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**Harmony Wealth  
Strategies**

BUILDING AND SAFEGUARDING  
YOUR FINANCIAL WORLD

# Choosing a Continuing Care Retirement Community





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## What is a continuing care retirement community (CCRC)?

CCRCs are retirement facilities that offer housing, meals, activities, and health care to their residents. These communities appeal to people who are currently in good health, but who worry that they may need nursing care later on. The CCRC and the resident sign a contract which guarantees that the CCRC will provide housing and typically nursing home care throughout the resident's life; in return, the resident pays an entrance fee and a monthly fee. When the resident dies, all or part of the entrance fee may be retained by the CCRC and the CCRC is typically free to assign the resident's apartment to someone else.

## How to choose a CCRC

How much you get for your money will depend upon the range and quality of facilities and services the CCRC offers, and the type of contract you sign. There are several types of contracts available, including the following four common types:

- An extensive agreement (also called a "life care" agreement) is typically the most expensive type of contract and includes housing, services, amenities, and unlimited health-related services (including assisted living and long-term care services).
- A modified agreement includes the same coverage as the extensive agreement, except that after a specified amount of health care is used, a resident must pay for additional health care or long-term care services, sometimes at a reduced cost. This type of agreement is typically far less expensive than the extensive agreement, because the resident must shoulder some of the risk of future long-term care costs.
- A fee-for-service agreement is far less expensive than either the extensive or modified agreement, but offers little security when it comes to health-care costs. Health-care or long-term care services may be guaranteed, but the resident will need to pay for them out-of-pocket.
- A rental agreement allows residents to rent housing, but does not guarantee health-related services, and requires that residents pay for these services out-of-pocket.

Before signing a contract, carefully evaluate the CCRC, paying attention to the following factors: entrance fees, monthly fees, insurance requirements, facilities, medical care, and financial condition of the CCRC. Services offered and costs vary widely. Entering a CCRC is a big financial commitment and entails risk, so make sure you carefully read any contract you are asked to sign, and review it with your attorney.

### Entrance fees

When you enter a CCRC, you will generally pay a one-time entrance fee. Policies regarding refunds of these fees vary widely. They may be fully refundable, partially refundable when the resident leaves or dies, or refundable on a declining scale. It's important to understand if and when the entrance fee you pay is refundable, and how refunds or rebates are structured.

### Monthly fees

In addition to an entrance fee, you will have to pay monthly service or rental fees. Be aware that monthly fees are often not fixed: Like rent, they can be adjusted periodically to cover additional operating costs. Make sure you understand what's included in the monthly fee you'll be paying, and when fees may be raised.

**Example(s):** Maria entered a CCRC. At that time, she paid a monthly fee of \$1,700 for her apartment. Five years later, she was paying a monthly fee of \$2,500.

For some people, this may lead to a need for additional income or to financial hardship. Consider this possibility when planning a financial strategy for long-term care. Some CCRCs may offer a financial assistance fund to help residents pay entrance or service fees--find out if this type of help is available.

### Insurance requirements

You may be required to buy extra insurance if you enter a CCRC facility. For example, the facility may require that you purchase long-term health care insurance, a supplemental Medicare policy ( Medigap ) or Medicare Part B insurance to cover your short-term or long-term health care costs. This may add significantly to the cost of living in a CCRC.



## **Financial condition**

A CCRC's financial condition can affect everything from the services it offers, to the monthly fees it charges, to the quality of health care it provides. Before you sign a contract with a CCRC, it is vital that you get information from the CCRC regarding its projected revenue and costs for a number of upcoming years, and obtain copies of audited financial statements (if available) for review by a financial professional. In addition, ask if the company running the CCRC owns others, and find out how long they have been operating the CCRC facilities. You can also ask residents how they feel about the maintenance fees they pay and how satisfied they are with the quality of service they get for their money. Also consider the occupancy level of the complex. If many apartments are vacant, for example, the CCRC may need additional funding (now or in the future) to remain solvent.

## **Facilities**

You should carefully inspect apartments, cottages, or other living quarters, as well as the dining room to make sure they are clean and suitable for you. Apartments should be handicapped-accessible, and may be equipped with a pull cord to use should a medical emergency arise. Also, examine the safety of the facility: Do the buildings have adequate fire prevention devices such as sprinkler systems and smoke alarms? Do you feel comfortable with the security offered? In addition, consider other common areas. Eat in the dining room and observe how the staff and residents interact. Find out what transportation and activities are available. In short, determine how much you will get for your money.

## **Medical care**

Some CCRCs provide nursing home care at no extra cost, and some may offer residents basic health care only for no extra cost. The quality of medical care may also vary widely. Before you sign a contract with a CCRC, make sure you understand what health care you are entitled to and who pays for it. Visit the medical facility to make sure that you would be comfortable receiving care there, and if it is a nursing home facility, that you would be willing to move there, if necessary. In addition, find out who decides when you must leave your apartment and move into the nursing home. How much say do you have in the decision?

## **Tax considerations**

### **Tax deductibility of fees paid to a CCRC**

A percentage of your entrance fee and/or monthly fees may qualify as a deductible medical expense for income tax purposes. This depends upon whether your CCRC can document that a percentage of its overall operating expenses go towards providing you with medical care.

**Example(s):** Amelia entered a CCRC and paid a \$200,000 entrance fee and a monthly fee of \$3,000. When she filed her income taxes, she deducted as medical expenses 25 percent of her entrance fee and 25 percent of the total amount of monthly fees she had paid during the year, because the CCRC provided her with documentation showing that 25 percent of their expenses were related to medical care.

### **Taxation rules for refundable deposits**

If you make a refundable initial payment to a qualified CCRC, it may be considered a below-market loan. If so, you may have to include the imputed interest deemed payable to you in your gross income. However, if you or your spouse is age 62 or older, the deposit is generally exempt from the below-market loan rules that normally apply.

**Tip:** For more information on the tax implications of CCRCs, consult your tax advisor or financial professional.

## **Questions & Answers**

### **What happens if a CCRC resident has financial difficulties and can't pay the monthly fees?**

That depends upon the CCRC. Read the contract; the answer to your question should be spelled out there.

### **Can someone who is bed-ridden or who needs extensive personal care assistance enter a CCRC?**



Generally, CCRCs require that you be ambulatory when you enter the community. If you need a lot of help taking care of yourself, you might not be able to enter a CCRC unless it can provide some health services in your living quarters. However, this varies from facility to facility.

### ***Where can I get more information?***

The Commission on Accreditation of Rehabilitation Communities (CARF) has a number of brochures available on its website, [www.carf.org](http://www.carf.org) that discuss what to consider when choosing a CCRC and how to evaluate a CCRC's financial condition.

LeadingAge, an association of nonprofit organizations that provide services to and advocates for the aging, also offers guidebooks on its site, [www.leadingage.org](http://www.leadingage.org) that can help you compare CCRCs.

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