

SPECIAL ISSUE

brief



Staying At-Home With Care Exceeds Cost of A Senior Housing Community

By Jerry L. Doctrow

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I. INTRODUCTION

One of the obvious challenges in marketing senior living communities is the so-called “sticker-shock” that prospective residents experience, particularly those who have lived in a house for many years and no longer have a mortgage. Frequently, prospective customers have not considered the true costs associated with their current house (property taxes, insurance, home maintenance, etc.), nor have they adequately assessed other living costs.

This *Special Issue Brief* was prepared by Jerry L. Doctrow, a longtime industry analyst who retired a couple of years ago and created a fantastic blog called Robust Retirement®. What follows in this Brief clearly demonstrates the importance of sales and marketing professionals pointing out the true economics facing prospective customers. As you will see on the pages that follow, for many seniors the costs associated with senior living are, in fact, equal or less than what prospects are paying in their current housing situation.

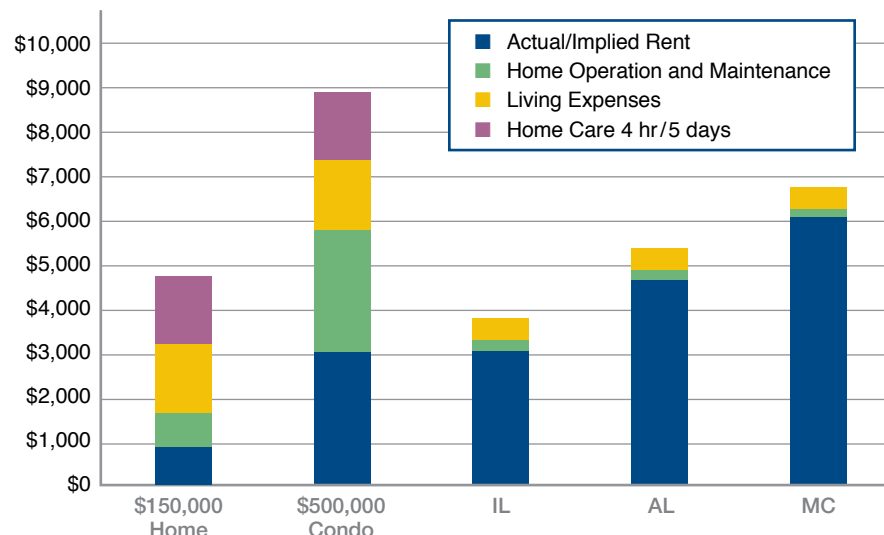
II. EXECUTIVE SUMMARY

Most seniors and their families see the monthly cost of a senior housing community as much higher than the monthly cost of living at home with family care, or even with part-time or full-time home healthcare. But the math that most seniors and families use to make this comparison assumes no implied cost for occupying a home without a mortgage, much less paid care than is provided in a seniors housing community and places no value on the companionship and social interaction that a seniors housing community can provide.

This analysis, using data from a variety of sources, attempts to make a fair apples-to-apples comparison, before and after taxes, of the cost for a senior living at-home without care, living at-home with a modest amount of paid care and living in an independent living, assisted living or memory care facility.

The chart below shows the comparison on a pre-tax basis of living at home with a modest level of care to the cost of various types of seniors housing communities. **Bottom Line – The cost of living in a \$150,000 home with even a modest level of home healthcare can easily exceed the cost of an independent living community and approaches the cost of assisted living.** In addition, a senior living at home with part-time care does not get the companionship and social interaction that a seniors housing community can provide and which many studies show are beneficial for a senior’s mental acuity and well being.

Cost of Living at Home vs. Seniors Housing



III. THE COST OF A SENIOR HOUSING COMMUNITY

The cost of various seniors housing settings is easy for seniors and their families to see because most communities charge a monthly fee for housing and care. The average monthly cost for this care according to a recent survey by the National Investment Center for the Senior Housing and Care Industry (NIC) is as follows:

- Independent Living — \$3,076 per month
- Assisted Living — \$4,722 per month
- Memory Care — \$6,082 per month

To these costs, we need to add some additional expenses for a senior living in a seniors housing community for social and entertainment activities, transportation and non-housing living expenses. I have estimated these at half the estimated cost of someone living at home based on data from the “A Place for Mom.com” website, at a total of \$475 per month. I assume half the cost of a senior living at home for someone living in seniors housing because many of these services are provided in a typical seniors housing community and are included in the monthly rate. I add another \$183 per month for a senior living in a seniors housing community for utilities, cable television, wifi and phone and renters insurance. Adding a combined \$658 per month for things like phone, cable TV, some outside meals, transportation and other living expenses to the monthly fee for seniors housing communities brings the total monthly cost for living in senior housing rounded to the nearest \$100 to:

- Independent Living – \$3,700 per month
- Assisted Living – \$5,400 per month
- Memory Care – \$6,700 per month

IV. AT HOME LIVING AND HOME OPERATING COSTS

When the total monthly cost for senior housing and care settings are compared to the out-of-pocket costs for a senior living in a \$150,000 home without a mortgage they certainly appear formidable. A Place for Mom estimates the monthly out-of-pocket cost for an average senior living at home (in a home we assume is worth about \$150,000) without a mortgage to be approximately \$2,400, broken down as follows.

