

## Brief Report

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## OHIO CCRCs IN THE ECONOMIC DOWNTURN

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### Background

A report by the Brookings Institute indicated that the recent global economic meltdown that started in August 2007 tremendously affected businesses and organizations in the U.S. and across the world (Baily, Litan, & Johnson 2008; Lusardi, Schneider, & Tufano, 2010). Cash flow concerns were recorded by over 80 percent of businesses worldwide in a survey by Ernst and Young (Rangan & Petkoski, 2009). At the same time, use of services such as medical care dropped due to individuals' inability to pay for care (Lusardi, Schneider, & Tufano, 2010). Prices for residential real estate toppled and housing sales in many markets came to a virtual standstill.

Against this backdrop, senior housing communities attempted to remain stable and viable. One of the nation's largest senior housing providers, Erickson Communities, filed for bankruptcy in fall 2009, prompting a governmental review of the Continuing Care Retirement Community (CCRC) industry and the possible risks impacting older adult residents (GAO, 2010). CCRCs are a choice for seniors that combine both health care and housing, making them particularly vulnerable to economic downturn. New residents usually sell their existing home to finance a move into a CCRC, and as real estate prices toppled, prospective CCRC movers often adopted a wait-and-see attitude towards CCRC relocation. In this report, we investigate how the economic downturn affected consumer opinions about choosing a CCRC and how the CCRCs in Ohio made adjustments in response to declining numbers of prospective residents.

### What is a CCRC?

A CCRC is a residential alternative for older adults that provides housing and care options along with a coordinated system of services and amenities. The residential units include apartments and/or cottage living units (independent living), assisted living units (residential care facility), and skilled nursing care (nursing home) all on a one-campus setting. The major benefit of a CCRC for older adults is that the same organization can continue to meet their needs if they become more impaired and require more care. Maintaining residency

- One hundred sixty-five self-identified CCRCs responded to our survey; slightly over half (54.9%) of them are not-for-profit.
- Over half (53.2%) of CCRC respondents listed concerns about devalued homes as one of the top three concerns they heard from prospective residents.
- Over one-quarter (26.6%) reported that their prospective residents indicated that they would wait and see or wait for the economy to rebound before moving into a CCRC.
- Statewide, occupancy in CCRC independent living averaged 81.6%.
- About one-quarter of CCRCs had occupancy rates in their independent living units lower than 75% at the end of 2009.
- Twenty-three CCRCs (13.0%) had 100% occupancy in independent living at the end of 2009.
- Average independent living unit occupancy differed significantly between not-for-profits and for-profits at 84.2% and 77.5% respectively.
- The most common business changes made by CCRCs to address the economic downturn include retraining marketing staff, assisting with moving costs, working with realtors, discounting monthly fees and adding other types of residential contracts.
- Not-for-profit and for-profit CCRCs were not significantly different in the number of changes they implemented at 4.09 and 3.42 respectively, out of 16 possible changes.
- One-third (33.1%) of CCRCs did not implement any new business practices or marketing strategies.

within the same CCRC allows the residents to continue existing relationships with friends and CCRC employees while receiving health care as needed, and also avoiding the stress of a move.

## Who are CCRC residents?

The 2010 CCRC Taskforce identified the residents who move into these facilities as either individuals or couples who are generally healthy and active but who also anticipate the possibility they will need assistance with activities of daily living and/or nursing care as they age (U.S. Senate Special Committee on Aging, 2010; Zarem, 2010). In addition, CCRC residents may be unable to or no longer want to maintain a house, may prefer to live among age-peers and often desire the security of senior-only communities. These residents also have the financial resources to pay the fees (usually significant) associated with moving into and living in a CCRC.

## The CCRC as a business model

Although the CCRC business model has existed over a century in the long-term and health care industry, their consumers' decisions and choices are influenced by the same set of factors as those affecting general business. In general, CCRCs need residents to move into independent living units, and pay entrance and monthly fees. Large entrance fees help CCRCs build cash reserves, fund general operations, and subsidize care for residents in assisted living and nursing care. Low occupancy in independent living occurs when current residents move to higher level care settings, and new residents do not come along to replace them. Selling one's home is often required to fund the large entrance fees, and fewer move-ins jeopardize a model that is dependent on a continued influx of new residents.

