Maximizing Actuarial Planning During the Budget Process

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Presenter

Diane Gibson, CPA
Consultant
A.V. Powell & Associates LLC
diane.gibson@avpowell.com
404.845.0360 x354

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP

Learning Objectives

1. Describe how A.V. Powell can assist with the budget process.
2. Identify the key budget assumptions that impact actuarial results.
3. Apply actuarial information to support decision-making by the Board and Management Team.

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP

Discussion Outline

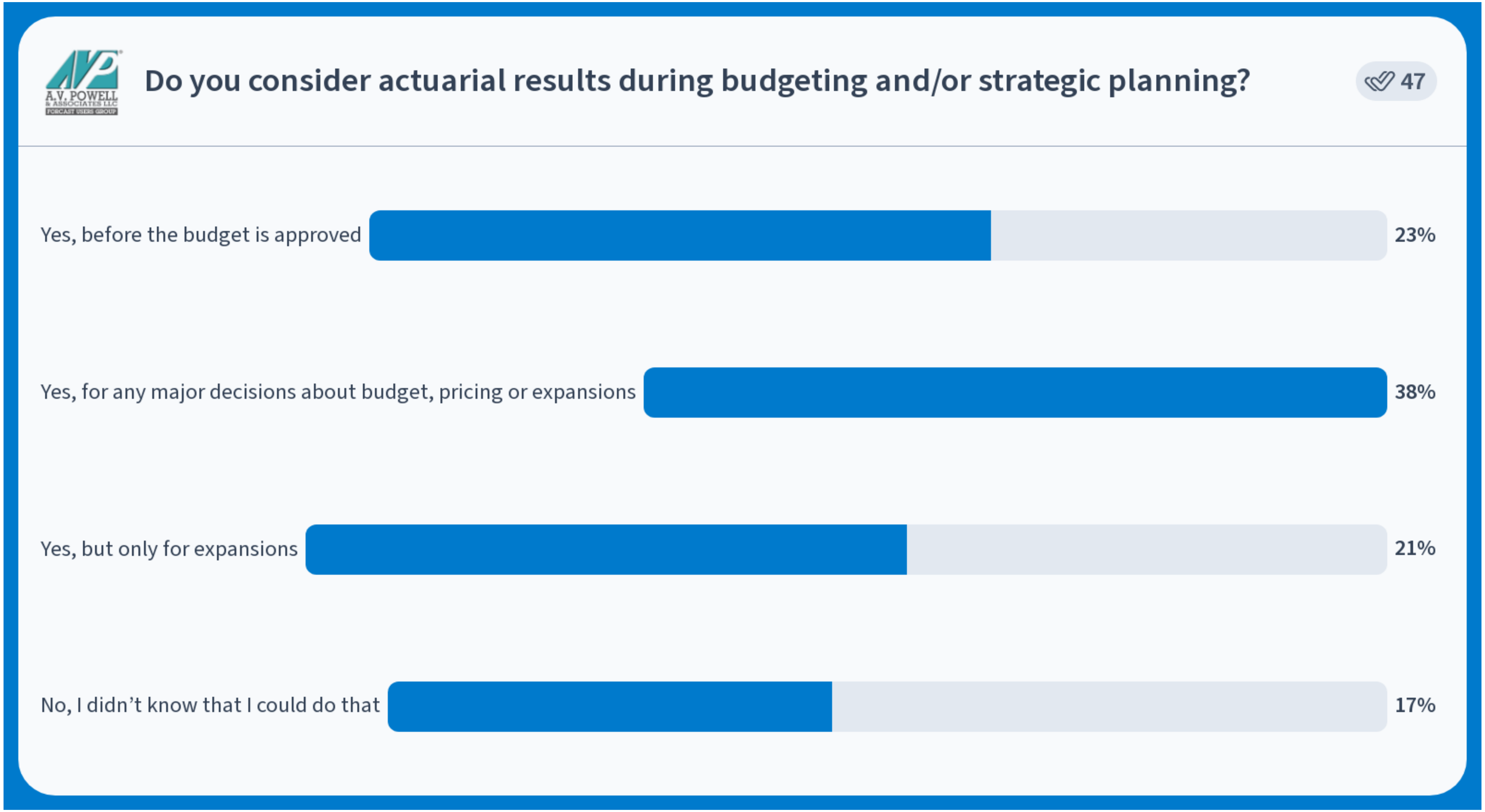
1. AVP Resources
2. Key Assumptions
3. AVP Budget Review Letter
4. Digging Deeper
5. Summary

