

# Six Things Financial Advisors Should Understand About Continuing Care Retirement Communities (CCRCs)



WindsorMeade  
*of Williamsburg*

# Financial Advisors Should Understand:

1. How CCRCs are Unique from Other Retirement Living Choices
2. Why Families Choose CCRCs
3. LTCi Only Addresses Part of Long-Term Care Problem
4. How Various CCRC Contracts Differ
5. Choosing a CCRC May Not Cost as Much as You (or Your Client) Thinks
6. The Potential Tax Benefits (and resulting planning opportunities)

# #1. How CCRCs Are Unique From Other Retirement Living Choices

- CCRCs are the only type of retirement living choice that contractually guarantee access to a full *continuum of care*\*
  - Independent Living
  - Assisted Living and/or
  - Skilled Nursing Care
- Various types of residency contracts offered among providers; often requiring entry fees to secure guaranteed access to care

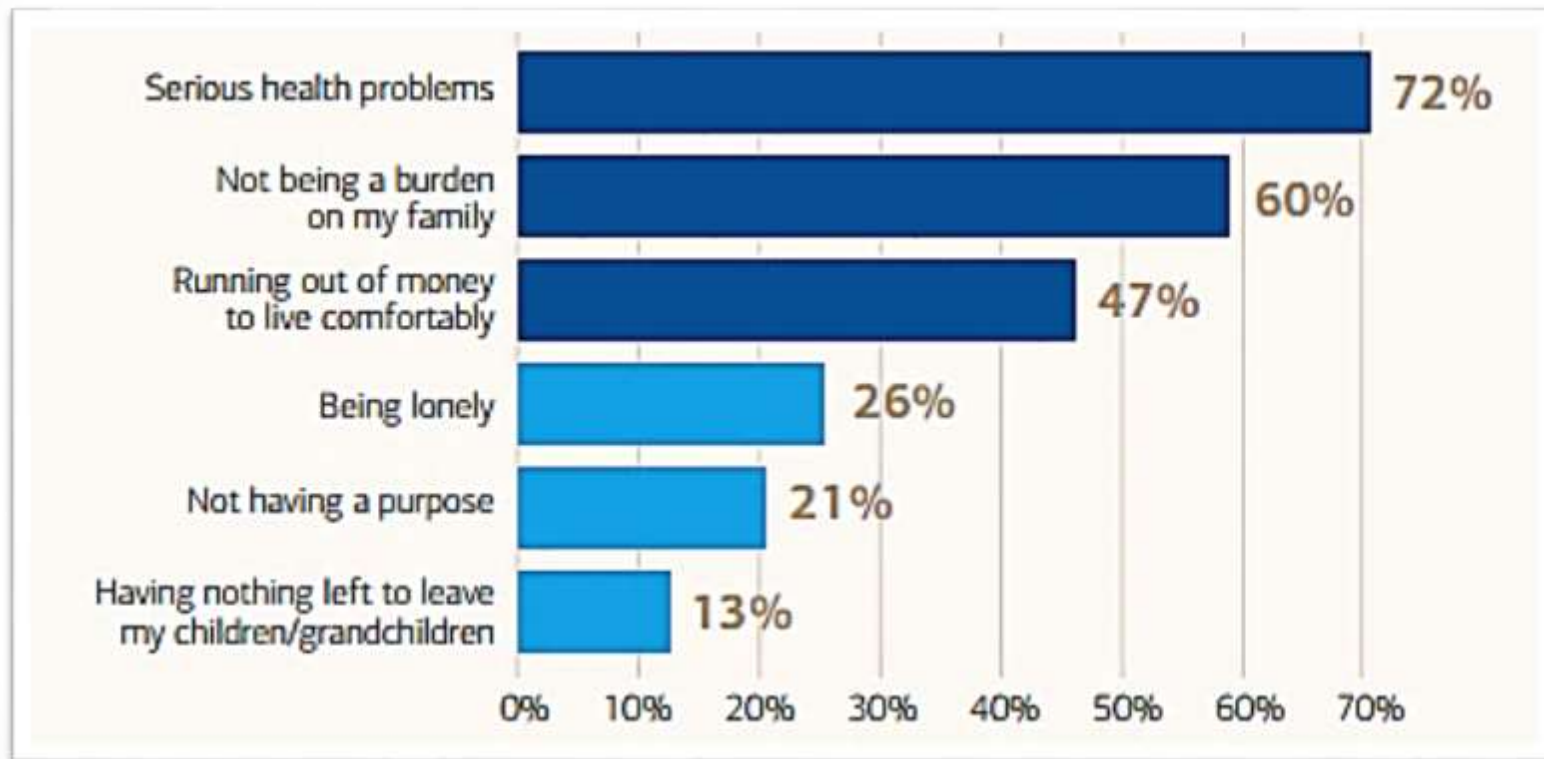
\*Some CCRCs provide access to a continuum of care but do not contractually guarantee such access.