Typically, businesses adjust to reduced income in a variety of ways. For example, cost-cutting, restructuring and layoffs are common actions taken in order to save costs and improve efficiency and productivity. This study looks at the concerns that Ohio CCRCs were hearing from prospective residents, as well as the changes the CCRCs made during 2009 and the first half of 2010.

## Methods

Data from the 2009 Biennial Survey of Long-Term Care Facilities – Residential Care Facilities (RCF) were used in this research. The Biennial Survey is an internet survey of all

nursing homes and residential care facilities in Ohio. The survey was administered online in spring 2010 and generally gathered information about facility operations during calendar year 2009 as well as current operational practices in their CCRC. Questions about CCRC operations were based on a review of literature in the industry, and were tested in interviews. A total of 585 residential care facilities (RCFs) participated in the Biennial Survey; 165 (28.2%) reported that they were part of a CCRC. These RCFs were asked to report on practices undertaken by their CCRC as a whole. This is the same number as the 2007 survey, indicating stability in the CCRC industry in Ohio over the 2-year period.

## Characteristics of CCRCs

According to the 2009 Ziegler National CCRC Listing and Profile, 82% of U.S. CCRCs are not-for-profit while 18% are for-profit. Approximately half of the not-for-profit CCRCs are affiliated with faith-based organizations. Of Ohio's 165 CCRCs, a little over half of them (54.5%) are not-for-profit while 44.8% are for-profit organizations. Ohio shows a much higher proportion of for-profit CCRCs than the nation as a whole.

A CCRC may be a single campus organization or part of a system, with the majority nationwide being a part of a system (Zarem, 2010). In Ohio, six out of 10 (60.9%) of the CCRCs were owned or leased by multi-facility organizations (i.e., two or more CCRCs in different locations). Ohio CCRCs reflect the national trend of chain ownership. Table 1 below shows the distribution of multi-facility ownership and location for both not-for-profit and for-profit CCRCs.

**Table 1**  
Characteristics of CCRCs by Ownership Type

	Ownership Type		Total
	Not-for-Profit	For-Profit	
Part of a multi facility chain *	53.3%	70.3%	60.9%
Urban Location	75.6%	75.7%	75.6%
<b>Total</b>	<b>90</b> <b>(54.5%)</b>	<b>74</b> <b>(44.8%)</b>	<b>165</b> <b>(100%)</b>
• Note: one CCRC did not report ownership so the numbers by ownership are fewer than the total CCRCs. * $p=.02$ ;			

Slightly more than half of Ohio's CCRCs are not-for-profit, and of these, slightly more than half (53.3%) are owned or leased by an organization operating multiple facilities while 70.3% of the for-profit CCRCs have such ownership arrangements (p-value .02). Nationally, the Ziegler profile of CCRCs indicated that CCRCs are found in all geographical areas from urban to suburban to rural. In Ohio, one-quarter (24.4%) of CCRCs are found in rural counties while three-quarters (75.6%) are found in urban counties. This is an almost identical distribution (73.3% urban) to that of all Ohio nursing homes (Mehdizadeh, Applebaum, Nelson & Straker, 2011). The proportion of CCRCs that are urban is almost identical between for-profit and not-for-profit organizations.

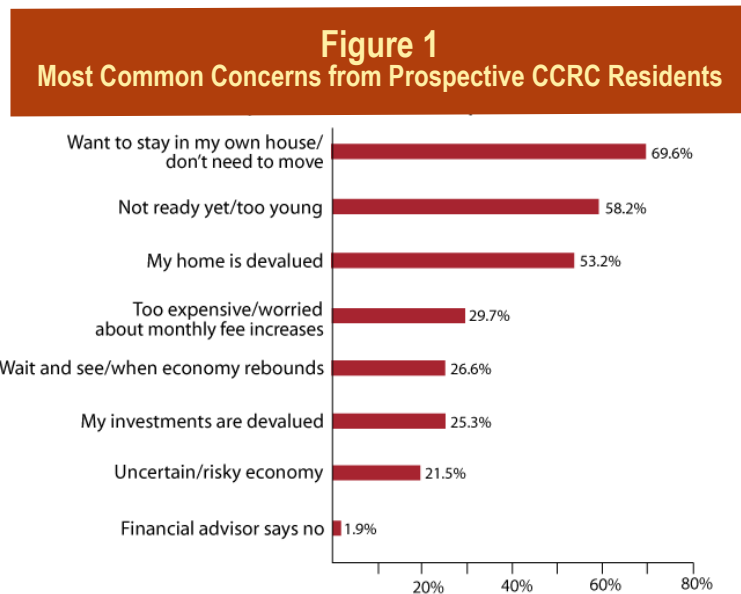
### Concerns of potential CCRC residents

