

Why Aging In Place Matters

By Ryan Frederick

EXECUTIVE SUMMARY

“Aging in place” is becoming THE defining phenomenon both inside and outside of Seniors Housing. Aging in place refers to the desire of seniors to stay in a particular residential setting as long as possible, even as health care needs increase. Aging in place at one’s home, while already a stated preference among the vast majority of older adults, is becoming more common as seniors can afford less and more feasible as cost-effective and innovative solutions emerge. Meanwhile, within Seniors Housing, aging in place is being experienced at all levels of care, though its magnitude and implications are most strongly felt within Independent Living, especially among Entrance Fee Continuing Care Retirement Communities.

Given this dual dynamic, it is critical that key constituents, such as operators, service providers, investors and boards, understand the basis for these trends, digest current and long-term business, financial and legal implications and begin to devise possible solutions.

It is subject to debate as to whether aging in place is a current trend likely to recede during better economic times or a permanent trend that is accelerating. Regardless, there are implications of aging in place that face Seniors Housing communities nationwide.

Business Implications

- Losing appeal to younger, healthier prospects
- Growing reliance on older, frailer prospects
- Increasing average age and acuity of residents
- Higher resident turnover
- Smaller addressable market
- Greater pressures on staff
- Diminishing customer value proposition
- Less effective sales and marketing

Financial Implications

- Lower cash flow from existing operations
- Weakened balance sheet
- Increasing financial risk

Legal Implications

- Increasing legal risks of serving older, frailer residents in low health care settings

Communities that do not create strategies that are aligned with these emerging realities will miss opportunities for growth and be at risk of irreversible decline by holding onto paradigms that are unsustainable. Leaders need to determine the degree to which aging in place is impacting their communities today and in the future, spark organizational urgency around a need for necessary changes, and create a strategy for identifying present and future solutions. With the right team and approach, communities can take advantage of these environmental changes and create exciting opportunities for growth and differentiation.

This white paper unpacks key implications of aging in place, reviews several possible solutions and maps a plan of possible next steps for key stakeholders.

Ryan Frederick is Principal and Founder of Point Forward Solutions, a strategic consulting and financial advisory firm focused exclusively on the Seniors Housing & Care and related Health Care Services industries.

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Aging in Place

Key Question: Is Aging in Place a (a) Current Trend Likely to Recede or (b) Permanent and Accelerating Trend?

Key Drivers

1. Desire to Stay at Home
2. Not as Attracted to Current SH
3. Drop in New Worth/Home Value
4. Increasing Feasibility (home care, home retrofitting, LTC insurance, utilization of technology, etc.)

① At Home

② Seniors Housing & Care

CCRC

IL

SNF

AL

DEM

Key Drivers

1. Desire to Stay Among Healthy
2. Can be more Cost-Effective
3. Minimize # of Transitions
4. Increasing Feasibility w/ health care services

Key Implications for Seniors Housing, Especially for Entrance Fee CCRCs

Business Implications

- Losing Appeal to Younger, Healthier Prospective Residents
- Smaller Addressable Market
- Growing Reliance on Older, Frailer Residents to Maintain Occupancy
- Greater Pressures on Staff
- Increasing Average Age & Acuity
- Diminishing Customer Value Proposition
- Higher Resident Turnover
- Traditional Sales and Marketing Practices Less Effective

Financial Implications

- Lower Cash Flow from Existing Operations
- Weakened Balance Sheet
- Increasing Financial Risk

Legal Implications

- Increasing Risks of Serving Older, Frailer Residents

Solution Matrix... Just a Sampling of Potential Options

1. Modify Customer Value Proposition to Current Market Opportunity
3. Inspire Organizational Urgency
2. Create Financial Flexibility
4. Realign Risk Management to Match Resident Population

Implement Three Stage Action Plan & Create Strategy

1. Community Assessment
2. Spark Organizational Urgency
3. Create, Test, Iterate Solutions

WHAT IS AGING IN PLACE?

Aging in place is the desire for an older adult to stay in a particular residential setting as long as possible, even as health care needs increase. It is a phenomenon that has been around for many years – in fact, it was the norm before alternatives existed – and today takes place in and outside of Seniors Housing.