“*All affluent seniors and their **financial advisors** should become informed about the advantages of CCRCs.*”

Stephen D. Gresham. *Advisor for Life: Become the Indispensable Financial Advisor to Affluent Families*. 2012.

# Biggest Worries About Living a Long Life

Study by Merrill Lynch & AgeWave



Americans' Perspectives on New Retirement Realities and the Longevity Bonus A 2013 Merrill Lynch Retirement Study, conducted in partnership with Age Wave

## #2. Why Families Choose CCRCs

- Peace of mind
- Planners; prefer to be proactive instead of reactive
- Don't want to be a burden on adult children
- Want to avoid the cost and headache of on-going home maintenance.
- Intangibles: health benefits, social stimulation, sense of community, staying active, involvement in various projects

# Social Isolation is a Health Risk

“*Loneliness in individuals over 60 years of age appears to be associated with increased risk of functional decline and death.*”

Huston, Larry. Forbes Magazine. *The Grim Impact of Loneliness and Living Alone*. Larry Huston. June 2012. (Referencing Archives of Internal Medicine Health and Retirement Study)

# Staying at Home Often Turns Into “Aging in Place”

“*Keeping the family house can be sensible... if you’ve retired your mortgage or have enough income to pay it, and if you're relatively healthy and mobile. Eventually, however, staying at home turns into “aging in place,” a term that generally means you'll need help living on your own.*”

J. Bennett, Clark. Forbes. *The Benefits of Aging in Place*. Aug. 2013. Web.



# The Impact of Caregiving



65 million unpaid family caregivers in U.S.<sup>1</sup>

Estimated economic value of unpaid caregivers is \$450 billion<sup>2</sup>

17% of caregivers feel health is worse as a result<sup>1</sup>

30-59% of caregivers have symptoms of depression, which can lead to other health problems<sup>3</sup>

50% of caregivers say caregiving takes time away from friends and other family members<sup>3</sup>

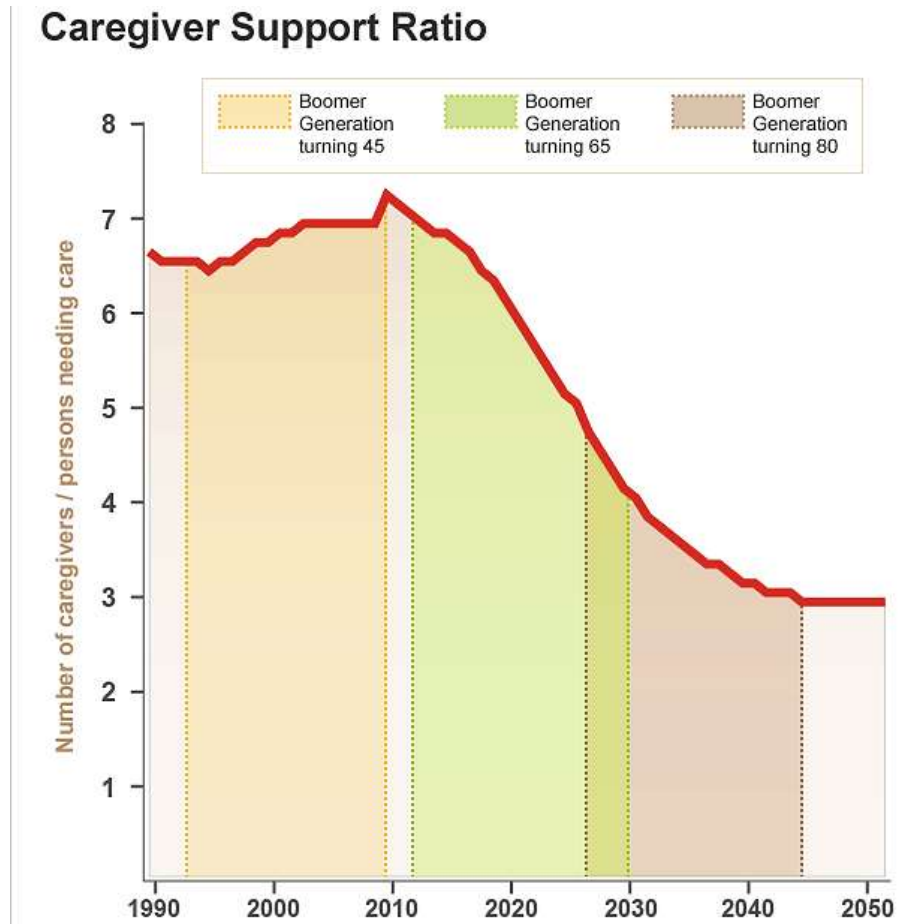
57% withdraw funds from retirement or savings accounts<sup>3</sup>

