# Episode 124 Insights into Continuing Care Retirement Communities with Rob Cordeau

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**SPEAKERS**
Bob French, Rob Cordeau, Alex Murguia, Wade Pfau

**Bob French** 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning, CCRCs aren't your parents' retirement communities? Well, probably not anyway, but they are a pretty interesting model.

**Wade Pfau** 00:51
Hi everyone. Welcome to retire with style. I'm Wade, and I'm here with Alex, and we're joined this week by Rob Cordeau, an advisor at McLean asset management based in New Hampshire, a frequent guest to the show. I think Rob, this may be at least the third episode you've joined us with, and we're very excited to have you here, because you sent us a list of potential topics related to CCRCs or continuing care retirement communities. And I was impressed as we've got an opportunity to really dig in deep with someone who knows quite a bit about the CCRC world, and so we're happy to have you on the show today.

**Rob Cordeau** 01:24
Rob, thanks. Wade, good to be here.

**Wade Pfau** 01:28
Yeah. And I think it is the third episode, if not more, just trying to recall real quick, Yep, great insights in the past episodes. And I think we're gonna have a great conversation around CCRCs today before we get started with that, Alex, what's anything new in your world that you need to address before we

**Alex Murguia** 01:46
Yeah, it's not CCRCs. Wade, I'm almost embarrassed to bring this up, because you got it wrong. It's ccrcos. Okay, that was the was for those of you who didn't listen to the pregame show, which is everyone but Rob and Wade. Wade made a point to talk about. I was referring to it in one episode as ccros. So I think in that tradition, let's continue it. What do you think, Rob, are we going to use the normal financial planning convention,

**Rob Cordeau** 02:21
the normal convention, CCRC

**Wade Pfau** 02:26
Yes, lots of acronyms, but yeah, I mean Rob, I think, just to get started. So in the past episode, we did do a brief overview of what CCRCs were, but it was pretty brief on our on our behalf, and we could just really start there with a quick introduction to the idea of what we're talking about today, what a CCRC is, and how it relates to long term care planning.

**Alex Murguia** 02:50
The only comment to that Rob, just to get one in more, is we get a lot of feedback from these about, like, actual use cases and things like that. And so that's why I think it's great to have advisors. I think the saying goes in theory, theory and practice are the same, but in practice they're not. Someone said that. I don't know it's like an old quote, but you get the joke, right, Rob, so just take it away so people have something tangible that they can that they can run. Yeah,

**Rob Cordeau** 03:20
we've, we've spoken with numerous clients. I don't know. We've probably assisted a dozen clients in locating and choosing a CCRC over the years. So, and we've looked at more than that, because sometimes clients are choosing between several. So it's given us a little bit of insight into the due diligence, process, what they are, how they work, which has been helpful, but yeah, in terms of what a CCRC is, as the name implies. It's a retirement community, continuing care, retirement community that typically has all the types of care that you might need in retirement on one campus. So we'd have, typically, independent living, assisted living and skilled nursing care all on the same campus. And what that does, there are few benefits to that. It It allows you to be in one place and have a network of friends family. It's in one location, and then as you transition, you need more care. You transition from independent living to assisted living. You can stay on the same campus, or even go to a nursing care rather than going to a facility that's 50 miles away, you can stay right on the same location and get that care. The financial piece we'll get into that a little bit usually requires a sizable entrance fee up front, and then a monthly service fee ongoing that covers not only your rent for where you're staying, but also, in some cases, some of the services that you receive. So is an interest. Approach to handling Long Term Care different than a long term care policy, for example, or self funding, but it's a way to sort of plan for that potential future need for long term care in a retirement community package, if that makes sense,

**Wade Pfau** 05:20
and before digging more into the financial side about how CCRCs can interact with long term care insurance, or in some cases, even be an alternative to having long term care insurance, you had a interesting idea that the way you described to clients that you work with what the issue is, why you were even looking at CCRCs in the First place as a potential alternative to long term care insurance as it became so expensive, if you could talk a little about that, sure,

