CONSUMER GUIDE
TO LIFE PLAN COMMUNITIES:
QUALITY AND FINANCIAL VIABILITY

carf INTERNATIONAL

CARF International
6951 East Southpoint Road
Tucson, Arizona 85756 USA
Toll free (888) 281-6531
www.carf.org

CARF International is a group of private, nonprofit companies (including CARF, CARF Canada, and CARF Europe) that accredit health and human services.
For more information, please visit www.carf.org.

Acknowledgments

Formerly, the Commission on Accreditation of Rehabilitation Facilities, CARF International is an independent, nonprofit accreditor of health and human services.

Through accreditation, CARF assists service providers in improving the quality of their services, demonstrating value, and meeting internationally recognized organizational program standards. Accreditation is an ongoing process, signaling to the public that a service provider is committed to continuously improving services, encouraging feedback, and serving the community.

Accreditation matters in senior living. Similar to a five-star rating for a hotel, the gold seal of CARF accreditation signals to consumers, families, regulators, payers, and the public that a continuing care retirement community has gone the extra mile in committing to excellence.

Choosing a retirement community to live in requires a thorough review of the many options available. This guide has been designed to assist individuals in understanding the complexities involved in selecting a life plan community and key factors to consider, including short- and long-term financial viability. CARF's Financial Advisory Panel (FAP) conducts ongoing analyses within the senior living industry and publishes resources that can be used by provider organizations and consumers alike.

The FAP comprises leading finance experts, including CFOs and consumers from accredited organizations, investment banking, accounting, actuarial, and other related firms.

CARF International would especially like to acknowledge the work of the following members of the FAP who shared their time and financial expertise to the consumer guide:

James Bodine, Executive Vice President, **Herbert J. Sims & Co., Inc.**

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Timothy Myers, President and Chief Executive Officer, **Baptist Senior Family**

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John Jenkins, **FAP member and resident of Frasier, a CARF-accredited CCRC in Colorado**

For additional information about the CARF FAP and for a list of current members, please visit: www.carf.org/About/FAP/.

Project Partners

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Introduction

As we age, planning for a secure, comfortable, fulfilling, and enjoyable lifestyle well into our later years becomes top of mind. Where we live and how our home is designed play an important role in ensuring safety and comfort. Equally important is considering how to ensure access to needed services and healthcare as our needs change over time. While careful planning often goes in to saving and identifying income to cover expenses, a strategic approach to wellness and lifelong learning are equally as important to ensuring health and fulfillment as we age.

One option that you may choose to explore is a life plan community (LPC), also known as a continuing care retirement community (CCRC), which provides housing, healthcare, wellness, and recreational activities often paid for by a contractual agreement. The decision to move to an LPC requires much forethought and a significant personal financial commitment. This guide provides some insight into the financial culture of LPCs as well as questions to ask as you consider whether the LPC matches your vision for a healthy and fulfilling lifestyle.

While exploring the life plan community as an option, this personalized financial assessment tool may be of interest: https://moneygauge.mylifesite.net/demo-link-on-our-website

Who Should Use this Guide?

- ***Prospective community members/residents*** – Individuals who are selecting a life plan community (LPC) or continuing care retirement community (CCRC)
- ***Friends*** and ***family*** members of individuals selecting an LPC or CCRC
- ***Professionals*** – Individuals providing services to or helping individuals who are selecting an LPC or CCRC (may include care coordinators, senior living information and referral specialists, financial planners, legal advisors, powers of attorney, and others)
- ***Current LPC/CCRC community members/residents*** – Individuals who currently reside in an LPC/CCRC
- ***LPC/CCRC staff*** – Individuals who work for an LPC/CCRC (may include marketing, finance, senior living leadership, and others)
- ***LPC/CCRC board members*** – Individuals serving on the LPC/CCRC board, including community/resident board members
- ***Others*** – Community/public leaders or others who wish to have an understanding of LPC quality and financial viability

Why Should I Use this Guide?

The *Consumer Guide to Life Plan Communities: Quality and Financial Viability* is intended to:

- Support individuals who are selecting a life plan community (LPC) or continuing care retirement community (CCRC).
- Educate anyone with an interest in LPCs/CCRCs including current residents, board members, and those seeking to understand:
  - What is an LPC/CCRC?
  - What services and housing options are available?
  - How are fees and contracts structured?
  - What are indicators of successful financial performance?
  - What questions should be asked when choosing an LPC?
  - How is the financial commitment to an LPC protected (i.e., how safe is it financially)?

Considering a move to an LPC is an important life decision. And, as with other life decisions, it is helpful to have the guidance and support of trusted advisors, friends, and family members. A financial planner is one example of an additional trusted advisor to include in your circle to offer advice and to assist you in evaluating your options based on your own unique financial plan.

This consumer guide will provide an overview of the basics of financial statements, fees and contract types, CARF accreditation, and financial performance and management of LPCs. Questions specific to issues that require contemplation when considering a move to an LPC are provided throughout the guide.

We recommend that you share this guide with your trusted advisors, including your friends and family, and invite them to share in your search by joining community tours and meetings. Encourage your advisors to assist you by listening and taking notes. Having these trusted advisors (friends, family, and other professionals) with you allows the freedom to focus on asking questions and listening during discussions.

Make appointments with someone from the LPC who is informed about the organization's financial practices. This may be someone from the marketing office or other resident services or management team member. If the person you speak to does not have the information to answer your questions, ask them to find that information and follow up with you later or direct you to the person who can answer your questions.

What is an LPC/CCRC?

The term *life plan community (LPC),* also known as a continuing care retirement community (CCRC), encompasses a broad range of housing and health/wellness options. Although most LPCs offer a variety of services within the same campus, there are LPCs that have multiple campuses and/or contracts that include partnerships with a hospital or another healthcare system. Generally, the LPC approach promotes access to individualized services that match the level of support needed as we age while remaining in familiar community near friends and loved ones.

To understand more about the types of aging services and providers, visit these links:
LeadingAge: https://leadingage.org/provider-types
American Seniors Housing Association:
https://www.whereyoulivematters.org/

In addition to housing, LPCs offer several amenities, such as fitness centers, dining services, leisure and entertainment activities, educational workshops, and group travel/outings. Ideally, the decision to move to an LPC is made during a time when minimal support with activities of daily living (i.e., bathing, dressing, eating, and ambulating) is needed. The expectation is that, as additional support is needed, services are increased and transition to different residences within the community may be made to support additional needs. Enhanced support and services may be needed when an individual, due to the onset of a new illness or the progression of a chronic condition, needs assistance with bathing, toileting, dressing, eating, or ambulating. The LPC will strive to make transitions between levels of care seamless by balancing individual preferences and needs for supportive services. Knowing that additional support and care are available if an individual's needs change offers security.

When choosing an LPC, consider many factors, including the LPC's financial status, location, proximity to family and friends, amenities, and recognition of quality care and services—such as accreditation. The varied nature and terms of resident contracts (residency agreements) and the culture of the community are also important to consider.

What is an LPC/CCRC?

