2008

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Anderson, Seth C.; Michelman, Jeffrey E.; Johnson, Raymond M.; and Quick, Kristi, "Rate Setting and Disclosure in Continuing Care Retirement Communities (CCRCs)" (2008). Accounting and Finance Faculty Publications. 9.
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Rate Setting and Disclosure in Continuing Care Retirement Communities (CCRCs)

Seth C. Anderson, Jeffrey E. Michelman, Raymond M. Johnson, and Kristi Quick

BY 2026, the population of Americans age 65 and older will double to 71.5 million. According to a recent study by Metlife, et al., there are five important issues that impact both current and future retirees:

1. Increased longevity with Americans living longer;
2. Changing economic factors such as increased health care costs;
3. A growing skills shortage in many industries;
4. Different beliefs about work among the aging Baby Boomer generation; and
5. Financial resources available for retirement.

All five of these factors affect both the ways seniors plan for retirement and the ways that organizations providing services to seniors must respond.

Continuing care retirement communities (CCRCs) represent an important part of the health care industry that addresses the needs of seniors in their retirement years by offering the benefits of a high-quality retirement lifestyle in conjunction with long-term care. In recent years, these organizations have grown in popularity, although they are not for all seniors because of both the financial and health requirements for clients.

CCRCs comprise a sector of the health care industry that reduces their dependency on both the Medicare and Medicaid programs. Instead, they depend upon scheduled maintenance fees as well as one-time entrance fees for primary revenue. As a result, financial managers walk a fine line in pricing strategies that both meet state regulations and satisfy the demands of a well-educated cadre of residents. In this article we focus primarily on the issue of the setting of scheduled maintenance fees which, according to many CCRC managers, are a major source of concern for many residents.

In examining this issue, the analysis that follows has been broken down into five parts. First, the changing financial profile of seniors is presented. Second, the structure and

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geographic distribution of CCRCs is presented. Third, CCRC fee increases, methodologies, and disclosure issues are discussed. Fourth, a case study of Vicar’s Landing, a CCRC in Ponte Vedra Beach, Florida, is presented. Finally, a discussion of the issues and conclusions are offered.

Changing Financial Profile

Although the number of American seniors is increasing, their percentage of the total population is not. The over-65 population increased by 12 percent (3,749,922) between 1990 and 2000, while the overall US population increased by 13 percent (32,712,033) during this same period. However, of greater interest to this study, the financial profile of the over-65 population has changed considerably over the past three decades. We first look at some wealth metrics, and then describe how income levels have changed over recent years for this population sector.

Of the entire 65-plus population, 80 percent own their own homes and 20 percent are renters. Seniors between 65 and 69 years of age have a median net worth of $114,000, including the equity in their homes, but $27,588 without it. This statistic alone is quite important because of the entry requirements of CCRCs. See Figure 1.

In contrast to the overall decline of the net worth of Americans (estimates vary by

Figure 1. Income Distribution of the Population age 65 and Over, 1974–2004

<table>
<thead>
<tr>
<th>Year</th>
<th>Low Income</th>
<th>Middle Income</th>
<th>High Income</th>
<th>Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>5.0%</td>
<td>25.0%</td>
<td>70.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1976</td>
<td>4.4%</td>
<td>24.8%</td>
<td>70.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1978</td>
<td>4.1%</td>
<td>24.7%</td>
<td>71.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1980</td>
<td>3.9%</td>
<td>24.8%</td>
<td>71.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1982</td>
<td>3.7%</td>
<td>24.7%</td>
<td>71.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1984</td>
<td>3.5%</td>
<td>24.6%</td>
<td>72.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1986</td>
<td>3.3%</td>
<td>24.5%</td>
<td>72.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1988</td>
<td>3.1%</td>
<td>24.4%</td>
<td>72.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1990</td>
<td>2.9%</td>
<td>24.3%</td>
<td>72.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1992</td>
<td>2.7%</td>
<td>24.2%</td>
<td>73.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1994</td>
<td>2.5%</td>
<td>24.1%</td>
<td>73.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1996</td>
<td>2.3%</td>
<td>24.0%</td>
<td>73.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>1998</td>
<td>2.1%</td>
<td>23.9%</td>
<td>74.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2000</td>
<td>1.9%</td>
<td>23.8%</td>
<td>74.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2002</td>
<td>1.7%</td>
<td>23.7%</td>
<td>74.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2004</td>
<td>1.5%</td>
<td>23.6%</td>
<td>74.9%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: The income categories are derived from the ratio of the family's income (or an unrelated individual's income) to the corresponding poverty threshold. Being in poverty is measured as income less than 100 percent of the poverty threshold. Low income is between 100 percent and 199 percent of the poverty threshold. Middle income is between 200 percent and 399 percent of the poverty threshold. High income is 400 percent or more of the poverty threshold.