• Maintenance costs	\$272
• Utilities including phone and cable	\$265
• Property Taxes	\$149
• Property Insurance	\$78
• Three meals per day	\$494
• Housekeeping services	\$118
• Emergency alarm system	\$50
• Transportation	\$715
• Social and entertainment	\$235

It is this \$2,400 figure (or something lower because the senior in question has curtailed her social, entertainment and transportation expenses) **that most seniors and their families compare to the \$3,700 to \$6,700 monthly cost of seniors housing. Therefore, seniors and their families generally see community-based care as 50% to 275% more expensive than having a senior live at their house.**

But the above comparison ignores the value of the house in which a senior is living and ignores the cost of caregiving and the socialization benefits that a senior would receive if she were living in a seniors housing community. Let's deal with each of these separately.

V. ESTIMATED HOUSING COSTS FOR \$150,000 HOME

To account for the value of the home itself, I estimate implied rent (essentially an estimate of the amount you could earn from renting the house) using a 7% cap rate on the assumed \$150,000 value of the home, at \$875 per month ($\$150,000 \times .07 / 12$), which seems very modest for many U.S. housing markets.

When you combine the above monthly costs for home maintenance, taxes and operation and living expenses of \$2,400 per month with the implied rent, we get an estimated monthly housing and living cost for a senior living in a \$150,000 home of \$3,275 (approximately \$2,400 for living and home operational expenses, plus \$875 in implied rent).

From the above analysis you can see **that the cost of living expenses, home maintenance and operation and implied rent/housing costs for a senior living in one's own \$150,000 house, calculated in what I believe is a conservative fashion, is nearly 90% of the average cost of a senior living in an independent living community.** And in the independent living community the senior is getting much more interaction with other people, much more socialization and mental stimulation than most seniors get when living in their house alone.

VI. ESTIMATED HOUSING COSTS FOR \$500,000 CONDOMINIUM

Doing the same math for a senior living in a \$500,000 condominium yields estimated monthly living and home operating expenses of \$4,449 broken down as follows:

• Condo Fees	\$2,000
• Maintenance costs	—
• Utilities including phone and cable	\$165
• Property Taxes	\$542
• Property Insurance	\$130
• Three meals per day	\$494
• Housekeeping services	\$118
• Emergency alarm system	\$50
• Transportation	\$715
• Social and entertainment	\$235

The implied rent calculation for a \$500,000 condo is \$2,917 per month ($\$500,000 \times 7\% / 12$). Combining monthly living and home operating expenses with the implied rent for a \$500,000 condo indicates a total monthly cost of living at home, including implied rent, without care, at approximately \$7,400.

When the above figure is compared to the cost of seniors housing, you can see that the **estimated monthly cost of a senior living in a \$500,000 condo is almost twice the cost of independent living and 36% higher than the cost of assisted living.** You can argue that comparing the cost of a \$500,000 condo with the average cost of seniors housing is an unfair comparison because these communities would cost more in an expensive real estate market. But I believe the calculation on a \$500,000 condo is fair for the Baltimore market, where I live, and I believe it is fair to say that **when a true apples-to-apples comparison of housing, home operation and living costs for senior is made to the cost of living in a seniors housing community, the difference is smaller than most seniors and families realize before even taking into account the cost of care.**

VII. HOME CARE COSTS

From the above analysis, we see that the cost of a senior remaining at home is less than the cost of any type of seniors housing community, even independent living, for a senior in a modest \$150,000 home. However, as soon as any degree of paid home healthcare is provided the cost advantages of living at home disappear.

According to A Place For Mom and other surveys conducted by insurance companies offering long term care insurance, the cost of in-home care ranges from \$14 – \$24 per hour. Certainly at the lower end of this range we are talking about a companion or an aid, not a trained nurse. If you assume only four hours of care per day and only five days per week with family providing care on weekend, the monthly cost of this much home healthcare would range from \$1,120 ($\$14 \times 4 \text{ hours} \times 5 \text{ days} \times 4 \text{ weeks}$) to \$1,920 per month ($\$24 \times 4 \text{ hours} \times 5 \text{ days} \times 4 \text{ weeks}$). If we use the average of these two figures, the monthly cost for four hours of home healthcare five days a week is \$1,520.

