Straight Talk
Financial Facts for Choosing a Retirement Community
In life, we must answer many important questions.

Whom should I marry?

What should my career be?

Should I have children?

Where do I send my children for higher education?

As one question leads to a new journey in life, another question and opportunity arises. As you get older, possibly one of the most important questions you’ll face is, “where should I call home?”

Is your home suitably designed to meet your future needs and the lifestyle you desire? If not, you may be exploring the idea of relocating to a retirement community. When considering options, it’s not only critical to select a community where you can live a happy and healthy life, but also one that is financially secure.

You want to feel safe and protected knowing your living and healthcare needs will be met for many years to come. How do you ensure this will happen?
Research ahead. Find the facts. Know what to look for when checking out the financial standing and ratings of a continuing care retirement community (CCRC), also known as a life plan community. Finding a financially secure, forward-thinking organization will help you enjoy this new phase of your life.

Understanding a Continuing Care Retirement Community (CCRC) or Life Plan Community

Before digging into the financial stability of a CCRC/Life Plan Community, let’s talk about the key factors that make them stand out from other types of retirement communities.

Why a Continuing Care Retirement Community?
Also known as life plan communities, these organizations offer a vibrant and fulfilling lifestyle now, along with the peace of mind that comes with having a financial plan to cover future health needs. They offer a range of residential services and home maintenance, giving you more time for social and community activities — more time for the things you enjoy most.
In addition, a life plan community is an investment into your future as you are financially preparing for future medical needs. While offering an active and independent lifestyle now, these communities also offer long term care services, like assisted living and nursing care, when they are needed.

By making these important choices before you need them, you are in control of that decision and are making the financial plans to meet your future needs. This means greater peace of mind for both you and your loved ones.
How Can a CCRC/Life Plan Community be a Financial Benefit?

Understandably, one of the first questions people ask when exploring communities for older adults is “How much does it cost?” But there should be another important question right after that: “What am I getting for that investment?” Ask what services are included with the fees. Many communities include meals, housekeeping, utilities, and wellness resources, as well as transportation and entertainment.

A “Comprehensive”, or “Type A,” residence and care agreement also includes the cost of future long-term care services in the framework of the entry fee and monthly fees. Residential services, amenities and health care are typically all-inclusive, with little or no increase in monthly fees during the resident’s lifetime, other than possible inflationary adjustments and ancillary expenses. Many people refer to this comprehensive contract as “life care” and the idea behind it is planning. You join the community at the independent living level, with assurance that higher levels of service – assisted living and nursing care – will be there for you when needed.

CCRC/Life Plan Community’s that offer a comprehensive agreement assure these services are available to you at level and predictable rates. Yes, it may cost more upfront, but by eliminating care-related increases in fees throughout your stay, you may find that it’s a better value in the long run. Also, a portion of the entrance and monthly fees can be used as a substantial tax deduction, as the IRS recognizes these as prepaid medical-related expenses.
What Are the Tax Benefits?

Because the entry and monthly fees cover future long-term care costs, a portion of each may be considered a *medical expense* for federal income tax purposes under IRS Revenue Ruling 76-481. With comprehensive agreements, a significant part of the entry fee can be counted as a one-time medical expense for each person, while a portion of the monthly fees may also be counted annually as a medical expense.

The deductible amounts vary from year to year and are determined annually by the community, based on the relative costs of providing care services. These deductions are in addition to any out-of-pocket health care expenses you might incur.

Some or all of the resident’s entry fee must be non-refundable to qualify for the tax deduction. Any portion of the entry fee that is refundable will not be counted in the formula to determine the deductible amount. Also note the deductible amounts for a comprehensive agreement will be higher than those for a modified agreement that includes less coverage of long-term care needs.

**TIP**

*Entry fee tax deductions* for medical expense are only available to residents of communities that offer a range of care services in addition to independent living (e.g. a CCRC/Life Plan Community). To get an idea of what your deductions may amount to, ask for a copy of the community’s tax letter for the previous year, stating the deductible amounts for that year.

Consult with your personal tax advisor to determine what your situation might be regarding the deduction for medical expense.
Why an Entrance Fee Contract?
This helps ensure your current lifestyle needs are fulfilled, along with the lifetime promise to provide you future health care and a beautiful community to call home for many years to come.

**A CCRC/Life Plan Community is the only retirement living option to secure a resident’s contractual access to future long-term care services.** Recently, more rental-only communities have evolved. However, under a typical rental contract, there is either no contractual promise to provide future care or the monthly fee will be higher than a comparable CCRC/Life Plan Community with an entry fee.²

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**TIP**

**Entry Fee refunds**
Many communities offer refundable entry fees. Generally, these are considerably higher than nonrefundable entry fees, but guarantee that a portion of the amount paid is returned to the resident or to their estate if they no longer reside in the community. Keep in mind that the portion of the fee that is refundable could impact the tax deduction for medical expense.
How is Pricing Determined?

Fees can vary based on contracts, service offerings, accommodations and resident fluctuations within a community. External actuarial evaluations should occur to ensure pricing is in line to sustain and meet the community’s commitments to the future needs of residents. This financial stability is an important consideration when choosing to invest in a CCRC or life plan community.

