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Retirement Care: Which Option is Right for Your Loved One?

Over the past few years, a number of our clients and their families have approached our firm with questions related to retirement housing choices or alternatives.

Needless to say, selecting a retirement community setting is a significant emotional and financial decision, especially if it requires a sizable entry fee in exchange for lifetime housing and availability of health care.

Often in today's society, unlike the past, the concept of aging parents living with their adult children is not a viable or realistic option. Especially, if the parents have significant mobility, medical, and/or physical limitation issues.

This article will provide a general overview and focus on the financial aspects which should be considered in the decision-making process. It is based upon the fact that for whatever reasons their existing home does not meet their needs and they are no longer able to remain socially active and care for themselves in their existing home.

We will define the four major categories for senior living as follows:

- *Care Only – Assisted-Living & Skilled Nursing Facilities*

  This category comprises stand-alone assisted-living facilities and skilled nursing facilities based upon the emotional, mental, and physical needs and condition of the resident.

● *Independent Living Only*

This category comprises independent living with free-standing single-family homes or apartments designed for seniors without the need for assisted-living or health care services.

● *Independent Living with Limited Care*

This category comprises apartment-style residences, villas, or townhomes providing access assisted-living and memory care facilities, normally including meals and recreational facilities.

● *Independent Living with Full Care – also known as continuing care retirement communities or CCRCs*

This category comprises the prior category plus a contractual access to the full continuum of care, ranging from independent living to skilled nursing care at the end of life.

CCRC have three main types of buy-in structures.

• Entry Fee: The senior pays an entry fee, a portion of which may or may not be refundable. The national average is around $ 250,000 but can be more depending on location, services, and amenities.

• Equity: The senior actually purchases the residential unit, which may be resold later, or has a contractual right to a specific percentage of any appreciation when the community resells the unit.

• Rental: The senior pays a monthly rental fee which would normally be higher than an entry fee community.

CCRC have two types of monthly payment structures.

• Fee for service: Increases when a resident transitions from independent living to assisted living, memory care, and skilled nursing care.

• Life care: The monthly service fee for a life care contract covers lifetime housing and health care services as needed, without a significant cost increase as the resident transitions from one level to another.

Generally, a significant medical deduction under Sec. 213 is available for a portion of the entry-fee and monthly fees. Typically, the CCRC's auditor or the CFO will recommend a formula to calculate the allowable deduction amount, often providing residents a written explanation each year. A deduction equal to 20% to 40% is not uncommon.

<u>CHECKLIST OF QUESTIONS TO ASK</u>

- How and when the monthly charges increase over time?
- What is included in the monthly fee, and what is extra?
- What are the requirements for receiving an entry-fee refund?
- Can the entry-fee refund be used and applied to pay for health care services if the resident runs out of money?
- Obtain copies of the annual CPA's audited financial statements, including the opinion and notes to the statements?
- Obtain copies of professional actuarial studies for future service obligations?
- Does the CCRC have an Occupancy Ratio in excess of 90%?