how much, but all agree in a decline) between 1984 and 1999, the net worth of older Americans has continued to increase, as illustrated in Figure 2 below. This change in seniors' median net worth during this period is often attributed to educational background. In 1999, a 65 or older citizen with a college degree had net worth of over four times that of someone without a high school diploma. The relationship is shown in Figure 3 below. This metric is important because seniors must have a net worth exceeding $100,000 to $200,000 to be considered for the most economical CCRC communities. Also, the $100,000 mark seems to be quite important, as seniors above this point tend to feel more financially secure about retirement, as evidenced by Figure 4. Now, let us turn to some facts about seniors' incomes.

For those seniors between the ages of 65 and 74, the average before-tax income is $35,118, with a significant portion coming from Social Security. However, it should be noted that over the past three decades a larger proportion of seniors' incomes has risen relative to the poverty level. In 1974, approximately one half of older Americans had incomes greater than twice the poverty level. By 2004, the proportion of seniors at this relative high income level had risen to almost two thirds. The details of this shift are depicted in Figure 1. This shift in the relative wealth of seniors, along with lifestyle expectations, has likely contributed to the successful establishment of CCRCs over recent years. Their increase in spendable income has allowed many seniors to meet the scheduled maintenance fees that are required for residing in CCRCs.

When combined, these changes in seniors' net worth and income metrics create both significant opportunities and challenges for CCRCs. The opportunities lie in the CCRC sector's having a growing potential pool of

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**Figure 2. Median Household Networth by Age of Head of Household, in Thousands of 1999 Dollars, 1984–1999**

![Graph showing median household networth by age of head of household, in thousands of 1999 dollars, 1984-1999.](image)
clients who can afford the services of the industry. The challenge of interest here is two-fold for CCRCs:

1. To be able to economically provide the services demanded in an environment characterized by rising health-related costs; and
2. To be able to institute increases in maintenance fees with a minimum of client resistance.

For the moment, let us take a quick look at the nature of CCRCs before proceeding to this two-fold challenge.

Continuing Care Retirement Communities (CCRCs)

These communities have a long history dating back to religious and fraternal organizations where residents had to give over their life savings in order to be “guaranteed” lifetime health care in an institutional setting. In contrast, the CCRC of today looks for residents rather than patients, and the active instead of the sick. Moreover, they offer a continuum of care ranging from active and independent living, to assisted living, and finally to nursing care.

Nationwide in 2006, there were 725,000 retirees living in more than 2,240 CCRCs and over 1.2 million seniors living in 15,889 nursing home facilities across the country. (The Continuing Care Accreditation Commission (CCAC) accredits approximately 330 CCRCs.) As can be seen in Figure 5, 73 percent of accredited CCRCs are located in 12 states. Based on the 2000 census, these states account for 51 percent of the over-65
population and are home to 46 percent of nursing homes. Senior population growth in these states, as seen in Figure 5, indicates that seniors who have the financial resources often choose to relocate out-of-state to enjoy the benefits of high-quality CCRC residency.

Although CCRCs vary in location, amenities, and cost, they all share two common attributes. First, they appeal to residents who are interested in choosing a continuum of care that begins with an active lifestyle and continues to complete nursing care. Although most facilities provide for independent living, assisted living, and nursing care, all three stages may not be provided at the same location. Also, in some cases assisted living may not be provided at all. Second, all communities share a contractual agreement that requires the facility to provide services for a specified period, ranging from one year to the resident’s lifetime.

Although the fee amounts and requirements can vary greatly from community to community, they generally require an up-front initiation or entry fee and a monthly maintenance fee. Entry fees can range from lows of $20,000 to highs of over $4 million. Monthly fees can range from $200 for one person to over $10,000 for two people. Further, contracts vary greatly as to how much, if any, of the entry fee will be returned to residents or their heirs when they leave the community. Financial managers generally find planning for the healthy portion of their clientele to be relatively straightforward.
However, this is not usually the case when the clients require more health-related care.