The preference for the majority of older adults is to age in one's home.² For those that see the benefits of Seniors Housing, such as socialization, maintenance-free lifestyle and aggregation of health care services, the economic downturn and housing crisis has limited the affordability of such options. At the same time, for seniors that wish to stay at home or can no longer manage to pay for Seniors Housing, the feasibility of aging at home is improving. The cost-effectiveness and availability of home care services, include private duty and government reimbursed home health, home retrofitting services and long term care insurance are all important factors. In addition, innovative solutions, often utilizing technology, are on the rise. For example, CareMore, a Medicare Advantage plan based in California, has incorporated new primary care locations in retail settings with telemedicine to deliver improved health care outcomes and help seniors age at home.³

Aging in place within Seniors Housing is also common. Residents prefer to stay in lower cost and lower acuity settings for a number of reasons. First, there is a desire for residents to live among the healthy and not face the social stigma of being “over there” among the sick in a community's health center. Second, as health care needs gradually increase, it can be more cost-effective to utilize health care services on an “as needed” basis. Higher levels of care, such as Assisted Living, can be more cost-effective once a certain threshold of care needs are required but, until then, careful management of health care services deployed within Independent Living can be a viable option. Third, it is desirable among residents and their families to keep residential moves to a minimum as transitions of any kind can be traumatic for a senior. Many Seniors Housing communities have responded to the desires of their residents by providing or coordinating health care services to facilitate aging in place in one's unit.

Aging in place has been particularly prevalent during the recent economic downturn and housing crisis as an increasing number of prospective residents have stayed in their homes longer as well as current residents have remained in Independent Living and Assisted Living longer.⁴

² A number of studies have revealed this preference. For example, an AARP and MetLife Survey on the Future of Retirement in 2004 found that 86% of people would like to continue living in their own home during retirement if they are able to without ongoing assistance.

³ See “Quiet Health Care Revolution” in the November 2011 issue of Atlantic Monthly. CareMore was acquired by WellPoint in August 2011.

⁴ Industry data for aging in place is difficult to obtain. There are several industry groups that are conducting research on changes of the resident profile in Independent Living but results were not available at the time of this white paper. Public operators, REITs and research analysts have publicly commented on this trend within the last twelve months. For example, an industry note from Stifel Nicolaus from September 23, 2011 entitled “Expect Senior Housing Occupancy to Rebound in 3Q11 Despite Economic Woes” notes the changes certain operators have observed among their resident population, including lower length of stay and older, frailer new residents, especially for Independent Living and Assisted Living.

Effective aging in place inside of one's home can postpone or even eliminate a move to Seniors Housing. Similarly, effective aging in place within Seniors Housing, such as Independent Living, can delay or avoid a transition to higher levels of care, such as Assisted Living or Skilled Nursing. As a result, some Seniors Housing communities that were designed to facilitate aging in place, such as Continuing Care Retirement Communities (CCRCs) which provide the full range of care, including Independent Living, Assisted Living and Skilled Nursing, are being forced to adapt. This model was originally designed to support "aging in place" as residents would graduate to higher levels of care available on campus. With today's preference to age within Independent Living, some CCRCs are increasingly forced to rely on outside demand to maintain occupancy in their health center.

In many ways, it is in the industry's best interest to enable people to age in their preferred living environment. There are also public policy advantages if such an environment also represents a low cost setting. However, it is important that seniors find themselves in living situations that are appropriate for their condition. An inappropriate match between a person's living situation and their health status can, for example, introduce risks to the person and others around them.

As key players in the industry better understand the drivers of aging in place in and outside of Seniors Housing, it is critical for these groups to make an assessment of whether aging in place is a phenomenon magnified by the economic downturn that is subject to recede in a better macro economic environment or an accelerating reality and permanent trend.

Regardless of one's view on the future trends of aging in place, there are a number of business, financial and legal implications that need to be brought to the attention of and considered among key constituents, including executive teams, service providers, investors and boards.

