Saint Luke's
BISHOP SPENCER PLACE

A Primer on CCRC Residency Contracts

There are basically five different types of CCRC contracts offered among communities, and variations of each:

Type A (lifecare) contract: All other things being equal, a resident with a lifecare contract will pay more while living independently, either in the form of a higher entry fee or a higher monthly service fee. The trade-off is that almost all residential services, amenities, and if needed, health-related services—such as assisted living or skilled nursing care—are provided with little or no increase in monthly fees, other than inflationary adjustments. In essence, a resident of a CCRC with a lifecare contract pre-pays for some portion of health-related services that may be needed in the future. The benefit of a lifecare contract is that it provides better predictability of expenses for the rest of one's life, regardless of healthcare needs in the future. On the other hand, a resident with a lifecare contract is paying more on the front end for care services that may not be needed in the future.

As you research CCRCs offering a lifecare contract, it's important to understand exactly what types of services are available at no additional cost under this type of contract. For instance, does it include assisted living or only skilled nursing care? Does it only cover care provided in the healthcare center or will it cover care services provided in the independent living residence? (Most lifecare contracts require the resident to pay out-of-pocket for personal care services if received in their independent living residence.)

> *Equalized lifecare pricing*: A newer version of the lifecare contract is commonly referred to in the industry as "equalized pricing."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. Instead, they begin paying a pre-determined amount that is typically equal to the pricing for a specific residential unit. For instance, the contract may say something like, "When a resident transfers to our healthcare center, they will begin paying a monthly rate equal to the then-current rate for our smallest two-bedroom apartment." This means that a resident who was in a lower priced (typically smaller) residence would pay more for assisted living or skilled nursing care services, but someone who was in a higher priced residence (typically larger) would actually pay less. Thus the term, "equalized pricing"—all residents pay the same rate for healthcare services.
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> Keep in mind that in the case of a couple living in a shared independent living unit, if both people require care, they *each* will pay the equalized rate for care. This is substantially different than a traditional lifecare contract whereby they would continue to pay the same monthly rate they were paying while living independently.

Type B (modified): Under a modified CCRC residency contract, the entry fee and/or monthly service fee will offset the cost for some amount of care needed in the future but not on an unlimited basis. For example, the cost of skilled nursing services may be offered at a 20-30 percent discount off of the market rate. Alternatively, a resident may be required to pay the full market rate for care services, but the contract allows for a certain number of pre-paid days in the healthcare center. These “free” days, as they are sometimes called, may be offered on a per-year basis or over the life of the contract. Of course, it’s not completely free because the resident will continue paying the monthly service fee they were paying previously, but care services are offered at no additional cost during this period of time.

In some cases, the number of days allotted may be minimal, such as seven days. Other contracts may offer more days. Unused days may accumulate, or they may expire each year.

Finally, some modified CCRC contracts may offer a combination of a discounted rate and allotted days.

Type C (fee-for-service): All other things being equal, a fee-for-service contract will require a lower entry fee and/or monthly fee than the two previously described contract types. However, if assisted living or skilled nursing care is required, the resident’s monthly fee will increase to reflect the market rate for care.

Some fee-for-service contracts are completely à la carte, whereby a resident can essentially choose which types of services and amenities they want to pay for, even while living in independent living, while others apply mainly to the cost charged for care services needed.

In contrast to a lifecare (type A) contract, although CCRC residents with a fee-for-service contract have unlimited exposure to the potentially exorbitant costs of long-term care expenses, they also are not paying on the front-end for care that they may not need.

Rental: Rental CCRC contracts require no entry fee or perhaps a nominal “community fee” of a couple thousand dollars or so. Contracts are often month-to-month, and the monthly service fee will most likely be higher than what you would pay in a comparable entry fee community. Many CCRC rental contracts do no provide residents with priority access to healthcare services, therefore, available spaces may just as easily be filled with someone in need of care and coming from outside of the community. As with a type C contract, the resident will pay the full market rate for healthcare.

Considering the fact that the monthly service fee for independent living will likely be higher than it would be at a comparable entry fee CCRC, and the fact that long-term care and healthcare services will be offered at the full market rate, a resident in a rental CCRC could conceivably pay more over their lifetime than they would in an entry-fee community. Obviously this would be a function of how many years they live there and how much care they ultimately require. This could especially true in the case of a couple.

Equity/Co-op: Residents in equity communities actually own their home or apartment but are still required to pay a monthly service fee or “membership fee” for services and amenities, including home maintenance. Some CCRCs operate under the co-op model whereby residents purchase shares of the corporation. Under both arrangements, healthcare services are usually offered at the full market rate.

Under a true equity model, the resident owns their home or condo outright, and it will eventually pass on to the resident’s heirs or the estate just as any home would. One important consideration, however, is that the monthly service fee may continue until the heirs resell the residence to another person who qualifies based on age, finances, and health.

Some equity CCRC models are not a true ownership arrangement. Rather, if a resident moves out of the community or passes away, the operator still owns and resells the residence, but the resident, or the resident's heirs, receive some pre-determined portion of any price appreciation.

Comparing CCRC contract types

When comparing the cost of various types of CCRC contracts, I should reiterate that the above explanations best apply where other things are equal. A lifecare contract in a rural part of the country may still be considerably less than a fee-for-service contract in San Francisco. Or, suppose one community is newer and has much nicer amenities than another. This would impact the cost, too. However, if one community were to offer multiple contract choices for residents, which many do, then the above descriptions would hold true.

Also keep in mind that the amount of the entry fee can be impacted by whether it is refundable or not. For example, the entry fee for a fee-for-service contract that is 90 percent refundable may be higher than a lifecare contract with a traditional, non-refundable contract.

Making an educated CCRC decision

Unless you are an attorney trained to understand complex contract language, it can feel intimidating and overwhelming to try to compare various CCRC contracts. That's why it is so important to do your homework and ask as many questions as you can to learn about the different types of contracts offered by the communities you are considering. You want to be sure you understand how each will impact your care and your finances in the future.