LPCs offer a combination of living arrangements and **services; most will offer some or all of the following:**

Independent living: Single-family homes, cottages, and/or apartments. As part of the residency contract, various services may be accessed, including, but not limited to, transportation, dining, housekeeping, laundry, wellness activities, and social/recreational activities. Some residency contracts may provide for discounted cost of healthcare services. Dependent on the contract, there may be additional fees for various services. Generally, individuals are expected to be able to manage their own financial matters (or provide for an authorized, trusted person to do so on their behalf), personal care, medications, healthcare, and activities of daily living.

Personal care, supported or assisted living: Personal care, or supported or assisted living offers a residential program that may include individual living accommodations, such as an apartment or a private single room. Shared rooms with roommates may also be available. In addition to housing, personal care services include meals and support with activities of daily living using a hospitality approach that emphasizes and optimizes choice, autonomy, dignity, preference, and engagement.

Specialized dementia or memory care: Specialized dementia or memory care focuses on the unique and changing physical, cognitive, communication, emotional, psychological, behavioral, occupational, palliative, educational, environmental, and leisure/recreational needs of persons living with dementia. Residential living accommodations may be individual such as a private room or a shared room. In addition to housing, personal care services support individuals with dementia to live their best lives, including preserving dignity and personhood; minimizing impact of impairments and secondary complications; and maximizing participation, including wellness, quality of life, and community inclusion. Decreasing environmental barriers and promoting personal safety and security are other important aspects of memory care.

Short-term rehabilitative and/or long-term nursing care: LPCs may have healthcare or nursing centers that may be freestanding on campus, or they may offer access to healthcare or nursing services through a health system not located at the community. Healthcare or nursing care services offer skilled nursing 24 hours a day, 7 days a week and may be short-term (to offer support and rehabilitation services after surgery or illness) or long-term (to address serious chronic health conditions and/or to address care at end of life).

Hospice care: LPCs may offer or provide for care at the end of life through hospice services. Hospice care is specialized health-care that focuses on the treatment of pain and discomfort (palliative treatment) associated with terminal illness. Hospice also attends to emotional and spiritual needs at the end of life. Comfort and quality of life by reducing pain and suffering are priorities of hospice care.

What is an LPC/CCRC?

In addition, some LPCs may provide the following services.

Adult day programs: Adult day services programs offer a nonresidential approach to supervised care in a supportive and safe setting during part of the day. Some LPC communities may offer these services depending on the residency contract. Adult day services programs arrange for services that include, but are not limited to, therapeutic activities, nutrition, health and personal care, and transportation. Services are generally provided through a social and/or medical model. The programs offer individuals the opportunity to engage in and benefit from programs the LPC offers while providing family members the opportunity to fulfill daily responsibilities and for respite.

At-home care and support services: Depending on the residency contract, the LPC may provide home care support services. These services are dynamic and focus on support that an individual needs to remain in their home as long as practicable. The services may be provided by a variety of personnel, which may include health professionals, direct support staff, educators, drivers, coaches, and volunteers. Services may be used for a short period of time after an illness or injury, or they may provide longer-term support for individuals who need assistance with activities of daily living such as bathing, dressing, and/or preparing meals.

Questions to Ask

1. **What is the structure of the LPC continuum? What is offered on the LPC campus? What is offered external to the main campus?**
2. **What levels of care are owned by the LPC? What levels of care are not owned, but instead are contracted by the LPC?**
3. **How does the LPC coordinate services through multiple levels of service to meet an individual's needs?**
4. **How does the LPC communicate, coordinate, facilitate, and advocate for appropriate transitions at each level of service offered?**

Who is CARF and What is Accreditation?

Deciding to move to a life plan community (LPC) and selecting the right fit have serious lifestyle and financial implications. Seeking financial and legal advisors to review your unique financial situation and understanding the financial position of the LPCs under consideration, as well as any contracts or written agreements, are paramount. Similarly, gathering advice and opinions of family and friends is critical to supporting your decision. Another factor to consider is accreditation.

Accreditation offers additional assurance that the community you select has a commitment to excellence through an independent quality review and continuous performance management and improvement processes. The accreditation process considers both current operations and stability for the future.

Who is CARF?

CARF is an independent, not-for-profit accreditor of health and human services. For more than 50 years, CARF has set high standards for person-centered care and services. Throughout North America and internationally, CARF accredits more than 8,500 providers operating more than 63,000 programs. CARF is the only accreditor applying standards to the life plan continuum through accreditation of continuing care retirement communities or CCRCs (also known as LPCs).

A continuum of care/services is a system of services addressing the ongoing and/or intermittent needs of persons at risk or with functional limitations resulting from disease, trauma, aging, and/or congenital and/or developmental conditions. Such a system of services may be achieved by accessing a single provider, multiple providers, and/or a network of providers.

Accreditation in senior living is primarily voluntary. Nationally, around 10% of LPCs/CCRCs achieve this accreditation.

Who is CARF and What is Accreditation?

What is Accreditation?

Accreditation is more than a certificate that hangs on a wall. Accreditation surveys are conducted by peer experts (called surveyors) from accredited provider organizations that desire to raise the bar for quality in senior living services. Surveyors review business, financial, and program processes.

CCRCs seeking accreditation must demonstrate conformance to standards covering the following areas:

Business Process Standards

- Leadership
- Governance
- Strategic Planning
- Input from the Persons Served and Other Stakeholders
- Legal Requirements
- Financial Planning and Management (includes Long-Term Financial Planning)
- Risk Management
- Health and Safety
- Workforce Development and Management
- Technology
- Rights of Person Served
- Accessibility
- Performance Measurement and Management
- Performance Improvement

Care Process and Program Specific Standards

- Program/Service Structure
- Residential Communities and Continuing Care Retirement Community
- Care Process for Specific Diagnostic Categories
- Skin Integrity and Wound Care
- Service Delivery Using Information and Communication Technologies

At its very core, the purpose of accreditation is to aid organizations in aspiring to excellence by enhancing the value of services for residents, their families, and support systems. Accredited LPCs are devoted to continuous quality improvement by listening to, gathering, and taking action on feedback. They strive to ensure transparent communication for all stakeholders and their staff. Management practices, activity choices, physical environment, and overall services are developed and implemented with a goal toward excellence.

Who is CARF and What is Accreditation?

The confidence and accountability of an independent accreditation are important to residents, families, insurers, and regulators. The CARF accreditation seal is a sign of an LPC's commitment to continuously improve service quality. Accredited LPCs are able to benchmark and measure their success against other providers to ensure that their community implements best practices. The comprehensive accreditation review provides comfort and confidence that the community meets the highest industry standards.

To learn more:

CARF website: www.carf.org/Programs/AS

Video, *Accreditation Matters - CCRC/Life Plan Community's Commitment to Quality:*
https://youtu.be/o3R0pTwVnX0

Consumers with a background in finance may also find the publication *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities* helpful. This annual resource is a one-of-a-kind reference that provides key financial ratio data used for benchmarking CCRCs. A complimentary copy of this annual publication can be requested at: https://carf.org/complimentary-download-financial-ratios-and-trends-analysis-publication/

Understanding and Comparing Life Plan Communities (LPCs)

For many, choosing a life plan community (LPC) represents a significant long-term commitment. When considering your choice of an LPC, you will want to evaluate the ability of the community to provide housing, services, and healthcare in the future, in accordance with the residency agreement. A well-run and financially secure community requires stable leadership with appropriate skills and experience. Similarly, LPCs are subject to licensure and regulation in most states, ranging from disclosure requirements to regulation of reserve requirements, fee increases, etc.