BUSINESS IMPLICATIONS

- 1. Losing Appeal to Younger, Healthier Prospective Residents.** As a community ages and acuity rises, it can become less attractive to younger, healthier prospective residents. For example, at Brookdale Living, the largest operator of Seniors Housing, the company recently cited that 51% of their Independent Living residents use either a cane or a walker.⁵ For those who do not presently need such support to move around and perceive themselves as much younger than this resident population, they may decide that Independent Living is not right for them now, even if they are drawn to the benefits of Seniors Housing. While “ageism” may not be morally desirable, consumers do give themselves the right to choose their living environments and many prospective residents may not wish to enter a community that has residents that are generally older and frailer than they are.
- 2. Growing Reliance on Older, Frailer Residents to Maintain Occupancy.** If attracting younger, healthier older adults is increasingly difficult, then new residents are more likely to be older and frailer. As such, communities are relying more heavily on their ability to attract older, frailer residents to maintain occupancy.
- 3. Increasing Average Age and Acuity of Residents.** Combining these two phenomena – (a) aging in place within Independent Living and (b) new residents that are older and frailer – incrementally raises the age and acuity level within a community. At some point, a community may reach a “tipping point” where the community feels more like a “senior home” (or light Assisted Living) than the active Independent Living environment it once was. At such point, it becomes even more difficult to attract a younger, more active resident (Point #1 above) and may reach a stage where reversing acuity and lowering the average age becomes a very challenging, if not impossible, task.
- 4. Greater Resident Turnover.** Older, higher acuity residents are less likely to live as long as younger, healthier residents.⁶ Correspondingly, to the extent that new residents are older and frailer than in years’ past, their anticipated length of stay within the community should be less.⁷
- 5. Smaller Addressable Market.** Moreover, if new residents are older and frailer as compared to historical trends, the effective market size for such residents is smaller on a relative basis. First, consider that older prospective residents represent a smaller pool of age and income qualified people as compared to younger prospective residents. Second, frailer residents are more likely to have their move to Seniors Housing be motivated by current or anticipated health needs than by the attraction of a care-free lifestyle. We can anticipate, therefore, that such prospective residents are less likely to move great distances if there are viable care options close to them. The impact is that the geographic radius of people to market to decreases. The net effect of both of these trends is a smaller addressable market.

⁵ Mentioned in materials as part of Brookdale Living’s Investor Day in November 2011. Brookdale Living is publicly traded in NYSE under the ticker “BKD”.

⁶ For example, according to the Social Security Administration, today’s female of 75 and 85 years of age is expected to live another roughly 13 and 7 years, respectively.

⁷ It should be noted that with aging in place, the length of stay with Independent Living may be longer than historical figures.

Exhibit A illustrates the magnitude of this dual effect of higher resident turnover and smaller addressable market for entrance fee CCRCs by using hypothetical but seemingly realistic data. It assumes that the historical length of stay is reduced in half from approximately 10 to 12 years to 5 to 6 years⁸, the distance prospective residents are willing to move from is reduced in half and the age-qualified pool shifts from 75 to 84 years of age to 80 to 89 years of age⁹. **Using these assumptions, it could require a community to be over 10 times more productive in sales & marketing in order to maintain occupancy.**¹⁰

6. **Greater Pressures on Staff.** As acuity increases within lower care environments, greater pressures are felt by the staff. If staffing levels remain the same, more responsibilities are added to employees that already have a full set of responsibilities. Further, additional skills may be required for staff to adequately handle higher acuity residents even if outside home care agencies are providing direct care. For a host of reasons, Seniors Housing experiences high employee turnover. With greater pressures on caregivers and managers, one can imagine that employee turnover may also increase.

7. **Diminishing Customer Value Proposition.** Consider entrance fee CCRCs (EF CCRCs). Today's entrance fee prices and care plans were originally designed for younger, healthier residents who would likely have a long length of stay, often 10+ years. Such residents would immediately benefit from the community's amenities, maintenance fee lifestyle, increased opportunities for socialization, among many other benefits, and would have health care available to them if and when they needed it. In addition, the cost of an upfront entrance fee would be amortized over a long period of time. However, as prospective residents are older and frailer, they are less likely to benefit from the full range of activities within Independent Living and may become more reliant on health care services sooner. In addition, since older, higher acuity residents have a shorter length of stay, the entrance fee is amortized over a shorter period of time and, therefore, may feel more expensive. Even holding aside matters such as a decrease in net worth, limited liquidity of homes and general economic uncertainty, it's likely that the present business model does not fit prospective residents as well as it used to.

