Instead of Aging In Place, Consider Plan B

Continuing care retirement communities offer full lifestyle options.

by Alexandra Armstrong, CFP®, CRPC® & Christopher Rivers, CFP®, CRPC®

According to a November 2021 survey by AARP, 77% of all adults over age 50 want to stay in their own homes as they age. Aging in place resonates emotionally with many people. Continuing to live on your own as you age may not be practical or desirable, however. Even if you are fortunate enough to have adult children who live close by, want to help, have lots of spare time and have the skills to manage health and home care, it may be a lot to ask of anyone and may even put serious strains on your relationships.

A RETIREMENT LIVING LANDSCAPE

There are many types of communities that serve an aging population, including active adult communities restricted to those over 55, assisted living facilities and nursing homes, while memory care facilities are for those whose memory loss does not allow them to live independently. Some communities offer a hybrid of independent living and assisted living, but no health care.

Only continuing care retirement communities (CCRCs) contain the full spectrum of independent living, assisted living, memory care and skilled nursing. Typically, a new resident will move into independent living (a home or apartment) and transition as needed through the other levels of care. These CCRCs are sometimes referred to as life plan communities.

CONTINUING CARE RETIREMENT COMMUNITIES

In order to be certified as a CCRC, they must provide a combination of independent living, assisted living and health care. The community may be run for-profit by a corporation or in a not-for-profit manner where the funds in excess of expenses are spent solely on the community. Some communities are standalone entities, while others are part of a network of communities run by a management company.

There are many thriving for-profit CCRCs, as well as not-for-profit CCRCs with multiple locations. But for-profit communities have to satisfy corporate shareholders and some CCRCs with multiple locations may be supporting a less successful campus at the expense of a more appealing one. Each community is different from others and each has its own culture. Some are what previous generations called an "old folks home." Some feel more like active adult communities, while others are "party central."

The first step in evaluating a community is to visit and get a feel for the people you'll be living with in the future. This is difficult to ascertain ahead of time, but really can be key to whether you will be happy in your new home. Ask how active the residents' council is and how involved the residents are in community affairs. While you're there, take some time to explore the area around the community. Is it near medical facilities/doctors? Is it in a town or country? Is attending theater and symphony events important to you? This will be your new neighborhood, so you want to be sure it's a good fit. In addition, there is a growing segment of niche communities focused on specific interest groups, universities, professions or hobbies.

Read council minutes and community newsletters, not just marketing materials. See if you can gauge how responsive the administration is to residents' concerns and whether the community is keeping up-to-date with the changing generations. For example, baby boomers tend to prefer casual dining and larger gyms more than the prior generation.

THE COST OF CCRCS

When you move to a CCRC you are signing an agreement with the community to provide service and a place to live for the rest of your life. You sign a contract and pay an entrance fee and a monthly fee. Part of either or both fees may be tax-deductible as medical expenses on your tax return, to the extent they exceed the 7.5% medical deduction threshold. Most CCRCs base the entrance fee on the square footage of the house or apartment you plan to occupy and whether one or two people will occupy it. Often you will have an option to pay a larger entrance fee in exchange for a guarantee that your estate will be reimbursed a percentage of that entrance fee (typically 50% to 90%). Depending on the community the entrance fee can be anywhere from $100,000 to $1 million, but the national average is around $325,000.

The other part of your financial obligation is the monthly fee. That will cover some food costs (commonly a set number of meals a month or a set number of dollars to spend on food a month), cleaning service, home maintenance, basic cable, use of facilities and more. The average monthly fee is roughly $3,200, though again in upscale communities the cost may be two to three times higher.

Every community differs on what is covered, so check on the details. As with all institutions, fees will go up over time. To get an idea of how much annual costs might rise, ask to see the past five years of fee increases. The best thing you can do in assessing fees and your ability to pay them is to talk to your financial planner.