<sup>1</sup>National Alliance for Caregiving

<sup>2</sup>AARP Public Policy Institute study 2011

<sup>3</sup>The Family Caregiver Alliance

# Caregiver Support Ratio Projected to Decrease Dramatically



\*AARP Public Policy Institute. *The Aging of the Baby Boom and the Growing Care Gap: A Look at Future Declines in the Availability of Family Caregivers*, Donald Redfoot, Lynn Feinberg, and Ari Houser

# Experience of Residents' Family Members a Positive Indicator

- **93%** of family members of CCRC residents agree that CCRCs are providing good services to their loved ones
- **77%** percent would be likely or very likely to consider a CCRC lifestyle for their own future.
- **75%** of those very likely to select this lifestyle report their family members' CCRC experiences positively influence their interest to a great extent.
- **98%** of respondents very likely to consider a CCRC would strongly recommend these communities to others.

*Source: National Survey of Family Members of Residents Living in Continuing Care Retirement Communities. MatherLifeways, Ziegler, Brecht Associations. Dec. 2011- (3,700 family members from 49 states surveyed.)*

# #3. LTCi Only Addresses Half of the Long-Term Care Issue

“*CCRCs address the risk of lack of access to long-term care... LTCI does not address the risk of lacking access to a long-term-care facility, but it can provide financial resources to address the costs associated with assisted living or skilled nursing care...*”

Linda L. Nelms, CPA, CMA; Sarah L. (Betsy) Mayes, CPA; and Betty Doll, CLTC  
**Journal of Financial Planning.** *The Interface Between Continuing-Care Retirement Communities and Long-Term-Care Insurance.* May 2012.

# Cost of Care vs. Access to Care

- Having wealth or owning long-term care insurance doesn't complete the planning process
  - What level of care will might be required?
  - Who will provide care? Where will care be provided? Will it be high-quality care?
  - If home care, who will manage the process of scheduling care and provide oversight to prevent elder abuse?

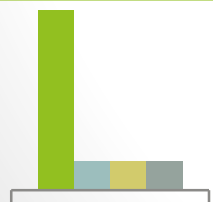
# Have a Plan!

- Most families delay planning until a significant health event occurs and then the family shifts into “crisis management” mode.
- Lack of planning for *cost and access* to care can have significant financial impact
- Are you encouraging your older clients and their adult children to have a plan?

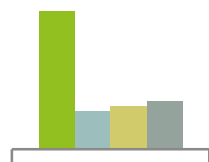
# #4. How CCRC Contracts Differ

## Entry-fee contracts

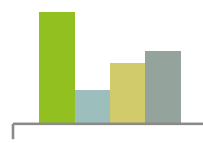
Type A "Full Life Care"	Type B "Modified"	Type C "Fee for Service"	Rental "Fee for Service"	Equity/Co-Op
<ul style="list-style-type: none"> <li>• Pre-pay for unlimited care</li> <li>• Monthly fee does not increase for cost of care</li> <li>• Predictable expenses for resident</li> <li>• CCRC absorbs more risk for the cost of care</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-pay for some amount of care</li> <li>• Certain # of free days in health care center, or a discount off market rate</li> <li>• CCRC and resident share cost of care risk</li> </ul>	<ul style="list-style-type: none"> <li>• No pre-pay for care</li> <li>• Cost of care will be full market rate</li> <li>• Services may be bundled or unbundled</li> <li>• Resident absorbs cost of care risk</li> <li>• Monthly expenses less predictable</li> </ul>	<ul style="list-style-type: none"> <li>• No entry fee—maybe a nominal "Community Fee"</li> <li>• Higher monthly fees</li> <li>• Access to care generally <b>not guaranteed</b></li> <li>• Possibly fewer services and amenities</li> </ul>	<ul style="list-style-type: none"> <li>• Resident purchases home or shares in a corporation</li> <li>• Monthly service fees still apply</li> <li>• Cost of care typically at market rate, i.e. "fee for service"</li> </ul>



