

2024 NATIONAL SENIOR LIVING CFO WORKSHOP | JW MARRIOTT AUSTIN

April 24-26, 2024

HOW CAN WE SOLVE THE DISLOCATION BETWEEN ENTRANCE FEES, CONSTRUCTION COSTS AND HOME VALUES?

PRESENTED BY

Russell Gardner
CFO
Westminster Canterbury
Richmond

Mike Hopper
Chief Accounting Officer
A.V. Powell & Associates

Rob Love
President/CFO
Love & Company, Inc.

MODERATED BY

Tommy Brewer
Managing Director
Ziegler


gold partner

 **Ziegler**



Mike Hopper
Chief Accounting Officer
A.V. Powell & Associates



A.V. POWELL: TEAM CREDENTIALS

Actuaries

AV Powell, ASA, MAAA
Cole Naughton, FSA, MAAA
Molly Shaw, ASA, MAAA

CPAs & Accountants

Diane Gibson, CPA
Mike Hopper, CPA
Marsha Kauffman, MSAcc

Professional Committee Chairs

AV Powell, AAA ASOP #3, 1985-1991
Molly Shaw, AAA ASOP #3, 2003-2007

CARF FAP Members

AV Powell, 1989-1991; 2024
Kathie Harris, 1998-2003
Mike Hopper, 2004-2007

AV POWELL: LEADING PROVIDER OF ACTUARIAL SERVICES



Client relationships with more than 600 life plan communities during the past 10 years



Actuarial consulting firm for 50% of the largest not-for-profit multi-site providers



Largest database of resident demographics – source for mortality and morbidity rates

TRADITIONAL ACTUARIAL SERVICES

Actuarial Studies and ASOP#3 Opinions

- To comply with statutory requirements and bond covenants

Prepaid Medical Expense Estimate

- To support itemized tax deductions for residents

Actuarially Equivalent Pricing

- To develop new contract benefits and marketing strategies

AV POWELL: INNOVATORS OF ACTUARIAL SOFTWARE TOOLS



FORCAST: ASOP#3 Projections



FFS: FIRST + FINAID Lite + FSO



FIRST: ASC 606 income



FINAID: Admission Qualifying



A2ZCCRC: Benchmarking

WHAT'S IN YOUR TOOLBOX?



INTRODUCTION TO ACTUARIAL ANALYSIS 101

- Basic Concepts
- Actuarial Standards of Practice ASOP#3
- Actuarial Process and Financial Assumptions
- Actuarial Results
- “What if” Stress Testing and/or Expansion Testing

ASOP #3 SOLVENCY CRITERIA

Criteria 1

Are reserves adequate to meet obligations to current residents?