A.V. POWELL & ASSOCIATES LLC FORCAST USERS GROUP

Discussion Outline

1. AVP Resources
2. Key Assumptions
3. AVP Budget Review Letter
4. Digging Deeper
5. Summary

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP


Do you consider actuarial results during budgeting and/or strategic planning?
47
Yes, before the budget is approved
23%
Yes, for any major decisions about budget, pricing or expansions
38%
Yes, but only for expansions
21%
No, I didn’t know that I could do that
17%

Why Should I Care?

- Budget decisions today determine financial and actuarial results for years to come.
- Actuarial results show long-term financial consequences and implications.
- What if you could see the impact of decisions before approving the budget or strategic plan?

A.V. Powell Resources

Budget Support	Growth Support	Compliance Support
Budget Review Letter	New Contracts Pricing & Refund Terms	Future Service Obligation Report (FSO)
Fee Increase Testing	Expansions – Pricing of New Units	Actuarial Compilation Report and Actuarial Study
Operating Stress Testing	Expansions – Population Flows, Healthcare Capacity and Entrance Fee Cash Flows, Feasibility Consultant Support	Prepaid Medical
Timing – Prior to Budget Approval	Prior to Finalizing Decision	Year-End

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Budget and Strategic Planning: Integration of Actuarial Results

1. How will my budgeted fee increases affect my actuarial results?
2. Are contracts priced at a surplus or a deficit?
3. Are all contracts actuarially equivalent?
4. What happens if occupancy budgets are not met?

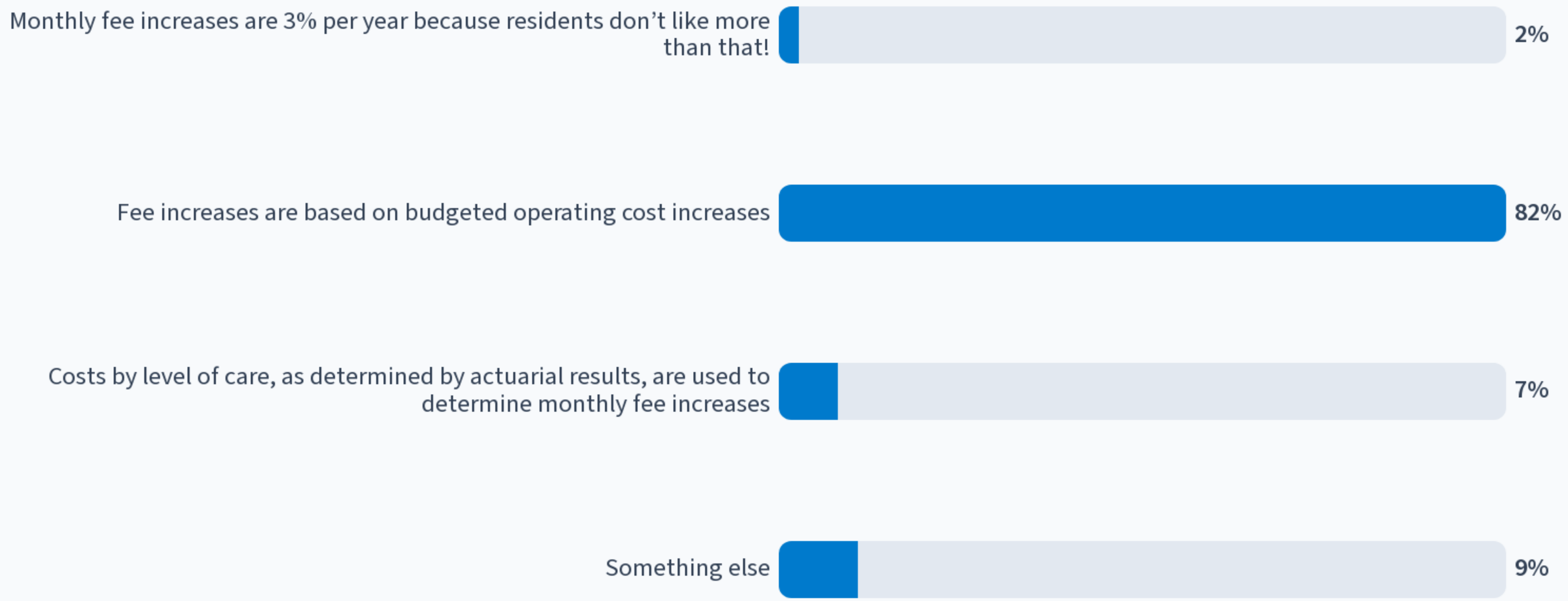
Budget and Strategic Planning: Integration of Actuarial Results