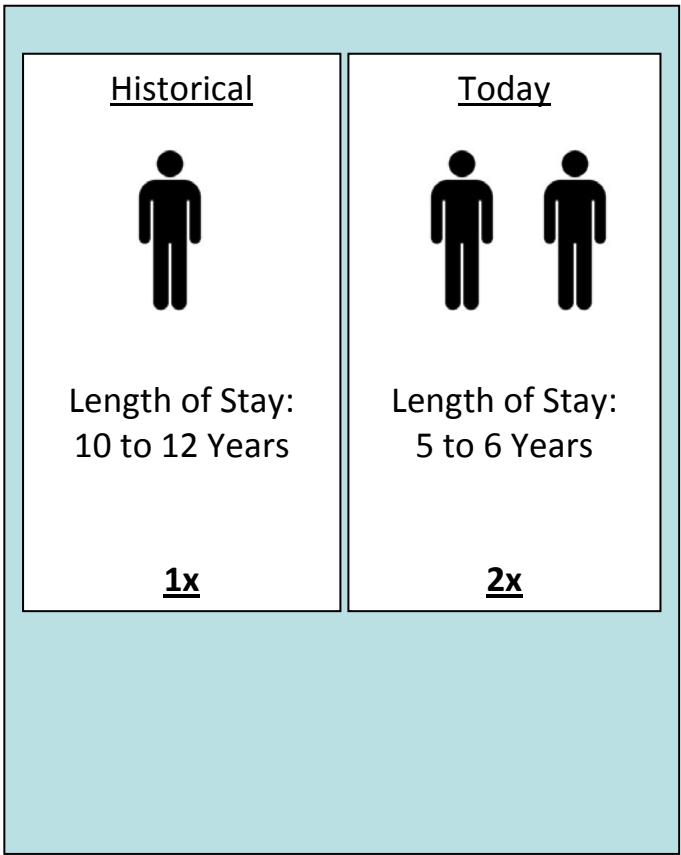
⁸ According to American Seniors Housing Association's 2011 State of Seniors Housing, the upper and lower quartile for length of stay for EF CCRC residents was 11.0 years and 6.6 years, respectively. This analysis, for example, assesses the magnitude impact if more upper quartile performing communities experience a length of stay consistent with those in the lower quartile.

⁹ According to 2010 US Census data, there are 12.4M people between the ages of 75 to 84 and 7.7M people between the ages of 80 to 89.

¹⁰ The exact estimate is 13.3 times more efficient in sales & marketing to maintain occupancy.

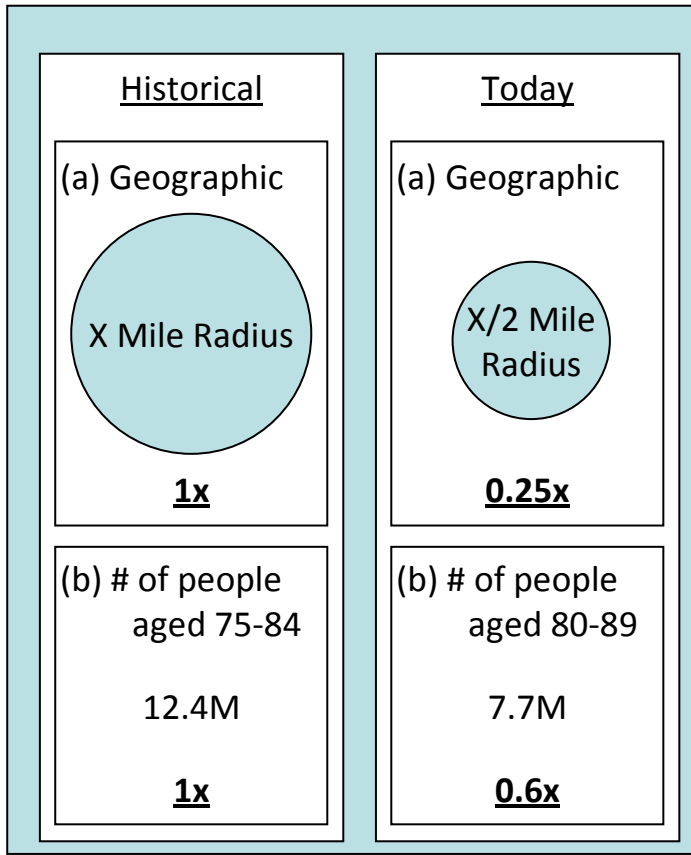
Summary: This is an exercise using hypothetical numbers that attempts to approximate the combined impact of greater resident turnover and smaller addressable market. It assumes that communities that experience aging in place have: approximately ½ the length of stay, reach ½ the geographic distance from the community as before and cater only to ages 80 to 89 (vs. ages 75 to 84).

Resident Turnover



+

Smaller Market



=

Combined Effect: May require over 10x Productivity in Sales & Marketing to Maintain Occupancy

Source: Population figures are from the 2010 US Census. Assumes that percentage of income qualified people is the same in both groups.

