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CCRCs: Confused About Contracts? What are the Resources? What are My Choices?

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A few years ago, I received a call from clients who were planning to move from their Florida home to be closer to their daughter in California. While not an optimal choice for tax planning, my clients wanted to be near their family as they got older and their health was no longer optimal.

As planners do, I ran some analyses to determine what additional costs this might add to their financial plan and what impact it would have on them long term. As they told me about entry fees, contracts, optional reimbursements and monthly fees, I realized that this was not quite a real estate transaction, nor was it solely a hedge against the potential costs of long-term care. What they were considering was a Continuing Care Retirement Community (CCRC).

What is a CCRC?

A CCRC is a retirement community that provides a continuum of care for seniors--ranging from independent living, to assisted living to skilled nursing. Some communities also offer hospice services and memory care. This type of community allows individuals to "age in place" versus receiving care at different locations during their retirement years. Given that a CCRC provides both housing as well as healthcare, I sometimes like to refer to it as a long-term care policy with a full kitchen!

A CCRC will typically require an entrant to meet two criteria: financial and medical. The first criterion includes the assets and income sources to pay an entry fee and ongoing monthly fees. The latter measure means that the senior must be able to enter the community directly into its independent living accommodations. Unlike many nursing homes, a CCRC usually does not accept Medicaid. Residents will typically use the proceeds from the sale of a primary residence to offset the entry fee, and combine it with other resources such as Social Security, pension and portfolio income.

As their care needs increase, residents can transition into another area of the community where care can be administered more effectively. While residents remain independent, the community provides amenities such as a meal plan, social activities, housekeeping /home maintenance, etc. For many retirees, these benefits are often a welcome option to the burden of caring for a single-family home.

Many communities also offer guaranteed access to a lifetime of care, regardless of a resident's ability to pay later in life. About 80% of CCRCs have a non-profit sponsor that may provide for benevolent care.

Is a CCRC right for me or my parents?

Potential CCRC residents need to determine both quantitatively and qualitatively if a CCRC is right for them.

Affordability is the largest financial variable that must be explored. Different communities--and even different living spaces within those communities--can vary widely in price. A potential resident must not only analyze the financial impact of the entry fee and ongoing monthly fees, but they must also determine how these costs may affect their current living expenses, as well as future financial and estate goals. Additionally, the fees associated with a CCRC may be tax deductible, so it is important to take advantage of potential tax-planning opportunities to determine if they are applicable.

Qualitatively, it is important that the potential resident derive real value from the community. Safety, social activities, proximity to care and location/accommodations are important factors to weigh against the costs. For those whose health has already declined, it may be too late to make this decision, since immediate nursing care may be the only option. For others, there may be an emotional attachment to their current home. Finally, if a potential resident owns a second home where they spend most of their time, the cost/benefit of a CCRC may not provide the most suitable solution for care and housing.

What are some other financial planning issues to consider?

The decision to move into a CCRC may have an impact on one's estate plan, and tax-planning issues also need to be taken into account.

Many retirees rely on income sources and portfolio assets to provide for ongoing living expenses. Their primary residence, sometimes their largest asset, will normally be the remaining "use asset" in the family that would be left to children as an inheritance. However, most CCRC residents sell their primary residence to finance the entry fee. While there may be contract types that allow for a percentage of the CCRC entry fee to be refunded to the estate, it is important to evaluate whether those refundable contracts represent the most cost-efficient way to pass assets to heirs.

Additionally, a percentage of the non-refundable portion of the CCRC entry fee and ongoing monthly fees may qualify as an itemized medical tax deduction. This deduction may be very large, particularly during the first year of residence, when the entry fee is paid. This could provide opportunities to accelerate income from Individual Retirement Accounts (IRAs) or do Roth IRA conversions without paying much in income tax.

The importance of impartial advisors

While CCRCs are not new, as Baby Boomers age, there are more concerns about how and where health care will be delivered. CCRCs attempt to fill that need, but the complex qualitative and quantitative issues mentioned in this article also need to be considered. If at all possible, it's wise to work with a team of objective advisors, such as your financial advisor and estate and elder-law attorneys, who can help you and your family determine if a CCRC is a suitable fit--and also take into account the impact on your financial, estate and tax planning.

For more information about CCRC planning, feel free to contact your Wealth Advisor.

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