5. Will an expansion lead to improved actuarial measures?
6. Is healthcare capacity adequate? Will it still be adequate if there is an expansion?
7. Are reserves adequate to cover future liabilities?

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP

How does your community make monthly fee increase decisions?

45



Discussion Outline

1. AVP Resources
2. Key Assumptions
3. AVP Budget Review Letter
4. Digging Deeper
5. Summary

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Financial Budgeting vs. Actuarial Planning

Financial Plan

- Budget – including occupancy, fee increases, and operating budget
- LT Capital Plan
- Beginning balance sheet

Actuarial Plan

Includes all of the above, plus:

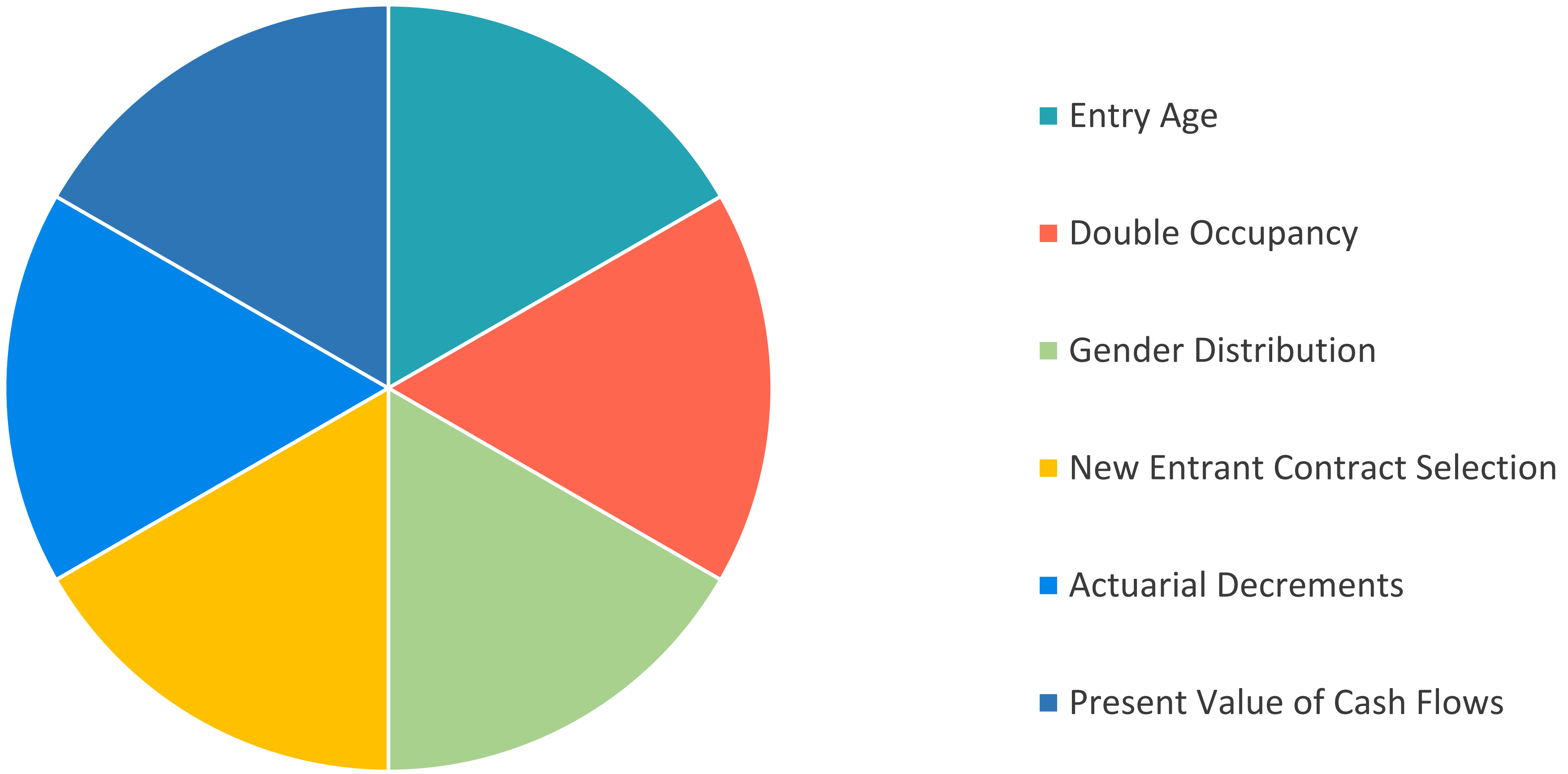
- Existing resident data/demographics
  1. Unit turnover
  2. Healthcare capacity
- New entrant demographics
- Fee pricing analysis
- Present value of cash flow
- Actuarial balance sheet