One measure to assess whether the value proposition is diminishing is to look at occupancy. EF CCRC occupancy has dipped from 94.2% to 89.1% over the last five years according to NIC MAP, an industry database.¹¹ Moreover, CCRC occupancy has stayed flat the last two years and is the only private pay asset class in Seniors Housing to not show some rebound in occupancy. This over 500 basis point dip in occupancy is concerning, but it's even more concerning when you factor in the long length of stay typical of EF CCRCs. Since EF CCRC residents typically have approximately a ten year length of stay, only about 10% of the previously occupied units are available for resale each year on average.¹² Therefore, decreases in occupancy, however small, can point to challenges in the current sales and marketing environment that may become worse as more units become available in the future. (See Exhibit B for a comparison between a prototypical Assisted Living community and an EF CCRCs community that illustrates why noting any downward change in occupancy for EF CCRCs can be important.)

- 8. Historical Sales and Marketing Practices are Less Effective.** Traditional sales and marketing approaches do not well suit the present conditions. The recent and current conditions have left many prospective residents – and their adult children – less wealthy and less confident about the future. Prospects are more often turning to their families and advisors, such as financial planners and legal counsel, to make the right decision and this collective group needs more convincing of the case for moving into Seniors Housing.

As a result, sales and marketing practices must evolve, particularly as technologies enable new ways of touching prospects and key influencers and as consumer preferences change. Today's sales approaches must be professionalized with career sales people who are skilled in relationship selling and backed by systems to support and compensation plans to reward them. Marketing must have a targeted focus on building trust and delivering high quality leads. Investing more in each lead requires a more strategic approach and tight coordination between marketing and sales in order to be effective.

However, upgrading sales and marketing practices may not be enough. It may take a more dramatic change in orientation in order to achieve breakthrough results. For example, in past years, it was common to have the thrust of sales and marketing of Independent Living focus on the benefits of an improved and more care-free lifestyle. As an increasing number of prospects are older and frailer, the trigger for a move may be more health care driven and prospects and their families may be searching for solutions that deliver strong health care outcomes. As such, the customer value proposition may need to be reoriented around effective health care delivery and sales and marketing practices will need to be altered to reinforce this strategy.

¹¹ This data is for Entrance Fee CCRC communities in NIC MAP from the period of Q1 '07 to Q4 '11.

¹² According to American Seniors Housing Association's 2011 State of Seniors Housing, the median length of stay is 8.2 years. For simplicity, assumption is 10 years for this analysis.

Exhibit B: Importance of Decreasing Occupancy for Entrance Fee CCRCs

Summary: Decreasing occupancy is a troubling sign for any Seniors Housing property type. However, for communities that have historically experienced a long length of stay, a drop in occupancy, however small, can indicate a more challenging sales & marketing environment than for communities that have experienced the same percentage drop in occupancy but have a shorter length of stay, such as Assisted Living.

Key Assumptions

	Community 1: Sample Assisted Living	Community 2: Sample EF CCRC
Beginning of Year Occupancy	100.0%	100.0%
End of Year Occupancy	95.0%	95.0%
Net Occupancy Loss	-5.0%	-5.0%
Number of Available Units:	100	300
Number of Occupied Units at Beginning of Year	100	300
Number of Occupied Units at End of Year	95	285
Net Number of Occupied Units	-5	-15
Length of Stay:	2 years	10 years

Demonstrating Market Traction

Populations

I. Units without Turnover:

Number of Units:	50	270
Occupancy:	100%	100%

II. Units with Turnover:

Number of Units:	50	30
Number of Units Reoccupied:	45	15
Occupancy:	90%	50%

Struggling to Gain Market Traction

In this example, both communities have experienced a 500 bps drop in occupancy, but Assisted Living is Showing Continued Market Traction Whereas the EF CCRC is More Challenged

FINANCIAL IMPLICATIONS

Given the possible business implications of aging in place listed above, there may also be financial implications that communities encounter. These may include:

