FUTURE PROOFING AND CREATING SOLVENT CONTINUING CARE CONTRACTS?

The work of actuarial science is to substitute facts for appearances and demonstrations for impressions by analyzing the financial costs of risks and uncertainty.

Goal of an actuary

AV Powell, ASA, MAAA
Consulting Actuary
av@avpowell.com
phone 404.845.0360 ext. 287
fax 404.845.0361



A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Learning Objectives

1. A universal definition for continuing care contracts
2. Solvency is not the same as creditworthiness
3. What are the contract high risk factors?
    a. Is your contract funding solvent?
    b. Refundability options
    c. Reducing or eliminating a healthcare service level, i.e., SNF capacity
4. What contract terms shift financial risks to consumer

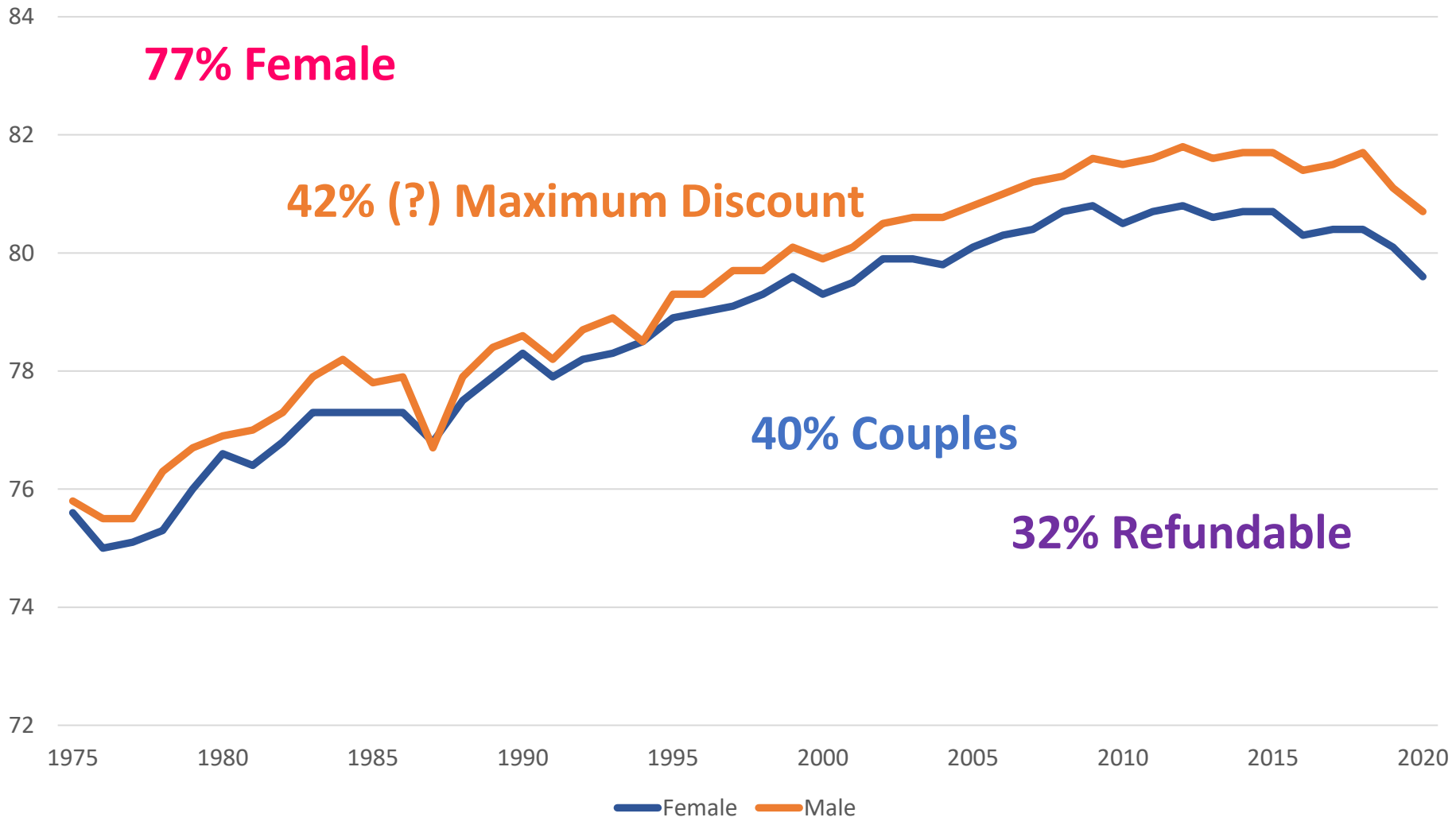
A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Complex Contracts that Many Don't Understand