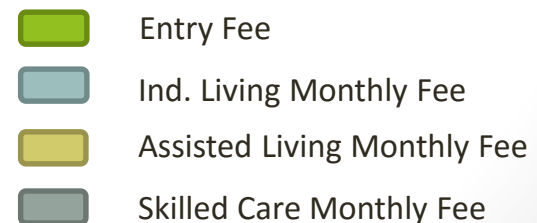
Type A



Type B



Type C



# Return of Capital Contracts

Applicable only to some entry-fee contracts

## Standard, Fully Declining Contract

- Ex: 4% up-front then 2% per month for 4 years (48 months)

## Partially Refundable Contract

- Ex: Contract amortizes at 1% per month for 20 months
- 80% Refundable Contract (may not include 2<sup>nd</sup> occupant fee)

## Fully Refundable Contract

- Resident or resident's estate will receive a full refund of entry fee (may not include 2<sup>nd</sup> occupant fee)

**Note:** Be sure your client understands the stipulations for receiving a refund



# #5. Choosing a CCRC May Not Cost as Much as You Think

- Consider cost over lifetime; rather than just up-front
- Don't forget the costs of maintaining a home
- What might be the physical, emotional and financial cost to adult children or other family members of aging at home?
- Tax deductions sometimes available for a portion of the entry-fee and monthly fees
- Entrance fees often covered by sale of primary residence
- Fixed income sources often cover monthly fees
- Hard to put a price on peace of mind!!

Monthly Expenditures	At Home	At Retirement Comm.
Utilities, Cable, etc.	\$415	--
Gym/Wellness Classes	\$50	--
Homeowners Ins. & HOA Dues	\$250	--
Groceries	\$250	\$125
Household Repairs/Maintenance	\$250	--
Property Tax	\$220	--
Security System	\$45	--
Lawn Services	\$120	--
Transportation/Gas	\$150	\$75
Housekeeping	\$360	--
All other expenses/discretionary	\$1,500	\$1,250
SUB TOTAL	\$3,610	\$1,450
Monthly Service Fee @ Retirement Comm.	--	\$2,400
TOTAL	\$3,610	\$3,850
<b>Actual Monthly Increase</b>		<b>\$240</b>

Some Portion of the Monthly Service Fee *May* Be Tax-Deductible

# #6. CCRCs Offer Potential Tax Benefits

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Tax deductions are often available for communities that contractually offer a “continuum of care.” May be available for portions of the entry fee and the monthly service fees.

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Some or all of the entry fee must be non-refundable. Refundable fees will not be counted in the formula.

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Portion of entry fee must be considered a pre-paid health-care expense. This is almost always the case with Type A (extensive) contracts.

# Update to Medical Expense Deduction

“Beginning Jan. 1, 2013, you can claim deductions for medical expenses not covered by your health insurance that exceed 10 percent of your adjusted gross income... There is a temporary exemption from Jan. 1, 2013 to Dec. 31, 2016 for individuals age 65 and older and their spouses. If you or your spouse are 65 years or older or turned 65 during the tax year you are allowed to deduct unreimbursed medical care expenses that exceed 7.5% of your adjusted gross income.”

<http://www.irs.gov/Individuals/2013-changes-to-itemized-deduction-for-medical-expenses>

*“Mr. Sedoric [financial advisor] saw a way to use the tax benefits afforded to CCRC residents to convert a portion of his clients' IRA to a Roth IRA, which would provide tax-free income for the remainder of their retirement.”*

Kilham, Austin. *Retirement Community Tax Benefits Enable a Roth Conversion.*  
Wall Street Journal. 26 Nov. 2013

**Note:** *Although numerous IRS rulings establish the deductibility of such charges the deductibility of resident payments for senior living services as medical expenses has come under increased scrutiny. Be sure your clients consult with a knowledgeable and experienced tax advisor.*

# Summary

- CCRCs are only type of retirement living arrangement that offer access to a continuum of care
- CCRC residents are planners; proactive rather than reactive
- Different communities offer different types of contracts
- LTCi only address part of the long-term care issue
- Moving to a CCRC may not cost as much as you think; especially when you consider cost of ongoing home repairs and maintenance, and possible tax deductions
- It's about more than just money!

Thank you!