In many states, the Department of Insurance serves as the regulatory entity for LPCs. To find out more about state licensure and regulation of LPCs and/or to obtain a list of LPCs in the state, contact the State Long-Term Care Ombudsman Program. Contact information for your State Ombudsman Program may be found using this directory: https://theconsumervoice.org/get_help.

Comparing LPCs can be challenging, because each community is unique in terms of size, composition of different levels of care, types of agreements offered, and fee structure. This guide seeks to further define some of these areas to assist you in making comparisons. Seek to understand different amenities and service packages, the organization's unique mission and philosophy, the influence of the board of directors and senior management, organizational structure, and variation in financial strategies followed by LPCs. This is where focusing on your personal goals and lifestyle becomes critical in the selection process.

Financial Culture of LPCs: Not-for-profit and For-profit LPCs

Many LPCs are ***not-for-profit organizations*** (NFPs). Typically, NFPs exist to serve a particular mission. Some LPCs may have a mission that benefits the larger community (the geographic community in which the LPC exists). In most cases, NFP LPCs hold themselves to standards of social accountability. An NFP is responsible to a board of directors generally elected by the LPC to govern the organization. Given the local nature of most NFPs, the boards will generally be drawn from the areas in which the NFP operates. NFP organizations are sometimes designated as 501(c)(3) companies by federal IRS tax code, which grants a preferred federal tax status, is exempt from federal income taxes, and accepts contributions that may be tax deductible to the donors.

Understanding and Comparing Life Plan Communities (LPCs)

In many cases, all or part of the continuum is also exempt from state and local sales and property taxes. This tax-exempt status is based on the taxing authority's deeming that the organization serves a charitable purpose. Although profit is not the organization's primary purpose, the organization's revenues must exceed its expenses over the long term to cover its current and future expenses and obligations. Revenue received in excess of expenses is typically reinvested in the LPC or retained to mitigate future unforeseen expenses. As revenue in excess of expenses remains with the NFP, it generally goes to support the mission, thereby remaining with the organization rather than going to shareholders. Fundraising and benevolent care are part of the mission of the organization, and therefore in instances when a community member runs out of money to pay for care and services, the NFP will generally have funds set aside to support the resident's ability to remain in the community.

Historically, many NFP LPCs were founded by or affiliated with ***sponsoring organizations,*** such as religious groups, fraternal organizations, colleges, and other community NFP organizations. The relationship to the sponsoring organization may still be present. Sometimes the sponsoring organizations have legal or financial obligations to the LPCs. They also may have a designated representative on the board of trustees/directors. The sponsoring groups may also influence the community's social climate or culture.

For-profits have traditionally owned/operated rental independent living and/or assisted living, personal care and memory care, or skilled nursing. Recent trends show increasing numbers of ***for-profit organizations*** operating LPCs. This is especially true in the case of multi-site providers where the majority of multi-site LPCs are part of a for-profit corporate family. For-profit LPCs are accountable to individual owners who may be private investors or shareholders. A board of directors may be appointed to govern the organization. Revenue in excess of expenses may be returned to investors through dividends or other means. It is in the LPC's financial best interest to provide high quality services efficiently, so that it is both attractive to consumers and profitable for investors.

Guidestar is a searchable database of IRS-recognized tax-exempt organizations that includes financial information derived from validated sources including 990s: https://www.guidestar.org

Understanding and Comparing Life Plan Communities (LPCs)

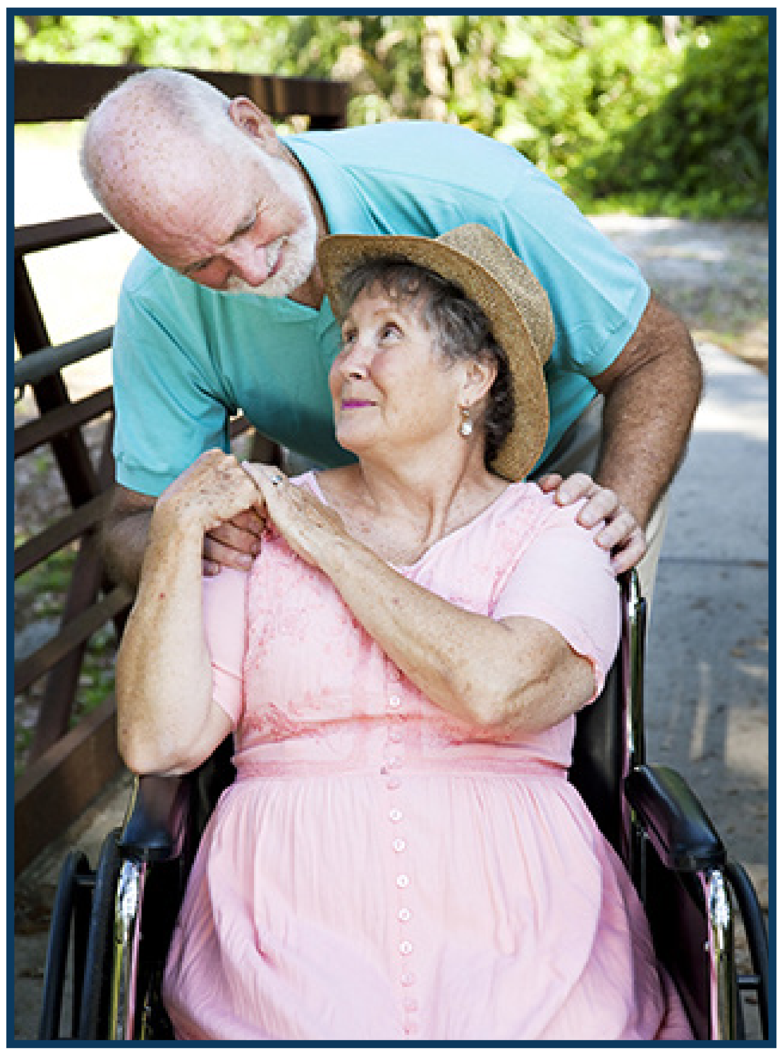
	Not-for-profit LPC	For-profit LPC
Purpose/ drivers	Mission driven by social accountability; may be affiliated with sponsoring organization (religious group, fraternal organization, college, etc.).	Accountability to owners who may be private investors or shareholders.
Governance	Board of directors is affirmed or elected by LPC to govern organization.	Board of directors may be appointed to govern the organization.
Tax status	NFP communities are exempt from federal income taxes and may receive tax-deductible contributions. Often, the NFP community is also exempt from state and local taxes (including sales and property).	For-profit communities are subject to all taxes.
Profit/net cash flow	Revenues must exceed expenses over long term to cover current and future obligations; revenue in excess of expenses typically reinvested in LPC or retained to mitigate future unforeseen expenses.	Revenue in excess of expenses may be returned to investors through dividends or other means. LPC's financial best interest is to provide high quality services efficiently to attract consumers and to profit investors.
Fundraising and benevolent care	Most NFPs have policies that support fundraising to provide for the future care of residents who expend all of their funds. This allows a resident to remain in the community.	Not applicable

Understanding and Comparing Life Plan Communities (LPCs)

Single-Site and Multi-Site LPCs

Some LPCs are independent ***single-site entities*** that have only one community. Other LPCs may be ***multi-site entities*** owned by a parent corporation that operates LPCs in more than one location. The communities may be located near one another, in the same city or metropolitan area, or spread across a larger region such as a state or several states.