**Rob Cordeau** 05:47
yeah, and the long term care industry has gone through this incredible evolution, if you think about it, life insurance has been around for hundreds of years, right? You go back to Europe,

and they had life insurance before this country started, but long term care insurance is a relatively new animal. It was just, we're going back a few decades, so it's gone through a lot of changes, because it's really in its infancy, if you think about it. So a lot of these long term care insurance companies didn't have decades or centuries of data, they didn't have a lot of accurate data like life insurance companies have on life expectancy for a lot more factors with long term care, right cost of care, how long people would need the care, and so forth. So Long Term Care Insurance carriers struggled a bit in pricing these products, and they've gone up in price considerably. If you look at what long term care insurance costs, maybe back in the 90s or early 2000s with what it costs today, it's significantly more expensive. They figured out that they've mispriced it in the early days. So Long Term Care is really expensive, and it creates this environment where some, most people, choose not to even get it. They just take the I hope I don't need a planning approach, right? Hopefully I don't ever need that sort of care. And then, if they do, then they end up depleting their their investment portfolio, if their portfolio is not big enough, or if they stay long enough, and they might need to even tap into Medicaid, you know, the state program to assist. So I think that's the approach some people take. If they embrace long term care. It's fairly expensive, and I'm sure the two of you will dig into that topic in another podcast. So CCRCs have become almost an alternative in some way for some people, anyway to they might choose to skip Long Term Care Insurance and instead invest in continuing care retirement community.

**Wade Pfau** 07:57
Yeah, and there's different financing models for how CCRCs work. So we'll have to break that down, because something that's more the type a style with a larger upfront cost. That's, I think we can start with that in terms of talking about how that can be an alternative to having long term care. But later, we'll talk about different styles as well, where it's a lower upfront costs, but higher ongoing monthly costs, that meant, then you might want to make sure that there's the ability to interact with any long term care insurance available. But so starting with that first part, how are clients thinking about positioning CCRCs as an alternative to having long term care?

**Rob Cordeau** 08:37
Yeah, so you know, thinking about that first type where there's a large entrance fee up front, and it's not uncommon to see a sizable six figure entrance fee. So imagine a community that has a $500,000 entrance fee, and the residents would pay that, and then on an ongoing basis, they would have a monthly service fee that they would pay. So some clients have positioned it that at some point in their retirement they probably want to downsize from their current residence, and this might be because it's too big, it's too expensive. Maybe they want to move to where their adult children and grandchildren are. Maybe it's multiple floors, and they want single floor, single floor living. So those are all sort of various decision factors that might move someone to want to make a move at some point retirement. And for those folks, if they have a house, let's say their house is worth 700,000 and they want to jump into a community that has a $500,000 upfront entrance fee. They might essentially extract the equity out of their house, use those proceeds for the entrance fee to jump into the to the facility, and then they have a little bit extra and it sort of kills. Two birds with one stone, right? They're able to start to plan for their long term care needs. They've moved into an environment where they don't have to deal with the snow plowing and the lawn mowing. And it's, in a sense, it's like condo living, in that sense, right? Where there's there's shared spaces that you can use depending on the facility. So for a lot of folks, it's a natural transition. They're looking to do something like this anyway, when they get to their mid 70s and later, they're looking for something that requires less upkeep and less

stairs. So in that sense, they can often transition extract the equity from their house, just transition into an entrance fee to the facility. Rob

**Alex Murguia** 10:48
just two questions again, putting myself in the in the seat of somebody listening in, who's a consumer, a question that I think they would naturally ask is, is it Are these like per person, or is it like for the room?

**Rob Cordeau** 11:05
Good question. Yeah, it's usually the bulk of it. The I should put it this way, the second person is a much smaller number, so there's usually a charge for the second person, but it's much smaller. And some some communities will do that on just the monthly service fee. So oftentimes, in essence, you're buying a you're buying two things with this entrance fee. If you think about it, you're buying a condo, if you will, right your independent living apartment. You're buying that and your right to live in it through your lifetime. But you're if there's two people involved, you're buying it for two lifetimes. So that costs a little bit more right the chance of of the second person passing away a little later. And then you're also buying the right to be in this system that's going to guarantee you some care. So you're buying, it's almost like you're prepaying for some long term care as well. So that's why the price does usually have to go out for the second person,

**Alex Murguia** 12:10
okay, and then the other No, that's fine. I just wanted them to do their mental math. If you're

**Bob French** 12:15
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**Alex Murguia** 12:37
Hey, Rob, I have a question. Just listening in here. You just because the wording, I want to make sure everyone's clear. Sometimes we refer to it as we're buying a right to live there. Sometimes I think I heard they're buying the condo. Maybe not like that, but I don't want anyone to miss, miss, assume that that's what's going on. Can you state exactly the dynamic of what you're purchasing with that, quote, unquote, $500,000 and what happens upon death? And I assume there's no refund if, like, one of them dies, but you know, what happens if, when, when everything is out and, and how does that work?