The decision to move to a CCRC is a complex one, requiring potential residents to develop financial, social and health expectations, and assess the extent to which a prospective community would meet each of those. For that reason, CCRCs hear a number of concerns of all kinds, regarding the reasons that the CCRC move does not meet current needs. We asked our CCRC respondents to choose the three most common concerns they hear from prospective residents. As shown in Figure 1, the most common reasons for not making a CCRC move were a desire to stay in one's own home or not needing to move, being too young or otherwise not ready for a CCRC move, and devaluation of one's home. The first two concerns are typical, and are not related to issues of the economic downturn, but rather to issues of aging, and confronting the possibilities of one's eventual need for care or one's willingness to become part of a community of older adults.

However, the devaluation of one's home as the third reason suggests the extent to which falling real estate values impacted the CCRC market. It is possible that as housing values rise, these concerns will be removed. Alternatively, one's expectations about the value of their homes may also readjust so that waiting for a devalued home to rebound may no longer be a feasible alternative. Of all the reasons shown, only "too expensive/worried about monthly fees" showed a significant difference between for-profit and not-for-profit CCRCs. Four in 10 (40.5%) for-profit CCRCs mentioned this prospective resident concern, compared to fewer than two in 10 (17.7%) of not-for-profit facilities. Thirteen CCRCs listed other reasons such as the features of the housing or the CCRC's location. One mentioned resident concerns regard-

ing inability to sell their homes—despite homes being devalued, even those who put them on the market often could not sell them at any price.

In addition to declines in home equity that reduced their access to entrance fees, many retirees also saw declines in their retirement investments. About one-quarter of facilities listed this concern among their top three. Investment income often supplements pensions for monthly expenses and liquidating investments also provides necessary cash flow for living. In a CCRC, the monthly fees paid by the resident provide for the use of community facilities, activities, and other amenities and may include services such as housekeeping and transportation. Monthly fees may include limited or unlimited use of medical and nursing care in the CCRC's nursing home (CCRC Taskforce, 2010). Prospective resident concerns about paying the



monthly fees can spring from concerns about the value of their savings and investments and how much income can be generated to cover one's living expenses.

### To what extent did CCRCs make changes to address the economic downturn?

In the face of concerns voiced by consumers or in the absence of any prospective residents, CCRCs had the opportunity to change their business models in ways both large and small to overcome obstacles related to housing and service costs. A list of 16 different kinds of changes that might potentially be made by CCRCs was developed, and respondents were asked to check which of them they had instituted in their facilities, if

they were in the process of making the change, considering the change, or if they would not consider implementing the practice. (Only 14 of the 16 changes were possible since four items offered the option to increase or decrease marketing budgets and marketing staff. It is unlikely that an organization reported both increased and decreased marketing staff and budgets.) An examination of the number of changes made by all CCRC facilities showed that about one-third (33.1%) of them did not implement any changes at all. An additional one-third (35.0%) implemented only a few changes, ranging from one to three of the 16. Only five CCRCs made eight changes or more.

