Life Plan Community (LPC) Solvency Talking Points

LeadingAge

These talking points, developed by LeadingAge, are designed to help life plan community (LPC) executive teams navigate conversations with residents' families, reporters, and other stakeholders about recent bankruptcies, the LPC (also referred to as continuing care retirement community (CCRC) in state statute) model's financial strength, and related issues.

Media interest in the LPC model's viability and financial stability is elevated now due to recent developments in one long-running LPC bankruptcy case and another recent filing.

The LPC operating model is sound; regulatory oversight is robust in many states.

LPCs originated in the late 1970s. Today, there are 1,911 LPCs nationally (with contracts of all types—entrance fee, rental, equity). Of that, nearly half have been in operation for over 30 years, and roughly 75% of all LPCs are not-for-profit organizations.

LPCs are monitored or regulated at the state, not the federal, level.

Forty-one states, where the majority of LPCs are located, have some form of statutory code to establish oversight of LPCs. The statutory code in most of these states offers robust bankruptcy and consumer protections. For example, LPCs in most states are required to maintain reserve and entrance fee escrow funds that provide security for entrance fee deposits, long term debt obligations, and operating expenses. If an LPC has financial difficulties, state agencies that regulate LPCs are empowered by law to step in as stewards to protect the interests of residents and help the LPC regain financial solvency.

LPCs, like all categories within the housing sector, are subject to external financial pressures (changing economic, demographic, and market conditions, for instance). LPCs specifically navigate demand volatility, shifts in occupancy levels, and contract pricing.

Fitch, the dominant ratings firm in the not-for-profit sector, revised its ratings criteria for not-for-profit LPCs in August 2024. The stated purpose was to better represent to investors the financial risks inherent in the various models of LPCs. Fitch's rating criteria changes underscored many of the external pressures LPCs uniquely face, including changes in federal and state reimbursement programs for skilled nursing, home health and hospice care; workforce shortages and labor costs; specific market-based pressures; and the complex challenges associated with construction and expansion costs. However, by Q4 of 2024, Fitch, the National Investment Center, Baker Tilley, and other industry experts were all lauding LPCs' collective, improved occupancy over the past 11 quarters, along with stabilization in important financial and operating ratios. Taken together, this is expert testimony to the LPC model's capacity, in the hands of skilled executives and trustees, to survive and thrive even in the midst of compounded external pressures.

The LPC bankruptcies are RARE.

By our count, there have only been 17 since 2020, which is less than 1% (0.8% to be exact) of all LPCs in the country. Of those, two (2) were ongoing bankruptcy scenarios from the same organizations who had originally filed for Chapter 11 in 2008.

LPC bankruptcies are IDIOSYNCRATIC.

Recent bankruptcies are the result of unique and organization-specific circumstances that are not endemic to all LPCs.

Occupancy rates and entrance fees, which are often the initial data reviewed by media and other outside observers when examining an operator's financial health, are not, alone, a sufficient measure of a community's overall financial health.

While important contributors to LPCs' overall financial wellbeing, occupancy rates and entrance fees alone are by no means the only measure to use to assess a community's health. Other factors to consider are financial liquidity and operating ratios; trends in monthly rate increases; debt rating; net operating margin (i.e., does the community bring in more than it spends); capital improvements; reserve fund balances; and residents' roles in community life.

Three important metrics to review in assessing an LPC's financial operating stability:

1. Day's Cash on Hand (DCOH) Ratio. This ratio evaluates the question, if an organization's incoming money flow dried up, how many days could it operate, including debt service? Experts look for 120-200 days' cash on hand for an indication of good health.
2. Operating revenue between 5-10% of expenses.
3. Unrestricted cash available for debt repayment: This asks the question, does the organization have sufficient liquidity to cover current debt? A minimum cash-over-debt ratio of 0.4 is regarded as the minimum, per Fitch.

Media coverage often focuses on residents' receipt of returned entrance fees. Terms of entrance fee returns are contractually guaranteed.

The specifics vary by contract type and by community. Consumers should read their contract closely and ask their financial advisors to do the same; LPC staff should answer questions. Many states offer additional safeguards of entrance fee refunds in the statutory laws that govern LPCs. These safeguards frequently include entrance fee escrow funds, automatic liens in favor of LPC residents' financial interests, ancillary funds that offer some financial 'backup' for refunds in the rare situation of bankruptcy, and at least annually require the submission and review of comprehensive financial disclosure statements.

It is important to note that the resident's participation in a refundable entrance fee contract is optional, and most, if not all LPCs offer a non-refundable option. If a potential resident is not comfortable with the remote possibility of their future refund being in jeopardy, the non-refundable contract may better suit their risk-tolerance.

Questions to anticipate when other communities hit financial turbulence and media scrutiny:

Q: Why are a few LPCs declaring bankruptcy?
A: When LPC bankruptcies occur, they sometimes garner national news coverage due to the significant impact on residents and families connected to those organizations. It is important to recognize that these are relatively rare (17 out of 1,911, or 0.8%). Causes are not due to a flaw in the LPC model; they are usually idiosyncratic and unique to the specific community's operating situation.

Q: How can providers help concerned residents, families, and prospects learn about a community's financial health?

A: Consumers should know that occupancy and entrance fees, while important contributors to LPCs' overall financial wellbeing, are by no means the only measure of a community's financial health and solvency. In 36 states, consumers are entitled by law to ask for and receive a copy of the LPC's annual disclosure statement, which includes financial reports. Consumers should review publicly available information about their organization, the Form 990s filed with the IRS by nonprofit operators and investigate their community's debt ratings from Fitch or other agencies). Consumers who are interested in refundable entrance fee contracts should ask the LPC how long, on average, it takes for a resident or estate to receive a due refund. Actuarial reports and feasibility studies can also help to provide insights into potential future costs.

Need-to-know resources and details to assess an LPC's financial health include:

- The community's annual disclosure statements and financial reports.
- Legally required financial disclosures on file with the state insurance regulator. These can provide details about the community's borrowings.
- Public disclosures about bond debt. Nonprofit LPCs often issue bonds for capital improvements and expansion under the umbrella of municipal bonds; public disclosures about that debt must be filed.
- Depending on the requirements of the bond issuer, the LPC will likely disclose data that might not otherwise be included in its standard financial disclosures. That data could include unit turnover, current fees charged to residents and updates on the status of construction projects under way. Bond payments made or missed will also be disclosed.
- Three key metrics:
  - Day's Cash on Hand (DCOH) Ratio. This ratio evaluates the question, if an organization's incoming money flow dried up, how many days could it operate, including debt service? Experts look for 120-200 days' cash on hand for an indication of good health.
  - Operating revenue between 5-10% of expenses.
  - Unrestricted cash available for debt repayment: This asks the question, does the organization have sufficient liquidity to cover current debt? A minimum cash-over-debt ratio of 0.4 is regarded as the minimum; per Fitch.
- Look at long-term projections, actuarial reports and feasibility studies.
  - It's not enough to examine only current cash flow. It is vitally important that an LPC has a plan for growth and revitalization at regular intervals into the future. LPCs must continue to attract new residents, typically by building and remodeling the facilities – projects that require feasibility studies, which outline the long-term outlook and return for the capital investment.