**Rob Cordeau** 13:18
Sure, good question. And it should be clear, it's not a real estate purchase, really. It's a contract between you and the community. So they're going to offer you the right to live there. And again, in keeping with this transition approach, you might not be in the same apartment anyway, right? You might be transitioning. So you're not buying a piece of real estate that you could turn around and sell. You're in essence, purchasing a right to be there and depending on the size of the individual apartment, that will dictate the cost of the entrance fee. So you can buy kind of a one bedroom, one bedroom with a den, two bedroom, so that you can actually go up in size or even features, and that can result in a higher entrance fee as a result. So just to clarify, you're

more a better way to put it as you're buying the right to be in this community throughout your life, regardless of the care you need. The second part of your question, what happens to your entrance fee? Does it ever come back? It depends on the contract. Most of these CCRCs offer multiple contracts. Some of them will offer a non refundable program where your entrance fee goes in and none of it comes back to your heirs. Poor comes back to you if you decided to move and leave there during your lifetime, another common contract is a 90% refundable contract. So in my example, if the entrance fee was $500,000 and I stayed there for my lifetime, my heirs could get. 90% of that, so they'd get 450,000 coming back to them, and that that helps in cases where someone was viewing their house as a potential legacy asset, right? Well, I you know they might say we want to spend down our assets, but we're hoping our kids will least inherit the house. Well, the 90% contract can essentially accomplish that, right? And it's pretty, pretty straightforward. We've helped adult children of clients who've passed away in CCRCs, and it just takes a few months. And you know, some of them have contracts where they have to fill the apartment first before they check but, but it's a fairly straightforward.

**Alex Murguia** 15:41
Then I've got two quick follow up questions towards that. For people scoring at home, the higher, you know, some have higher fees, some have lower fee. I mean, some have higher like entrance fees. Some have lower entrance fees. I assume the dynamic is, the higher the entrance fee, the lower the ongoing cash flow that you need to pay out. Or it doesn't not work like I'm just thinking economics, right? The more you pay up front, the less the ongoing. The less you pay up front, maybe the more ongoing is that not the case, not always.

**Rob Cordeau** 16:10
So the entrance fee, if you think about the entrance fee, encompasses two things, the apartment that you're in, how big and how luxurious that is, but it's also you're prepaying for long term care, so that has that's structured based on a lot of other factors. And then each facility is going to have different, different programs that they offer, different features that they have on site, on the campus. So those things might dictate,

**Alex Murguia** 16:45
like, you don't have access to the pickleball courts. Yeah, exactly. And then weight is out. Weight is out.

**Rob Cordeau** 16:53
Well, you think too How Long Term Care Insurance and long term care costs vary from one state to the other right. I live up in New Hampshire, and here in New England, Massachusetts, New Hampshire, long term care costs are very, very high comparatively to the other 50 states. So that's a factor as well. How much does it cost them to have doctors and nurses and, you know, professionally staffed medical professionals in the skilled nursing care facility that's going to be more expensive in certain states than others.

**Alex Murguia** 17:26
Okay, so the entrance fee is more relevant towards the services you get for it. And if, if you're looking at different fees in one one community, it's just, it's dependent on what the what you're getting for that, it's not necessarily a time value of money question, which I started off with, is that a correct, correct at least?

**Rob Cordeau** 17:50
Yeah, what we usually recommend to clients is shop around right, get out and do some work. Usually clients are not looking at these as soon as they retire, most clients are not looking to to jump right into a CCRC in their say, mid 60s. This usually happens a little later, although it does happen younger for some, but that usually gives people plenty of time to do some research. They might have some friends who are in one they go and visit, they take some tours and then collect pricing from several different CCRCs and do the comparison.

**Alex Murguia** 18:25
Then the last question I had that they could potentially be asking themselves is, this goes back to almost like a time certain annuity question, okay, you go in, let's say, heaven forbid, you go in there. Six months later, you develop pancreatic cancer, and short term after that, you're not even there for a year, just, just how the dice rolls, kind of thing in terms of the entrance fee. Or are there certain, like stipulations if something happens within three years or or whatnot?