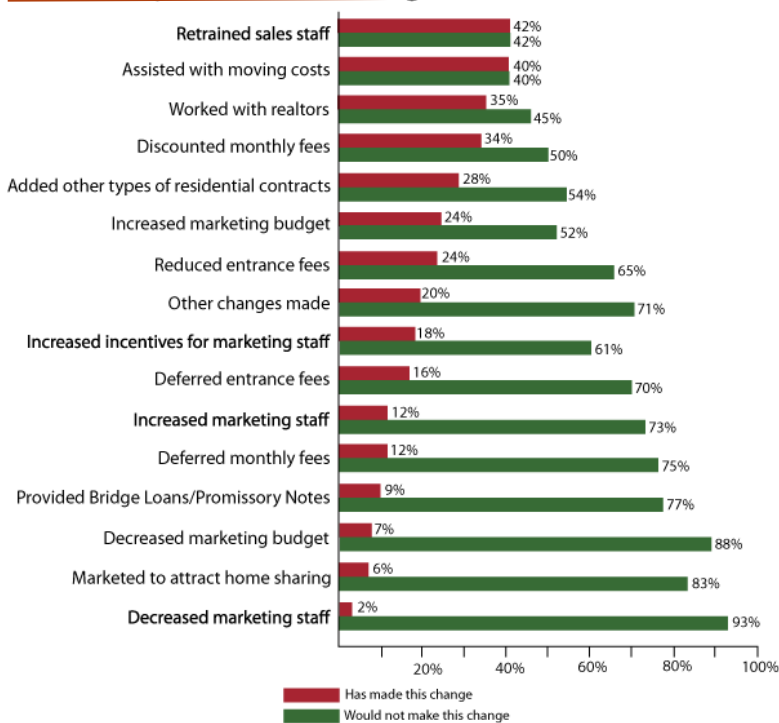
As shown in Figure 2, the most common types of changes implemented by CCRCs included: retraining sales staff, assisting with moving costs, working with realtors, discounting monthly fees and adding other types of residential contracts. Retraining the sales staff (41.6%) would be necessary if any other changes were made so that staff would be aware of new policies and practices. This activity also involves very few resources in time and money. One CCRC indicated that they used their existing staff and residents by offering referral incentives. Although the incentive was provided to the general staff, it was particularly meant to motivate sales and marketing staff to be aggressive in recruiting more prospective residents. Referrals were identified by the CCRC Taskforce (Zarem, 2010) as the most important source of new residents. Also, one CCRC indicated that they “signed a contract with a referring agency and applied for a Medicaid waiver” as ways to bring more residents to their facility. (The Medicaid waiver would apply to their RCF but would not assist them with increasing residents in independent living.)

On the other hand, assisting with moving costs, while reducing the cost burden for new residents, directly involves cash outlays. This strategy was undertaken by four in 10 facilities (40.4%). From respondent comments, we can see that this assistance took several forms. One CCRC “gave a \$250 move-in allowance to help with the cost of moving expense.” Another CCRC indicated that they provided “packing/moving services, credit card incentives, and home downsizing services.” These additional services are aimed at making their communities more appealing in a very competitive market.

Another low resource strategy that was widely used (35%) was working with realtors. Realtors are instrumental in the process of moving to CCRCs as they can assist in selling individuals’ homes in a declining market. Selling one’s home is an important

piece of the puzzle in making a transition to a CCRC since home equity often provides the bulk of the entrance fees and deposits.

**Figure 2**  
**Changes Made and Changes that Will Not be Made**



About one-third (34.3%) discounted the monthly fees to make their CCRC more affordable and additional types of contracts were introduced by three in 10 (28.3%) of the CCRCs to provide choice to prospective residents. The 2010 CCRC Taskforce reported that new residents sign agreements based on their level of services required. Depending on one’s preferences and needs the resident service agreement and associated monthly fees may vary. One CCRC indicated that they “implemented a lease option contract and promissory note for deferred payments.”

Entrance fees often pose an impossible obstacle to a prospective resident, particularly when their homes cannot be sold or their investments have been devalued. The entrance fee is the initial sum that is paid as part of the move-in costs to the CCRC. In many cases, prospective residents generate the funds for the entrance fee (often \$100,000 or more) from the sale of their home. However, the slowing down of the property market made home sales difficult encouraging CCRCs to offer either discounts on or defer entrance fees alongside other inducements to potential residents according to a *US News* report (Moeller, 2009). Ziegler (2009) indicated that

an estimated 65% to 75% of the CCRCs require entrance fees. However, only 16.4% of these CCRCs deferred the entrance fee, and about one-quarter (23.8%) reduced the fee.

However, for every facility that tried some of these strategies, others indicated that they would not make a particular change. For every strategy other than assisting with moving costs, there were more CCRCs reporting that they would not make the change than those who reported trying the strategy. In addition, six types of changes that were rarely implemented by the CCRCs included: decreasing marketing staff; marketing to attract home sharing; decreasing marketing budget; providing bridge loans or accepting promissory notes; deferring monthly fees; and increasing marketing staff. The lack of changes in marketing budgets and staff suggests that a majority of facilities may have adopted a “wait and see” attitude, while maintaining the status quo in some areas. Also, some of these changes such as accepting promissory notes and deferring monthly fees carry a substantial level of financial risk. CCRCs facing tight cash reserves might not be able to afford such costly endeavors to attract prospective residents.

