# Board Metrics

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# Managing Board Expectations

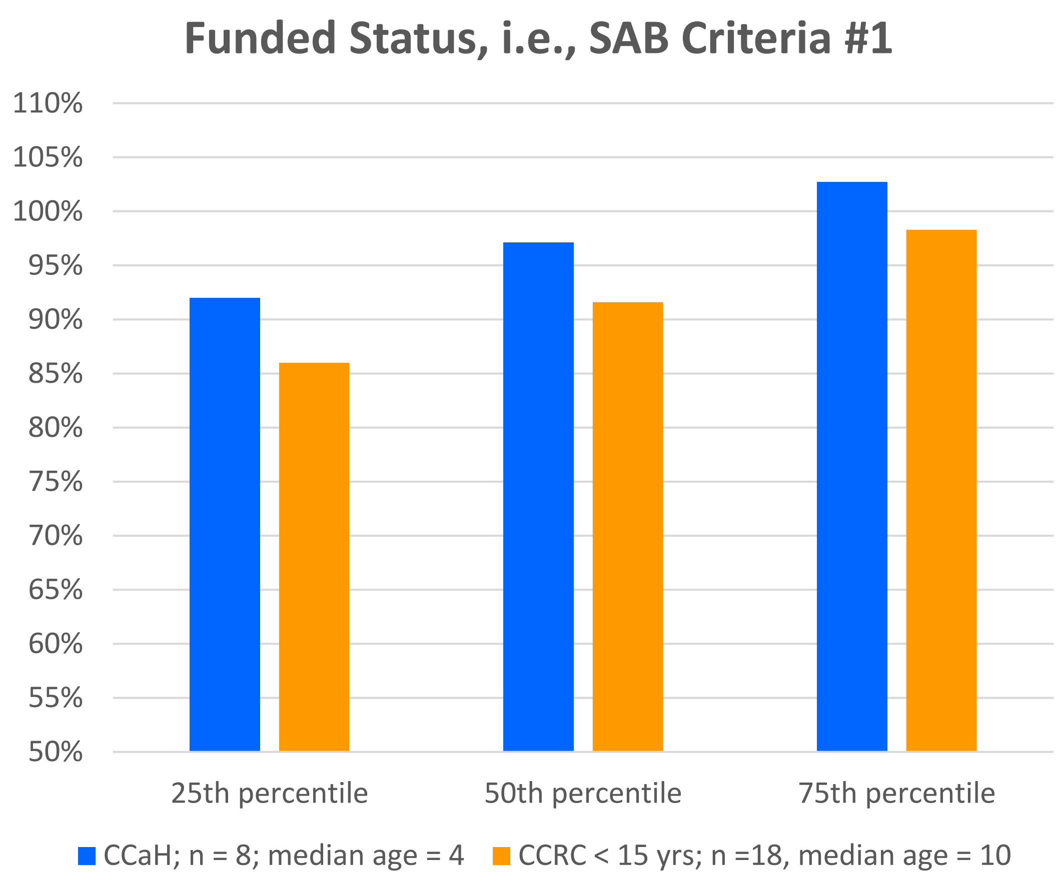
- From approval to ongoing evaluation
- Education and appreciation - CCRC v. CCaH
- Performance expectations
- Plans for monitoring actuarial solvency
- Articulating the “What if?” scenarios

# Financial Performance Tools

1. Annual GAAP financial statements
2. Internal projections; should be > 10 years
3. Satisfactory Actuarial Balance (“SAB”) opinion
   - ASOP#3 for CCRCs or ASOP#18 Long-Term Care Insurance
   - Measure solvency for current “block of business”
   - Confirming adequacy of fees for all contract options
   - Cash flow testing
4. Addressing the disconnect between GAAP and ASOP

# Achieving SAB May Take Longer Than Expected

1. Successful CCRC takes 3-to-5 years to reach 95% ILU occ.
2. Typical CCaH takes 3-to-11 years to reach 200 members
3. Even though initial pricing is actuarially sound, if may take years to reach fully funded; 10 to 20 years is reasonable
4. Stabilization subsidies—the defining factor



# What Causes “Stabilization Subsidies”?

1. Purpose is to allocate overhead, i.e., administrative, marketing, etc.
2. Higher assumed stabilized census = lower overhead/member/month
3. Alternative is to fund annually based on expected average census
4. Challenge is to define the appropriate number for feasibility
5. How should stabilization subsidies be funded?
   - Use anticipated actuarial surpluses from new member fees
   - Allocate start-up funds from parent company
6. ➔Manage Board’s expectations and understanding of positive cash flows and timing to achieve satisfactory actuarial balance

# Pricing Surplus Is Needed to Cover Prior Losses

| | Stabilized at 200 members | Stabilized at 400 members | Stabilized at 400 members |
|---|---|---|---|
| Annual net contract sales | 20 contracts | 20 contracts | 30 contracts |
| Annual overhead costs | $360,000 | $360,000 | $360,000 |
| Overhead/member/month | $150 = 360,000/200/12 | $75 = 360,000/400/12 | $75 = 360,000/400/12 |
| Loss in year 1 = | ($324,000) | ($342,000) | ($333,000) |
| Loss in year 5 = | ($180,000) | ($270,000) | ($225,000) |
| Loss in year 10 = | ($36,000) | ($180,000) | ($90,000) |
| ∑ thru 10 years = | ($1,620,000) | ($2,610,000) | ($2,115,000) |
| ∑ thru 20 years = | ($1,620,000) | ($3,402,000) | ($2,223,000) |

**Implications: (a) lengthens time to achieve SAB or (b) increases risk of dependence on membership fees for positive cash flows or (c) restricts ability to offer low or $0 membership fee plans.**

# Message to Your Board

1. ASU 606 financial statements may overstate position because income from membership fees is recognized too soon
2. Also stabilization subsidies are “hidden” in financial statements
3. Even though combined CCRC & CCaH GAAP financials look positive, it doesn’t mean that CCaH plan is fully funded yet…