In general, single-site and smaller organizations will make most decisions locally, rather than at the level of the parent company. Larger organizations have the advantage of spreading risk among a larger group, benefiting from economies of scale and learning from the experience of other communities. Larger multi-site entities must also balance the needs of one community against the needs of the company as a whole; e.g., a large expansion at one community may reduce the resources available for expansion of another community owned by the same parent company. When considering LPCs that are part of multi-site entities, it is important to evaluate the strength of the entire corporation and not just the specific community under consideration.



Questions to Ask

1. **Is the LPC a stand-alone (single-site) community, or is it part of a parent corporation with multiple LPCs or other business operations?**
2. **If the LPC is a multi-site, where are the other communities or businesses sponsored by the parent organization located? And where is the corporate office located?**
3. **Does the organization have plans to build or acquire any additional communities or other business operations? Are there any affiliation plans?**
4. **Is the organization owned by a for-profit or not-for-profit corporation? What is the name of the corporation?**
5. **Is there a governing board? If so, how are members of the board chosen? How is the board involved in the management of the LPC?**
6. **Does the board include a resident member? Is the resident member a voting member of the board?**
7. **Is the LPC affiliated with a sponsoring organization? If so, what is the name of the organization, and what is the relationship between the sponsoring organization and the community?**
8. **Does the LPC have an executive leadership succession plan?**
9. **How long has the LPC been in operation? How did the LPC grow to what it is today?**
10. **Does the LPC use a third-party management company? If so, what is the name of the company?**

Understanding Contract Types & Fees

Contract Types

Contracts or written agreements are one of the hallmarks of an LPC. The contract specifies the obligations of both parties regarding services to be provided and payment for those services. These agreements specify details about accommodations such as housing, services like transportation and housekeeping, and health and wellness care that the LPC offers. In addition, the agreement provides details about financial obligations that new residents assume, including the amount of the entrance fee, community fees, and other fees that are paid at time of entrance. The amount of the monthly accommodation fee is also specified in the contract.

Within the LPC field, there are three primary types of contracts: extensive, modified, and fee-for-service, as well as a variety of agreements for individual components of the LPC. The naming of contract types varies somewhat by state, and not all states recognize every contract type. An LPC may offer only one type of contract or offer a choice of contract types. If you have a long-term care insurance policy, take careful time to consider which contract would provide the most value. To compare, it will be important to have familiarity with the insurance policy and to take time to discuss the benefits with your own insurance representative and the LPC's marketing representative.

Following are the most common types of LPC contracts:

- ***Extensive (Type A) contracts***, sometimes called life-care agreements, include housing, residential services, amenities, and specific health-related services with little or no substantial increases in monthly payments, except to cover normal operating costs and inflation adjustments. LPCs with extensive contracts usually have higher entrance fees, and possibly higher monthly fees, than the other types of contracts, but offer more predictable future costs. Similar to purchasing long-term care insurance, under an extensive contract, the consumer transfers some of the risk of uncertain future healthcare costs to the LPC. Although the transfer of risk is an advantage to you as the consumer, a disadvantage is the possibility of paying up front for services that may not be fully utilized. The LPC must accurately project future costs of care and wisely invest the entrance fees to fulfill the community's obligation to provide lifelong care.
- ***Modified (Type B) contracts*** also include housing, residential services, and amenities, but they include a specified amount of healthcare services (e.g., a limited number of days in the health center per year or per lifetime or a discount to the market rate charges for such services). There is wide variability in modified contract types so be sure to ask questions and ensure that you understand the specifics. Generally, if you should need a higher level of care on a temporary basis, you will continue to pay roughly the same monthly payment until you have exhausted the contractually guaranteed healthcare benefit. After that point, you will pay either a discounted rate or the full daily rates for required healthcare services. Modified contracts generally involve a lower entrance fee than extensive contracts. The consumer retains much of the risk of future nursing home

costs, and the LPC assumes less financial risk. Therefore, it is important to be aware that should an increase in services become necessary, you will incur additional costs. The lower entrance fees for modified care contracts can make LPCs accessible to more consumers. However, it is important to plan carefully for future uncovered healthcare costs so that funds are available when more intensive healthcare is needed, such as long-term nursing care, when the cost of medical care increases significantly.

- ***Fee-for-service (Type C) contracts*** include housing, residential services, and amenities for an established fee stated in the contract, but additional healthcare services are not included. Consumers may have priority access to healthcare services, but you may be required to pay established fee-for-service rates. The entrance fee for fee-for-service contracts can be lower than extensive and modified contracts. Although these types of contracts can be more affordable in the short run, fee-for-service contracts do not offer the financial security of extensive or modified contracts. The consumer maintains much of the risk and will need to provide additional funding if increased services become necessary. Fee-for-service contracts may be more attractive for consumers who want the range of care offered by an LPC but cannot afford a large entrance fee or for those who are in better-than-average health and do not anticipate requiring much skilled nursing care.
- ***Rental agreements (Type D)*** allow individuals to rent their housing on a monthly or annual basis. A rental retirement community may provide, but does not guarantee, access to healthcare services that are paid for on a fee-for-service basis.

Other types of contract agreements that may be offered:

- ***Assisted living and nursing care agreements*** allow an individual admission directly to the assisted living unit or healthcare center of a LPC. The individual pays the established daily rate (or per diem) or market rate for the assisted living or nursing care services received. These agreements generally do not guarantee access to more than one level of care.
- ***Equity agreements (Type E), equity or partial equity*** may afford individuals ownership in shares of the community or association (typically a cooperative arrangement) by transferring actual ownership of the home, condominium, or townhome within the LPC. Typically, healthcare and services may be purchased for additional daily or monthly fees. Resale of the home or unit is typically restricted to age- and income-qualified buyers. With an equity agreement, individuals or their estates may benefit from appreciation of the property, as specified by the terms of the agreement. In addition, equity ownership may afford tax benefits such as interest deductions and avoidance of capital gains tax on the sale of the home lived in prior to moving to the LPC. Individuals may pay property taxes just as they would under non-age-restricted ownership. A substantive risk is that there may be a decline in the property value. Overall, this contract model typically has consumers sharing real estate pricing fluctuations.

Understanding Contract Types & Fees

- ***Equalized life-care pricing*** is a new approach to the life-care contract and is commonly referred to as "equalized pricing." With this type of pricing structure, when a resident makes a permanent transfer to assisted living or skilled nursing care, they do not necessarily continue to pay the same monthly rate they paid in independent living. This approach equalizes the amount that residents pay for healthcare services by increasing the cost for assisted living or nursing care services for those persons coming from lower-priced independent living (or smaller units). Persons moving from a higher-priced independent living residence (generally larger units) will pay less for assisted living or nursing.

