Insights and findings on marketing to seniors

THE LOVE REPORT
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Preliminary Findings and Highlights from the Ziegler/Love & Company 2015 CCRC Pricing Study

In the summer of 2015, Ziegler and Love & Company collaborated on a research project to study current trends and practices in CCRC pricing strategies. In this initial report, we present preliminary highlights from the study. The full research report is expected to be complete by the end of December 2015.

Research Process

In June of 2015, an online survey was distributed to CFOs of continuing care retirement communities (CCRCs) throughout the United States. By design, the survey was long and took significant time by the communities to compile the requested data. By the end of August, when the online survey was closed, 89 communities had responded. We are grateful for the time and effort put in by those communities, and we hope this information can be of significant use to the senior living field.

It is important to note that the findings reported in this report should be considered as general indications of current trends and practices, and are not statistically projectable to the population of CCRCs as a whole.

Profile of Participant Communities

The following are characteristics of the communities that participated in the study.

- Respondents were nearly equally split between single-site communities (51%) and communities that were part of multi-site organizations (49%).
- Responses were received from 25 states, with the majority coming from Florida (23 responses, including nine from one multi-site organization), California (9), the Mid-Atlantic states (25 from New Jersey to South Carolina) and Midwest states (15 from Illinois, Indiana and Ohio).
- The majority of respondents were not-for-profit communities (86%).
- Nearly 80% of responding communities have been in existence for more than 20 years. 10% opened in the last six to ten years.
- 95% had between 100 and 499 independent living residences, with the number of residences fairly evenly split between 100 and 199, 200 to 299, and 300 to 499 residences.

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Current Practices

- 53% offer assisted living only in a dedicated assisted living facility, while 46% offer assistance either in the resident's home or in a dedicated facility. 12% offer assisted living only within the resident's home.
- 11% of respondents currently offer a "continuing care at home" or "life care without walls program," while another 2% are actively developing a program. Another 8% are considering developing an at-home program.
- While 33% of communities say they have a preference for which contract option a resident selects, only 10% have specific sales tactics designed to influence customer choice. 17% have set their fees in a way to intentionally drive prospects to the community's preferred option.
- Of those communities that said they have a preference for which contract option a resident selects, 10 said they prefer the resident take the declining balance option, while five said they prefer the resident to choose a life care contract. No other option received more than two notes of preference, and no one said they would prefer that a resident take a high refund plan.
- 43% said that entrance fee refunds are paid within a specified time period after the resident leaves the community altogether, while 17% reported that the refund is paid within a specified period after the resident leaves independent living.
- In most cases, respondents note that the refund is not paid until the residence is re-sold. Two communities report a maximum wait for a refund of two years, while one community reported a maximum wait of one year.
- 39% noted that the community retains control over the refund when a resident moves to healthcare, in case it is needed to cover unpaid fees. Another 4% allow the resident to use the refund to pay healthcare fees whether or not the resident is running low on funds.
- Only one community reported charging both a re-marketing fee (5%) on move out, and a refurbishing fee (actual cost, but typically 6% to 7%). Both fees are deducted from the refund before it is paid.
- 64% of communities report that they help residents file long-term care insurance claims at no cost to the resident. 20% do not provide any assistance, with all claims being paid directly to the resident. 9% report that they handle all long-term care insurance claims for residents.

Contract Options

- Of the 80 communities that completed the contract options section:
  - *39% offer Type A contracts*
  - *61% offer Type B contracts*
  - *43% offer Type C contracts*
  - *45% offer rental contracts*

  Note: Totals are more than 100%, as many communities offer more than one option.
- 44% of communities offer only one entrance fee option. Of those communities:
  - *51% offer only a Type B contract*
  - *37% offer only a Type C contract*
  - *11% offer only a Type A contract*

  Note: This is a good example of why this data cannot be projected to the senior living field as a whole. One multi-site organization that only offers Type B contracts responded for nine of its communities, resulting in a greater concentration of Type B respondents than actually exists in the field.
- 18% of responding communities have offered multiple contract options for more than 15 years. Of those communities:
  - *71% offer Type A contracts*
  - *71% offer Type B contracts*
  - *57% offer Type C contracts*
  - *50% offer rental contracts*
- Looking at the same 18% of communities as above that have offered multiple contract options for more than 15 years, the following are additional insights into the types of combinations offered:
  - *21% offer both Type A and B contracts*
  - *7% offer both Type A and C contracts*
  - *14% offer both Type B and C contracts*
  - *29% offer all four options: A, B, C and rental*
  - *14% offer Type A and rental contracts, 7% offer Type B and rental contracts, and 7% offer Type C and rental contracts*