**Rob Cordeau** 18:54
Yep, there's a so this gets back to the type of contract you choose for the intensity, right? If you chose a non refundable contract, then the money goes away. That's like a, like a no cash refund provision. If you chose the 90% refundable, then the loss to your heirs is significantly lapsed, right? Because they're at least getting 90% of the refund. The other contract that's out there, some of them refer to as a declining balance refund contract, and I've seen this, the most common one is 2% per month is declining on what they will refund to you. So if you stayed for 12 months and you passed away, then 12 times 2% is 24% your heirs would get 76% of your refund of your entrance fee back as a refund. So if you do the math, that's a little over four years, right? So. Once, once you're four years and you've stayed four years, then your heirs would get nothing back. But any point in the four year period, if you died in that period, then they would get something back on a declining scale.

**Wade Pfau** 20:13
And I think another point worth emphasizing that was clear in your comments, Rob, but maybe for people first learning about CCRCs, it's not clear that you're not waiting until you need long term care to start looking for a CCRC, because at that point it will be too late. This really is an option that you're looking at for Independent Living, where you're thinking about moving to downsizing, to a community, and you're choosing the CCRC when you're still living independently, but to then facilitate having that entire lifetime provision of long term care available to you within one broad community. But I do think it is important to make sure that points clear that you're not waiting for a long term care.

**Rob Cordeau** 20:58
That is a that is a really important point, because these communities, they do underwriting sort of on two levels. They underwrite you health wise. So there's usually a pretty extensive health questionnaire that you have to go through, and they underwrite you financially to make sure that you can afford both the entrance fee and the ongoing monthly service fees. So you can imagine it wouldn't be a good business model for them if they were only accepting people who were very close to or needed nursing care right away. Right they need someone to be in those independent living facilities for a period of time, paying those monthly service fees for the finances to work. So yes, if you were already in need or close to a need, they would reject you. They wouldn't even let you into the facility.

**Alex Murguia** 21:50
And so this is why it's kind of that proxy for not proximal, but it's the option relative to just buying a long term care insurance policy, because by default, it's baked into the whole living community.

**Rob Cordeau** 22:07
Yeah, I think what's different is long term care you might do okay starting sooner, right? You might buy at a younger age and lock in a smaller annual premium on your long term care insurance, whereas I might not be inclined to live in a retirement community at, say, age 62 or 65 so able to get away with delaying kicking the can down the road a bit more with a long term care, I'm sorry, with a continuing care retirement community, because You might be able to buy in in your 70s, if you're still healthy. Here's

**Alex Murguia** 22:45
the the $100 question that you well more than that, right, that you had to consider, and that's okay. Let's say I'm 65 right? And I don't feel I'm ready to to, you know, to join one of these for whatever. And psychologically, it's, you know, it's me accepting that I'm I'm entering this, I'm unwrapping into another stage of my life. And I don't want to do that, right? But how do you balance that? Because when you need, when you when you're like, Okay, I've had enough like time now that I can warm up into it, and I don't need care now, technically, but it's not like you just walk in and say, Okay, I'll be here next month. You know, here's the check. You know, it takes a while here, and so the timing of it, you may want to explain to folks listening, how long could it take to really from the point of, hey, do I need this? I've signed up now I'm on a wait.

**Rob Cordeau** 23:38
Yeah. And a lot of these facilities have wait lists too. So that's, that's something that you would look at as, that's what I'm getting at in the decision making diligence, right? You're, let's say you look at three facilities that are geographically in the area you'd like to be and you might find one has a has a one year wait list, one has a five year wait list, and one has a seven year wait list. So that might become a factor in in your decision is getting on the wait list. And oftentimes, to get on the wait list means putting a deposit down.

**Alex Murguia** 24:10
That's what I was getting. That's my next question, what do we what are we talking about? There might be 10

**Rob Cordeau** 24:15
It might even be 10% of the entrance fee. It might be a sizable deposit, but that would vary from one facility the next, and

**Alex Murguia** 24:23
once you're in, once you put that deposit in, you're pretty much committing. You're not seeing that money again. If you don't

**Rob Cordeau** 24:28

know that, I think they have, you can get your deposit back. It's just that, I think, more or less, that usually holds your place in line, in the in the wages. So you could get it back. You're just tying up your money. I mean, again, you'd have to check with the community,

**Alex Murguia** 24:44
yeah, effectively, they'll capture the float on your money, but you'll get it back. And so I'm making this simple for folks listening in, okay, I want to go to Facility A they tell me it's going to be five years I cut a check. Five years, they give me a call and they say, We're. Ready for you, and then I can say, You know what, I've changed my mind,

