7 Ways to Judge a Retirement Community's Financial Health

PETER FINCH NYT MARCH 9, 2018

Alicia Butcher Ehrhardt has it all figured out. With their three children grown and out of their New Jersey home, she and her husband, William, will move into a full-service retirement community this year. It will be someplace "interesting and affordable," in her words, and, ideally, dry in the summer. "I don't like humidity," she said.

The 68-year-old Dr. Ehrhardt — she has a Ph.D. in nuclear engineering — has been researching this move for the past couple of years, narrowing her list from more than 100 communities to around a dozen.

Yet something is nagging at her. What if, after all her careful planning, their retirement community has some kind of financial wipeout? "There you are, 97 years old, the community's bankrupt, its managers are in jail," she said. "Now what are you going to do?"

It's a legitimate concern, and one seniors should weigh as they consider moving into a retirement home. The type favored by the Ehrhardts, a so-called continuing care retirement community, or C.C.R.C., promises you can stay there for the rest of your life, with medical services on site as needed. Entrance fees range from a few hundred thousand dollars to more than $1 million.

Though industry members point out that financial meltdowns in their world are rare, there have been cases in which retirement homes have had to raise their monthly fees or reduce services. A major C.C.R.C. developer and operator, Erickson Retirement Communities, now known as Erickson Living, filed for bankruptcy protection in 2009. The company was acquired later that year and continues to function, but not without having given its residents quite a scare.

People who inadvertently wind up in cash-deficient communities "are not experiencing the peace of mind they bargained for," said Jack Cumming, 81, an actuary and a retired health-insurance executive living in a Southern California C.C.R.C.

Mr. Cumming, an enthusiastic supporter of C.C.R.C.s in general, is most concerned about what they do with their entrance fees. Because there is little government regulation, they could use the money to make a string of foolish investments — or worse.

"People in the industry bristle at the word, but it's like a Ponzi scheme if you don't reserve that money like an annuity," Mr. Cumming said.

There are some good resources for consumers who want to learn more. The Commission on Accreditation of Rehabilitation Facilities has a helpful free guide to understanding the financial statements of C.C.R.C.s. It's available under the "resources" tab at carf.org. A service called MyLifeSite.net makes it easy to compare the financials of different communities with industry averages, along with a wealth of other useful data. A month's access costs $29.

Before you dive in, it helps to consider the different sorts of fees that residents pay. Type A contracts, as they're known, are all inclusive. You pay a one-time entry fee, part or all of which may be refundable, plus a monthly rent. In return you get unlimited access to health care services in the facility for the rest of your life. Type C contracts are less expensive up front, and you pay for health services as you need

them, at market rates. Type Bs are hybrids of these two. A fourth option: month-to-month rentals with no entry fee.

It's important to compare apples with apples. The financials at a community offering full entrance-fee refunds, for example, may look very different from those at a monthly rental home that does not need to hold cash for refunds in reserve.

Here are seven key items to focus on when considering a community's finances.

■ Occupancy. If 90 percent or more of a home's rooms are full — and have been that way for the past few years — that suggests it's doing something right. This is especially important at C.C.R.C.s promising refunds, because you (or your heirs) often don't get the money back until someone has moved into your old unit.

■ Rate increases. Lately, most C.C.R.C.s have been increasing their monthly fees by about 3 to 3.5 percent a year, said Justine Vogel, president of RiverWoods, a New Hampshire retirement community. If you see anything above that, ask for an explanation. Similarly, if you find a home where monthly fees have remained unchanged for several years, it may be struggling to maintain its occupancy rate.

■ Debt rating. Many communities issue bonds to fund expansions or other capital improvements, and Fitch Ratings evaluates them. Ratings of AAA to BBB are considered "investment grade" and should bring a measure of comfort to potential residents.

■ Profitability. You want a community that usually brings in more cash than it spends. When looking at a retirement home's financial statements, pay special attention to cash operating expenses as a percentage of cash operating revenue, suggested Amy Castleberry, a director at the investment bank Ziegler and a member of the Financial Advisory Panel of the Commission on Accreditation of Rehabilitation Facilities. A number below 100 means the home is generating enough cash to cover expenses. Communities whose debt gets an investment-grade rating from Fitch have a median score of 96.1 percent.

■ Capital improvements. Is your community spending enough on its upkeep? One way to gauge this: Find the line for capital spending on its annual financial statement and compare this with the line showing depreciation. Ms. Vogel said she generally liked to see spending equal to at least 50 percent of depreciation, though she conceded that could be way too low if the community hadn't spent anything in previous years. "You need to combine that info with a visit to the campus," she said. "How does it look? Does it look like they haven't replaced the carpet in a while? Is the dining venue outdated?"

■ Reserves. Find out if the C.C.R.C. performs a regular actuarial valuation, which is a scientific study of its future risks and liabilities. The actuary's report will give you a sense of whether the community has the reserves, income and cash flow to meet its promise of housing and health care for the rest of your life. You don't have to read the whole report, said A. V. Powell, an actuary in Atlanta who specializes in retirement communities. "You want to know: Does the study say this community is in satisfactory actuarial balance?" Note that the report's summary will reveal what kind of fee increases you can expect in the coming years.

■ Residents' role. How involved are residents in making major financial decisions? Do they have a couple of seats on the board or at least an active advisory council that works closely with management? "So

many residents have extensive backgrounds in finance," said Brad Breeding, a founder of the MyLifeSite service. "Is it being utilized?"

Retirement community managers will not be shocked by these sorts of questions, promised Stephen Maag, director of residential communities at LeadingAge, an association of aging-service providers. "As we get the people born in the late '30s and the baby boomers, they're much more thorough in their research" than their parents and grandparents were, he said.

He needn't tell that to Dr. Ehrhardt, who has lately been comparing facilities' financials on MyLifeSite.net. On a scale of 1 to 10, she puts her concern about all this at an 8. Once she and her husband move into a C.C.R.C., she hopes to focus on her writing (she has written a novel and is working on a second) and making sure they're getting good care. Said Dr. Ehrhardt: "What I don't want to worry about is whether this place is being properly run."

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