Continuing Care Retirement Communities:
Benefits and risks of choosing a CCRC
In 2011, there were 41.4 million Americans who were at least 65 years old or older, more than tripling that age bracket since 1900.\(^1\) In the next four decades, the United States is expected to see the population of individuals 65 and older more than double according to the U.S. Census Bureau. As the Baby Boomers move into the oldest-old (those 85 and older) age category (a population that will increase to more than 21 percent \(^2\)), chronic diseases such as heart disease, stroke, cancer and diabetes, the most common and most costly health conditions require additional caregiving and support and contribute to the older person’s inability to remain in the community. For this population, long term care costs accounted for 12 percent of total costs in 2008.\(^3\) These significant out-of-pocket health care expenditures hinder access to care and quality of life and leave insufficient resources for other necessities.\(^4\) As a result, in the past few years there has been a shift away from skilled nursing facilities to consider a more private market-based system.\(^5\) At the same time, five percent of older Americans in 2009 had physically inadequate housing to enable them to remain in their home.\(^6\)

Continuing Care Retirement Communities (CCRCs) offer seniors an attractive option for their future long-term care needs by allowing them to convert their home equity or other assets into housing and services including healthcare. With features such as dining, health and wellness programs, social and recreational activities, transportation and more within a secure environment and at a wide range of costs through a continuum of care needs, CCRCs generally enable residents to remain in the community and usually on a single campus regardless of their changing health care needs.

Many people choose CCRCs because of a vibrant campus lifestyle that offers opportunities for learning and to engage in activities with far more mental stimulation and social engagement than staying in one’s current home.

Unlike other senior housing options, they provide a method to keep costs stable, protect against the loss of accommodations and services if the resident exhausts his or her funds and provide for a possible income tax deduction for certain fees paid to the CCRC for medical expenses.

CCRCs have been around for 100 years or so. Of the 100 oldest CCRCs, 25 of them were founded more than 100 years ago.

The earliest versions of CCRCs were products of fraternal groups or religious groups. These early communities were often called life care communities and in fact that reference remains in existence today. Those communities often required residents to sign over all of their assets in exchange for care for the remainder of the resident’s life. CCRCs combine features of independent living, assisted living, skilled nursing and more frequently memory care.

Leading Age, an organization of non-profit organizations dedicated to seniors, and Ziegler, an investment bank that specializes in complex credit structures and a leading financier of senior living organizations, jointly run a survey of CCRCs each year referred to as the LZ100. Today, about 1900 CCRCs are in existence according to the LZ100. Despite the number of CCRCs in existence, there is no national definition of what constitutes a CCRC or what types of policies should be in place for things like refunding fees. CCRCs are regulated at the state level and oversight is spotty. Even those states that do have specific CCRC regulations tend to focus more on the community’s financial condition and less on consumer protection. Some states have begun mandating when a resident must receive a full refund. However those states are generally states with high numbers of CCRCs (Washington has only 16) although Ohio, which has the second highest number of CCRCs (almost 150) has no regulations for CCRCs.

Though there may not be a nationally recognized format for CCRCs, three fundamental components exist:

1. Access to a continuum of care (independent through skilled nursing). Nearly 90 percent of the LeadingAge Ziegler 100 (LZ100) organizations now offer designated memory care units. In addition, in the past few years a new kind of CCRC has emerged, “the CCRC without walls” which takes the programs of a CCRC and applies them to an in-home setting. These CCRCs are creating a means for individuals to transition from single family home to a CCRC through such on-campus amenities as dining amenities, fitness areas and access to clinic services. While campus-based senior living accounts for 81 percent of the LZ100 overall annual revenue, providing home and community based services to non-residents now make up the next largest source of income.

2. Services and amenities to promote wellness and healthy living on and off campus. Many CCRCs offer state of the art wellness facilities, travel, continuing education programs and flexible dining choices. CCRCs see their greatest competition in the single family home and hope to compete by offering higher levels of safety, socialization and maintenance of a health way of life.16

3. Maintenance for life (although this varies widely with what type of contract a resident chooses). Residents and the CCRC enter into a contract or resident service agreement that details the charges and provides access to limited or unlimited medical and nursing care.

The recession has impacted both seniors and CCRCs.

On the one hand many seniors are re-evaluating their investments. Because CCRCs represent a significant investment of upwards to $1 million or more, they represent a sizable portion of an individual’s retirement savings usually as the result of selling a home or liquidating some investments. The heavy reliance by CCRCs on upfront fees is forcing many seniors to take a harder look at refund policies and pricing structures. On the CCRC side of things, while the recession has caused some CCRCs to suffer financial setbacks, financial failures have been statistically low. Even in cases of bankruptcy, a new provider generally takes over operations leading to financial losses for investors and lenders rather than individual residents17 but that’s not guaranteed and residents could be considered unsecured creditors and lose any refundable entrance fees.18

Even top notch CCRCs can end up in bankruptcy but because residents have a vested interest, anywhere from $150,000 to $1 million or more in the form of entrance fees, it’s a financial transaction on a scale and complexity most seniors have never encountered.

