UNDERSTANDING PAYMENT STRUCTURES FOR CONTINUING CARE RETIREMENT COMMUNITIES

By Brad Breeding|, My LifeSite December 16th, 2015

Continuing Care Retirement Communities (CCRCs), sometimes referred to as Life Plan Communities, are a popular choice for older adults who are healthy today, but who want to live in a setting that can readily provide assisted living or healthcare services if later needed. Ideally, a resident of a CCRC will never have to move again, regardless of care needs that may arise. This provides peace of mind not only for the resident, but often for family members too.

Providing lifetime housing and healthcare for all residents is not an inexpensive proposition. Therefore, it is important for CCRCs to accurately price residency contracts to help mitigate current and long-term financial risk. These contracts are often designed by actuarial consultants who attempt to predict future costs and liabilities for the resident population as a whole, but the details of CCRC residency contracts can vary rather significantly from community to another.

The payment structure of a CCRC contract can be broken down into two main parts: **Buy-In Structure** and **Monthly Payment Structure.**

CCRC Buy-In Structure

The buy-in structure dictates how much a resident will pay up-front to move into a CCRC. Among all CCRCs there are three main types of buy-in structures:

1.Entry Fee: The resident pays an entry fee that may or may not be refundable in the future.

2.Equity: The resident purchases the residential unit, which may be resold later.

3.Rental: There is no up-front payment or purchase, other than a nominal community fee.

CCRC Monthly Payment Structure

The monthly payment structure dictates how the monthly fee adjusts when a resident who is independent today begins needing care services. As with the buy-in structures, there are three types of monthly payment structures:

1.Fee for Service: Once a resident begins requiring care services the monthly fee will increase to reflect the market rate of such care.

2.Modified: This is also a fee-for-service model but the cost of care is typically discounted so the resident does not pay the full market rate for care. Alternatively, a CCRC may offer a certain number of days of care at no charge before the resident's monthly rate increases.

3.Lifecare: The resident's monthly rate does not increase when care services are needed. The rate is essentially the same regardless of whether a resident is living independently or in need of care. Note: Some lifecare communities are now offering a monthly payment structure whereby residents who require care will pay a monthly amount that is equivalent to the average monthly payment of all residents residing in independent living. This means residents in one of the lower priced units could see an increase when they require care services, and residents living in higher priced units could actually experience a decrease in monthly payments.

Interrelationship between Buy-in and Monthly Payment Structures

All other things equal, there will be a trade-off between the amount paid for the buy-in and the amount paid monthly. For instance, a lifecare contract will likely require a larger entry fee (and possibly even higher monthly fees for independent living) than a modified or a fee-for-service contract, but the resident would pay less for assisted living or healthcare services. Alternately, a fee-for-service contract would require a lower entry fee (and likely lower monthly fees for independent living) than a lifecare contract, but the monthly cost would be higher when care services are needed.

You'll notice I said "all other things equal." This is because there are other factors involved in pricing, which are similar to the types of factors that contribute to the any housing market. Suppose, for instance, you are comparing a lifecare community in a rural area of the mid-west to a fee-for-service community located on a bay in San Francisco. In this case you would almost surely pay more for the fee-for-service community because of location. Aside from location, the level of services and amenities offered by the community also contributes to the overall cost structure.

The following chart shows how buy-in structures could be paired with monthly payment structures:

	Entry Fee	Equity	No Buy-In (Rental)
Type A - Lifecare		N/A	N/A
Type B - Modified			N/A
Type C - Fee for Service			

It is apparent from the above chart that there are six possible combinations of buy-in options and monthly-payment options. You'll also notice that rental contracts always operate on a fee-for-service basis. Additionally, the monthly rate for independent living at a rental community will likely be higher than the monthly fee at an entry-fee community…all other things being equal.