- 39% have added contract options during the last 15 years. Of those communities:
  - *51% have added rental options, most of which were added in the last five to nine years.*
  - *Of nine communities that were originally life care communities, two added Type B contract options, and four added Type C options. The remaining three added rental options.*
  - *Of 16 communities that were originally Type B communities, two added Type A contract options, and one added both a Type A and Type C option. The remaining 13 added rental options.*
  - *Of six communities that were originally Type C communities, five added Type A contract options, and one added both a Type A and Type B option. Two communities also added rental options.*
- Table A (below right) recaps the proportion of communities offering various entrance fee refund options by contract type. Of note is that the most popular are the no refund, declining balance, 50% refundable and 90% refundable options. A significant portion of Type C communities also offers 100% refundable options.

Relationship Between Pricing and Home Values

One of the goals of this research was to better identify the relationship between pricing strategies and the consumer's decision to select a refund option.

The first graph (see back cover) illustrates the relationship between consumer choice and the premium charged for a high refund option. Each point on the graph represents the combination of the proportion of residents selecting a high refund plan (80% refund or higher) at an individual community plotted against the percentage premium the resident paid for the high refund plan compared to a declining balance or no refund plan. Generally speaking, the higher the premium, the lower the proportion of residents that selects the high refund option. In most cases, a premium of 70% or higher results in few residents selecting the high refund option.

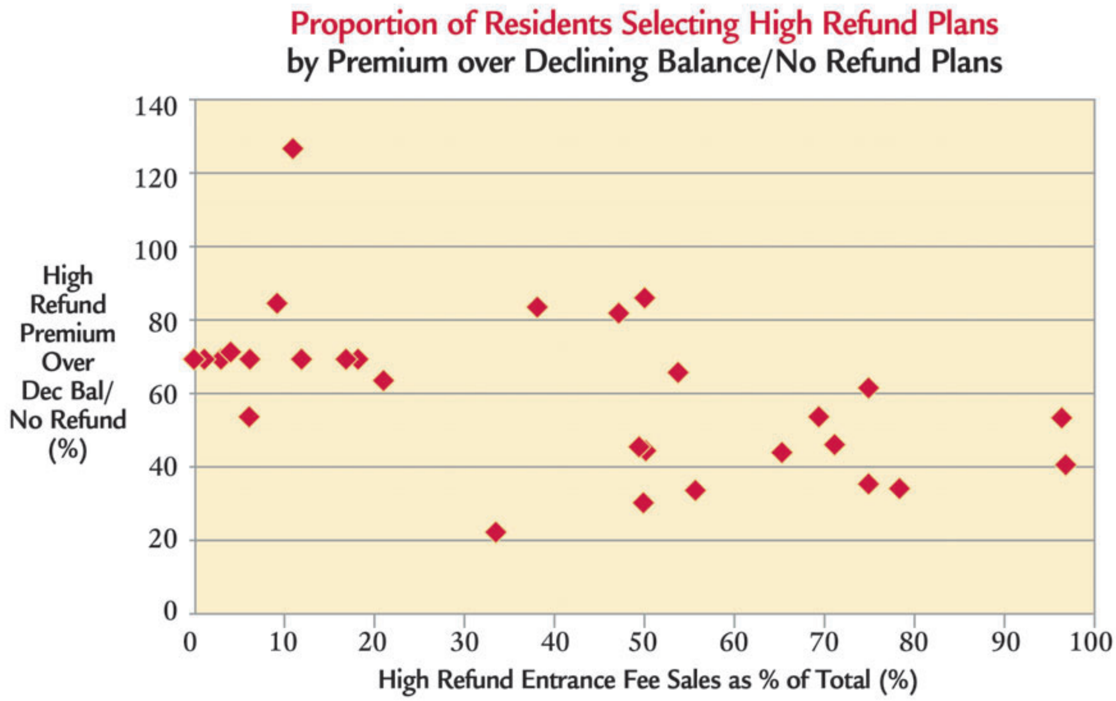
The second graph (back cover) illustrates a similar relationship between consumer choice and the price of the high refund entrance fee relative to the average home value in the market. The data show that, when a high refund plan is priced at or below the average home value, a high proportion of residents tend to select it. When the average entrance fee is 30% or more higher than home values, the proportion selecting a high-refund plan is very low.