Questions to Ask

1. **What types of service contracts or agreements are available in this community (e.g., are contract types extensive, modified, fee-for-service, or rental)?**
2. **What happens if someone encounters financial difficulty and no longer has funds to cover housing and needed services?**
3. **How does this contract cover skilled nursing care? How is the cost of nursing care modified by the entrance fee contract type?**
4. **Is access to skilled nursing care offered on the LPC campus or elsewhere? If not located on the LPC campus, where is the nursing care offered? What happens if I need nursing care and the healthcare center does not have a room available?**

Understanding Contract Types & Fees

Entrance Fee Structure

The majority of continuing care retirement communities (CCRCs) are not-for-profit (NFP) life-care communities. Life-care being defined as long-term residential care in which accommodation and health services are purchased for life. A smaller portion of the market is made up of for-profit communities, which tend to be rental based. NFP life-care communities will require payment of a one-time fee, usually called the entrance fee, before moving to the community. Non-life-care communities will not require an entrance fee and instead will charge residents monthly rent and/or offer services at market rate.

The entrance fee amount that you will pay for a life-care community often depends on the level of care at the time of entry, type of housing chosen (with larger units requiring a larger fee), and agreement type. The entrance fee allows a community to offer lower monthly fees (typically lower than the monthly costs of a rental community) and provide for future needs of residents. Entrance fees generally guarantee priority access to higher levels of care at contracted rates that are lower than the market. This brings some individuals peace of mind that they are able to predict and control future costs. In most cases, life-care plans are just that, they guarantee lifelong care as a part of the entrance fee contract and offer assurance that an individual may remain in the community even if financial resources are expended.

Non-life-care communities tend to focus on apartment-style developments providing a basic level of support, sometimes in the form of daily assistance offered in the apartment when needed. Services will often be contracted to a third-party provider. However, more recently, some rental communities have been adding separate assisted living and/or memory care apartments. Most do not offer on-site healthcare or skilled nursing and rehabilitation. Rental communities do not offer the long-term commitment to financial or health services that a life-care community offers. Therefore, individuals who can no longer make the monthly rental or service payments or who require certain care that is beyond the scope of the non-life-care community will be asked to leave. Generally, residents of rental retirement communities do not have guaranteed or priority access to higher levels of care.

There are many types of entrance fees and terms, so take time to ask questions to determine exactly how the entrance fee works. At a basic level, there are two types of entrance fees: refundable and non-refundable.

Refundable entrance fees tend to be higher, because a portion of the entrance fee is rebatable, meaning when a resident leaves the community (terminates the contract) or dies, their estate will receive a percentage of the entrance fee (percentage is based on the resident contract). Refundable entrance fees have grown in popularity, and more communities are offering this type of entrance fee.

Non-refundable entrance fees typically are smaller and are non-rebatable, as they do not allow for money to be returned to the estate in the event of a move or death after several years of living in the community.

State regulations can impact the terms of the entrance fee as well as refunds (or rebates) associated with these fees.

Some other terms related to refundable entrance fees are:

Declining scale refunds, also known as amortizing entrance fees, specify a period of time in which the entrance fee will be refundable to the resident on a declining basis. For example, if an entrance fee declines at the rate of 2 percent each month, then after 6 months, 88 percent of the entrance fee is refundable.

Partially refundable entrance fees guarantee a specific percentage of the refund that will be returned within a certain period of time regardless of the term of residency. For example, 50 percent of the entrance fee may be refundable upon termination of the contract or to the estate upon the resident's death.

Full refunds offer just that, a full refund of the entrance fee. A fixed charge may be deducted before the refund is made, and the agreement generally states how long the refund is valid and under what conditions a refund is due. Entrance fees that offer full refunds are typically more expensive than those without refunds or those that are partially refundable or refundable on a declining basis.

Sometimes refunds are not disbursed until the unit has been reoccupied. Therefore, it is important to ask about this provision in the contract/residency agreement.

Questions to Ask

1. **Are there financial deposits prior to occupancy for which I am responsible? If so, what is the refund policy if I decide not to move to the community?**
2. **What type of entrance fees are currently available, and what are the costs associated with each? Are there plans to increase the amount of these fees in the future? What has been the average entrance fee rate increase the last 3, 5, 10 years?**
3. **Is there a structure for refund or rebate of entrance fees? If so, what is the time period in which the refund/rebate can be granted, and when and under what conditions will the refund/rebate be paid?**

Understanding Contract Types & Fees

Monthly Fees

In addition to defining the structure of the entrance fee, the contract will establish a monthly fee structure. Monthly fees, sometimes referred to as service fees, vary greatly and are often affected by the type of housing chosen, contract type, and amenities that are available. Monthly fees increase over time (usually annually) and as you move through the continuum.

The contract agreement will specify what services are included in the monthly fee and what services require an additional fee.

Examples of services that may be included in the monthly fee:

- Dining services
- Housekeeping
- Trash removal
- Laundry services
- Fitness programs
- On-site medical clinics
- Recreational programs and clubs
- Emergency response system
- 24-hour emergency maintenance
- Security

Examples of services/expenses that may not be included in monthly fees are:

- Utilities
- Internet or cable television
- Transportation
- Social outings
- Beauty salons/barbers
- Real estate taxes
- Certain healthcare-related services

Questions to Ask

1. **What services are included in the monthly fee?**
2. **What are the costs for additional services?**
3. **How does the organization determine how often and by how much fees will be increased?**
4. **Over the last five years, what has been the history of monthly fee increases? How frequently have fees been raised and by what percent each time? Why were the fees increased?**
5. **How will I be notified of changes in the fee structure?**
6. **If I require more services or move to a different level of care, how will that affect my monthly fee?**

Understanding Contract Types & Fees

Contract Type Comparison Table

	Extensive Agreement (Type A)	Modified Agreement (Type B)	Fee-for-Service Agreement (Type C)	Rental Agreements (Type D)	Equity Agreements (Type E)
Agreements include	Housing, residential services, amenities, specific health-related services	Housing; residential services; and a specified amount of healthcare services (i.e., limited number of days in health center per year/per lifetime)	Housing, residential services, and amenities; additional healthcare services not included, but contract may include priority access to healthcare services (generally with fees assessed at the established fee-for-service rate)	Rental housing (monthly or annually); may provide access to healthcare services on a fee-for-service basis	May afford individual ownership in shares of the community or association; healthcare and services may be purchased for additional daily or monthly fees, generally restricted to age- and income-qualified buyers
Entrance Fee	Usually highest for extensive coverage	Generally lower entrance fee requirement	Generally lower than extensive and modified agreements	No entrance fee	Transfer of ownership of home, condo, or townhouse within LPC
Monthly Fee	May be slightly higher for extensive coverage; expect annual increases to cover inflation adjustments to operating costs	Market rate; monthly fee to cover services	Market rate; monthly fee to cover services	Market rate; monthly fee to cover services	Market rate; monthly fees (or daily fees) for services that may include healthcare

Understanding Contract Types & Fees

Contract Type Comparison Table (continued)

	Extensive Agreement (Type A)	Modified Agreement (Type B)	Fee-for-Service Agreement (Type C)	Rental Agreements (Type D)	Equity Agreements (Type E)
Future Costs	With slightly higher entrance and monthly fees, future costs may be more predictable.	After the specified amount of health services is depleted, out-of-pocket costs are charged, usually at a discounted or full daily rate.	Although affordable in the short run, much planning will be needed to ensure that funds are available for future services and cost increases.	Any additional services, including healthcare (which is not guaranteed), will be charged on a fee-for-service basis.	Any additional services, including healthcare (which is not guaranteed), will be charged at monthly/ daily rates.
Risk	Similar to purchasing long-term care insurance, extensive contracts transfer risk of uncertain future healthcare expenditures to the LPC. Although purchasers assume the risk of paying up front for services they may not fully utilize.	Consumer retains much of the risk of future healthcare costs.	Consumer retains most risk.	Consumer retains more risk as all services are based on market rate and healthcare services are not guaranteed.	Consumers may benefit from appreciation of the property (terms specified in agreement); equity ownership may afford tax benefits (i.e., interest deductions, avoidance of capital gains tax on home sale); substantive risk is decline in property value; consumers share in real estate pricing fluctuations.

