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*Serving Senior Living Clients For Over 37 Years
There Is No Substitute For Experience*

“You’ve Got Questions . . . We’ve Got Answers”

August, 2009

FINANCIAL PLANNING FOR SENIORS

A Necessary Financial and Estate Planning Tool for Seniors

In my July WALA Newsletter, I address what I call “*straight talk about Senior consumer finances.*” I discussed the current financial dilemma Seniors currently face and issues that have to be addressed with proactive strategies. One of those strategies was the need to get more involved in financial planning for Seniors.

Senior living marketing is a tricky business. There’s potential failure behind every corner. One common deal killer is how our customers view the cost of senior living alternatives. Talking about financial planning would help, but many owner/operators and their sales and marketing teams either fail to recognize or are reluctant to openly discuss such important issues during critical sales encounters with prospective residents.

The Flawed Financial Mindset of Seniors

I’ve heard a lot of opinions in the more than 900 focus groups I’ve conducted. The one thing I always find is that seniors commonly have a flawed financial mindset. For example, many seniors and their families have not considered how they can put the pent-up equity value of their currently owned home to work for them in the later phases of life. Seniors certainly recognize the value of this benign asset, but fail to consider how it can significantly augment the affordability of future senior living options. Sales and marketing teams should show seniors the advantages of liquidating their home equity and prudently putting the new cash to work today. In addition, sales and marketing staff must show how seniors will still be able to leave a nest egg – a financial legacy – to their loved ones.

As I said earlier, another serious mindset flaw is how seniors view their true current cost of living. In most of my focus groups, I conduct a cost of living awareness test. Seniors consistently cannot accurately estimate their *current* monthly cost of living. They frequently forget non-recurring expenses such as real estate taxes, homeowner’s insurance and home repairs. This serious misconception frequently leads to sticker shock when discussing the cost of senior living.

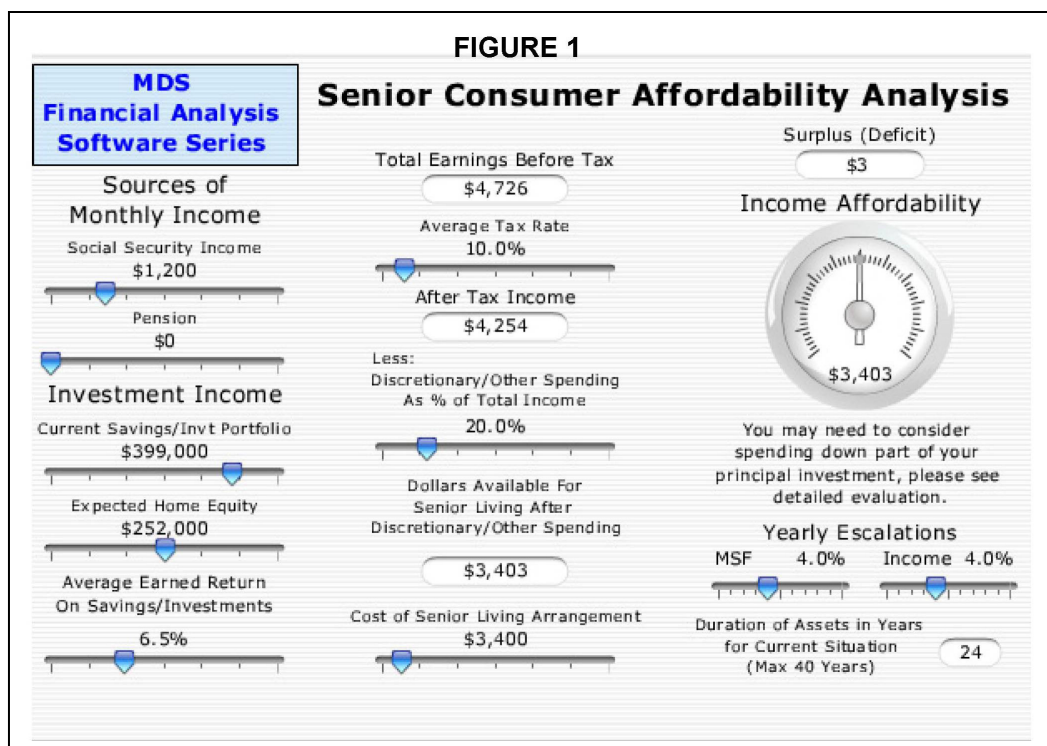
Deal Killing Sales Objections

Misperceptions can stifle sales. We tend to celebrate the three percent of the market that we capture for a typical community but fail to determine why about 97 percent of our prospects get away.

Sales objections should not surprise us. We generally recognize that seniors will never forget how they were impacted by the Great Depression. But now a new breed of seniors (our prospects) has experienced a more recent financial trauma. Over the last eight years, cash returns on savings have plummeted more than 50 percent. There was a modest recovery in 2005 and 2006 with interest rates on short-term savings (CDs, two or three year T-bills, etc.) yielding about 3 to 4 percent. Surprisingly, many seniors are involved in the equities market; primarily mutual funds. During this same period, they saw their investment portfolio plummet by over 20 percent.