4 TYPES OF CCRC CONTRACTS

The price will also depend on which contract framework the community uses for its service. These contracts fall into one of four types, labeled Type A through Type D:

A. **Extensive or Full Life**
B. **Modified Life**
C. **Fee-for-Service**
D. **Rental**

Type A contracts tend to have higher entry fees than others. These contracts typically provide for unlimited assisted living and nursing care at no additional fee. Type B contracts provide some care, but will typically charge for additional health care if your needs progress. Type C contracts will be less expensive upfront than A or B, but the resident will typically have to pay separately for health care services. Type D contracts provide the lowest cost of entry, but also the highest ongoing cost for health care and additional services.

There are some communities that use equity or co-op arrangements, which can be different than the others. At these communities you typically buy the real estate and own it as you would any other assets. At your death, your estate will own the assets and your heirs will work with the community to sell the unit. Since you are buying the real estate outright, you will not typically have an entry fee in these communities. You will have monthly fees for resident services and may need to pay out-of-pocket for increased health care.

ASSESSING THE FISCAL HEALTH OF A COMMUNITY

The other part of this financial decision is to determine whether a community is operated in a fiscally responsible manner. You will probably want your attorney and your accountant to look at documents outlining your legal and financial obligations and those documents denoting the financial position of the community (e.g., audited financial statements, annual report, projected five-year budget, etc.). On the legal side, the CCRC isn't likely to change the terms of the contract, but it is important to understand what the agreement covers.

On the fiscal side, there are a variety of key indicators to consider including occupancy rates, days of cash on hand, net operating margins, long-term debt, and unrestricted cash and investments. Gather as much information as you can and ask questions. We have found it helpful to talk to the resident who is the chairperson of the resident financial committee and consider the backgrounds of those on the board of directors. Ideally, you would want to see an occupancy ratio above 90%, a debt-to-cash ratio of around 35% and close to one year's worth of cash on hand. These are not hard and fast thresholds but are good benchmarks for a fiscally healthy community.

If all of this seems like a lot of "homework," it is. This is a complex decision, both psychologically and financially. You want to be able to move into a community and focus on embracing your next chapter, rather than being concerned about your financial position or the fiscal health of your community.

RESOURCES

A good resource for starting a search for a CCRC is **carf.org**. CARF is the only accrediting organization for CCRCs and less than 25% of CCRCs are accredited. It's voluntary for a community to submit to accreditation, but an unaccredited community should at least have a good explanation of why it has chosen not to do so.

In many areas there are advisers (often called senior living advisers or elder care advisers) who are knowledgeable about the various communities and can help you with your search. For a fee, they will gather background information and health history and help you find a community that meets your needs, both socially and medically. When you've made your decision and are ready to move, there are certified senior move managers, senior relocation and downsizing companies who can help with the transition.

CONCLUSION

Once you have gathered this information, we recommend you discuss how the community would fit into your budget with your financial planner. Most planners have helped other clients select a retirement community and are familiar with the ones in their geographic area. We have observed that after our clients have made this important decision, uniformly they remark first on how they wish they had made the move sooner, and second on how good they feel that they have given their family the gift of not having to worry about their care as they age.

You may never need the daily care of assisted living and you may be that rare person who never goes to the hospital or needs skilled nursing. The benefit of a CCRC is that, in the event that you do need that care, you are able to remain in the community in which you are already at home.

In the U.S., we tend to have a negative idea of aging. In contrast, our friends at CCRCs tell us that they feel as though they are back in college again and want to put off "graduation" as long as possible. A bundle of worry has been lifted from their shoulders because they know they have planned for the times when things go bump in the night.

Alexandra Armstrong is a CERTIFIED FINANCIAL PLANNER™ professional and Chartered Retirement Planning Counselor℠ and founder and chairman emeritus of Armstrong, Fleming & Moore, Inc. Christopher Rivers, a CERTIFIED FINANCIAL PLANNER™ professional and Chartered Retirement Planning Counselor℠ and co-author of this article is a principal of Armstrong, Fleming & Moore, Inc., located at 1800 M St. NW, Suite 1010-S, Washington, D.C. 20036-5813, 202/887-8135.This material has been provided for general informational purposes only and doesn't constitute either tax or legal advice. Investors should consult a tax or legal professional regarding their individual situation. Securities offered through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Armstrong, Fleming & Moore, Inc., a Registered Investment Adviser, are separate and unrelated to Commonwealth Financial Network.