Assessing Financial Strengths of an LPC

Moving to a life plan community (LPC) and selecting the right fit to meet your long-term goals for wellness and lifestyle involve many considerations, including the decision to make a significant financial investment in the community you will be joining.

One way to evaluate the financial strength of an LPC is to review the organization's financial statements. For-profit community financial statements will report mainly on profitability and increasing assets, which relate to future dividends and return on investment to owners and shareholders. Nonprofit community financial statements will report on financial position; stability; and how funds are used as a way to inform funders, board members, and the community.

Although the financial statements you review may differ in terminology, both types of LPCs share some similarities in regard to accountability. Both types of communities must carefully track all transactions, maintain supporting documentation, and produce accurate and timely financial statements.

A financial consultant can help you navigate both your own financial goals and plans as well as understand the financial health of a prospective LPC. As you are reviewing financials, you will become more familiar with the following commonly used financial terms and materials. A comparison table with common terms for both NFP and for-profit is provided below.

Financial Statement Terms Comparison

Not-for-Profit Reporting (NFP)	For-Profit Reporting (FP)	Description
Statement of financial position	Balance sheet	Provides a snapshot of financial condition on a given date (instead of a period of time); includes assets, liabilities, and net assets (FPs refer to as equity).
Statement of operations	Income statement or profit and loss statement (P&L)	Provides a listing of revenues, gains, expenses, and losses to evaluate financial performance; NFP presents revenue less expenses, and classifies the impact on each net asset class.
Statement of cash flows	Cash-flow statement	Shows how changes in balance sheet accounts and operating activity affect cash and cash equivalents. The analysis is broken down to operating, investing, and finance activities.

Assessing Financial Strengths of an LPC

The Basics of Financial Statements

The ***statement of financial position*** or ***balance sheet***, is often described as a snapshot of the company's financial condition on a given date. Of the three basic financial statements, the balance sheet is the only statement that applies to a single point in time instead of a period of time. A statement of financial position usually has three parts: assets, liabilities, and net assets (NFP) or equity (FP). The main categories of assets are typically listed first and are followed by the liabilities. The difference between the assets and liabilities is known as the net assets or net worth of the company.

According to the basic accounting equation:

Assets = Liabilities + Net Assets, therefore,

Assets - Liabilities = Net Assets

The organization's assets and liabilities must be carefully managed to ensure financial flexibility and the ability to meet the needs of current and future residents as well as other stakeholders such as shareholders. A statement of financial position, or balance sheet, by definition, must balance between assets on one hand and liabilities and net assets on the other. Assets include items such as buildings or other property and cash. Liabilities are financial obligations of the organization such as debt payments and prepaid services.

Entry fees are cash payments received in one period that entitle residents to accommodations or services in the future. Accounting guidelines establish a standard accounting treatment for refundable and non-refundable entry fees paid by LPC residents. Both refundable and non-refundable entrance fees are recorded as a liability. However, over time, non-refundable entrance fees are amortized back into the financial statements as income. LPCs generally follow a complex actuarial analysis that estimates the average resident's length of stay in higher levels of care based on common health and age determinants.

For an NFP community, a negative net asset value does not necessarily mean it is insolvent (i.e., the organization is not necessarily unable to pay debts as they become due in the usual course of business, nor does it necessarily have liabilities in excess of a reasonable market value of assets held). Many new LPCs begin with negative net assets. Essentially, they have more future obligations than they have assets on hand at that point in time. However, the LPC will also have a commitment for a steady stream of income from residents, which should enable the LPC to meet its liabilities.

Assessing Financial Strengths of an LPC

Additional areas of focus on the balance sheet include:

- Liquidity level (cash and investments) and related metrics of Days Cash on Hand or Cash to Debt ratios.
- Entrance fee liability, including the sufficiency of entrance fees to cover future service obligations and the magnitude of entrance fee refund obligations, including any backlog of refunds due on vacated living units (and source of funding to cover the refund due).

An LPC's ***statement of operations***, also called an *income statement* or *profit and loss statement* (P&L), provides a listing of revenues, gains, expenses, and losses for a given period in order to evaluate performance. The statement of operations shows all revenues earned and all expenses incurred to generate that revenue during the given period.

The statement of operations or income statement is the basic measuring stick of profitability, and it can help evaluate the past performance of the organization, predict future performance, and assess the potential of achieving future cash flows. However, information in an income statement has limitations. Items that might be relevant but cannot be reliably measured are not reported (e.g., brand recognition, reputation, and consumer loyalty). Some numbers depend on judgments and estimates (e.g., depreciation expense depends on estimated useful life and salvage value).

Most LPCs conduct an ***annual audit*** that results in a set of audited financial statements. This set of documents summarizes the company's financial performance for the prior fiscal year and typically includes all the financial statements discussed in the previous section.

An audit is conducted by an external accounting firm and provides an independent third-party review of the financial statements. The objective of this review is to provide additional assurance that the statements accurately and fairly present the financial position of the company.

Assessing Financial Strengths of an LPC

Some items of interest within the audited financial statements include:

- The auditor's opinion, which:
  - Defines the scope of the audit.
  - Provides an opinion of the procedures and records used to produce the statement.
  - Makes a judgment on whether the financial statements present an accurate picture of the organization's financial condition.
- An organization's cash on hand at a particular point in time (derived from the balance sheet), as well as its profitability over the course of a specific period (illustrated in the income statement).
- Cash flow items over the course of a certain period from three different types of activities:
  - Operating (revenues from the provision of services to community residents).
  - Investing (income such as dividends and gains from the sale of stocks, bonds, or other investments).
  - Financing (interest expense incurred as a result of loans, mortgages, or bonds used to fund development or expansion of the community).

Assessing Financial Strengths of an LPC

The notes contained in the audited financial statements provide more detailed information about the organization, its significant accounting policies, and specific balances included in the financial statements.

In addition to the audited financial statements, the community may prepare an annual report, which can be useful in telling the story of what an organization does and may highlight its mission and strategic plans. The annual report typically includes some, if not all, of the financial statements and provides additional insight as to the past activities and future plans of the community that are not necessarily related to financial statements.

In addition to asking the LPC to view the audit or annual report, you may also find financial information such as 990s, bond information, and disclosures publically accessible through the regulatory agency. A searchable database for bonds is available through Electronic Municipal Market Access (EMMA): https://emma.msrb.org/.