In late 2008 through January, 2009, the stock market experienced the sharpest decrease since the Great Depression. Since January, 2009 through July, 2009, the market has experienced a modest recovery. Still, many seniors are calling this first part of the new millennium as a “lost decade.”

There is a practical solution to put this serious financial dilemma into proper perspective. Address and customize an individual senior’s unique financial situation to show that senior living is, in fact, affordable. Interested? If so, I’ve included Figure 1 as one approach to a comprehensive automated senior living financial planning analysis. The actual analysis – the template in Figure 1 – contains approximately 15 supporting Excel spreadsheets. Refer to this web site for more details: www.m-d-s.com (follow the link on the home page that refers to “Financial Sensitivity Templates”). You can use the financial planning scenario I describe on the following pages.



The Financial Planning Scenario

The setting should be a private sales and marketing office or conference room. The sales professional takes an age- and income-qualified senior, their family members and possibly a trust officer/financial planner through a simple, but effective, financial sensitivity template similar to the one illustrated in Figure 1. Use a computer screen large enough for all the participants to view. Customized inputs to this template include:¹

1. **Tabulate the senior's available financial resources.** This includes Social Security, monthly income derived from their current investment portfolio, and any other sources of income along with an estimate of the senior's average (not marginal) tax rate. One of the outputs of this spreadsheet should accurately reflect total after-tax income. A discretionary spending income reserve – usually about 35 percent of after-tax income for independent living and approximately 20 percent for assisted living – should then be subtracted. The end result is the total after-tax monthly income that would be available for the monthly service fee.
2. **Estimate the cost of your senior living community.** This input should reflect the base monthly service fee for each living arrangement upon entry, any tiered pricing in assisted living that might be necessary based on the resident's changing medical condition and any other extra costs. One of the template outputs should show the senior's total estimated monthly cost for living in your community. You should also provide the ability to insert your average annual expected future increases in monthly service fees.
3. **Summarize overall affordability (gap or surplus).** The template in Figure 1 compares a senior's total after-tax income with the community's monthly service fee and shows either a surplus or deficit. Note that the template introduces the equity value of the senior's current home based on an assumed re-sale. This estimated home value should be reduced by approximately 10 percent to account for the net available home equity cash after re-sale. This new cash resource is presumed to be added to the senior's existing savings portfolio.
4. **Analyze the consumer's affordability.** The template should provide the following information:
 - The annual interest earned on the newly liquidated home equity (invested in a safe fixed income account).
 - Social Security income, investment portfolio income and other income.

These factors then lead to total income and estimated income taxes. One end result would be the net after-tax cash available for the senior living monthly service fee. This cash resource would be compared to the actual required monthly service fee, showing either a surplus or annual spend down/shortfall.

The ultimate expected outcome would be to show the senior and family members the relative affordability of your senior living community – both now and in future years.

¹Figure 1 depicts a typical financial planning template used to create a senior's comprehensive customized financial plan. For more detailed financial planning software information contact Jim Moore at jimmoore@m-d-s.com.

If the template reflects a surplus, the senior can clearly afford to live at your community and his or her financial resources could possibly *increase*. Conversely, the analysis might show the need for modest spend-down of their savings portfolio. The analysis also might show the spend-down to be at a relatively slow pace, lasting longer than the senior's expected life or residency at your community. By comparing these customized financial results with the resident's chronological age and life expectancy, family members can determine whether the estate preservation dollars are acceptable to them, thereby encouraging their loved one to accept the senior living option. Figure 2 outlines an approach for this financial planning discussion.

Making the Government Your Financial Partner

There is one further financial enhancement that is frequently overlooked. That is the assisted living and nursing medical tax deduction. Certain restrictions apply but, in many cases, the *full* monthly service fee for assisted living and nursing not covered by Medicare, retirement health care benefits or private insurance can be a tax deductible medical expense for the senior and, in some cases, the family.¹

Any financial analysis you conduct for Senior consumers should always include words of caution such as ***“The information and observations contained in this analysis may be subject to varied interpretations by professionals. Each consumer and their families should seek independent advice and counsel. Always obtain independent, second opinions on this important matter.”***

Sound complicated and “blue sky”? It's not. Using this analysis, the senior and their family should have a much better understanding of whether your community is truly affordable – both now and in the future. Astute sales and marketing professionals are always looking to provide a “take-away” item and a legitimate follow-up/call to action. Burn a CD of this custom analysis and give it to the family to take home for future review. Of course, tell them you'll be calling them in about a week to answer any questions. Many seniors may not be computer savvy, so also give them a hard copy of the analysis. This important analysis is not rocket science – techniques and software are emerging to reset an accurate mindset for the senior and their family while reinforcing your affordability.