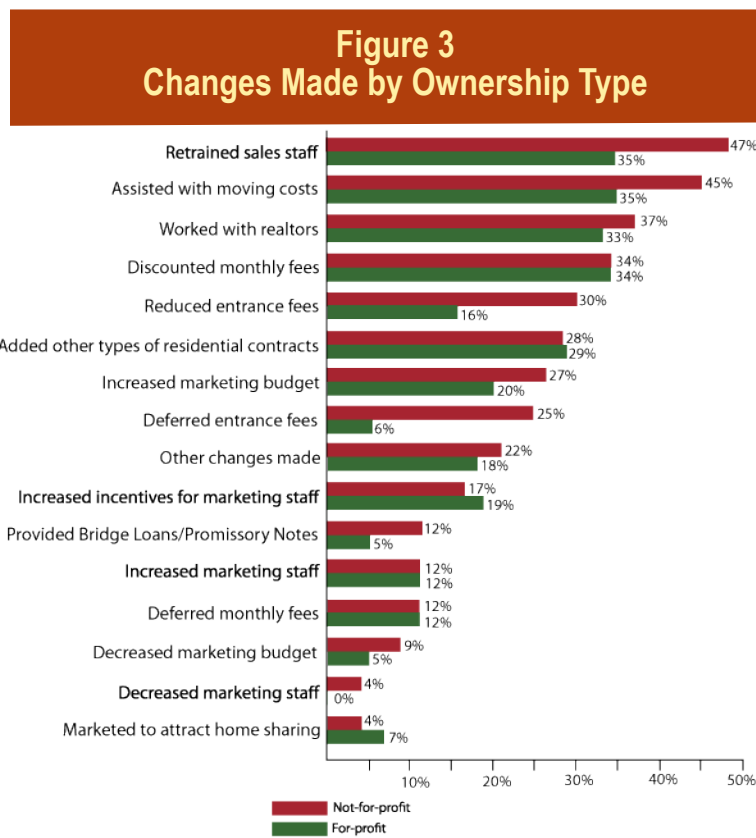
The next section looks at changes made according to ownership type and occupancy levels. We also compared strategies used by urban and rural facilities. Neither the number of strategies implemented nor the use of the majority of strategies differed significantly based on CCRC location. Only one difference was noted—urban CCRCs were significantly more likely to increase their marketing budgets than rural organizations.

### Changes implemented based on ownership type

In an effort to determine if there were differences within the CCRC industry, we examined the changes that were commonly implemented by both not-for-profit and for-profit CCRCs and those that were unique to each type. Figure 3 below illustrates changes implemented by not-for-profit and for-profit CCRCs. Across almost every strategy suggested, not-for-profit CCRCs were more likely to have made a change in their operations. However, the change was only statistically significant ( $p < .01$ ) for deferring entrance fees, with 24.6% of not-for-profits indicating they had deferred entrance fees, compared to 5.7% of for-profits. However, the majority would not implement this strategy, with two-thirds (65.2%) of not-for-profits and three-quarters (75.5%) of for-profits indicating that they would not defer entrance fees.

Nearly half (47.1%) of the not-for-profit CCRCs retrained their sales staff while about one-third (34.5%) of the for-profits implemented a similar change. Another widely used strategy was assistance with moving costs. About one third of the non-profits and of the for-profits (34.2% and 34.4% respectively) discounted their monthly fees while 34.4% of for-profits took a similar action to attract prospective residents.

Other types of contractual changes were also used by similar proportions of CCRCs regardless of ownership. On average, of those who implemented changes, not-for-profits implemented four (4.09) and for-profits implemented three (3.42). The difference is not statistically significant.