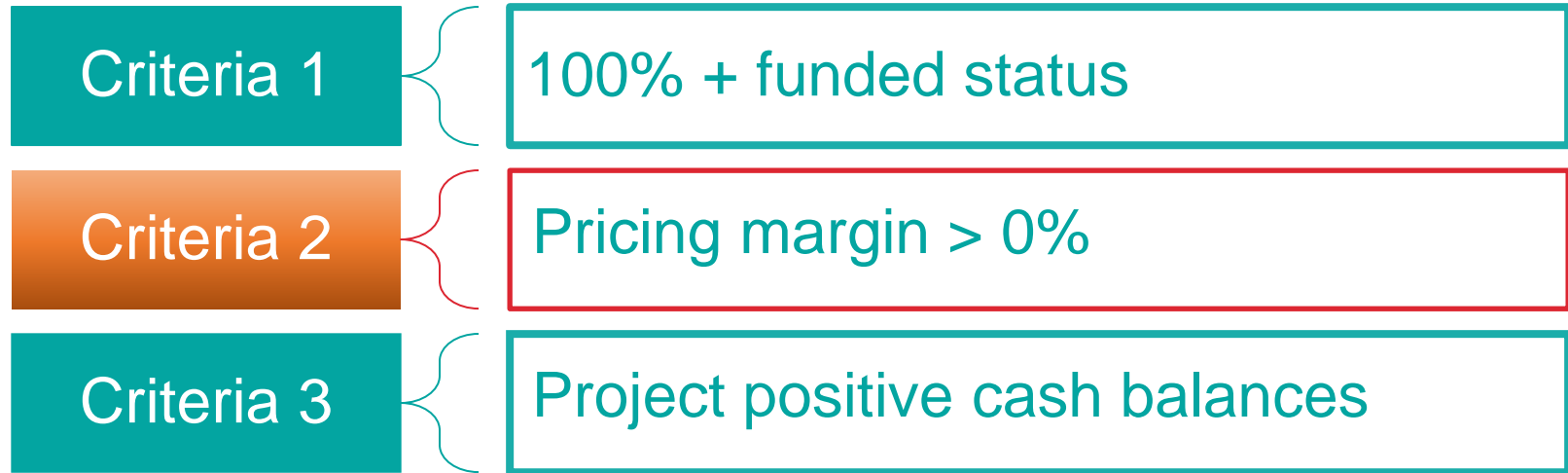
Criteria 2

Are fees charged to new entrants adequate to cover their lifetime costs?

Criteria 3

Will projected cash flows be positive and meet any bond or statutory covenants?

ASOP #3 TERMINOLOGY



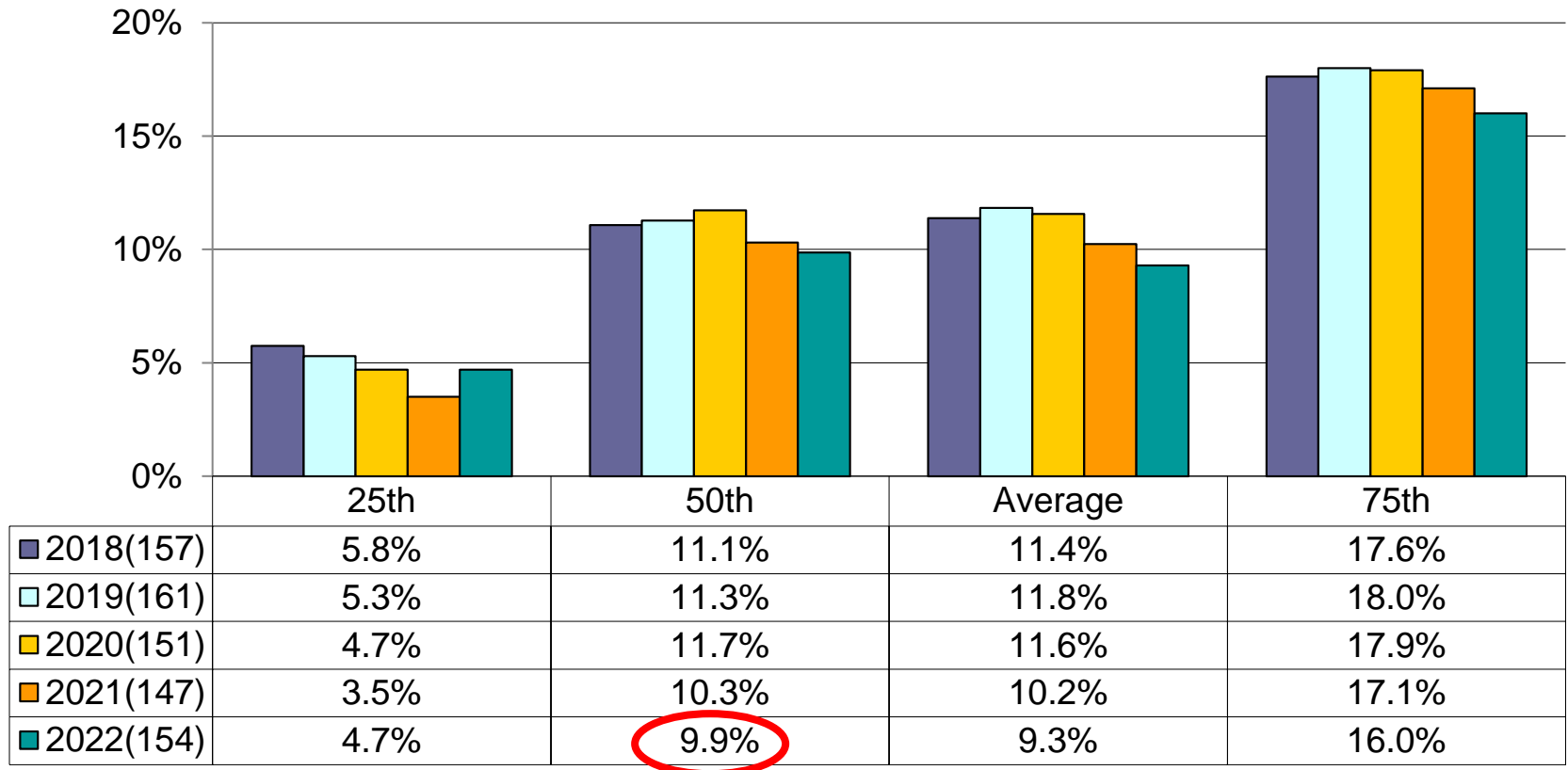
Unified funded status “UFS”
combines criteria 1+2