When you add the cost of four hours of home care during the week to the cost of housing noted previously, the monthly cost of housing plus a modest level of home health would be approximately:

- \$150,000 Home \$4,800
- \$500,000 Condo \$8,900

No cost is assumed for family care on weekends.

As the chart on page two indicates, as soon as a modest level of home care, in this case four hours per day five days a week, is added to the cost of a home, home operation and living expenses, the cost of living at home with home care, even for a modestly priced home, easily exceeds the cost of independent living and is nearly 90% of the cost of an assisted living residence.

VIII. TAX CONSIDERATIONS

In general terms, eligible medical expenses exceeding 7.5% of a senior's income are tax deductible. This includes long term care services if the senior is chronically ill and is being cared for pursuant to a plan of care prescribed by a licensed health care practitioner.

If a family member younger than age 65 is paying for care, healthcare costs exceeding 10% of the income of the family member paying for care are deductible. This can apply to home care prescribed by a licensed health care practitioner but not a senior's housing costs while living at home.

The cost of healthcare provided in assisted living or a memory care facility that exceeds 7.5% of income may be deductible if required by a senior's medical condition. Under some circumstances it may also be permissible to deduct the full cost of senior living community care, including the housing components, if living in such a community is considered essential for medical reasons. See IRS **Publication 502** <https://www.irs.gov/publications/p502/ar02.html> for more information and consult with an accounting professional for more complete information.

Note: Unless Congress acts in 2017 to extend the current tax treatment for those 65 and older, the income threshold will increase from 7.5% adjusted gross income to 10% adjusted gross income.



VIV. AVAILABILITY OF GOVERNMENT ASSISTANCE

While many people believe it does, Medicare does not pay for long-term custodial care at home or in a seniors housing community. It may pay for short-term home health, therapy or nursing care at-home or in a facility if is prescribed by a physician in response to a particular medical need.

Medicaid will pay for long-term custodial care in skilled nursing facility but only after all other resources are exhausted. Some states have waiver programs that allow Medicaid to be used for assisted living and memory care or at-home community-based care, but as is the case with nursing home care, Medicaid will pay only after all other resources are exhausted. In addition, the pending Republican repeal and replace of the Affordable Care Act may include significant cuts to Medicaid that could potentially reduce the availability of Medicaid funds for long term care for seniors.

Veteran's benefits include increased Veteran's Aids and Attendance Pensions payment for care in a seniors housing or long term care facility under certain circumstances and seniors who qualify for Veteran's benefits should investigate this option.

ABOUT THE AUTHOR

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Jerry Doctrow provides consulting services on seniors housing and care finance and strategy through Robust Retirement®, LLC; writes the Robust Retirement® blog and is a member of the Board of Directors of Quality Care Properties (QCP), a public traded health care real estate investment trust.

Mr. Doctrow has over 40 years experience in equity research, consulting, public policy, finance and market analysis, much of it focused on senior housing and care. He retired from Stifel Nicolaus & Company, Incorporated in 2015 after working for three years in investment banking group as a senior advisor on both healthcare services and healthcare real estate.

Before shifting to investment banking, Mr. Doctrow led Stifel's healthcare real estate and healthcare services equity research teams and followed healthcare REITs, senior housing and post-acute care operators. He was recognized seven times by *The Wall Street Journal* and three times by *Financial Times* or *Forbes/Starmine* as one of the best health care or real estate analysts in the U.S. including his selection as the best REIT analyst in the U.S. by *The Wall Street Journal* for 2010. Mr. Doctrow joined Stifel when it acquired the capital markets division of Legg Mason Wood Walker, Inc., where he spent 18 years. At Legg Mason, he led the health care services equity research team and served as president of the firm's real estate consulting group. Prior to joining Legg Mason he worked as a consultant and in the public sector in housing and community development.

Mr. Doctrow is a frequent speaker at industry conferences and has been an important contributor to advancing research on the senior housing and care industry, working extensively on the *2013 Investment Case for Skilled Nursing* and the *2014 Investment Guide to Seniors Housing and Care*, both publications of the National Investment Center for the Seniors Housing & Care Industry. In 2005, he inaugurated Stifel Nicolaus' annual conference on senior housing and health care real estate that features CEOs from skilled nursing and senior housing providers and health care REITs.

Mr. Doctrow has a Masters in Public Administration, from George Washington University and a B.A. in Social and Behavioral Science, from Johns Hopkins University.



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