Opening Statement of Senator Herb Kohl
Special Committee on Aging Hearing
Continuing Care Retirement Communities (CCRCs):
Secure Retirement or Risky Investment?
July 21, 2010

Good afternoon. Thank you all for being here. This afternoon we are going to take a look at continuing care retirement communities, or CCRCs. CCRCs offer three types of senior housing in one location, so that older residents can move from one to the other as their need for care increases throughout retirement.

These communities allow seniors to stay among friends and near their spouse during the aging process, and for that reason they have grown in popularity over recent decades. The number of older adults living in CCRCs has more than doubled between 1997 to 2007, now totaling 745,000 seniors in over 1,800 CCRCs. With the boomer generation retiring, we can only expect this number to grow.

Over the past year, our Committee has taken a look at the financial stability of the typical CCRC business model. In most cases, new residents must pay a large deposit in order to join a community. These deposits often represent their life savings or their children's inheritance. In return, residents can generally expect to move within the community as their long-term care needs grow, and, in some cases, to receive their deposit back if they decide to move away.

Through our investigation, we found that CCRCs are particularly vulnerable during economic downturns. Slow real estate markets can drive down occupancy levels in independent living units, which are the main source of profit for these retirement communities. Occupancy levels for five prominent CCRC companies we questioned have indeed dropped in the past three years, leading to financial difficulties for some. The result is often an increase in the monthly fees, a reduction in the services and amenities provided, or both. Disturbingly, we've seen instances where seniors had to file law suits to keep their CCRCs' services from being cutback or reduced. Residents may feel forced to put up with these situations because most of their assets are tied up with the CCRC.

This is especially true in a stagnant economy, when financial distress can cause long delays in receiving refundable entrance fees, or, as one of our witnesses experienced, the loss of one's refundable deposit altogether. One CCRC company refunded several sizable deposits only after getting a letter of inquiry from this Committee.

While this represents an extreme scenario, the fact is that many CCRCs who advertise their entrance fees as "100 percent refundable" will only repay them if and when they can line up a new tenant. And in some states, such as California, CCRCs are granted up to 10 years to repay full or partial refunds. Such a delay can be devastating to an older couple who has their life savings tied up in a CCRC deposit.

To supplement our own investigation, we asked GAO to survey CCRC regulatory oversight nationwide. As you will hear, they found considerable variation in state regulations, with 12 states having no CCRC-specific regulations at all. Consumer safeguards and protections regarding disclosure, asset reserves, and escrow requirements vary widely, and only 17 states require CCRCs to submit studies that assess their long-term viability. In terms of the industry's internal policing, GAO found that only 16 percent of CCRCs are voluntarily accredited by the Continuing Care Accreditation Commission. That is an astoundingly low number.

The fact is that while CCRCs are a good residential option for many retirees, entering into an agreement with one can pose financial risk. Our investigation has found many CCRC ownership structures to be very complex, and that financial troubles at any level can have real consequences for individual residents. Evaluating such a transaction can be quite challenging for the average consumer without professional assistance.

Today the Committee is releasing a summary of findings from our investigation, which outlines the financial health of the five companies we questioned, as well as their disclosure policies regarding entrance fees and transitions of care. We also included several helpful resources for consumers and CCRC providers. Finally, we are calling on state regulators to beef up their oversight. Every state should be requiring proof of their long-term viability from CCRCs and ensuring transparency and strong consumer protections for residents. As part of our report, the Committee has developed our own checklist for state regulators who wish to expand or improve their oversight of CCRCs, and we urge them to put it to use.

Moving forward, we hope to increase both consumer protections and consumer awareness with regard to CCRCs. If these companies are going to take the life savings of seniors, they need to be able to guarantee they will be around to provide the lifetime of care they promise. I would like to thank our witnesses today for speaking with us on this important issue.