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Key Community Budget Assumptions

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Key Actuarial Assumptions



Discussion Outline

1. AVP Resources
2. Key Assumptions
3. AVP Budget Review Letter
4. Digging Deeper
5. Summary

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP

What Questions does a Budget Review Letter Answer?

- ✓ Are we adequately funded?
- ✓ Are proposed fee increases sufficient to maintain or improve results?
- ✓ Will projected cash flows remain positive?

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

AVP Budget Review Letter Sample

We have performed an actuarial review of [community] based on census data as of August 31, 2026, internal unaudited financial statements as of August 31, 2026, and the fiscal year 2027 operating and capital budgets, all of which were provided by you. The outcomes from various sensitivity scenarios for the three actuarial criteria that determine whether your community is in "satisfactory actuarial balance" are contained in the attached Exhibit. These criteria are: (i) funded status; (ii) new entrant pricing margin; and (iii) cash flow projections. We have also included several tables showing the results of this review.

CAVEAT FOR USERS: This Interim Budget Report is not intended as a stand-alone report. To align with [community]'s budgeting process, we have generated pro forma actuarial results based on preliminary operating and capital budgets and projected end-of-fiscal-year balance sheet. This report is created solely for [community]'s management team, who have access to the FORCAST software, the assumptions contained therein, and are regularly informed about actuarial studies. After the close of your fiscal year, we will prepare a final actuarial compilation report, which will provide an ASOP#3 opinion to be relied upon as to whether [community] is in satisfactory actuarial balance and if not, will offer recommendations to achieve it. Variation in the results from this interim calculation and the final report is to be expected.