**Rob Cordeau** 25:04
right? Or you could say, I'm not ready. I'd still like to be okay. I don't know how that works. I don't know. I don't know if they bump you to the end of the list at that point, they just give you first right of refusal as additional apartments come up going forward. I'm not sure how they would handle that quick. Well,

**Alex Murguia** 25:22
I know Wade was talking he wants, he wants his condo to get the southern sun.

**Bob French** 25:33
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**Wade Pfau** 25:58
Yeah, I think let's talk also. So this can be an alternative to having long term care insurance. But let's also talk about the scenario where someone does have long term care insurance and they're looking to not waste money in any regard. How could they approach that sort of the different set of options and with the contracts so that they may still be able to take advantage of the long term care insurance they have without just sacrificing all those premiums because they no longer need insurance if they choose a particular contract where they're paying upfront for long term care that they again, it becomes an alternative to The insurance, sure.

**Rob Cordeau** 26:39
So there are different flavors of CCRCs. They usually call them type A, type B. There's and there's a lot of modifications to that. A lot of different flavors involved, if you will. But typically the type that involves a larger entrance fee and a flat monthly service fee, regardless of how you transition for additional care. That type of CCRC doesn't usually work well in conjunction with a long term care policy because, in essence, you've paid your long term care piece up front. And long term care policies are usually reimbursement policies right there, so they're not indemnity policies. So usually what's happening is you have a bill, a monthly invoice from the facility, the nursing home that you stay in, and then you submit that to your long term care insurance, and they reimburse you. It's usually how it works. If you think about it, with that large entrance fee and steady fee, there's no change between your independent living monthly payment and your skilled nursing. So what's to reimburse? The insurance company is going to reject it and say you didn't have any additional costs for going to this skilled nursing facility. So

**Alex Murguia** 28:01
you're saying what happened is the entrance fee. It was baked into the entrance fee the future care. And so it's not like you're going to submit to long term care. Here's my $500,000 Long Term Care fees for the next 30 years. They're not going to divide it, you know, by 30 or anything like that.

**Rob Cordeau** 28:19
Because, yeah, there's no guarantee that you're even going

**Alex Murguia** 28:23
but they must know this. This is not a uncommon situation. So correct you're saying or cost? Sorry, go ahead. Yeah.

**Rob Cordeau** 28:31
No. What I was going to say is a lot of these facilities have a different type of contract, where you pay a slightly lower entrance fee and then your monthly service fee is one price for Independent Living, and then it bumps up to another price for assisted living, and then it bumps up to an even higher level for skilled nursing. Now all of a sudden you have something you can submit for reimbursement to the long term care insurance company to say, here's the delta between what I was paying, which means that's my cost of care because I couldn't fulfill these activities of daily living.

**Alex Murguia** 29:11
Yeah, there's a line item now that they can get reimbursed with

**Rob Cordeau** 29:13
Exactly, yeah. But again, that's an area where you just talk to the community and find out, hey, is this contract one that I could use in conjunction with my long term care policy? Okay?

**Alex Murguia** 29:26
And then, as Michael Scott would say, how the turntables you had said, Okay, you have to effectively, they do due diligence on you in terms to make sure that you can pay them when need be. What are some tips on doing the diligence on them? Because you're effectively, you know, taking a not at risk is not the right. It's always a risk, right? But you're, you're putting a lot of responsibility of your future care on them. And so how do you make sure that they're. Up for it, if you will.

**Rob Cordeau** 30:01
Yeah, so typically, we look at the financials. So some of these are run as for profit. We as in who well as your financial advisor, right?

**Alex Murguia** 30:13
Okay, that's fine. I just want people to know exactly, okay, yeah. I

**Rob Cordeau** 30:16
mean, I think the typical consumer wouldn't go this deep. In fact, usually when you speak with one of these communities, you're speaking with a salesperson, a marketing person who might have a real estate background or a sales background. Typically, we ask them questions that dig

into some of the financials, and it pretty quickly, it goes over their head. So they're good at showing you the marketing materials and explaining the features of the community and talking about the size of the apartment and the differences, but once you get into the financials and the tax pieces, that's usually over their pay grade. So sometimes we will interview the CFO. So most of these facilities will have a chief financial officer, and we'll chat with them, and they're usually really well versed in are they?