Although the amount of health-related care is budgeted based on actuarial estimation and follows predictable patterns, the cost of this care is not predictable. The unpredictability of nursing home units’ costs follows patterns similar to the rest of the health care industry. However, these costs must be met out of maintenance fee revenues. Thus arises the problem of setting predictable maintenance fees which will partly be used to meet unpredictable health-related expenditures.

**Fee Increases and Disclosure Issues**

Resident maintenance fee adjustments are generally implemented by CCRC managers in conjunction with the organization’s finance committee. Organizations use a variety of benchmarks when determining fee adjustments in the attempt to generate appropriate future revenues. These benchmarks include separately or in varying combinations:

- The Consumer Price Index (national, regional, and local);
The Employment Cost Index (a component of the National Compensation Survey);
- A Hospitality Index;
- Medical Services Price Index;
- A Fuel Cost Index; and
- An institution-specific index which is developed based on key cost drivers.

Each of these indices is comprised of variously weighted prices of different goods and services, depending upon the objective of the index. For example, the Consumer Price Index (CPI) is computed using weighted prices of varying goods and services consumed by the public in general. However, because different segments of the population consume varying proportions of the included goods and services, the appropriateness of the use of this particular index as a benchmark varies from sector to sector. Because of this problem, which is inherent in benchmarking with conventional indices, it may be appropriate for CCRCs to develop institutional-specific indices, as will be seen in the following section. For now, let us turn to the problem of rate-setting disclosure.

In their explanation about maintenance fees changes, CCRCs across the country range from no explanation to complete disclosure with residents. A position held by some managers is that, as residents age, the complexity of these issues becomes difficult to understand; therefore, the clients are best served by being kept relatively unaware of the fee-adjustment process. Others hold that in the current environment of increased disclosure pressure—such as the disclosure requirements imposed on most US corporations by the Sarbanes-Oxley Act—residents should be fully apprised of the entire process. Our experience in this area and our conversations with other CCRC providers suggest that the importance of transparency in rate setting will increase as time passes.

We contend that a strategy should be developed to gain member support by encouraging them to buy into fee increases rather than by ignoring resident attitudes and beliefs. This is not to say that residents should be burdened with all of the details that go into the rate-setting process, such as the specifics of what indices are used, or the internal deliberations of the relevant committee. However, they should be availed of the process and logic that the organization follows in the setting of rates. Now, let us review the case of Vicar’s Landing, a CCRC which has focused intensely on both the problems associated with maintenance fee adjustments and the issue of disclosure to residents.

Vicar’s Landing: A Case in Point

Vicar’s Landing is a fully accredited CCRC in Ponte Vedra Beach, Florida, with a resident complement containing: independent living (227 units, 286 members), assisted living (38 studios, 34 members), and skilled nursing (60 rooms, 49 members) all located on one 24-acre campus. Vicar’s Landing opened in October 1988, and is owned and operated by Life Care Pastoral Services, Inc. (LCPS), which was established by Christ Episcopal Church in Ponte Vedra Beach. LCPS is a not-for-profit, non-denominational organization. Vicar’s Landing currently has an average waiting list for entrance to the independent living units of five years and has entrance fees ranging from $215,750 (one bedroom apartment/one person) to $547,200 (patio home/two people). Residents can enter only upon receiving a positive physical examination which
qualifies them to reside in the independent living units. They must also demonstrate the ability to pay monthly fees ranging from $2,153 (one bedroom apartment/one person) to $4,603 (patio home/two people). Vicar's Landing is positioned geographically to take advantage of retirees relocating to Ponte Vedra due to the climate, golf, and excellent medical facilities, including Mayo Clinic-Jacksonville. Like most CCRCs, Vicar's Landing accepts Medicare for appropriate medical expenses and for stays in the health center but does not accept Medicaid.

For the first 13 years, Vicar's Landing used CPI as a benchmark in setting rates. Management believed such fee increases needed to cover both operating expenses and debt service. However, fee increases often failed to match the overall expense increases experienced by the facility, and this was frustrating for both management and residents. Management was perplexed as to why this occurred, and residents didn't understand why their expenses were rising more than the widely followed CPI Index. After a careful examination of their costs for prior years, and consultation with the board of directors, management decided to develop a model that more accurately reflected costs. In completing this process, they compared Vicar’s Landing’s cost components with those of the CPI. The analysis revealed important facts which are shown in Figure 6.

