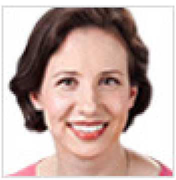
Know your retirement community's exit options

CCRCs can be a great choice, but be aware of restrictions

By Elizabeth O'Brien



Most people consider a move to a continuing-care retirement community to be their last move. After all, the whole point of these facilities is they can accommodate older people on one campus as they age, progressing from independent through assisted living and on to skilled nursing care.

But what if the place ends up being a poor fit? It's often not that easy to leave, given the upfront costs of joining a community and the terms of its contract.

This barrier to exit is important to keep in mind, experts say, as the improving real-estate market enables older people to sell houses they have lived in for a long time, and move on to the next phase.

The occupancy rate of continuing care retirement communities, known as CCRCs, has been relatively flat at 89% nationally over the past three years, according to the National Investment Center for the Seniors Housing & Care Industry, a nonprofit organization that facilitates investment in the senior housing and care sector.

But experts say they expect that number to rise as the housing market strengthens and boomers age. As of the fourth quarter of 2012, there were 1,979 CCRCs nationwide, with 569,966 occupied units, according to the National Investment Center.

There's a lot riding on the decision to enter a CCRC, both emotionally and financially.

The average nationwide entrance fee for these communities is $280,618, according to the National Investment Center. That hefty payment is an illiquid investment—it might or might not be returned upon a move or death, depending on the type of facility and the terms of the individual contract. And even in the cases where the fee is refundable, families often must wait months for the money, so the sum can't immediately be used to pay a new facility in the case of a move.

Stand-alone nursing homes and assisted living facilities, by contrast, do not require six-figure upfront payments. Assisted living facilities may require a security deposit of one or two months' rent, while nursing homes generally don't charge any upfront payment, although they can ask for details on prospective residents' finances, geriatric care managers say.

Care managers and other experts say many families don't fully appreciate the commitment that a CCRC involves in the rush to get a loved one situated. "People put all their eggs into one basket," said Eric Carlson, a directing attorney at the National Senior Citizens Law Center, an advocacy organization for low-income elderly.

Indeed, retirees seeking peace of mind often may be eager to sign on the dotted line. Irvin Schorsch III, founder and president of Pennsylvania Capital Management in Jenkintown, Pa., has helped several clients recently move to CCRCs. One couple sold their home in Abington, Pa. in just one week, and was eager to commit to a CCRC in the region. "Most pick a place they like and say, 'can I write a check, Irvin?'" he said. He counsels them to take their time and explore all their options. CCRCs can be an attractive choice for retirees, Schorsch said, but signing too quickly can rob families of the chance to bargain.

With luck and proper planning, a move to a continuing care retirement community will indeed prove permanent for those who want to be able to spend their retirement in one place. CCRCs trace their roots all the way back to the post-Civil War era, when religious institutions sprang up to care for orphaned children, widows and older people, according to Dan Hermann, head of investment banking at Ziegler, a firm specializing in financing for the health-care, senior living, education and religious sectors.

Today, about 80% of CCRCs are run by nonprofits, and while many have religious affiliations, residents don't have to belong to the same faith. There are CCRCS all over the country, from large metropolitan to rural areas, often on campuslike settings with amenities such as pools, fitness rooms and handsome dining halls.

Plenty of scenarios could presage a move out of a CCRC, even for folks who did their homework before choosing one. (That due diligence, of course, involves visiting the facility, talking with residents and eating a meal, investigating the company's financial footing, and other measures.)

After settling in, an older person may simply have a difficult time adjusting to the new environment. Hearing loss could hamper her ability to make new friends, for example. Or perhaps an adult child is relocating for work, and would like to have his parents closer.

Because of these unknowns, older people and their families must understand what it would take to leave a CCRC before they commit to it, experts caution. There are three main types of CCRCs, each with pluses and minuses. Prospective residents and their families need to understand the trade-offs that come with each model.

