Pros and Cons of CCRC[1] Entry Fee Guaranty

Elsewhere, we've outlined the specifics of NaCCRA's Entry Fee proposal (click here to access that prior description). We've also corresponded with LeadingAge et al. to answer questions and to explicate the proposal (click here to access that material, which is attached to the minutes of the NaCCRA Task Force Delegation). I've been told that there is a need for a simpler, easier to grasp, outline of the proposal.

The purpose is simple. Provide a guaranty for entry fee investments comparable to the protections for bank deposits and insurance policies.

The implementation is equally simple, based in what follows on the more attractive and more relevant insurance precedent, which operates at the state level through uniform legislation enacted in all states, five territories, and the District of Columbia.

1. The industry bails out failing entry fee CCRCs.
2. The funds assessed for the bail out are limited to no more than 2% of revenues.
3. The assessed funds are recovered from the state through tax and provider fee offsets rendering the industry whole.
4. Early industry intervention in troubled enterprises reduces failures and minimizes losses and adverse publicity.
5. As a result of the guaranty, the industry tightens its financial standards, leading to greater public trust in its product offerings.

The Federal government initiated bank deposit guaranties in 1933, and it has had a checkered record, though it's back by the full faith and credit of the Federal government, and so it's popular with consumers. The FDIC charges banks deposit-based "insurance premiums", which

[1] We use here the more traditional, more familiar CCRC for the continuing care retirement community form of retirement security. CCRC remains prevalent and is widely understood among consumers; on LinkedIn the CCRC group has 9,556 members while the Life Plan group has 22. CCRC continues to be more descriptive: there is no "plan" in Life Plan Communities; the name change misleadingly implies a product change; and the name is confusingly similar to LifeCare Community, which generally, though not always, connotes a full care inclusive program. The industry doesn't need a name change; it needs to establish a reputation with consumers for trust, integrity, and customer value.

are accumulated in a fund to be used by Federal employees to offset deposit losses due to bank failures. If the fund proves insufficient the banks are assessed, as happened recently, so that ultimately the banks pay the full cost of the program but have little say in how it is run. The FDIC has a five-member board, appointed by the President, with three members from one party and two from the other party. In short, it's political.

Insurance guaranties have a different structure which is much more favorable to industry interests. The following is a first-cut comparison of the two approaches.

Federal System (FDIC as prototype; others: former FSLIC (Resolution Trust Corp); SIPC	**State System (NOLHGA as prototype)**
Political and government employee decision making, analysis, and implementation	Industry direction
5-member Board appointed by the President; 2 from one political party; 3 from the other	Board of 5 to 9 industry-selected members, confirmed by the state regulator, plus two public representatives selected by the regulator.
Federal Government Corporation (FDIC)	All Providers are members in the nonprofit Guaranty Corporation
Covered enterprises are required to pay established premiums, determined by Government staff, to build up a contingent fund against the possibility that the funds may be needed. This is called the pre-assessment model.	Covered enterprises pay only the minimal expenses to maintain the Guaranty Corporation in a state of readiness, until and unless there is a call for additional funds. This is called the post-assessment model.
Government employees analyze situation, craft and implement the resolution	Industry experts structure the solution to minimize financial loss
Assessed premiums are a permanently lost cost of doing business.	Assessments can be offset against future premium taxes on the grounds that the covered financial insufficiency represents a failure of regulatory oversight for which the government should be accountable.
Solutions follow government processes with open auctions etc. which may overlook other opportunities	All of the options and freedoms available to private institutions are available for the crafting of solutions.

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