1. Pay-as-you pricing dominates practice, i.e., "cash is king", but
2. Collect 30%+ in upfront monies
3. Consumers risk a significant portion of their nest egg
4. Provider solutions to address financial difficulties are to rewrite contracts to shift risks to consumer, such as
    a. Previous use of contingent refundable contracts
    b. Trend toward reduction of long-term care benefits

A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Who's Purchasing Continuing Care Contracts?



A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

What is a Life Plan aka Continuing Care Contract?

1. Promise a **lifetime set of services** as contractholder **transitions among wellness levels**
2. Enrollment/purchase subject to underwriting criteria
3. Includes “managed” care coordination
4. Monthly fees, additional charges, and reimbursements fund a portion of these **costs/expenses**
5. **Entry fees must fund “costs – monthly fees”**
6. Pricing philosophy of generational self-supporting fees
7. Do contractual obligations for refunds obviate moral considerations for providers?

A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Contract Misconceptions

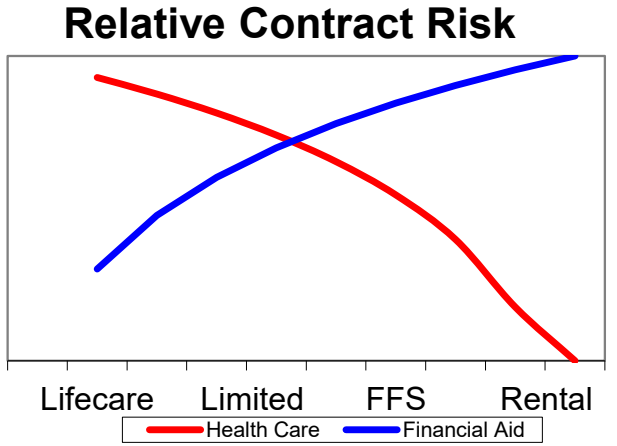
1. Industry terminology is misleading
2. Types A, B, C (so-called fee-for-service), and D
3. Categories have been used to avoid financial regulation
4. Fee-for-service with an entry fee is a **misnomer**
5. Possible renaming of contracts to reflect fact that variations are different levels of copayment and not risk mitigation

A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Best LTCi Option for Late Adopters