SATISFACTORY ACTUARIAL BALANCE (SAB)

	SAB with Qualification	SAB	AVP Seal
Actuarial Funded Status (ASOP#3 criteria #1)	100%	105%	>105%
Pricing Margin (ASOP#3 criteria #2)	0%	5%	>10%
Projected Cash Flows (ASOP#3 criteria #3)	1.0x	1.5x	2.00x
Unified Funded Status (ASOP#3 criteria #1 & 2)	100%	100% - 115%	>115%

TYPICAL FEES SHOW 10% SURPLUS (SAME-SITE '22-'21 DOWN 0.6%)

- Click to add text



KEY FACTORS IMPACTING PRICING MARGINS

Occupancy in all levels of care

Operating expense inflation

Allocation of cost to levels of care

CAPITAL EXPENDITURES!

OPERATING EXPENSES

Operating Expenses ×

Categories Extend Years Help

2024 ◀ ▶

Among Cost Centers | Within Cost Centers |

Categories	Alloc	Infl	ILU	ALU	NCU	Total
HEALTH CENTER	OTH		0	0	7,053,618	7,053,618
CLINIC	S03		760,702	34,189	59,830	854,721
HOME HEALTH	S01		122,449	0	0	122,449
FOOD SERVICE	ME1		4,772,088	1,096,134	1,334,424	7,202,646
GENERAL & ADMIN EXCL	CAP		1,511,031	280,766	306,290	2,098,087
GENERAL & ADMIN INCL	CAP		1,221,479	226,964	247,597	1,696,040
MARKETING (ROUTINE)	OTH		1,038,876	0	0	1,038,876
HUMAN RESOURCES	CAP		375,517	69,775	76,118	521,410
FACILITY OPERATIONS	SF3		3,321,812	475,195	434,650	4,231,658
HSKPING-LAUNDRY	SF3		1,207,462	172,731	157,993	1,538,186
ASSISTED LIVING	OTH		0	941,611	0	941,611
MEMORY CARE	OTH		0	1,044,934	0	1,044,934
LIFESTYLES	OTH		438,304	0	0	438,304
CONCIERGE SERVICES	RES		211,122	33,033	40,214	284,368
ACTIVITIES	OTH		0	0	422,219	422,219
Column Totals			14,980,842	4,375,332	10,132,954	29,489,127
Column Total Distribution (%)			50.8	14.8	34.4	
Category Distribution (%)			0.0	0.0	100.0	

CAPITAL

Capital Expenditures

Categories Extend Years Help

2022

Among Cost Centers | Within Cost Centers | Imputed Interest | Useful Life and Timing Adjust.

Categories	Alloc	Infl	ILU	ALU	NCU	Total
LAND	OTH		0	0	0	0
LAND - EXPANSION	OTH		14,765,904	495,500	1,255,267	16,516,671
LAND IMPROVE - 5YR	OTH		0	0	0	0
LAND IMPROVE - 10YR	OTH	254.9	26,188	4,752	6,336	37,275
LAND IMPROVE - 15YR	CAP		10,960	1,989	2,652	15,600
LAND IMPROVE - 20YR	CAP		0	0	0	0
LAND IMPROVE - 25YR	OTH		0	0	0	0
LAND IMPROVE - 30YR	OTH		0	0	0	0
LAND IMPROVE - 40 YRS	OTH		855,459	28,707	72,724	956,889
BLDG & IMPROVE - 5YR	OTH	452.7	19,817	421	561	20,799
BLDG & IMPROVE - 8YR	OTH	470.4	129,163	321	428	129,912
BLDG & IMPROVE - 10YR	OTH	4.0	494,290	29,733	39,643	563,666
BLDG & IMPROVE - 15YR	OTH	-100.0	0	0	0	0
BLDG & IMPROVE - 20YR	CAP		0	0	0	0
BLDG & IMPROVE - 25YR	CAP		0	0	0	0
BLDG & IMPROVE - 30YR	CAP		0	0	0	0
BLDG & IMPROVE - 40YR	OTH		0	17,832,427	26,594,025	44,426,452
Column Totals			17,138,944	19,090,364	28,988,730	65,218,038
Column Total Distribution (%)			26.3	29.3	44.4	
Category Distribution (%)			33.3	33.3	33.3	