Questions to Ask

1. **May I review the organization's most recent audit or annual financial report? Are the statement of financial position (balance sheet), statement of operations (income statement), and statement of cash flow included in this report?**
2. **May I review the IRS Form 990 (Return of Organization Exempt from Income Tax; applies to not-for-profits) or most recent disclosure statement (or other public disclosure required by the state)?**
3. **Has the organization been in technical or payment default or experienced financial distress in the past five years?**
4. **Does the organization have a positive net worth? If not, how does the organization believe its long-term financial health is affected?**
5. **In the last few years, have operating revenues exceeded expenses?**
6. **To what degree does the organization rely on non-operating income from donations, endowments, and investment income?**

Assessing Financial Strengths of an LPC

Financial Performance Indicators

Financial ratios are calculations based on information contained in financial statements that offer additional insight into the LPC's financial performance. Certain standardized ratios, such as Excess Margin, Days Cash on Hand, and Debt Service Coverage, can be a means to compare an organization against industry standards. If an LPC receives a loan or has bonds, the lender may require the LPC to meet certain ratio requirements that may be tested annually or more frequently. Similarly, some state regulatory agencies may require annual financial reporting and may have requirements for certain ratios.

Ratios must be looked at in combination with other ratios and with nonfinancial information to interpret the overall financial condition of an LPC. It is important to understand that ratios will be affected by the LPC's specific situation (e.g., contract type, size or number of units, mix of levels of care, single- or multi-site entity). It may be helpful to have a trusted financial advisor assist in evaluating an organization's financial ratios.

The Benefits of Financial Ratios

Financial ratios are valuable tools of analysis. Ratios are:

- A useful tool in analyzing an LPC's financial strengths and weaknesses.
- Valuable in identifying trends.
- Presented in the form of numerical computations that are easy to use for both internal and external comparisons.
- Helpful in identifying unusual operating results.
- Useful for illustrating best practices of the financially strong providers.
- Valuable because they provide comparisons among providers regardless of the actual dollar amounts for the underlying data.

The Limitations of Financial Ratios

- Ratios are not an exclusive tool to be used in isolation.
- The interpretation of an individual LPC's ratios may vary due to variations in the LPC's service line components.

Assessing Financial Strengths of an LPC

CARF Ratio Benchmarks

As a condition of ongoing accreditation, CARF-accredited LPCs are required to submit annual reporting, which includes an organization's audited financial statement and ratio calculations for 17 ratios that CARF has been benchmarking for 30 years. Following is a brief overview of the benchmarks that CARF tracks. For more details and information about the ratios, please see the latest edition of the annual *Financial Ratios & Trend Analysis of CARF-Accredited Continuing Care Retirement Communities*.

Margin (Profitability) Ratios

Margin ratios indicate the excess or deficiency of revenues over expenses. One of the drivers of success for LPCs is the ability to generate annual operating surpluses to pass on to shareholders or to provide for future resident-care expenses and capital and program needs. CARF includes the following profitability ratios in the ratio trends publication:

- Net Operating Margin (NOM)
- Net Operating Margin-Adjusted (NOM-A)
- Operating (OR)
- Operating Margin (OM)
- Total Excess Margin (TEM).

Liquidity Ratios

Liquidity ratios are intended to measure an LPC's ability to meet the short-term (one year or less) cash needs of its ongoing operations. Like any business, an LPC needs to ensure that it has sufficient cash, or investments readily convertible to cash, to meet payroll, pay for goods and services, fund current debt service payments, and provide for essential maintenance and repairs. CARF tracks the following liquidity ratios in the annual ratio trends publication:

- Days in Accounts Receivable (DAR)
- Days Cash on Hand (DCH)
- Cushion (CUSH)

Assessing Financial Strengths of an LPC

Capital Structure Ratios

Capital structure ratios primarily focus on an LPC's balance sheet strengths and weaknesses. These ratios are useful in assessing the long-term solvency of an LPC. They measure the relative amount of debt an LPC has undertaken. A high percentage of debt relative to assets or equity is an important indication of risk in the LPC industry, because high leverage typically means high debt repayment obligations and high annual debt service payments. CARF highlights the following capital structure ratios in the ratio trends publication:

- Debt Service Coverage (DSC)
- Debt Service Coverage-Revenue Basis (DSC-R)
- Debt Service as a Percentage of Total Operating and Net Nonoperating Gains and Losses (DS-TR)
- Unrestricted Cash and Investments to Long-Term Debt (CD)
- Long-Term Debt as a Percentage of Total Capital (LTDC)
- Long-Term Debt as a Percentage of Total Capital Adjusted (LTDC-A)
- Long-Term Debt to Total Assets (LTD-TA)
- Average Age of Community (AGE)
- Capital Expenditures as a Percentage of Depreciation (CED).

Questions to Ask

1. **What financial ratios does the organization calculate regularly and how are these used to support the financial performance and strategic planning?**
2. **Is there state financial regulatory oversight for the LPC? Are there any regulations related to certain ratios' values?**
3. **Does the LPC have any bond or debt covenant requirements that relate to financial ratios? Is the LPC currently meeting these covenants?**
4. **Does the organization have a financial rating by Fitch or S&P? If so, what is the rating? How does that rating compare with the industry?**
5. **Do the organization's financial ratios indicate that it has the necessary financial resources to ensure the ability to provide services now and in the future?**

Assessing Financial Strengths of an LPC

CARF Accreditation and Financial Management

CARF International offers LPCs the opportunity to seek accreditation and has standards that are specific to the continuing care retirement community (CCRC). The accreditation process requires LPCs to follow a rigorous set of standards based on industry trends and to undergo a survey to determine conformance to those standards. These standards address both the organization's business practices and care processes for service delivery. Business practice standards include assessing leadership, governance, strategic planning, financial planning and management, risk management, health and safety, technology, and performance measurement and management. Care process standards look at program and service structure related to the area of accreditation (in this case, the LPC). Standards for specific diagnostic categories or areas of specialty, including stroke and memory care, may be added depending on the population served.

CARF accreditation offers assurance that the LPC has developed processes for financial planning and management and reviews its financial performance on a regular basis. CARF-accredited communities are required to submit their annual audited financial statements as well as calculate their margin/profitability ratios, liquidity ratios, and capital structure ratios. Submission of the annual financial reporting is required in order to maintain accreditation. CARF standards specific to LPCs call for the organization to evaluate its fee structure, profitability, cash management, and investment strategies, and to translate these analyses into financial plans that will ensure the long-term solvency of the organization.

Assessing Financial Strengths of an LPC

CARF finance surveyors are senior leaders with day-to-day experience in managing financial planning, investments, accounts receivable/accounts payable, and budget development and tracking. Their expertise and knowledge in capital needs assessment, long-term financial planning, and financial ratios is used during the LPC survey to evaluate how the organization is meeting the CARF standards and specifically those related to the CCRC.