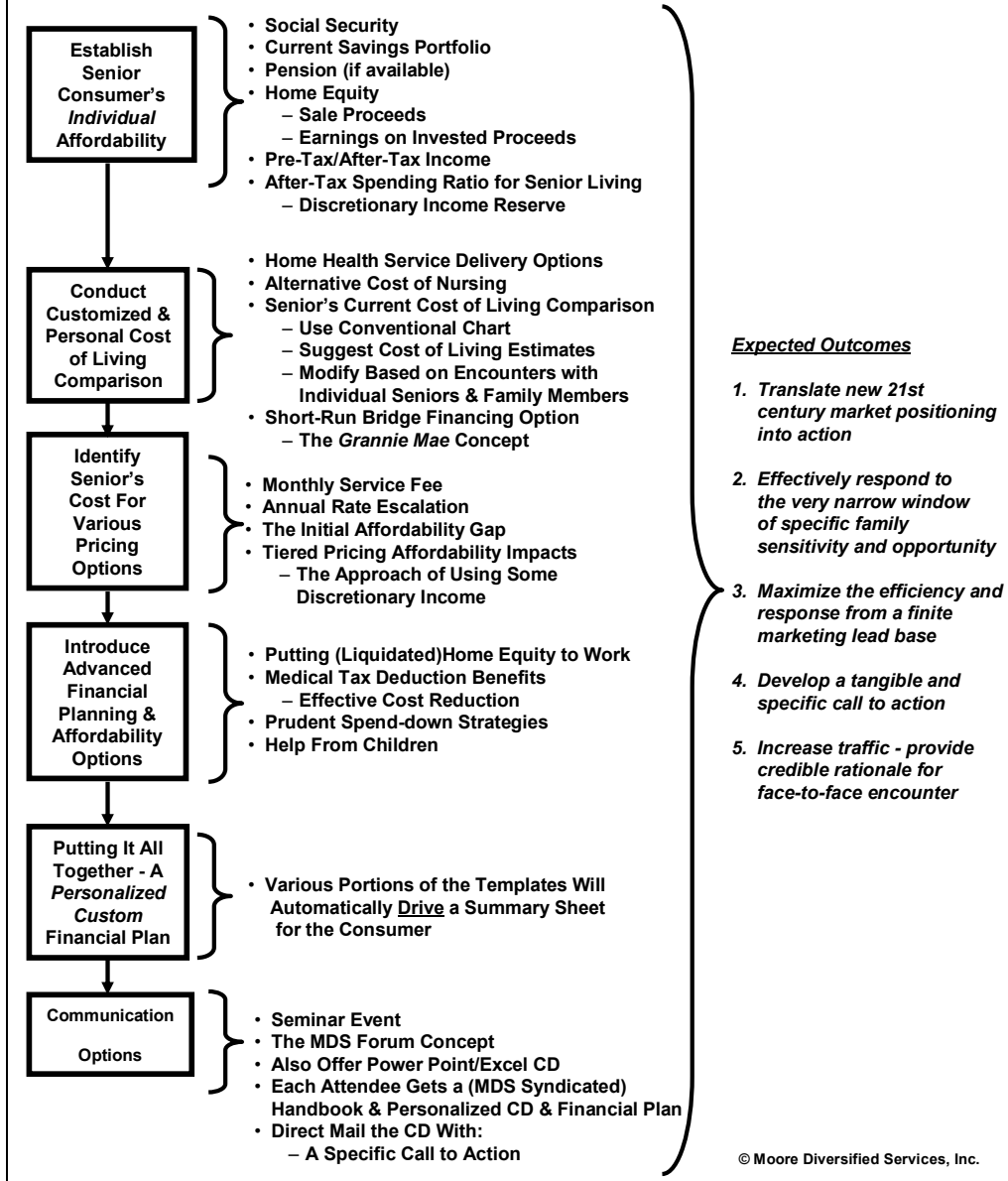
Call to Action

Regarding a senior's finances, **the don't ask – don't tell era is over!** You've got to deal with the senior's flawed mindset and misconceptions leading to deal killing sales objections.

We have an opportunity – and an obligation – to help seniors and their families properly plan for the future. The concepts covered in this newsletter really work.

¹ Refer to ***“Assisted Living Strategies for Changing Markets”***. Available at www.westridgepublishing.com . Also refer to the MDS December 2008 WALA newsletter.

**FIGURE 2
THE SENIOR CONSUMER FINANCIAL PLANNING APPROACH**



*Jim Moore is president of Moore Diversified Services, Inc., a national Senior housing and health care consulting firm based in Fort Worth, Texas. He has written several books about assisted living and Senior housing, including **Assisted Living Strategies for Changing Markets**. A new book titled **Independent Living and CCRCs** will be available soon. Jim Moore can be reached at 817-731-4266 or jimmoore@m-d-s.com.*

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