As is seen, several key components indicate that reliance on the CPI was misdirecting their decision-making process. When using a rate-setting model that is based on the CPI:

- Food, housing and transportation were significantly underrepresented in Vicar’s Landing’s costs; and
- Direct labor was significantly overrepresented in Vicar’s Landing’s costs.

As a result, by using the CPI as the driver of rate increases, Vicar’s Landing was not raising rates in the same manner that their costs were increasing. The most significant factor was the impact of direct labor. Ponte Vedra is a bedroom community to Jacksonville, Florida, which ranks as the 14th largest city in the United States, with a SMSA population of over 1 million people. During this period, Jacksonville’s unemployment rate was below the national average, and nursing care was in a relative shortage because of the demands of hospitals and other longer-term care facilities in the Jacksonville market. Moreover, Vicar’s Landing’s location necessitates an in-migration of day workers, as most employees are unable to afford to live in Ponte Vedra. Because residents expect high-quality service, Vicar’s Landing hires in the higher end of the labor market in order to maintain quality and to reduce turnover.

Beginning with the 2001 budget, rate increases were based on the proportion of
Figure 7. Residents’ Characteristics and Management’s Challenges

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Most residents are well-educated, and many have had extensive business experience.</td>
<td>1. States usually do not control maintenance fee increases, but do establish disclosure minimums.</td>
</tr>
<tr>
<td>2. Residents have made a substantial commitment to the community via the entrance fee and relocation.</td>
<td>2. Rate increases in some respects are limited to once a year; hence, the impact of future costs is imbedded in an annual budget.</td>
</tr>
<tr>
<td>3. Pre-entry financial preparation of residents indicates the ability to afford fee increases.</td>
<td>3. Many CCRCs are located in areas where there are shortages in the health care labor market.</td>
</tr>
<tr>
<td>4. Residents expect transparency and appreciate management’s being forthcoming in explaining financial issues.</td>
<td>4. Residents need to understand that cost shifting takes place between categories of residents because appropriate capacity in all areas of service must be maintained.</td>
</tr>
<tr>
<td>5. Many residents understand complicated issues, such as risk and contingencies.</td>
<td>5. Bond-rating agencies are particularly concerned with budgets that facilitate short-term interest payments and long-term debt repayments.</td>
</tr>
<tr>
<td>6. Residents want to receive high-quality care, but prefer to pay for it at time of receipt.</td>
<td></td>
</tr>
</tbody>
</table>

Direct labor (based on Vicar’s Landing’s actual costs for the previous year) and on all other costs using the CPI rate of increase. Management expended considerable efforts to frame the rate issue in a business case presentation in order to gain the support of residents who appreciated that management was not trying to reduce amenities in order to stay within the budget. In developing an effective presentation, management paid particular attention to a list of residents’ characteristics and management’s challenges, which is presented in Figure 7.

As is seen in Figure 7, the characteristics of residents pertain to attributes that are important to the maintenance fee issue; whereas challenges are areas in which management likely needs to educate residents. The new rate-setting process and the efforts at better communication with residents resulted in two major improvements. First, rate increases better matched the underlying price pressures on the institution. Second, communications with residents became much more transparent. In particular, management was able to explain to residents the importance of employee salaries in the total scheme of expenses. Although residents were not happy about rate increases, they became more aware of why they occurred.

Tangentially, during this period, the importance of increased transparency and communication between residents and management became paramount because Vicar’s Landing experienced a 70 percent increase in insurance rates over a two-year period (2001 to 2002), as well as other significant costs related to two hurricane evacuations in 2004. Management’s ability to effectively communicate to residents the financial impact of the rise in insurance rates because of these events was significantly enhanced by the improved relations that had been established in dealing with the maintenance fee issue.
Discussion and Conclusion

There exists a great deal of discussion throughout the long-term care community concerning the appropriate amount of disclosure about maintenance fee adjustments. In the past, the amount of disclosure has varied from the minimum required by law, to educating residents on why costs have increased. Many facilities argue that full disclosure overwhelms residents who are unable to cope with the complexity of the issues. To surmount this problem, Vicar’s Landing instituted a program of education and communication to take advantage of residents’ skills and abilities. However, in spite of these abilities and skills, many residents found it tedious to discuss the complexity of cost of care. Thus, the business case presentation developed by management helped to show that it was not only the costs of salaries in the health center, but also wages for the servers in the dining room, maintenance men, groundskeepers, and maids, that affected those who were active and still housed in independent living. A major thrust of the presentation was that one of the most valued assets in a CCRC is the quality of on-going services for the residents.

