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HEALTH CARE by Catey Hill (Author Archive)

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The Confusing Costs of Continuing Care

(single page view)

WHEN 85-YEAR-OLD Al Green was ready to make his last move, he settled on a residential community that offered tiered care – independent, assisted, and nursing – near his alma mater, Penn State. But it wasn't as easy as picking a place and packing a moving van. First Green faced many decisions: Did he want unlimited health care at a relatively fixed monthly cost? Should his up-front fees be refunded to his heirs upon death? Each decision had a price--and it wasn't trivial, he says: "Some people pay double what others do."

Some 800,000 people -- and counting -- have already confronted the confusing costs associated with "continuing care facilities," which have grown rapidly over the last 20 years to almost 2,000. Before the recession slowed construction, the industry had added another 200 facilities this decade, according to preliminary data from Ziegler Inc., an investment bank that underwrites such facilities. And as baby boomers -- and their parents -- age, even more will have to confront the confusing costs of continuing care.

But more facilities means more unique, byzantine fee structures, critics say. For retirees who are managing a finite nest egg, the distinctions are critical: A 10-year stay at one facility might cost well over \$1 million; at another, a resident might pay just \$300,000. And even within a single facility, the primary costs -- the entry and monthly charges -- can be structured in many different ways, making it hard to compare the value of one to another, says Steve Maag, the director for assisted living at the Association of Home & Services for the Aging. "If you've seen one CCRC [continuing care residential community], you've seen one CCRC," says Maag.

The menu of fees is long, and what's included varies widely by facility. The biggest charge is usually a move-in fee that's roughly equivalent to the price of buying a house in the same area, but often with all the money required up-front. If you want your heirs to get any of that money back when you die, you'll usually pay more to move-in--often much more. Then there's a monthly fee, which might cover basic health care but add high daily fees for the use of comprehensive care services. The monthly charge at one facility might also include a generous meal plan, for example, while another residence charging about the same could offer a stripped-down plan with the option to upgrade at a higher cost. What's more, each level of care – independent, assisted, nursing – may have its own set of amenities and services at different prices.

The appeal seems obvious. The facilities are like a campus, with independent homes or apartments, assisted living "dorms" that provide more ongoing support and monitoring for people who need occasional help, and nursing care for the very ill. This means people don't have to leave the community as they age or rely on a family member to figure out where and how to care for them. That's a concept that appeals to more people than ever: Americans are five times more concerned about burdening their families with caregiving responsibilities than they are about dying, according to a new Genworth study.

But the fees are far from appealing. For one, they can be high. It's not unusual to see a \$400,000 entrance fee and a \$3,000 monthly payment, which means a resident could spend \$760,000 over a decade. And that's if the fees were to stay the same. Often, they don't, rising significantly even for existing residents. Ballooning health care costs are partly to blame: From 2009 to 2010, basic assisted living costs increased 5.2% according to the MetLife Mature Market Institute, compared to just 1.5% for the cost of most goods and services.

To even begin to figure out what you'll pay, would-be residents should ask for a detailed list of services covered by the monthly fee for each level of care, a history of fee increases for the past five years and a description of the fee adjustment policy, recommends a December report by the American Institute for Economic Research. Then, have both your lawyer and accountant review the documents. And make sure that your CCRC is accredited by the Continuing Care Accreditation Commission, which helps ensure that the community has solid financials.

As you sort through all of that information, it's still easy to be confused. Here are three fees to watch for and what's fair to pay:

Almost all CCRCs charge an entrance fee, an up-front cost to move in that the CCRC often then uses to pay down its underlying mortgage or maintain the property, says Gale Morgan, vice president of sales for Mather Lifeways, which operates a group of CCRCs around the country. Because that house-sized charge goes into the community's general budget, it could also be used to pay staff or fund upgrades. The median entry fee is about \$250,000, and while some residences charge as little as \$80,000 or so, most fall into the \$160,000 to \$600,000 range, says Markus Schafer, a

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research associate at Purdue University's Center on Aging and the Life Course. Residences in the Northeast are among the most expensive, the Midwest the cheapest--correlating to real estate prices in the region. Sometimes this move-in fee is non-refundable: Whether you stay for a year or 10, or move to another facility after the third year, that money is theirs to keep. Other times, consumers can choose to get all or part of the fee refunded if they leave the CCRC within a few years or upon death -- if they're willing to make a bigger payment upfront; Maag says that a refundable entry fee will generally be up to 50% more than a non-refundable one. This is a popular option for those who want to leave money to their heirs and might have little other way to do so.

Monthly fees include both health care costs and amenities and services and can climb to \$8,000 per month. (The average is between \$2,500 and \$4,000, says Schafer.) The monthly fees vary mostly by how you'd prefer to pay for your health care. Option one: Pay a higher entrance fee in exchange for monthly costs that remain relatively fixed, no matter what kind of health care you need. (In this option, about 25%-to- 30% of your monthly fee goes to health care, says Brad Paulis, a partner at CCRC Actuaries.) Option two: Pay a lower entrance fee and get a set number of days in nursing home or assisted living, after which time you'll have to assume the extra costs; typical daily nursing home fees are \$229, according to the MetLife Mature Market Institute. Option three, or fee-for-service: The entrance fee and monthly fees are relatively low, but if you need assisted living or nursing home care, you'll pay a per diem rate.

For many people, the first kind of contract makes the most sense, because health care costs can be so unpredictable, financial advisers say. But for those with a long-term care policy that covers nursing home and assisted living care, a fee-for-service contract may make more sense: When you do need care, your policy will pay for it, says Maag. These fees are steep, so make sure the facility you choose is not one of the roughly 15% that isn't Medicare-certified, which may make it harder for you to get Medicare to assume some of the monthly cost if you end up in nursing home care, says Shafer.

Beyond health care, the biggest factor in how much you pay is the amenities the CCRC offers. Most monthly fees include at least some meals, use of a gym, and social activities, like card games or mixers. After that, it's all bells and whistles: continuing education, community outings, a staff acupuncturist, and more. Nearly two-thirds of the monthly fees cover staff wages, salaries and benefits, says Roberta Jacobsen, president of Front Porch, a company that owns CCRCs in California. A facility with high-end, labor-intensive amenities like personal training and gourmet chef-prepared meals can cost \$5,000 or more per month.

Increasingly, more of them will offer these things. Retirement communities have been beefing up their amenities and service options to compete for consumers, Maag says, which means residents may face an even broader array of fees. Among the biggest new trends is "an increased emphasis on health and wellness," with everything from personal trainers and indoor pools to tennis facilities and yoga classes, says Jacobsen. And while all of that's wonderful, Maag says, it's important to make sure you're only paying for amenities you'll really use. If you prefer a lotus flower to the lotus position, you might be able to find a better deal elsewhere.

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CCRCs provide an excellent option for today's seniors. The peace of mind of knowing that you have care and services over your lifetime is priceless. The article failed to mention that many CCRCs provide financial protection should someone deplete their assets beyond their control. This is huge, especially in today's economy. Most CCRCs are also strictly regulated by the state that are located, which provides another level of oversight and protection. Yes, there are less expensive options out there; however free-standing ALFs and rental communities do not provide the lifetime assurances that a CCRC does.

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