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP

AVP Budget Review Letter Sample

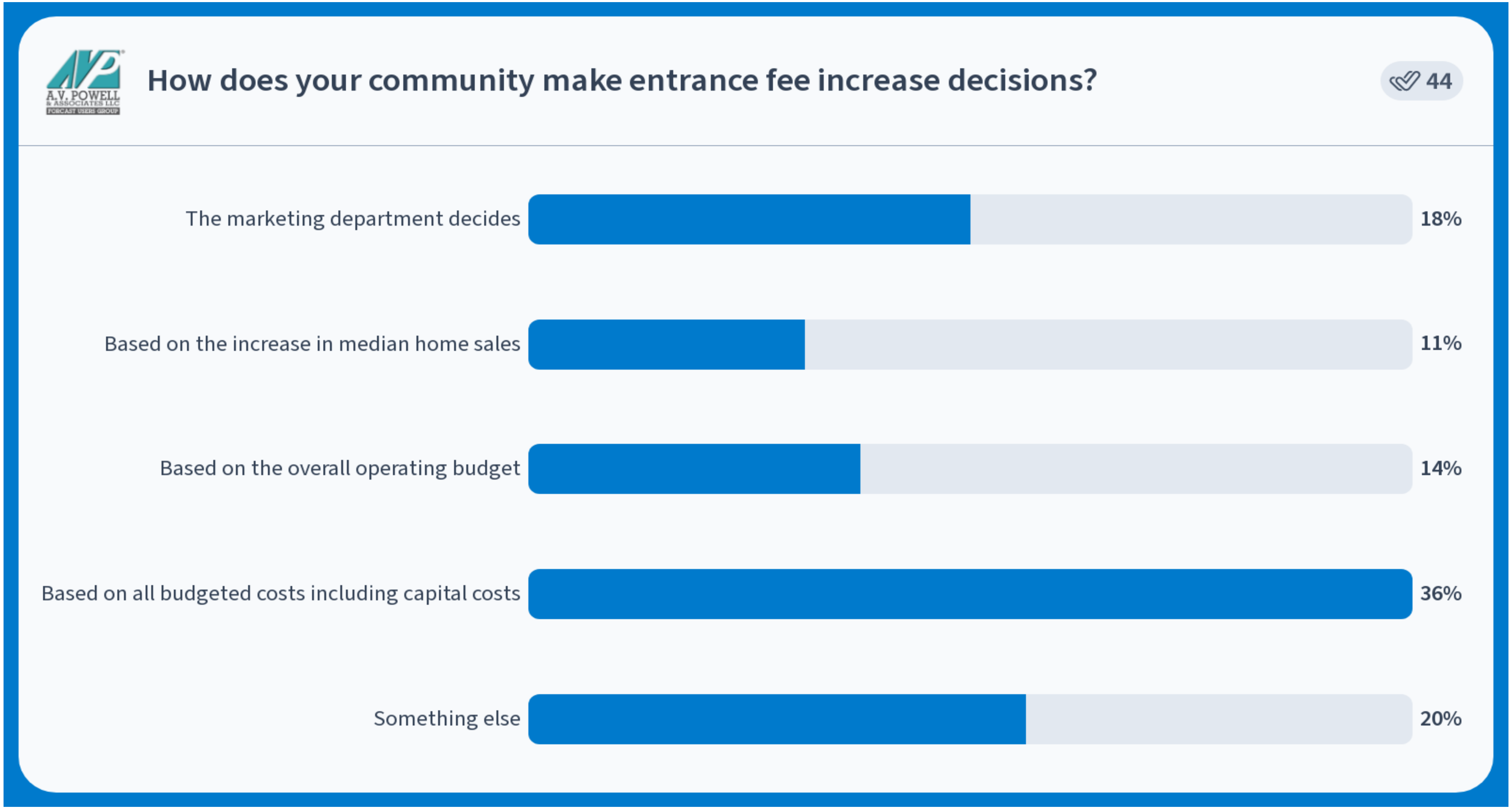
	"Unified" Funded Status	Funded Status	New Entrant Pricing	10-year Reserve	Satisfactory Actuarial Balance?	AVP Seal?
AVP 2024 Median	113.5%	103.0%	12.1%	2.37x	NA	NA
AVP Targets	115%	105% - 110%	10% - 20%	2.00x	NA	NA
Budget 2027 Interim: 8/31 Census & Balance Sheet	135.7%	119.8%	18.4%	3.09x	Yes	Yes
Previous Years:						
12/31/2025 Budget 2026	122.0%	112.0%	10.4%	0.71x	Yes	Yes
12/31/2024 Budget 2025	125.1%	114.3%	9.6%	2.29x	Yes	Yes
12/31/2023 Budget 2024	136.6%	123.3%	11.0%	1.65x	Yes	Yes
12/31/2022 Budget 2023	136.6%	125.8%	8.0%	1.19x	Yes	Yes

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP

Budget Review Letter Tables

- Various assumptions tables (fees, # of residents, net entrant assumptions)
- Population projections and resident movement statistics
- Actuarial valuation and Unified Funded Status statements
- Analysis of new entrant fees
- Cash flow projection (including new entrant fee cash flows)

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP


How does your community make entrance fee increase decisions?
44
The marketing department decides
18%
Based on the increase in median home sales
11%
Based on the overall operating budget
14%
Based on all budgeted costs including capital costs
36%
Something else
20%

Discussion Outline

1. AVP Resources
2. Key Assumptions
3. AVP Budget Review Letter
4. Digging Deeper
5. Summary

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Example #1
Replace 90% Refund Contract with 75% Refund Contract