**Alex Murguia** 31:08
Is this common, though? Like someone listening in can be like, Oh, that, you know, put me straight to the CFO. This is John Smith here, you know? Yeah, I'm open. Are they to that conversation?

**Rob Cordeau** 31:19
That's a good question. I've never done it as a consumer, so I don't know, but as a financial, yeah, they've been, they've been very helpful and and they're usually very transparent too about the finances, so they usually have, you know, an annual report with all the finances. So we can look much in the same way that if you were buying a condo, you might want to look at the HOA of finances to find out, do they have enough in reserves? Are there significant expenses looming in the future? So that's part of it. We also try to find out how many what percentage of their units are in use. So what kind of vacancy rates do they have? We look at things like, how do they handle if someone doesn't have sufficient funds to pay? Oftentimes, these contracts have something some of the some of the communities call it a Benevolent Fund, where if you can't pay, they will pay for you, but you can imagine that's that's a very kind and nice thing to do, and not kick someone out on the street, but from a financial perspective, that could be very expensive. Which gets back to why they have to do financial underwriting on every new resident to make sure that that person not only has the money now, but they're going to have the money in 10 or 20 years to keep paying the fees. So those are some of the more into the weeds. Kind of research that we do when we're digging.

**Alex Murguia** 32:51
Is there a shortcut? And I'm going to use annuities as an example, or bonds as an example, where there's a rating system, yeah, hey, this contract is x, you know, triple A or whatnot. Is there a quick and dirty that someone can do? Because I can't imagine consumers are able to. Obviously, there's results vary and people can, but for the most part, the most common denominator, person is not going to have the wherewithal to all of a sudden, look at the footnotes on the balance sheet and put that back into the cash flow statement, et cetera, et cetera.

**Rob Cordeau** 33:26
Yeah, I think, right. I don't know of a shortcut. Great question. It'd be nice if there was, I'm not aware of one. There might be certain organizations out there that do a good job of educating consumers. I've come across a couple, but in terms of sort of rating them, there's so many different variations, even at the same community, yeah, some sometimes the same community will offer three different types of of reimbursements on the entrance fee, and They will offer, sometimes at different campuses, a type A at one campus, type B at the other campus. So right there, there's three times two, there's six variations there, plus they might offer a dozen different apartments to choose from. So you start to do the math, you're talking six and 448, and 96 and all of a sudden, the the number of choices starts to increase pretty quickly. So I'm not aware of

a quick and easy way to do Sure, but to that point, I you know, this is usually a sizable entrance fee. It's a six figure entrance fee. It's boiled into one. It's a real estate transaction, it's an insurance transaction, it's it's a decision about future finances and increasing monthly expenses. If ever you needed a financial advisor involved in a decision, it would be this one

**Alex Murguia** 34:55
that's yeah, and we're not doing that because we want a call now. No, no, no. Just one of those things, you know, because even if you do catch up on everything, you're still a sample of one where an advisor that focuses on retirement income, I have to imagine, sees this fairly. I mean, you yourself said you've moved 12 people into these things, or you've helped make that decision. How important is it to not just visit it and pop your head in and out, but, you know, really get into it and tour it and, you know, and really immerse yourself in what's going on. Because other than the numbers, I mean, you want to make sure you kind of fit in psychologically agreed. And what do you recommend?

**Rob Cordeau** 35:38
Yeah, I think that's critical. So what we recommend is, as clients, first start to think about it. We'll be talking with clients. Let's say they're in their early 70s, and we're talking about their future plans, and they say something like, well, we're not going to be in this house forever. I mean, it's two floors, it's three floors. It's, you know, or our kids are over there. We're going to want something that's easy to take care of at some point, and if the client doesn't broach the topic, we will have you considered a CCRC. Have you ever looked at them? Do you have any friends that are that are living in a CCRC? And we get the wheels turning to see if they've ever considered and then, when they're in their 70s and they're healthy, they can go tour and figure out one that works, because they are they're all different. Some of them are waterfront, big, beautiful places. Some are more modest. Some are in certain geographic areas. So a lot of considerations from the from the geographic and real estate perspective, and then in the features that they offer, and the size of the facility, the wait list, all those things, have

**Alex Murguia** 36:49
you seen these are more generalized CCRS. Have you seen a lot of success with more niche down CCR? Like talking like, let's say a Jewish one, a Christian based one, you know, something that grouping people of similar mindsets together. Have you seen those?