The contract is often extremely long and complex. A Kiplinger report19 started out with this scenario, “Imagine hunting for a new home, making high stakes health care decisions and negotiating complex business deal-at the same time.” As a result, seniors and their families should have a lawyer, financial advisor or accountant review the contract and the financial reports to aid in determining whether or not moving to a CCRC is appropriate and determine which CCRC to choose. A Consumer guide to understanding CCRCs is available from CARF International, which provides accreditation to CCRCs at www.carf.org.

CCRCs require heavy entrance fees ranging from $100,000 to $1 million20 and while that seems like a wide range CCRCs differ enormously in amenities, locations,
and contract types. About 80 percent of CCRCs are nonprofit. For many of them, providing support for a resident after the resident has run out of funds is seen as fulfillment of the promise of buying into a CCRC. There are three kinds of CCRC contracts and in addition more and more CCRCs also offer rental contracts.

- **Type A contracts:** Called Life Care, this entrance fee (historically un-refundable or refundable on a declining basis) has seen more and more communities offering refundable options. In addition to the entrance fee there is a monthly fee with a built-in inflation adjustment regardless of where the resident resides or the level of care they receive. The contract offers living accommodations and an extensive range of services and amenities and provides for a resident’s transfer to appropriate level of care for an unlimited time at little or no extra cost. Residents are required to maintain a minimum level of Medicare co-insurance and the residents collectively share in the health care risks of the community.

- **Type B contracts:** Also known as a modified life contract, this usually less expensive entrance fee may or may not be refundable and includes a monthly fee. The key difference between Type A and Type B contracts lies in the amount of health care risk the community is willing to absorb. Usually the resident is entitled to free care for a period of time (ex. 60 days) or care at a reduced cost. If they move to a higher level of care they then are charged the market rate. The CCRC bears financial burden for the resident during the initial period of time but the burden transfers once the timeframe has expired.

- **Type C contracts:** This is really a fee for service. Any entrance fees are usually always refundable. The resident receives a set amount of services but if they need more, they have to pay for them at the same rate as for those from outside the CCRC. Any move to a higher level of care usually costs the market rate but they have priority for access. Type C contracts do not receive a medical deduction (Type A and B do) but can accumulate actual out-of-pocket costs that are eligible for deductions. Residents at this level take on the full risk of health care costs.

- **Rental (sometimes referred to as Type D contracts):** There’s no real entrance fee here allowing the resident the lowest level of upfront charges although there is generally a non-refundable application fee. There is no right to access other levels of care on campus.
Questions to ask before choosing a CCRC:

- **Is there a charge for moving from independent to assisted living or nursing care?** How is it determined that a resident must make that move? Some communities reserve the right to tell the residents when it’s time for them to move into the next level of care. They can also force them to leave the community entirely if their behavior does not meet a community standard (something that can occur with those suffering from dementia).

- **What happens if your finances take a hit?** If the resident runs out of money, he or she must determine if Medicaid will be accepted. Along the same front, residents should also understand the effects of their entrance fee on a potential Medicaid application.

- **Is money kept in an escrow account?** Escrow accounts are an effective device to maintain current residents and attract new ones in the event of a bankruptcy. Escrow accounts are owned by and benefit the residents and protect them against the CCRC’s other creditors.

- **What’s the policy for monthly fee increases?** Monthly fees are typically set in the contract and generally increase annually. According to the MetLife Mature Market Institute, from 2009 to 2010, these costs increased by 5.2 percent. Potential new residents should ask for a history of fee increases for the past five years and a description of the fee adjustment policy.

- **Are the upfront fees refundable and are any of the fees tax-deductible?** Refundable entrance fees are generally 50 percent more than non-refundable fees. Some CCRCs use a decreasing refund policy that refunds a smaller amount over time. Beginning in 2013, if your medical expenses are more than 10 percent for individuals under 65 or 7.5 percent for those older than 65, you may be able to deduct some health care costs. Because of the nature of CCRCs the IRS considers a portion of the long term contract a resident enters into with entrance into a CCRC

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as a medical expense if you have a non-refundable entrance fee. If the entrance fee is refundable, only the portion that is non-refundable may be deductible. As the exact percentage depends upon the CCRC, individuals looking into a particular CCRC must ask the CCRC the percentage of its fees that are deductible.  

**Conclusion:**

Moving to a CCRC is not a move to be made after experiencing a health setback. CCRCs are designed for healthy people looking for security. Generally, you must be capable of living independently when you move in. Facilities minimize their risks of admitting high numbers of residents who will need care by requiring prospective residents to submit health information before being allowed to move in. Because many CCRCs also offer lifetime care, prospective tenants are also required to submit financial information and may deny residency based on insufficient assets and income given a tenant’s life expectancy.

Once you have chosen to move into a CCRC you have essentially chosen to live there for life, making a weekend visit to several CCRCs to narrow down choices a must. They are a very expensive investment and the decision should be weighed carefully with the assistance of your attorney and a financial planner but with the cost of healthcare continuing to explode and the resulting changes in federal and state healthcare policies as an unknown, CCRCs can provide a relative known in an unknown world.

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**About AgingOptions**

*AgingOptions* is a holistic elder care company helping families plan for, pay for, and coordinate the long-term care of elderly loved ones.

*AgingOptions’* services are geared towards retirees and those thinking about retirement and concerned about:

• Losing independence & having to move to a nursing home.
• Losing your assets to uncovered medical or long term care costs.
• Becoming a burden on your loved ones.

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