

What is the Purpose of Entry Fees?



Continuing care retirement communities (CCRCs) are the only type of retirement community that contractually provides lifetime access to a full continuum of care. The vast majority of CCRCs require an entry fee and, naturally, prospective residents of such communities often ask, “What is the purpose of the entry fee?” Before answering this important question it is first helpful to understand the history of entry fees.

The CCRC concept began about a century ago as faith-based and other charitable organizations sought to provide lifetime shelter and care for the aged, often widows, in exchange for all of the resident’s assets. Although well-intentioned this model was less than scientific and when residents lived longer than expected there wasn’t enough money on hand to fulfill the organization’s commitments.

The entry fee approach evolved in response to this situation. Rather than collecting all the assets of a resident, regardless of the amount, organizations began taking more actuarial approach and established minimum entry fees (combined with monthly fees) that were determined to be adequate to cover commitments to residents.

Yet, one more iteration to the entry fee model evolved. As non-refundable entry fees became less attractive organizations responded by offering partially or fully refundable entry-fees. Prospective residents responded more favorably to this approach because they knew that either they or their heirs would receive back some portion of the entry fee if they ever left the community or at death. Today there are over 2,000 CCRC located throughout the United States offering non-refundable, partially refundable, and fully refundable entry fees. Many providers offer multiple options from which to choose.

So, what is the purpose of entry fee? First and foremost entry fees help secure a resident’s contractual access to a continuum of care. This is why CCRCs and lifecare communities are the only type of retirement community that provides such a promise to its residents. In recent years more rental-only CCRCs have been developed, which do not require an entry fee. However, it is important to note that with rental contracts there is either no contractual promise to provide a continuum of care or the monthly fee will be much higher than a comparable entry fee CCRC, or possibly both. After all, the money to support the provider’s long-term commitment to residents has to come from somewhere.

The money received from entry fees is also used to help pay down the principal on or limit the amount of debt that the community must take on either for development, expansion, and/or occasional capital projects to help keep the community attractive and competitive in the marketplace.

Finally, many CCRCs offer a financial assistance or endowment funds to help ensure that residents can continue to receive necessary healthcare services even if they should run out of money due to a longer than average stay or some other unforeseen circumstance. Of course, this would not apply to any situation where a resident mismanaged or intentionally transferred personal assets in order to receive such support.