**Rob Cordeau** 37:07
I have, yeah, and we haven't had, well, we had one client go into one that was more like a faith based but there are. So that's a great point to, you know, to make to someone is, if that's important to be with like minded individuals in that way, then by all means, start there with your due diligence process for sure.

**Wade Pfau** 37:31
Could you talk a little bit more about the financial planning aspects of just looking at a CCRC within the financial plan and analyzing the affordability financing, for the of the entrance fees and so forth. How do you approach that, that part of the financial planning process? Sure,

**Rob Cordeau** 37:51
so a typical approach would be my hypothetical that I mentioned somewhere in the early 70s. They're thinking eventually they're going to have to make some changes. We might begin to

model in our financial plan. You know, let's model something five years out. So say there's 72 let's model something at 77 where you're entering a CCRC and there's an entrance fee. And how are we going to fund that? Are we going to fund it with selling the primary residence? Maybe that's the way we fund it. And so that's how we'll do it. Then we'll model in what those monthly service fees are, because those can be sizable. They might be 568, grand a month. It's, you know, they there might be a sizable and then, of course, we'll model in bumping up that service fee as they need assisted living care, as they transition through that continuum of care, we need to model in those increases to the monthly

**Alex Murguia** 38:46
you've said in continuing this, just because when you said this, I think people are going to be like, wait, wait, what five, 8000 a month. You said the interest rate is going to be six figures. You know, just expect that. Don't have sticker shock. What would be a good sticker shock warning for a monthly range.

**Rob Cordeau** 39:03
Again, it all depends on that. Gonna

**Alex Murguia** 39:05
be $500 though a month, you know? And like, yeah, it's

**Rob Cordeau** 39:08
exactly right. It's not gonna look like rent, right? If rent your area is $2,000 for one bedroom, one bath, exactly like that, it's going to be considerably more. Yeah, it's probably going to be more than double now, right? Because you're not just paying for rent, you're you're paying it's a monthly service fee. You're paying for whatever services are provided there. So

**Alex Murguia** 39:35
if you're thinking, Yeah, but I put in this down payment, no the doubt it was in the down payment, it's a right to be in almost like season tickets to a football you know, you buy the license for the season tickets, but that's it,

**Rob Cordeau** 39:46
yes. And another consideration is the entrance service. The entrance fee is fixed. You pay that one time, and it's done. The monthly service fees go on and they they increase every year. There's a, there's an inflation component. On it to those monthly service fees. So we factor that in when we're plugging in our our projection for a client that and that's a that's a great question to ask the facility, the community that you're talking to, can you tell me what your historical inflation rates have been on the on the service fees for the past 10 years, or however long they've been in existence, and you might find that it's been, you know, three and a half percent, 4% it's, it's not uncommon for it to be a little bit higher than historical inflation,

**Wade Pfau** 40:34
okay, and on the financing side, too, one other consideration is that entrance fee. Is there any tax deductible component? If is it treated, at least a portion of it treated like long term care, so potentially a deductible medical expense

**Rob Cordeau** 40:52

around planning that for that? Yeah, it can be. It depends on the contract. So getting back to my example of of one that's non refundable, an entrance fee that's non refundable, versus an entrance fee that's 90% refundable. Big difference there, right the non refundable I'm paying, and a big portion of what I paid was was basically a medical expense. It was long term care. I was pre paying for long term care. And there have been some private letter rulings, and then the IRS essentially notices that a portion of that should be tax deductible. So most facilities, most communities that we've spoken to, they bring in a third party, CPA firm that performs an audit and that calculates for the residents. For the residents under this contract, here's the portion of the entrance fee that's deductible,

**Alex Murguia** 41:48
like an amortized yearly deductibility number they'll throw at you. Yeah, it ends up being all at once, or in year one, you deduct all of it every year. They

