Kohl targets retirement homes for more oversight

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By Matt Hrodey

Wisconsin Senator Herb Kohl is calling for expanded state oversight of what are known as Continuing Care Retirement Communities, facilities where elderly residents pay a large entrance fee, in addition to sizable monthly payments, in return for a guarantee of lifetime care. A recent federal audit found some CCRC residents, including in Wisconsin, are unable to afford the monthly fees after low occupancy or other financial issues prompt the companies to raise them.

The U.S. Government Accountability Office study reviewed the CCRC industry in eight states, including Wisconsin, where auditors found 49 CCRCs. Nationally, the greatest concentration was found in Pennsylvania and Ohio, where there are 189 and 144, respectively. The audit notes, "Providers in Florida and Wisconsin said that they had had residents who exhausted their assets earlier than planned because of monthly fee increases."

The study says the downturn in the U.S. housing and credit markets have also hurt CCRCs, which generally offer three levels of care: independent living, assisted living and nursing home care. Seniors agree to pay an entrance fee which can range from $100,000 to as much as $750,000, depending on the terms of the contract. Seniors also pay monthly fees, which may increase to keep the facility afloat.

Occupancy at the retirement communities has declined since the economic downturn. Some seniors sell their homes to join a CCRC, but that's been difficult in recent years. For most, the initial payment is a major investment. "Entry fees, typically made as a large lump-sum payment, can represent a substantial portion, if not all of potential residents' assets." Some residents' finances, after taking such a hit, can't handle later increases in monthly fees.

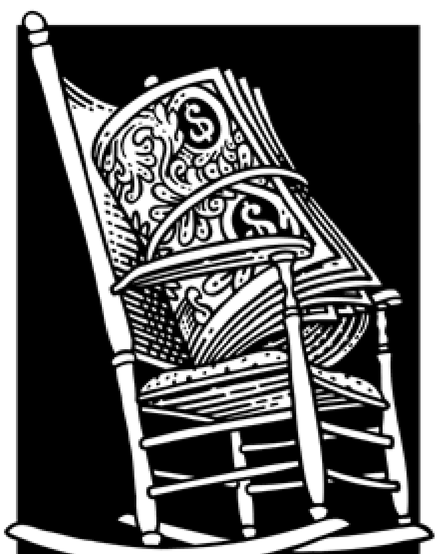
HERB KOHL

“They certainly are increasing, and residents are feeling the pinch,” says Katherine Pearson, a Pennsylvania State University professor who has studied CCRCs. She says many seniors prefer CCRCs because they allow them to move between levels of care while remaining in familiar surroundings and avoiding the stress of moving. Depending on the company, she says, failure to pay monthly fees can result in eviction.

“If these companies are going to take the life savings of seniors, they need to be able to guarantee they’ll be around to provide the lifetime of care they promised,” Kohl said during a Wednesday hearing held by the U.S. Senate Special Committee on Aging, where he’s chairman.

Bankruptcy protection

Wisconsin’s financial regulation of CCRC, which is handled by the state Commissioner of Insurance, offers a protection that none of the seven other states studied provide – a guarantee that if a CCRC goes belly up, residents will be given higher standing than other creditors during bankruptcy proceedings. In other states, residents have lost their entrance fees as other creditors get first shot at the company’s remaining assets.



One thing Wisconsin and several of the other states studied don’t do is study the financial stability of their CCRCs. The retirement communities typically require potential residents to provide proof they can afford to join – but Wisconsin isn’t studying the other end of the deal, whether the CCRC can uphold its end of the bargain. “Every state should be requiring proof of long-term viability from their CCRCs,” Kohl said.
State law that went into effect in 1985, after several CCRCs went bankrupt and first aroused national concerns, require the retirement communities to provide audited financial statements to the state insurance commissioner along with other documentation, including a schedule of fees. According to the federal audit, however, Wisconsin’s insurance commissioner isn’t using that or other information to “assess financial condition or viability,” though it has the authority to do so.

The insurance commissioner’s office reviews contracts to ensure they’re understandable. State law also provides for residents to opt out of their contract within the first 90 days and get most of their entrance fee back.

“There is certainly a place for reasonable requirements, including disclosure requirements, capital reserves and protection of returnable entry fees,” testified an attorney representing the American Association of Homes for the Aging, a retirement home industry group, and a national CCRC company, Covenant Retirement Communities. “However, if requirements become too prescriptive, expansion of existing CCRCs and the development of new ones will be slowed or halted and seniors will lose the opportunity to move to a living environment they clearly prefer.”