OK Cancel

STRESS TESTING - 2X CAPITAL

Key Measure	Baseline	2x Capital Spending
Funded Status	99.1%	94.3%
New Entrant Margin (Traditional)	16.5%	9.0%
10-Yr Reserve Increase Factor	3.36x	1.82x
Unified Funded Status	109.5%	98.9%
SAB?	Yes	No
Capital Expenditures	\$3.3 million	\$6.6 million

STRESS TESTING – 45 IL EXPANSION

Key Assumptions	Baseline 45 IL in 2018	45 IL exp In 2024
Construction Cost	\$31.5 million	\$50.5 million
New Entrant Margin (Traditional)	11.7%	9.2%
1 st Generation Entrance Fees	\$22.0 million	\$24.8 million

WESTMINSTER CANTERBURY RICHMOND FY 9/30/2023

Key Measure	Baseline 2021	Baseline 2023	Fees 1% < Expenses 5 years	2x Capital Spending	IL Occup 89%	0% Real Rate of Return
Funded Status	137.5%	128.0%	126.0%	123.6%	124.5%	120.0%
New Entrant Margin (Traditional)	13.4%	10.7%	8.8%	4.5%	7.1%	11.8%
10-Yr Reserve Increase Factor	2.32x	2.64x	2.45x	2.05x	2.34x	2.35x
Unified Funded Status	144.8%	131.1%	127.65%	123.6%	125.4%	125.8%
SAB?	Yes	Yes	Yes	Yes	Yes	Yes

NEW ENTRANT PRICING REPORTING FORMAT

SINGLE ENTRANTS *	Single Entry Fee	Single Monthly Fee	PV of Monthly Fees	Actuarial Assets NEF+PVMF	Actuarial Liability PVFE	Percent Surplus (Deficit)
102 ALCOVE	324,185	5,078	646,081	952,692	1,158,880	(17.8) %
104 ONE BR STD(C-1/3/6)	496,105	5,484	697,737	1,166,949	1,247,207	(6.4)
106 ONE BR LARGE	583,089	5,999	763,261	1,314,741	1,338,383	(1.8)
110 TWO BR STD(>1100 SF)	870,854	10,120	1,287,582	2,111,228	1,432,883	47.3
111 TWO BR LARGE	1,032,491	10,525	1,339,111	2,315,631	1,525,959	51.7
113 EXPANSION - TWO BR D	1,450,032	10,979	1,396,874	2,768,300	1,666,048	66.2
WEIGHTED SINGLE:	608,950	6,960	885,518	1,461,457	1,307,482	11.8 %
COUPLED ENTRANTS *	Both Entry Fees	Both Monthly Fees	PV of Monthly Fees	Actuarial Assets NEF+PVMF	Actuarial Liability PVFE	Percent Surplus (Deficit)
102 ALCOVE	444,147	8,774	1,124,738	1,565,399	1,891,084	(17.2) %
104 ONE BR STD(C-1/3/6)	679,765	9,469	1,214,110	1,888,539	2,004,415	(5.8)
106 ONE BR LARGE	798,824	9,979	1,295,817	2,088,371	2,121,401	(1.6)
110 TWO BR STD(>1100 SF)	870,854	10,120	1,613,959	2,477,978	2,242,653	10.5
111 TWO BR LARGE	1,032,491	10,525	1,678,549	2,702,937	2,362,077	14.4
113 EXPANSION - TWO BR D	1,450,032	10,979	1,750,954	3,189,605	2,541,822	25.5
WEIGHTED COUPLE:	796,810	9,788	1,425,266	2,215,823	2,154,818	2.8 %
TYPICAL ENTRANT:	730,786	8,794	1,235,568	1,950,696	1,857,016	5.0 %