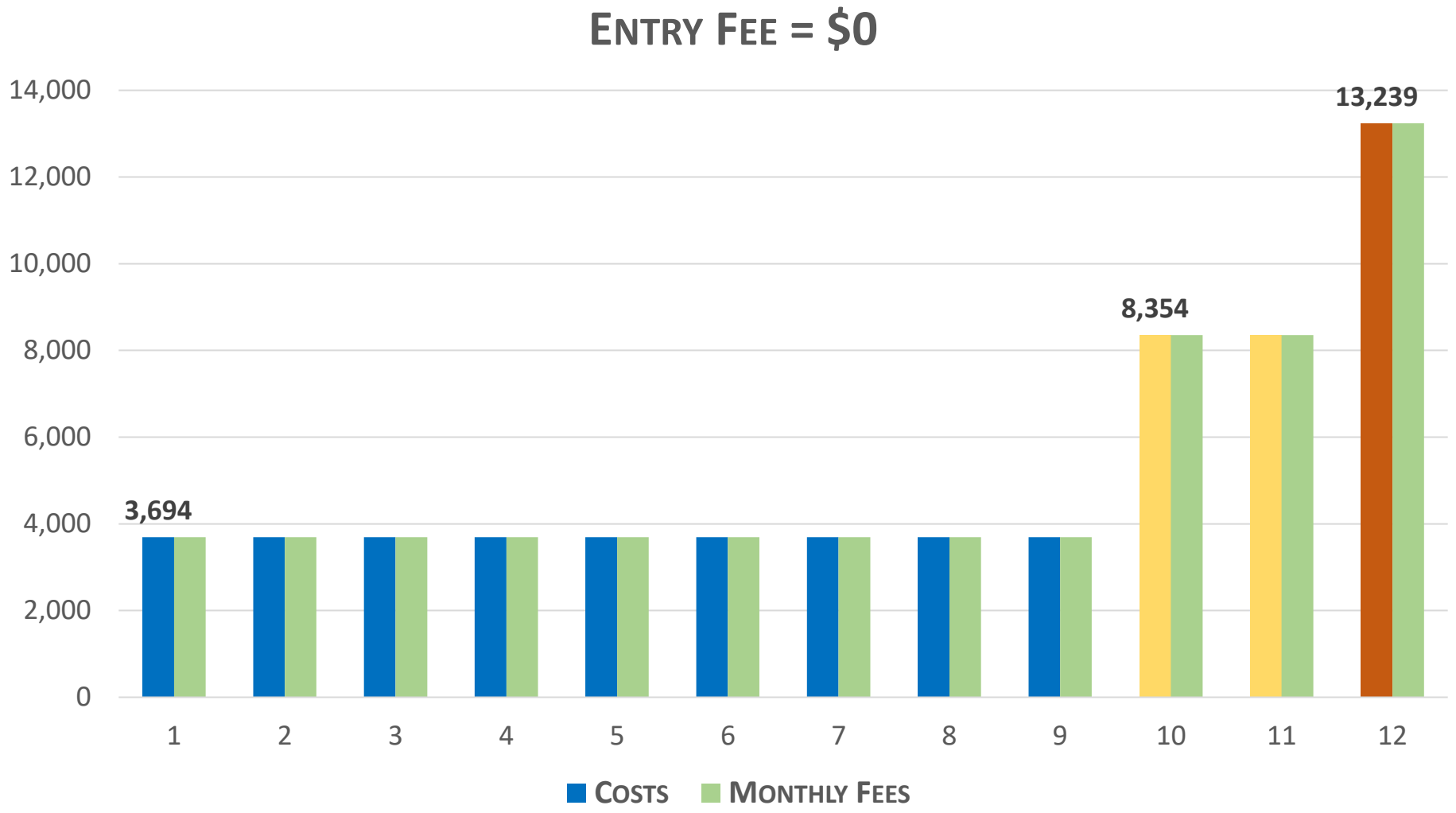
Contract design appeals to “planner” senior who wants to:

1. Protect themselves from costs of excessive health care usage
2. Protect themselves from depleting their financial resources
3. When fees don’t match costs, then risk pooling is embedded
   - **Health Care Risk**
   - **Financial Aid Risk**
   - Refund Risk
   - Selection Risk



A.V. POWELL & ASSOCIATES LLC ACTUARIAL INNOVATORS

Rental Monthly Fees Fund 100% of Lifetime Costs
MF = Costs in ILU, ALU, SNF



A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Type A Monthly Fees Fund a Portion of Lifetime Costs
MF = $4,000 in ILU, ALU, and SNF



A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Type B/C Monthly Fees Fund a Greater Portion of Lifetime Costs
MF = $3,500 in ILU; $8,350 in ALU; $13,200 in SNF



