Saint Luke's
BISHOP SPENCER PLACE

Nine Ways to Determine if a CCRC is Financially Viable

Many older adults recognize the benefits of living in a continuing care retirement community (also referred to as a CCRC or life plan community), including peace of mind that comes with having onsite care services available when needed. But choosing the right community is a major decision. Among other important aspects of the selection process, assessing the financial security of the provider can help assure prospective residents of the long-term viability of the facility.

How do you know?

There is no single method for analyzing a community's financials, but here are a few different things you can ask about:

1. **What is the occupancy ratio in independent living?** A high occupancy ratio (90 percent or more) indicates strong demand for the community and contributes to a stronger balance sheet. Do not rely only on current occupancy levels, but ask about the direction occupancy has been trending over the past several years.
2. **What are your bond ratings?** Retirement communities that have utilized public debt to finance initial development or expansion may have requested to have their bonds rated by a rating agency. A rating of BBB- or higher is an indication of financial strength. Not every provider that issues debt will have a debt rating.
3. **Are financial covenants being met?** Continuing care retirement communities that utilize debt financing will be held to strict financial covenants by the lender. Inquire with the senior living provider to learn whether there have been any recent violations of bond covenants, if applicable.
4. **Is there positive cash flow from operations?** Cash flow from operations, which generally comes from a combination of monthly fees and non-refundable entry fees, should be sufficient to cover operating expenses on an annual basis. Negative cash flow may be okay for short periods of time but should not be a long-term trend.
5. **Is there a future service obligation?** Continuing care retirement communities should evaluate whether expected future costs for housing and healthcare are within anticipated future revenues. If the expected long-term cost of services exceeds expected revenues it is referred to as a future service obligation (FSO), which should show up on the balance sheet as a long-term liability.
6. **Has a detailed actuarial analysis been performed?** An actuarial analysis performed by a certified actuary will assess factors not covered in the FSO calculation, including long-term debt, capital expenditures, and planned expansions. The report should indicate that future

obligations to current residents are covered, that new resident fees are adequate, and that positive cash flows are projected for the long-term.

7. **Do current assets exceed current debts?** The ratio of current assets to current debts is referred to as the *current ratio*. Current assets and debts are those that are expected to be realized or paid, respectively, within the next 12 months. The ratio is an indication of whether an organization is in a position to repay its liabilities with its assets.
8. **Does the community maintain positive equity?** Communities that are financed primarily with debt or entrance fees will likely show negative equity. Negative equity may also occur when a provider's monthly fees are not sufficient for covering operating expenses.
9. **Is the provider financially regulated by the state?** The state in which the CCRC is located may have specific financial conditions that need to be met each year. Not every state regulates CCRCs financially, but those that do may require certain cash reserves to remain on hand each year, and possibly adherence to other financial ratios. Regulation does not guarantee financial viability but can serve as another layer of oversight and consumer protection.

Consider the big picture

There is no single measure for determining a retirement community's long-term financial viability, and any one of the above indicators could appear less than favorable at a particular point in time, perhaps for a reason that is justifiable. But satisfactory answers to most of the above questions can provide added assurance.

Keep in mind that start-up communities–those developed within the last eight years–should be viewed differently from established providers. For example, it would not be uncommon for a start-up provider to show negative equity due to higher levels of debt taken on for development. In the case of start-ups, it is important that the provider have in place comprehensive strategic and marketing plans, and that it is on track to meet early occupancy goals. CCRC bond defaults are most likely to occur when management underestimates the amount of time they will need to fill the units and as a consequence, funds are exhausted.