MaCCRA

PROTECTING THE FUTURE OF CONTINUING CARE RESIDENTS

THE VOICE OF CONTINUING CARE RESIDENTS AT ANNAPOLIS

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ACTUARIAL STUDIES:
AN IMPORTANT PROTECTION FOR CCRC RESIDENTS

One of the most important decisions people of advancing years make is to enter a Continuing Care Retirement Community (CCRC). They do so expecting to spend the rest of their lives there, and to have access to assisted living and skilled nursing care if needed. Most have also been promised a refund of their substantial entry fee when they leave, whether by choice or by death. Many have used, and continue to use, most or all of their financial resources to pay the entry fee and ensuing monthly fees. To find that the promised services are not available when needed, or that the CCRC is bankrupt or otherwise financially unable to fulfill its promises can be devastating. At worst, residents must leave the CCRC, having lost their entire investment. That would be bad enough at any age; at 70 and up it can be truly terrible. A complete shutdown does not happen often, but it does happen.

The last few years have been particularly difficult for CCRCs, and the industry is not yet out of the woods. Fortunately, the three Erickson communities in Maryland were protected by being separate corporations when Erickson Retirement Communities went bankrupt in 2009, but just in the past few years two Maryland CCRCs have flirted with bankruptcy. One was saved by a white knight (unrelated corporation), the other by its corporate parent. We need to ensure, to the maximum possible extent, that Maryland has no more such close calls.

The testimony of CCRC residents who have experienced a close call is compelling. For example, Edith Sherr, President of the Resident Association at North Oaks, where serious financial straits led management to make an unsuccessful effort to sell the facility, recently wrote the following about residents' reactions:

"In April 2011 when North Oaks residents learned their home was to be sold, (it) was like experiencing the Pearl Harbor attack again.

"Residents were frightened, confused and apprehensive.

"As President of the Residents Association I was thrust into many unanticipated roles . Early on, in dealing with the stresses of the unknown future, many of our residents turned to me as a news source, financial adviser, psychotherapist, family counselor, and legal guide.

"Widespread symptoms of stress were immediately evident among the residents and continued throughout the prolonged negotiations before the deal was canceled. These included sleep disturbances, tearfulness, loss of appetite, and fears about their future well being. Many residents expressed suspicions about the motives of the management and ownership. Many were angered by the perceived abandonment by the owners.

"Some recent arrivals said they would not have moved here had they known a sale was in the works.

"Many asked :

Will I ever get my money back?

Will I ever be able to find a place for my spouse with Alzheimers?

Will I have to move? Where will I go?

In a bankruptcy where do I stand in line?

Do these buyers have the experience and resources to run a place like North Oaks ?

"In addition to the stresses expressed by residents, we were deluged by the concerns of responsible children and relatives, having to deal anew with issues they felt they had laid to rest.

"This brief account cannot convey the extent of upset and unease which we experienced.

"Fortunately, the parties involved in the proposed sale could not agree on terms. The original owners have undertaken an extensive remodeling program which has been very gratifying.

"I hope the legislature will find a way to avoid future problems like those we experienced."

One important way to avoid such problems is by conducting periodic actuarial studies. They are the only widely accepted way of looking into the financial future of a CCRC and Maryland already requires them of Type A and B (life-care and modified life-care) communities. But it does not require them of Type C (fee-for-service) communities, which predominate in Maryland.

Some have argued that Type C communities do not need actuarial studies. But A.V. Powell, the dean of CCRC actuaries, who first addressed the issue almost 30 years ago, strongly disagrees. In a 2010 article, he said, "Although many in the industry believe that Type C fee-for-service entry fee contracts do not have actuarial risks, this is simply not true." Powell also points out that most CCRC bankruptcies in recent years have been of Type C communities.

Not only can an actuarial study show that a CCRC is headed for financial problems; it can also, as actuaries attest, show more, such as a) the financial impact if the provider's occupancy projections (a key input to the study) turn out to be too optimistic by ten or twenty percent over an extended period (seven years of more), b) whether the provider is making adequate provision for refurbishment and replacement, and c) whether the existing plant, even if maintained, will continue to be adequate, particularly as the population ages and requires additional services. Not long ago, for example, a Maryland CCRC learned from a voluntary actuarial study that its existing skilled nursing plant would become inadequate as its population aged. The study has also provided valuable inputs to the 7-year financial plan under development.

Based on this evidence, **MaCCRA believes that requiring periodic actuarial studies of all Maryland CCRCs is the most important measure the Maryland Legislature can take to better ensure that none of them goes bankrupt.** We urge that it do so.