In summary, Vicar’s Landing’s straightforward approach to both the issue of maintenance-fee adjustments and to the disclosure thereof, resulted in a win-win situation for managers and residents. Management realized a better matching of maintenance fee income with costs, as well as better communication with the residents. The residents became more aware of both the determinants for fee increases and of the constraints on management that are required to provide high-quality service. Hopefully, Vicar’s Landing’s experiences may be helpful to others in the industry who deal with these or similar issues.

In addition to the possible benefits that other CCRCs may gain from Vicar’s Landing’s experiences, we think there also may be significant implications for traditional nursing homes. Because nursing homes continue to receive cost pressures from all payers, the continued loss of revenue from healthy private-pay patients who are increasingly choosing CCRCs will place challenges on the financial management of nursing homes trying to adapt to a rapidly increasing number of seniors. These pressures may be particularly acute in those markets where the number of CCRCs is significant compared to the number of nursing homes serving the senior population. As a result, we would suggest that nursing homes operating in markets characterized by a particularly high number of CCRCs (i.e., Pennsylvania, California, and Florida) might want to develop competitive strategies that take into account Vicar’s Landing’s strategy when setting prices and disclosing these changes to their residents.

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9. The data is based upon the income distribution of those over 65 from Economics of Aging, pp. 10–20 and can be found at: http://www.agingstats.gov/chartbook2004/Economics.pdf, p. 3.
10. Moreover, traditional nursing homes need to be aware of these statistics; for although these seniors represent a market with both added resources and enhanced financial support from their children, the percentage of this group that actually stays in nursing homes as private pay patients is continuing to decline. Based on R.R. Willging, “Long-Term Care Needs to Change its Focus,” Nursing Homes (Feb. 2004), 53(2): 14–16.
11. It is not clear whether healthier seniors choose CCRCs or seniors living in CCRCs are healthier. What is clear, however, is that there is a correlation between the quality of life and those living in CCRCs as illustrated by K.R. Jenkins, A.M. Pienta and A.L. Horgas, “Activity and Health-Related Quality of Life in Continuing Care Retirement Communities,” Research on Aging (January 1, 2002), 24 (1): 124–149.
12. Well-educated seniors with family support and financial resources are increasingly choosing to focus on the right housing environment for their retirement rather than the right health care environment.
13. Ibid, AAHSA.
14. CCAC recently merged with the Commission on Accreditation of Rehabilitation Facilities (CARF). As of the end of 2006, the Continuing Care Accreditation Commission (CACC) accredited 331 of these CACC recently merged with the Commission on Accreditation of Rehabilitation Facilities (CARF). Data was collected from CARF-CCAC-Accredited Continuing Care Retirement Communities http://www.carr.org/Consumer.aspx?Content=CCACSearch and was accessed on Feb. 22, 2007.
15. It should be noted that there was a 5 percent decline in the number of accredited CCRCs from 2004 through 2006 which also impacted on the top 12 states which went from 78.9 percent in 2004 to 73.22 percent in 2006.
16. Further, in states such as Pennsylvania, California, and Florida, seniors have significant CCRC options compared to the number of nursing homes, and as a result, healthy seniors with strong balance sheets will be reluctant to choose nursing homes, leaving these providers primarily with financially challenged patients/residents.
17. The range is based upon data obtained from R.M. Keller, Complete Directory of Continuing Care Retirement Communities™ (2006) CCRC Data, Inc., and available from: http://ccrcdata.org. Further the average monthly cost of living in a not-for-profit CCRC was $2,672 based on data from ibid, aahsa.org.
20. The Vicar’s Landing percentage changes slightly each year, but the significance in the Vicar’s CPI does not.
21. In 2006, to deal with skyrocketing increases in wind insurance (60 percent and the imposition of a 5 percent deductible) Vicars Landing set up their own catastrophic reserve fund. In order to fund adequate reserves Vicar’s Landing assessed a monthly fee per contract holder of $45 for a three-year period.