**Rob Cordeau** 41:57
bring in the CPA firm, they do an audit, and they come out with two calculations. One is, what's the medical deduction for the entrance fee? And what's the medical deduction for a monthly service fee, if applicable? So going back to my 90% refundable if I pay in an entrance fee, and 90% of it is coming back to my hairs. Well, I can't get a deduction on that 90% piece. They're not really spending. It's not going to care. It's going to my kids. So in that case, it would only be the 10% portion that's non deductible that I could get done. So this gets into you mentioned. How do we plan for this. If there is a client, for example, that has a sizable tax deferred account, like an IRA account, and they're looking to do a non deductible entrance fee, non refundable, I should say entrance fee. In a case like that, we've seen tax deductions that are in excess of six figure. So you have $100,000 tax deduction that shows up on your tax return in the year you pay the entrance fee. So we've done for a number of clients, we've done very large Roth conversions in that year because they've got $100,000 deduction. Great way to handle that is, let's convert a bunch of the IRA to Roth in that year and let that offset. So choosing the contract is tied into the tax piece, which might also be tied into, do they want to leave a legacy for the kids. So it's a kind of an intertwined problem that, once again, I think, really requires the expertise of somebody who has done that before.

**Alex Murguia** 43:42
No, and I know the phrase gets thrown around, but this really is a holistic decision. From that vantage point, here's something we haven't discussed, and we we don't need to get off the financial planning portion of it, but I just don't want to forget what happens if, let's say, Wade and I go to the CCR and five years later, he started of listening to my music through the walls, because I'm up at all hours at night, playing ping pong against the wall, and he can't take it anymore. And there's no other place that he can move to in the in the area, and he just wants to get out, you know what? What happens?

**Rob Cordeau** 44:18
So you can always move out, right? But, but what happened? What you chose for an entrance fee will dictate whether or not any money comes from it, right? So, if you chose the non refundable entrance fee, and my hypothetical $500,000 entrance fee, you can choose to move out, but you just, you just set $500,000 on fire when you Wade's got

**Alex Murguia** 44:43

to really hate me, right? Wait, I'm up to 250 he'll do the 250 non refundable. I'm not quite a 500 yet,

**Rob Cordeau** 44:52
I will say this, I we have assisted one client who moved from one unit to another unit. Wanted to upgrade. So the the CCRC charged them the delta between, well, I charge on this one plus minus what they already paid. So they let them move, but they had to wait until the desirable unit came free. So it's possible to make changes once you're in there, but you'd have to work that out with the with the community.

**Wade Pfau** 45:25
That's great. Think we learned a lot about CCRCs today. And so thank you so much for joining us on the show, Rob Yeah, and giving us insight into that practical the practical side, yeah,

**Rob Cordeau** 45:40
yeah. No, no, thank you. You know, it's one of those areas where it's a neat it's a neat business model, and we were intrigued when we first saw it. Yeah, it isn't it. You know, that people came up with this idea, and it makes sense, right? Capitalism would would dictate that somebody would come up with a way to make money and also benefit the retirees who need that sort of care. And it it doesn't work for everyone, but for those that it works for it's kind of a neat, a neat and since

**Alex Murguia** 46:10
you said it doesn't work for everyone, and we can leave with this, and it's not, we did a great job on the calisthenics of getting into one of these. And what happens? How many of the folks have enjoyed the decision that we've you know, you've done a dozen of these right? Roughly speaking, how many of these have been like, you know what? I'm glad I did this, versus Fine, take it or leave it. And how many of them were like, I've made a terrible mistake? Yeah, 100%

**Rob Cordeau** 46:39
have enjoyed it. Have so but I don't think that's necessarily because they're amazing. I think it's because if somebody's if somebody's getting to that point where they're willing to shell out five or 600 grand or whatever the entrance fee is, and they, and they've taken all the steps that we have, they've made their mind up, and they already have friends there, and they've visited there. They've toured there. So it's, I think, the biggest a lot of buyers remorse, yeah, the biggest hurdle is, if somebody doesn't want to live in that sort of environment, in a retirement community, doesn't the numbers aren't even going to matter. They're just and they're not going to be happy. Yeah, right. If they want their own individual house with their own piece of land and everything that comes with that, and they want their privacy, and they don't, they don't want a condo type living or apartment type living, then it's just not going to work for them. So I think they sort of self filter the people that it wouldn't work for filter. Consider one

**Alex Murguia** 47:48
nice That's great.

**Wade Pfau** 47:51
Yeah, thank you, Rob. Thank you Alex, and thanks everyone for joining us today on retire with style, and we'll catch you next week with more on long term care. All right, everyone. Thank

**Alex Murguia** 48:01
you. Thanks. Rob. Really appreciate it,

**Rob Cordeau** 48:03
man. Thank you. It's great to be here. All right.

**Bob French** 48:07
Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you consult your financial advisor. All investing comes with risk, including Risk of Loss past performance does not guarantee future results. You