1. **Lower Cash Flow from Existing Operations.** If higher resident turnover creates more vacancies and there is a diminishing value proposition for the existing business model, communities may face lower occupancies. With lower occupancies, communities may not be able to maintain the same historical monthly pricing and entrance fee pricing (where applicable). As such, it is reasonable to assume that communities may see a fall in their cash flow from existing operations. For entrance fee communities, reduced entrance fee pricing can reduce or negate cash flow from net entrance fee resales, which is often expected to be a majority of a community's annual cash flow.¹³ In addition, greater pressures on staff may result in increased employee turnover, higher staffing and higher training costs all of which negatively impact cash flow from existing operations.
2. **Weakened Balance Sheet.** In some cases, depending on interest and amount of debt and state of operations, communities may find themselves in a negative cash flow position. As such, the balance sheet weakens. Further, in cases with resident contracts with guaranteed, high refundable percentage (i.e., 90% or 100%) entrance fees, communities may have an obligation to pay outgoing residents and their estates an amount for their prior unit that is greater than the current market value of the unit.¹⁴ Even in cases where a guarantee is not legally required, communities may make a business decision to help defray some of the lost value in a resident's unit. In either case, a net cash outflow is required, weakening the balance sheet.

A weaker balance sheet can also impact prospective resident interest. As prospective residents, their families and their advisors become more adept at assessing the financial viability of a community, a community's health will be scrutinized and the balance sheet, including metrics such as days cash on hand, will be monitored and benchmarked closely. It may be appropriate to include the liability or contingent liability associated with the refundable portion of entrance fees in the analysis. A community deemed to be in poor financial health can be subject to a downward spiraling effect whereby discerning new residents are scared off by the financial risk putting further pressure on a community's occupancy and cash flow. Several recent bankruptcies, including The Clare at Water Tower, have demonstrated this effect.¹⁵

¹³ Especially for not-for-profit EF CCRCs, most of the anticipated annual cash flow is from entrance fee resales, not from the profit margin from monthly fees. According to the 2011 edition of Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, the median Net Operating Margin Ratio (excludes entrance fees) and Net Operating Margin – Adjusted Ratio (includes entrance fees) was 6.5% and 19.1%, respectively, for multi-site NFP entrance fee CCRCs.

¹⁴ Resident and care agreements vary with some offering a guaranteed refund upon the earlier of a resale of the unit or set period of time. State regulations vary, too. Some states, such as Colorado, specify certain cases whereby a payment of the refundable portion of an entrance fee is mandatory.

¹⁵ As of the time of this paper, The Clare at Water Tower had filed for bankruptcy but there was not a final resolution. The community struggled to fill since its opening in 2008 and concern for its financial solvency was one of the reasons.

- 3. Increasing Financial Risk.** Struggling communities face increased financial risks. Once a community experiences operating and financial challenges, its cost of capital often increases. If new equity is required, new investors require a return commensurate with the risk – often much higher than what’s necessary for a stabilized, well capitalized community.¹⁶ Lenders or mezzanine lenders will similarly look for a higher return and greater assurances that they will be repaid in full. All of these factors add up to a higher cost of capital.

One particular area that may require further diligence for financial risk is the underwriting of life care contracts. Life care contracts, otherwise known as Type A contracts, provide a combination of housing and long term care insurance benefits. As residents come to Senior Housing communities at older ages and in poorer health, it is important that communities adequately price their life care contracts for this new prospective resident pool. To the extent that some communities have not altered their models during this pronounced aging in place trend, it is possible that such communities may also have a hidden balance sheet liability associated with Life Care contracts.

¹⁶ At the moment, the pool of investors comfortable in investing in distressed EF CCRCs is small as compared to those that are interested in investing in stabilized communities. In absence of meaningful competition, the cost of capital is often higher than it would be otherwise.

LEGAL IMPLICATIONS

1. **Increasing Risks of Serving Older, Frailer Residents in Lower Care Environments.** With aging in place, older, frailer residents will reside in lower care environments for longer periods of time. As seniors age, risks associated with the incidences of mild cognitive impairment and Alzheimer's as well as from greater frailty, such as falls, increase. Residents within Seniors Housing can be risks to themselves as well as others in the community. For example, a resident with cognitive impairment may inadvertently start a fire. Leaders need to understand that their communities may face liability for failure to anticipate, prevent or respond to a foreseeable resident injury.

With acuity creep, communities may need to formally relicense themselves and modify care practices.¹⁷ For example, communities that were designed to provide lower care needs, such as Independent Living, may find that the level of care currently provided is more akin to higher care environments, such as Assisted Living. Without regularly revisiting the level of care provided, communities may unwittingly operate an unlicensed facility that should be licensed (e.g., an Independent Living community that should be licensed as Assisted Living) or rely on customs and practices that are not appropriate for the higher acuity level of their residents (e.g., Assisted Living being held to Skilled Nursing standards). Licensing to a higher level of care will require changes, including possible physical modifications to residential units and physical plant. Delivery of care changes may necessitate higher skilled staff, higher staffing to resident ratios and improved training.