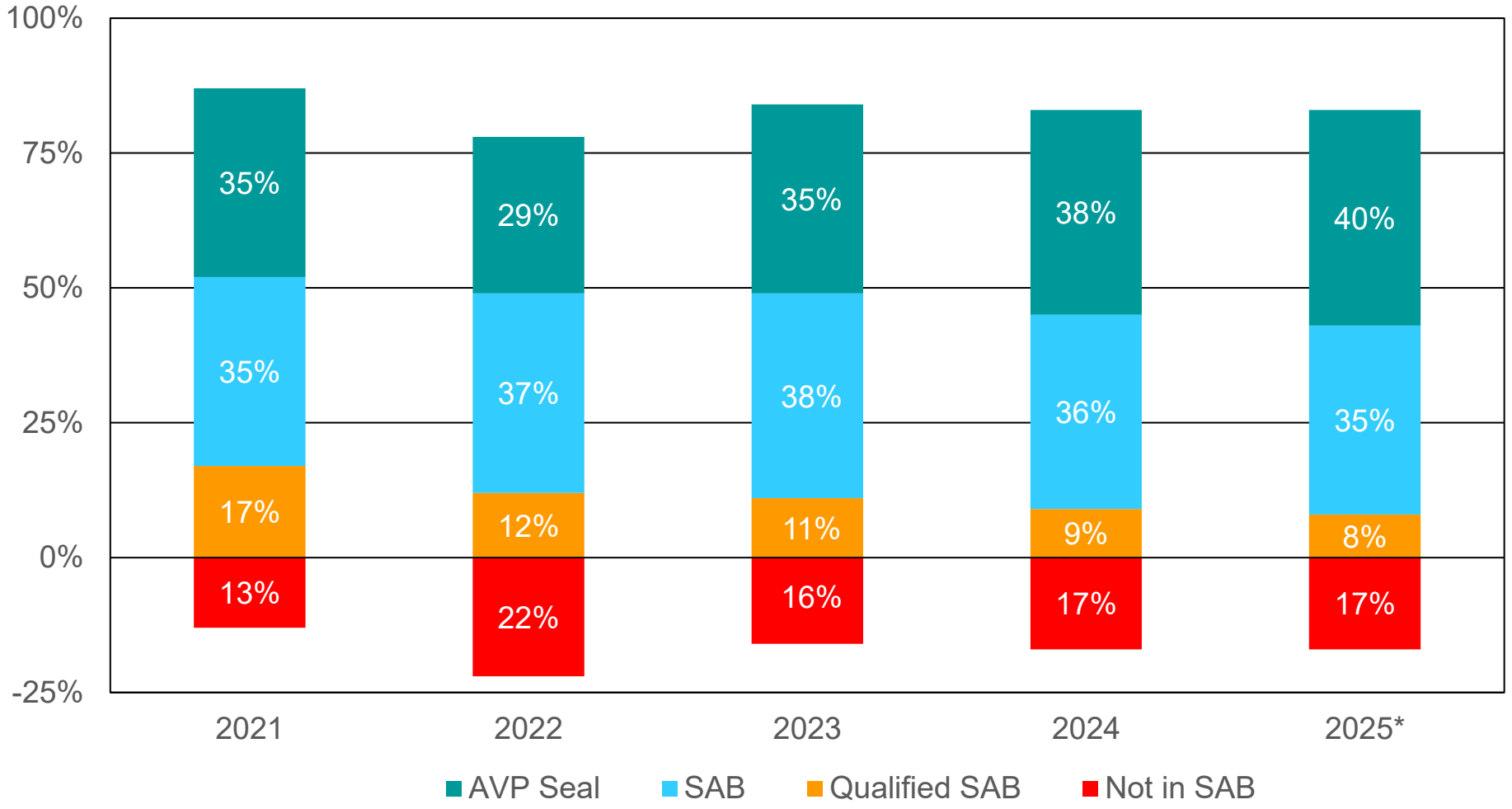
A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Creditworthiness ≠ Long-term Financial Solvency

1. Current CCRC financial metrics address creditworthiness
   a. Debt service reserves
   b. Days cash-on-hand
   c. Net Operating Margin
   d. Bond ratings
2. Solvency measures whether fees collected from a group of contractholders is “expected” to cover their costs
   a. ASOP#3 funded status that is
   b. Conceptually equivalent to GAAP balance sheet “net assets”

A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Are Real World CCRCs Actuarially Solvent? Yes, They Are!



A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Negotiate Contract Terms before Signing

1. CCRC bankruptcies make big news when they happen
2. Might be avoided if:
    a. Shift focus from cash flow to liability management
    b. Learn from history
3. Ask your provider to demonstrate solvency validations
4. Avoid refunds with funding based on next generation
5. Ask what happens is a service level is no longer provided?

A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Simple Test for Funding Solvency



A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS

Refunds are Inherently Risky at Older Ages

1. Many financial difficulties lead to delay in refund payments
2. Ask if balance sheet shows any refunds due to terminated contracts
3. Consumer needs to understand
    a. Entry fee is a prepayment for future services, not a loan or equity
    b. Funding based on next generation fees is contrary to insurance principles
4. Alternatives are
    a. Purchase a whole life insurance policy
    b. Change federal bankruptcy laws—long shot

A.V. POWELL & ASSOCIATES LLC ACTUARIAL INNOVATORS

Seek Contract Future Proofing Solutions

1. Set contract benefits based on functional status
    a. Aging-in-place
    b. May mitigate “heavy-tail” long-term care risks



2. Fund/protect nonforfeiture reserves for refund options

A.V. POWELL & ASSOCIATES LLC ACTUARIAL INNOVATORS

CCRC Contracts are a Safe Bet **IF**

1. Use actuarial tools for pricing and liability management
2. ASOP#3 actuarial studies are not a panacea
3. Can't regulate full occupancy
4. Recommendations:





   a. Providers Adopt Higher Financial Sophistication
   b. Consumers Be Aware

A.V. POWELL & ASSOCIATES LLC
ACTUARIAL INNOVATORS