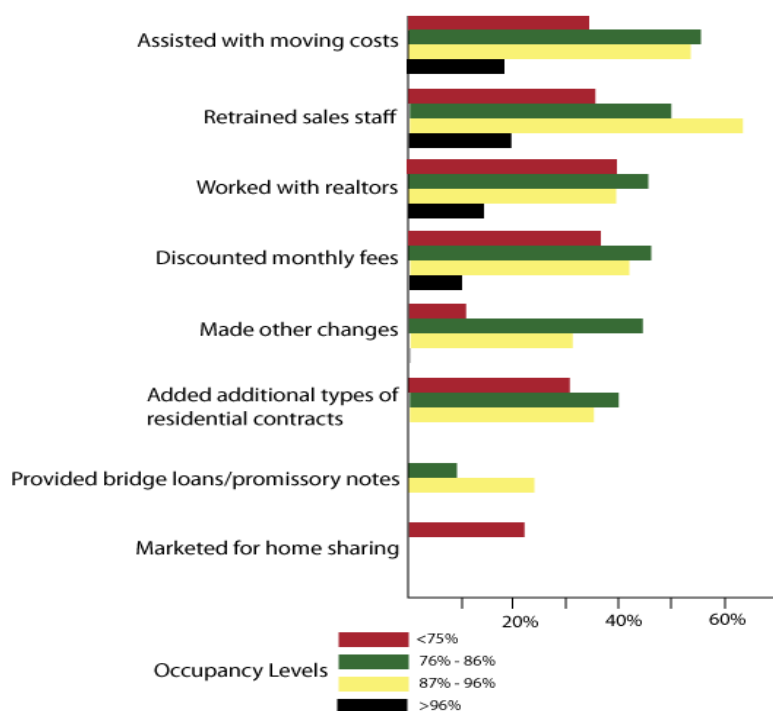
### Changes made by CCRC occupancy levels

The aforementioned financial viability of CCRCs depends on their occupancy levels as well as investment and other types of income. In the last economic downturn, CCRCs were vulnerable to the changes in the housing market, as well as drops in investment income. In the section that follows we examine the strategies used among facilities with different occupancy levels. We use occupancy from independent living units at the end of 2009. While the rates in indepen-

dent living, residential care, and the nursing home may differ, we believe that occupancy in independent living was most likely to be impacted by a reduction in prospective CCRC residents. Prospective independent living residents had the option to “wait and see” while those moving into assisted living or the nursing home likely had an immediate need for the services making it difficult to postpone a move.

We divided the CCRCs into equal occupancy quartiles: less than 75.5% occupied, 75.6% to 86%, 86% to 95.9%; and 96.1% to 100% occupancy. Across the state, the average number of independent living units that were occupied was 81.6%. As Figure 4 illustrates, the middle occupancy groups were most likely to try almost all of the strategies with the exception of marketing for home sharing and increasing incentives for marketing staff; those strategies were most commonly used in the lowest occupancy facilities. The proportion using the strategy differed significantly for eight of the 16 strategies. The role of occupancy is particularly relevant for strategies that require large cash outlays—none of the facilities at the lowest and highest occupancy levels used this strategy. Those with the lowest occupancy might not have been able to afford to offer prospective residents bridge loans, while those with highest occupancy didn’t have to. The most prevalent change across all occupancy levels, as with ownership, was retraining sales staff—a low time and resource strategy to assist them in adapting to the changing economic climate and in implementing any other business practice changes that were made. Occupancy groups were significantly different in the average number of strategies they implemented. On average, the highest occupancy group implemented less than one strategy—the most any facility implemented was six. The CCRCs with the lowest occupancy implemented 2.9 strategies, on average, and the middle two groups both implemented 3.3 and 3.4 strategies. As previously mentioned, the not-for-profit facilities implemented a few more changes in their business practices in the 18 months beginning in early 2009. At the end of 2009, their occupancy average was significantly higher at 84.2% compared to 77.5% among the for-profit CCRCs. Unfortunately, we cannot tell whether the not-for-profits’ additional strategies resulted in higher occupancy or they had the luxury of changing more in their business because they had fewer occupancy concerns.

**Figure 4**  
**Changes Made by Occupancy Levels**



## Summary

The economic downturn that began in mid-2007 has had numerous effects on the long-term care industry as well as other service-based industries. Although the popular adage “desperate times call for desperate measures” may be applicable to the retirement communities across the state, it did not apply to all, as about one-third of CCRCs did not report any changes in their business and marketing practices. Generally, the not-for-profit CCRCs implemented a higher number of changes (4 and 3.4 respectively) than the for-profit facilities in the 18 months prior to the 2009 RCF survey, although this difference is not significant. As would be expected, CCRCs with lower and middle occupancy levels implemented more changes than communities with either the highest or lowest occupancy. Ohio’s CCRCs made a number of changes to respond to the challenges imposed by the overall economic downturn and the decline in housing values and sales. It will be important to continue monitoring this sector, as their older adult residents rely on this model of care for their current and future long-term service and support needs.

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