A community may also be subject to reputational and legal risks for services generally outside of its direct control. For example, caregivers employed by outside home health agencies may provide inappropriate care to a community's resident. As a result, communities may need to take measures to provide closer oversight of all services being provided in their building. Making all of this more challenging is that civil rights advocates claim that requiring a resident to move to a higher level of care is disability discrimination under federal fair housing laws.

¹⁷ Paul Gordon, Partner at Hanson Bridgett LLP, has particular legal expertise in matters of aging in place and his insights are included in this section.

POSSIBLE SOLUTIONS

Solutions to the implications of aging in place are likely to require creativity and an iterative process. It is going to require leaders to approach problems differently than they have in the past. As Einstein said, "You can't solve a problem with the same mind that created it." For those that are able to see past the problems and recognize opportunities, this stage could be an exciting period of growth and stimulation.

This white paper provides a brief overview of just four possible solutions and the following section outlines a specific process to identify solutions that best fit a given community.

1. **Modify Customer Value Proposition to Current Market Opportunity.** With the environmental changes that have occurred, leaders need to critically evaluate and modify their customer value proposition to the current market opportunity.
 - *A thorough evaluation of the customer value proposition is critical because it helps inform what strategies are worth pursuing.* This assessment may involve: competitive analysis of all Seniors Housing in a primary market area (PMA) – not just the ones with the same business model, analysis of local hospital systems, comparison of aging in place options, local economic factors, psychographic factors, and more. The industry will likely need to move on from pre-existing tools, such as formulaic feasibility studies based principally on penetration rates, in favor of new analytical tools and approaches to meet the complexity of our current environment.
 - *After the assessment, it is appropriate to identify and design specific ways to improve the value proposition.* In some cases, this may be as simple as reducing price. However, in most cases, it will likely involve a more thoughtful reconfiguration of the value proposition that may include: changing levels of entrance fee refundability, introducing non-entrance fee options, shifting away from or to life care contracts, decoupling or bundling services, integrating health care services, providing true guarantees for entrance fee refunds, and more. For example, if prospective residents are concerned about handing over a large sum in the form of a refundable entrance fee that they or their estate are not necessarily guaranteed to receive upon exit or death, lowering price may not be the trigger to have people move in. Instead, offering a rental option, reducing the entrance fee refundability percentage (potentially to zero whereby, all else being equal, the entrance fee price is reduced) or providing a real guarantee may be better strategies.
 - *More aggressive strategies may involve reaching out “beyond the walls” of the community to provide services to the local community.* These services could range from wellness programs to home care to aggressive utilization of outpatient rehab to just name a few. There is also an opportunity to leverage a community’s brand and real estate to provide quality services that may largely reside at the community. Business models may vary, but due to the pressures previously described, many of these ancillary businesses may need to provide positive cash flow and are best not seen solely as marketing expenses to improve occupancy at a community. There are many services options available today and more coming. For example, for some states, including most recently Virginia, life care contracts are available to seniors without necessarily needing to live within an entrance fee CCRC. Leaders will need to carefully evaluate which strategies are appropriate for their community at a given time.

2. **Create Financial Flexibility.** Given the rapid change of today's environment, creating financial flexibility will be critical in allowing communities and organizations to perpetually adapt as the market demands. In the case of financial flexibility, it is important for key constituents to understand what parts of their business model and to what degree their balance sheet inhibit flexibility and determine what can and should be done about it. For example, many EF CCRCs that offer high refundable entrance fee contracts have meaningful contingent liabilities on their balance sheet to account for repayment of refundable entrance fees. Similarly, many communities may have meaningful long term debt. In both cases, key constituencies need to understand how these constructs limit their flexibility and identify possible ways to reduce it. For example, one way to reduce the entrance fee liability is to sell lower or non-refundable entrance fee contracts. Over time this would reduce the contingent liability of refundable entrance fees and would make it more feasible for a community to introduce a rental-only option, for example, if the market demanded. In other cases where long term debt may be too substantial given current operating trends for the business, communities may need to consider strategically restructuring their debt to improve the odds of long term sustainability.
3. **Inspire Organizational Urgency.** For some communities, the most important solution will be changing a culture to adapt to the new market and embrace innovative strategies. For example, communities created and steeped in an ethos around lifestyle and care-free living may find a transition to a value proposition and identity around health care services challenging. In some cases, this may require not only a cultural change for community employees but also residents, especially if they may need to adapt to changes to an existing business model. Carefully managing a cultural change which successfully gets the commitment of key leaders throughout the organization will be critical to successful execution.
4. **Realign Risk Management to Match Resident Population.** Key constituents need to create policies and procedures befitting their current and future resident population. Given the legal rights residents may have to age in place, these policies and procedures must be carefully crafted to represent what's best for the community and the safety of its residents while also acknowledging the rights and positions of its aging in place residents. Some examples of solutions include: disclosure and disclaimers about level of care limits, transfer policies, termination grounds; special care plans and negotiated risk agreements; private aid policies; and opt-in and opt-out forms for "intrusive" safety measures and services.