Life-care contracts

Nonprofit CCRC companies generally offer so-called life-care contracts, also known as Type A contracts. In a traditional life-care contract, the deposits are nonrefundable after a certain amount of time, such as four years; before that, the refundable amount drops by a fixed amount per month after a grace period. Some newer Type A contracts, such those from facilities constructed since the 2000s, offer 90% refundability, often upon the "resale" of the unit to another occupant. (Residents of CCRCs typically don't own their units in a legal sense of having a title to the property.)

Fee-for-service contracts

For-profit companies offer what's known as fee-for-service contracts, also known as a Type C contract. In this model, entrance fees are typically fully refundable upon the resale of the unit to another occupant. Type B, or "modified" contracts, are typically offered by for-profit facilities and have terms that lie somewhere in between those of Type A and Type C.

People who choose traditional life-care contracts usually aren't worried about getting their money back, or passing along the entrance fee to their heirs when they die, said Michael Smith, spokesman for ACTS Retirement-Life Communities, a nonprofit organization with 23 continuing care facilities in eight states. ACTS offers the option of a 50% refundable fee in exchange for higher entrance and monthly fees, but very few residents take it, Smith said. Instead, they're looking for the peace of mind that comes with lifetime care in one setting, he said. "Our biggest competition is someone's home," Smith said.

By contrast, some older people appreciate making a deposit that's refundable to themselves if they move or their heirs when they die, said Dan Dunne, spokesman for Erickson Living, a large for-profit CCRC chain. The timing of the refund depends on how quickly the unit can be resold. Demand for assisted living and skilled nursing services is high, and residents or their heirs receive their deposits an average of 45 to 60 days following a move or death, Dunne said. While it may take longer to resell an independent living unit, occupancy for Erickson's independent living units is 95%.

That might sound good, but "it still means there's a 5% vacancy rate," said Meg Mindell, a geriatric care manager in Monmouth County, N.J. She had a client in a one-bedroom, independent-living unit at a local Erickson community whose family members wanted to explore their options for relocating her after she got a diagnosis of Alzheimer's disease. The facility's finance committee told the woman's family last summer that it might take 8 months to a year to find a buyer for her place, Mindell said. The woman ended up staying and moving to the nursing unit as her disease progressed. The family hired Mindell at that point to help oversee the woman's care plan, medications, social stimulation and overall well being.

Dunne said that resale time lines vary according to geography and the local market for the type of unit being sold, whether a one or two-bedroom or other configuration. "We'll take whatever actions needed to resell the unit," Dunne said, noting that sales counselors begin marketing a property as soon as they learn about a pending vacancy. After they move out, residents are responsible for paying monthly fees for 90 days or until the unit is sold, whichever comes first.

That 90-day payment alone could represent a considerable outlay. At fee-for-service communities, monthly fees increase sharply along with medical needs. Examples from Erickson's Riderwood community in Silver Spring, Md. include a $2,000 monthly fee per individual for independent living, a range of $4,500 to $8,682 per month for assisted living, and $341 per day, or $10,571 per month, for skilled nursing. Residents can tap their entrance deposit to pay these expenses once they have exhausted their other financial resources; the amount used is subtracted from the refund upon a move or death.

In many life-care communities, by contrast, residents pay the same whether they're in an independent-living cottage, an assisted living apartment or a skilled nursing bed. At ACTS Retirement Communities, the average monthly fee is $2,800 per individual and $4,000 per couple, Smith said. Fees rise over time with inflation. These communities generally require people to enter at the independent-living tier, and the monthly payment structure functions like an insurance pool—some residents will ultimately need the highest level of care, while others won't. At Erickson, residents can enter the community at any level of care, and the entrance fees for assisted living and skilled nursing, which at the Riderwood community are $129,000 and $99,000, respectively, are considerably less than the industrywide average independent-living fee.

If this all sounds complicated, that's because it is. State laws governing CCRCs vary. Advisers suggest families to hire a local elder-law attorney to review the CCRC contract before signing. Some advocate bargaining for incentives such as move-in help or even a change of certain contract terms. There isn't an unlimited number of people who can afford CCRCs' upfront fees, Carlson said. "You should approach that discussion like you have some leverage," he said, telling management in effect, "'You need to work with me if you expect me to dump my entire life savings into your bank account.'"