What is more challenging to see is how the relationship between these two factors—the premium charged for a high refund plan and the relationship of the entrance fee to home values—affect each other. While we will explore this in more detail in the full report, here's an example: One community reported that its 90% refund option is priced at an 82% premium over its non-refundable option, which would suggest that few prospects would select it. However, nearly half (47%) of the residents did select the high refund option. The reason? The high refund plan was priced at an average of only 6% higher than the market home values, making it readily affordable. In this case, the two factors seemed to offset each other, leaving about half of the prospects selecting each option.

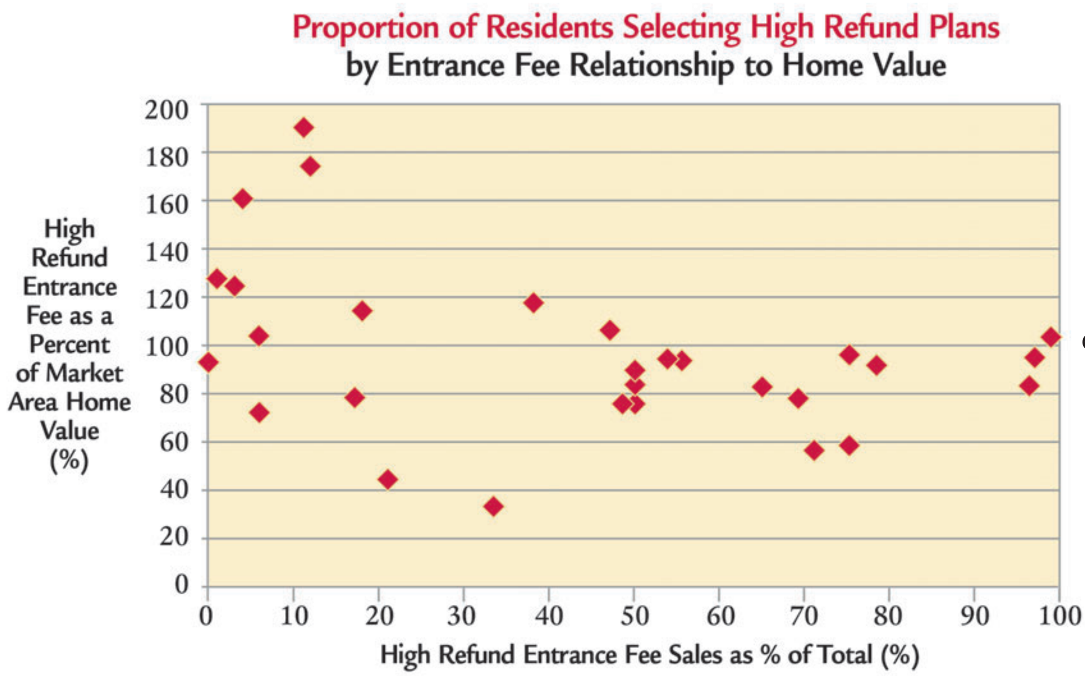
Refund Options Offered by Contract Type

Responses	Type A	Type B	Type C
No refund	32%	19%	15%
Declining balance	49%	60%	53%
20 to 25% refundable	0%	2%	3%
30 to 33% refundable	3%	0%	0%
40 or 45% refundable	3%	0%	0%
50 or 55% refundable	41%	21%	29%
60 to 67% refundable	0%	0%	3%
70 or 75% refundable	8%	6%	18%
80 or 85% refundable	5%	8%	6%
90 or 95% refundable	46%	60%	50%
100% refundable	3%	0%	26%

Table A



Graph 1



Graph 2

The 2015 pricing research study was led by Rob Love and Jen Adelman of Love & Company, and Lisa McCracken of Ziegler. For a copy of the full report when it is complete, please email jadelman@loveandcompany.com.

We invite you to contact Tim Bracken at 301-663-1239, or tbracken@loveandcompany.com, if you would like to learn more about our research or services.