“Ultimately, choosing a CCRC comes down to three questions:

1. Does it offer a lifestyle that is compatible with my needs?
2. Is it operated on a sound financial basis?
3. Does it provide the type of care I would want for myself whenever that day comes?”

Brad Breeding
President of My Life Site, industry expert and nationally-known speaker
Determining the Financial Security of a Retirement Community

Choosing a CCRC/Life Plan Community is an investment into your future. You gain peace of mind that you are prepared for future medical needs so you can live life to the fullest now.

Use this checklist to help choose a community that will be financially sound when you need it most.

☐ ACTUARIAL REPORT
A CCRC/Life Plan Community should conduct financial evaluations through an actuarial report to ensure pricing is appropriate to ensure that future needs of residents are met, along with the overall success of the community.

For example, at Collington, an actuarial firm conducts routine evaluations to ensure near-term and long-term success of the community.

- Assesses the sufficiency of current entrance fees and monthly fees
- Evaluates the sufficiency of current cash reserves
- Provides population flow projections that help to predict cash from entrance to fee turnover
- Quantifies the overall actuarial health of the organization
- Provides consultation prior to initial and ongoing pricing of entrance fees
ACTUARIAL FUNDED STATUS
While an actuarial report can provide a lot of financial information, the most important indicator is the actuarial funded status. This status represents the portion of liabilities (future expenses) covered by assets (future monthly fees and reserves). A funded status greater than 110-115% is preferable.

OCCUPANCY
Occupancy levels will fluctuate based upon transitions within the community, from independent living to assisted living to skilled nursing; however, the main goal for any community should be to get full and stay full.

NET OPERATING MARGIN RATIO
Net operating margin ratio looks at the core business realized based solely in the delivery of services to residents.

CASH FLOW STATEMENT
The class flow statement shows how much cash is produced from entrance fees, how much cash is used by operations and how much cash is needed for debt service and capital spending.

DEBT
A community’s cash- and investments-to-debt ratio is often determined by age of the community, days of cash on hand and debt service. A ratio of more than 50 percent is desirable.
Use this checklist (continued)

☐ **BALANCE SHEET**
   The balance sheet shows how much cash and investments are available.

☐ **PROFITABILITY, LIQUIDITY & CAPITAL STRUCTURE RATIOS**
   The industry uses specific ratios within profitability, liquidity and capital structure to measure the overall financial health of communities.

☐ **ACCREDITATION BY CARF**
   More than 800 standards, with one section specifically focused on finances, are measured before gaining accreditation by CARF. Of the almost 2,000 life plan communities in the United States, only about 300 are accredited.

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**TIP**

When researching the financial stability of a Life Plan Community it is wise to reference third-party resources such as:

- CARF.org
- LeadingAge.org
- MyLifeSite.net
- SeniorLiving.org
- Consumerreports.com
- kiplinger.com
- nextavenue.org
- money.com
- considerable.com
Is it time to join Collington?

Are you looking for a retirement community that offers everything you will need for this next phase of life? One that promotes a vibrant lifestyle for you now, while also giving you peace of mind that you will have the care you need as time goes on?

As a CCRC/Life Plan Community, Collington allows you to make an investment into your future. Your entry fee and monthly fees cover future health care costs, along with being tax deductible now. These fees are considered prepaid medical costs and can have a significant impact on offsetting any taxable income, such as from an IRA distribution or other particular transaction.
“My mother joined Kendal in 2000 and it was the best financial decision she could have ever made. She lived at Kendal for 13 years. At age 80 she moved into a one bedroom cottage where she resided in independent living for three years. Unfortunately due to an irreversible health condition she transferred to the Stephens Care Center where she lived for 10 years. During those 10 years she lived in both assisted living and nursing. Because of the comprehensive contract Collington offers, her monthly fee continued to be at the independent rate even though her level of care and cost of care was much higher. That is the beauty of a comprehensive contract. After my mother’s death, I calculated what she would have paid for that same level of care had she not moved to a Kendal affiliate under the comprehensive contract. She would have paid close to $1,000,000 for those 10 years of care. Not only a gift to my mother, but a gift to her family.”
The Bottom Line

Choosing to live in a Continuing Care Retirement Community/Life Plan Community is an important decision. Making the right choice means exploring a number of options and asking the right questions.

As you evaluate your options, you should choose an organization that demonstrates a strong financial track record from many different authorities, provides you with the ability to plan ahead for future health care needs and reduces your tax liability.

*But most importantly, you should choose a community you feel comfortable calling “home.”*

“A CCRC like Collington provides abundant lifestyle and health benefits today, as well as peace of mind for the future. A better life today and tomorrow - that’s what’s it about.”

Brad Breeding
President of My Life Site, industry expert and nationally-known speaker

References

1 “Continuing Care Retirement Communities– Description of Contract Types,” My Life Site
2 “CCRCs:The Purpose of Entry Fees,” My Life Site

Learn more about Collington at Collington.Kendal.org or by calling 800.540.1709.
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A Life Plan Community