Although being accredited may indicate that an LPC has gone the extra mile to assure residents, families, payers, lenders, stakeholders, and the public, accreditation does not necessarily ensure financial health. LPCs face a variety of risks, including, but not limited to, a diverse and changing financial market, competition within the senior living market, natural and human-caused disasters, and pandemics. CARF strives to work with accredited organizations through the unique circumstances related to financial distress. As an accreditor, CARF uses the survey process as well as check-ins throughout the accreditation process (i.e., annual conformance to quality reporting and annual financial reporting) to stay abreast of critical changes that may impact an organization's success (including changes in senior leadership, changes in ownership, material litigation, and unanticipated events that result in death or serious injury of a person served). All CARF-accredited organizations are required to report financial distress within 30 days.

When CARF becomes aware of financial concerns like default on debt, failure to meet bond covenants, material weakness, or significant deficiencies in an audit, there are additional review processes that require more information and follow-up. If the situation is serious (e.g., forbearance agreement or impending bankruptcy), CARF will amend the accreditation status to add stipulations to require more frequent financial reporting. In rare cases, CARF may suspend or revoke accreditation.

Questions to Ask

1. **Is this LPC CARF-accredited? If yes, when does accreditation expire, and do you plan to renew accreditation?**
2. **If not, why have you chosen to forgo an independent review of the community's business practices, including financial planning and management?**

Assessing Financial Strengths of an LPC

Additional Financial Aspects to Consider

Board involvement in planning: Governing boards should be future focused and concerned with the LPC's long-term success and financial stability. The governing board is also charged with ensuring accountability of the LPC's financial management strategy. Find out how the board is informed of changes in financial performance and educated about the unique aspects of the LPC model.

Resident involvement in planning: Most communities have a resident association. These associations have varying involvement with the management and board. Some are social groups or communication channels, while others closely review planning and performance information and may appoint a representative to the governing board. Find out how the LPC gathers input from the residents and how residents are able to influence decision making individually or collectively.

Capital budgeting investment: A well-thought-out long-range financial plan provides an organization with information needed to make informed strategic and operational decisions. LPCs must have long-range financial plans and processes that address both maintenance and growth capital. These plans and strategies should combine the insights gained from a capital needs assessment, looking at risks associated with the organization's debt, considering potential risks of the organization's investment strategy, as well as obtaining input from key stakeholders as a part of a comprehensive approach to identifying future financial opportunities and challenges.

Endowment funds: Some LPCs have endowment funds. These funds are generally the result of donations. Endowment funds may be used to help fund special projects, provide resident financial aid, or cover operating expenses. When evaluating an LPC, determine if the organization has an endowment, the size of the endowment, how the funds are managed, the allowable uses of the endowment, and the extent to which the LPC depends on the endowment to fund operations, and any associated risks.

Debt management: An LPC should regularly review how assets are safeguarded and how it is currently managing financial obligations. The organization should be able to describe its outstanding long-term debt and the approaches it will employ to continue to meet debt obligations. Long-term financial projections or projected financial ratios are good strategies for informing debt management.

Dependency on new entry fees: Depending on the community's size, composition of levels of care, contract types offered, and fee structure, LPCs rely on receipt of new entry fees to varying degrees. For an organization that relies largely on new entrance fees for its financial solvency, it is very important to have a predictable number of new residents moving in to the community each year. The percentage of residential units occupied and a waiting list for persons desiring to move into available units will affect the number of new residents.

Assessing Financial Strengths of an LPC

Donor development: Endowments rely on donations and many LPCs have formalized development programs. The organization should have established giving opportunities, such as annual funds, gift annuities, charitable remainder trusts, and bequests. Find out how the organization identifies and retains donors.

Fee increases: An LPC is an intensive service business. Because of continual inflation and increases in employee salaries and supply expenses, LPCs periodically must adjust entrance fees and monthly fees. Some organizations may have formalized policies for how they determine the fee structure, review fee schedules to determine if modifications are necessary, and notify residents of any changes. Find out the frequency and amount of past rate increases.

Financial aid: Some LPCs have resident assistance funds or scholarships that can be used to assist with entrance fees, subsidize monthly fees, or provide care for residents who may run out of money. Find out what the organization's policy is for determining qualification for financial assistance. This information should also be in the contract or agreement.

Financial transparency: Because of the long-term commitment between the resident and the LPC, the resident has an interest in knowing how the organization is performing both operationally and financially. Find out how information is shared with residents through the resident association, printed reports, or open meetings.

Investment strategy: Large entry fees received from new residents are used in part to fund future expenses. Therefore, it is important that the organization wisely invest these funds to ensure that adequate resources are available in the future. Often, the board of directors, chief executive officer, chief financial officer, and financial advisors determine the investment strategy and amount of investment risk the organization is willing to undertake. Find out how investment decisions are made, how performance is monitored, and the performance track record.

Recent or planned renovations: Renovations and expansions are necessary for communities to remain competitive. The average age of the facility (or AGE ratio) is often a key factor influencing the ongoing marketability of an LPC. However, costs for renovation and expansion must be funded through resident fees, donations, or the issuance of debt. Find out how the organization plans to pay for any recent or planned renovations and if this will affect the fee structure.

Resident tax benefits related to entry and/or monthly fees: A resident of an LPC who pays an entry fee may be able to deduct a portion of the entry fee and possibly the monthly fee from their taxes as a prepaid medical expense. The amount of deductibility is dependent on the contract type, and in order for any part of the entrance fee or monthly fee to be tax-deductible, a portion of those fees must be accounted for by the community as a prepaid healthcare expense. Find out how the organization provides this information to residents for use in filing taxes and consult with a tax professional for advice related to these benefits.

Risk management: Most LPCs have formalized risk-management programs to reduce the organization's exposure to risk and protect it from unanticipated financial losses. Health and safety programs, disaster preparedness, insurance, and adequate asset and liability management are all important components of a risk-management program.

Assessing Financial Strengths of an LPC

Questions to Ask

1. How is the governing board involved in strategic and financial planning? How is the board kept informed of changes that impact the financial security of the LPC?
2. Does the community have a resident association? If so, what is the association's role?
3. How are residents given the opportunity to be informed of and/or involved in strategic and financial planning and decision making?
4. Does the organization have an endowment? If so, what is the size of the endowment, and how is it used and managed?
5. What does the organization do to identify new donors and provide new and existing donors with opportunities for planned giving?
6. Does the LPC participate in Medicare and/or Medicaid programs?
7. With which Managed Care organizations does the LPC have contracts to cover services if I'm in the healthcare center?
8. Is there a resident assistance fund for residents who need financial aid to cover the costs of entrance fees, monthly fees, or additional service fees?
9. How can residents qualify for the resident assistance fund? What happens if the resident runs out of money?
10. How is information about the organization's financial and operational performance shared with residents?
11. How often does the organization complete strategic planning?
12. What is the organization's investment policy?
13. How are investment decisions made, and how is investment performance monitored?
14. Does the organization have a formalized risk-management program?
15. What type of insurance protection does the organization maintain? Is the community involved in litigation that could have a major impact on the organization?
16. To what degree does the organization rely on new entrance fees to maintain financial security? How does the organization ensure that it receives the needed number of new entry fees? Is there a waiting list? If so, how large compared to the number of units in the organization? Is the list growing, shrinking, or stable? How does the size of the list compare with competing organizations?
17. Are there any recent or planned expansions or major renovations? If so, how will these projects be funded?