Considerations

- Kept pricing the same, just changed the refund %
- Customer resistance

Results Discussed

1. Improved cash flows due to lower future refunds
2. Improved pricing surpluses
3. Will improve future actuarial results

Decision Made: Replaced 90% with 80% refund

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP

Example #2
Stop offering Refundable Contracts & Replace with Declining

Considerations

- Customer demand for refundable contracts
- Unpredictable nature of refund timing
- Amount of cash on balance sheet
- Debt service reserve and days cash on hand covenants

Results Discussed

1. Short-term cash flow decreases, long-term cash flow increases
2. More predictability
3. Depending on how contracts are priced, may improve results

Decision Made: Presented to the Board, set marketing goals to reduce amount of refundable contracts offered

A.V. POWELL & ASSOCIATES LLC FORCAST USERS GROUP

Example #3

Increase 2nd Person Fees More

Considerations

- In most instances, couples have significantly lower pricing surplus than singles

Results Discussed

1. Difference between singles and couple surpluses improved
2. Increased cash flow
3. Improved actuarial results over time

Decision Made: 2nd person entrance fees increased by 20%

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Discussion Outline

1. AVP Resources
2. Key Assumptions
3. AVP Budget Review Letter
4. Digging Deeper
5. **Summary**

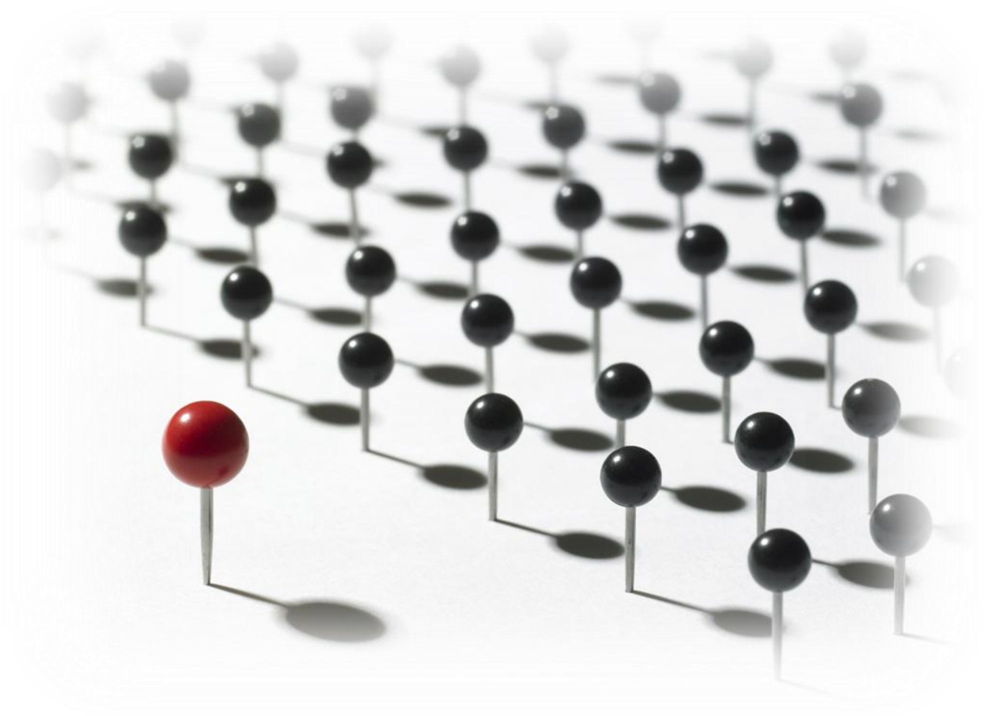
A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Questions to Ask Before the Budget Gets Approved

1. Does the budget improve or weaken our funded status?
2. Are fee increases keeping pace with future obligations?
3. Have we stress-tested our assumptions?
4. Are we creating cash flow pressure from future refunds?

A.V. POWELL & ASSOCIATES LLC
FORCAST USERS GROUP

Summary



Successful budgeting isn't just about balancing next year's operating budget.

Early budget planning with AVP allows for stress testing of key assumptions.

The sooner actuarial analysis is incorporated into the budget process, the more strategic and confident your decisions will be.

A.V. POWELL
& ASSOCIATES LLC
FORCAST USERS GROUP