CONCLUSION AND NEXT STEPS

Aging in place, the desire to stay in a particular residential setting as long as possible even as health care needs increase, may be the driving phenomenon of our present time both inside and outside Seniors Housing. Key constituents, such as operators, service providers, investors and boards, need to rapidly get their arms around the degree aging in place is impacting their community, what business, financial and legal risks they face and what remedies are available.

A plan to create a successful, durable strategy for aging in place has at least the following three parts:

1. **Community Assessment.** This would include at least the following:
 - Age and needs assessments of current, new (within last year) and prospective residents
 - Benchmark assessment above to similar analysis performed 1, 2 and 5 years previous
 - Occupancy trends with careful calibration of pricing to historical norms and lost leads report
 - Competitive analysis with a diverse set of comparables, including at home options
 - Identify key implications specific to community, including business, financial and legal
2. **Spark Organizational Urgency.** Leadership at all levels needs to create a level of urgency that is commensurate with the challenges and opportunities they face. This may also include a need to include existing residents, especially when their support for potential changes is important.
3. **Create, Test, Iterate Solutions.** Arriving on the best set of solutions to ensure a thriving community now and in the future may not be a simple exercise, especially if it necessitates a change in strategic direction. Creating a list of possible solutions, thoughtfully considering merits of each possibility and market testing the best options are important steps. Given the dynamic marketplace and constantly evolving consumer preferences, frequent iterations of ideas and solutions should be a process that leaders use to determine the best options today and into the future.

Leaders in Seniors Housing strive to create sustainable enterprises that have a compelling customer value proposition. However, for a number of leaders and communities, achieving this goal has never been more difficult. As a result, getting to the core of the issues related to aging in place and creating a coherent strategy and set of possible solutions must be among the organization's top priorities.

Neither denial of today's market realities nor abrupt and dramatic change is a wise course of action. Instead, leaders should follow a well reasoned and carefully calibrated strategy. Such an approach should rely on using small bets to test hypotheses before moving more confidently to bold initiatives. Given the complexity of determining the right strategic direction and substantial downside risk of not successfully navigating through this current environment, leaders should be very careful in crafting the best path forward.

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Point Forward Solutions is a strategic consulting and financial advisory firm serving the Seniors Housing and related Health Care Services industries. The firm enables operating companies, services providers, investors and boards serving the market of consumers of over 70 years of age to negotiate the challenges and optimize the opportunities caused by the shifting micro and macro environment.

ABOUT POINT FORWARD SOLUTIONS

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Ryan Frederick, the Founder and Principal of Point Forward Solutions, has nearly a decade of experience in the Seniors Housing & Care and related Health Care Services fields. He has held leadership positions at leading operators, including Erickson Living, the largest owner and operator of entrance fee Continuing Care Retirement Communities, and Sunrise Senior Living, one of the largest publicly traded Seniors Housing companies. Mr. Frederick has also been a Principal at a specialized private equity firm focused on the sector. Mr. Frederick has also been a board member of a not-for-profit entrance fee CCRC. He is a thought leader in the industry and has led panels and classes for the National Investment Center for Seniors Housing & Care (NIC), Erickson School at UMBC and Senior Living 100. He is presently a member of NIC's Investment Publication Task Force which is responsible for authoring the "NIC Investment Guide 2012: Investing in Seniors Housing & Care Properties." He holds a BSEE from Princeton University and MBA from the Stanford Graduate School of Business.

Mr. Frederick can be reached at rfrederick@pointforwardsol.com and can be followed on twitter at @ryanefrederick.

Point Forward Solutions, LLC
508 Woodlawn Road
Baltimore, MD 21210
410.889.0561
info@pointforwardsol.com
www.pointforwardsol.com

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