferent for A/B/C
2. Moving from A to C may restrict your potential market
3. Impacts on creditworthiness?
4. Case example:
  - a. Net worth = \$1,000,000
  - b. Monthly income = \$5,000
  - c. PV of Life Plan contract = \$750K



# Suggestions for Life Plan Contract Design

1. Clear definition for payments related to changes in service needs
  - a. Move from location-based service definitions to
  - b. Wellness-based; such as wellness level 1, 2, or 3
2. Define monthly fees for each wellness level as
  - a. Copayment of services used +
  - b. Additional fees as contract holders move through transitions
  - c. Such as additional meal charges is not include in lowest level of service
3. Eliminate intergenerational funding of refunds

# Refundable Fees are Whole Life Insurance Product

1. If entry fee cover the shortfall between monthly fees and costs
2. Then that portion is always needed
3. To provide a refund need to add an amount such that:
4. Over resident's life expectancy will accumulate to refund amount
5. Is pay-as-you-go funding for refunds a good practice?

