

# Articles from SBDCNet - SBDC Clearinghouse

## Assisted Living Facilities



By Jesse Ortiz

The assisted living industry is made up of a variety of senior care services, including assisted living facilities (ALFs). The Census divides the ALF industry into two major categories: continuing care retirement communities (NAICS 623311) and homes for the elderly (NAICS 623312). The primary distinction between the two is the presence of nursing care: continuing care retirement communities provide on-site nursing facilities, while homes for the elderly do not.<sup>1</sup>

Assisted living facilities provide excellent services for seniors who wish to remain independent but still need some assistance with daily living. Types of assistance offered in ALFs include help with bathing, dressing, eating, grooming and getting around. There are a variety of options available in the ALF industry, making them popular with seniors. ALFs can be located in high rise apartment buildings, converted Victorian homes, or even renovated schools.<sup>2</sup>

Future industry growth will be spurred by the 77 million Baby Boomers planning to retire over the next two decades. With life expectancy continuing to increase in the U.S., many individuals who retire at 65 will have to decide where to spend the remaining twenty or more years.<sup>3</sup> This is expected to increase demand for assisted living services, and provides an exciting opportunity for entrepreneurs.

### **Assisted Living Facilities Industry Overview**

Roughly one million Americans reside in senior care facilities.<sup>1</sup> This number is expected to almost double by 2030.<sup>2</sup> However, the current economic climate has caused the industry's growth rate to dwindle. A drop in housing values across the country, coupled with losses in stock prices and 401(k) accounts, has caused millions of Americans who are nearing retirement to lose a substantial portion of their planned retirement income. A recent AARP poll found that 25% of Baby Boomers plan to postpone their retirement because of the effect the economy has had on their income and assets.<sup>4</sup>

Individuals who reside in retirement communities rely mainly on income derived from their investment portfolios, money in their personal savings accounts, revenue from selling their homes, and assistance from their children or families. Many seniors are finding that they must postpone the transition into retirement

communities because of losses in the value of their portfolios and homes.<sup>5</sup> On average, the cost to live in an ALF ranges from \$3,000 to \$4,500 a month.<sup>6</sup> Because of the hefty price tag, only individuals with a fairly large disposable income are typically able to afford these services.

While financing options, including estate planning and reverse mortgages,<sup>7</sup> are available to many homeowners wishing to move into assisted living facilities, the current credit crunch has made it difficult for seniors to obtain the amount of financing they need. This may be one cause of the temporary decline in growth of ALF construction.<sup>8</sup>

Despite the slow growth, the ALF industry has withstood the economic downturn better than many other industries. This is largely due to the value which assisted living facilities provide to seniors and their children. Some services, such as care for seniors who suffer from dementia and Alzheimer's disease, have actually been consistently increasing.<sup>9</sup>

## **Retirement Community Industry Trends**

Baby Boomers represent more than 70% of U.S. financial assets and over half of all discretionary spending.<sup>10</sup> Therefore, when it comes to services, what boomers want, they usually get. Baby boomers and their families typically desire retirement communities that remind them more of homes rather than institutions.<sup>11</sup> In order to meet this demand, many senior communities are going upscale in terms of environment and services.<sup>12</sup> Amenities offered might include commercial kitchens, dining rooms, bistros, beauty salons, indoor swimming pools and spas. Some seniors gravitate toward specialized facilities, such as golf communities, pet-friendly communities, and even those focused around water activities.<sup>13</sup> Successful ideas are typically those aimed at satisfying this generation of active and fun-oriented individuals.<sup>14</sup>

High costs have forced many Americans to seek out retirement communities abroad. Mexico has seen a rise in the number of U.S. retirees seeking assisted living services in its borders.<sup>8</sup> While this trend may help to alleviate some of the costs for consumers in the US, demand for this industry has been accelerating at such a high rate overall that effect on the US market will be negligible.

## **Competition Trends Among Assisted Living Facilities**

Competition in the assisted living industry is very high. The four largest ALF providers in the country (Brookdale Senior Living Inc., Sunrise Senior Living, Inc., Emeritus Corporation, and Atria Senior Living Group), made up only 13% of the market share in 2009.<sup>1</sup> The remaining 87% is composed of a variety of non-profit and for-profit businesses.

Low barriers to entry have made it difficult for providers in this industry to retain high profit margins. The typical barriers to entry for this industry include licensing and regulation, economies of scale for the largest assisted living services providers, and the low cost structure that non-profit ALFs are able to acquire which are not available to for-profit businesses.<sup>1</sup> The lower cost for non-profits can include the ability to finance capital expenditures on a tax-exempt basis and receive charitable

contributions that are unavailable to for-profit corporations.<sup>1</sup>

## **Federal and State Regulation of Assisted Living Facilities**

While there are federal laws which impact the ALF industry, the majority of regulation in this industry comes from the state.<sup>1</sup>

The type of care and services that ALFs are able to provide is determined on a state-by-state basis. Entrepreneurs considering an assisted living business should check with their state Department of Human Services to see what services can be provided and the number of nurses or full-time staff required on duty per patient. Assisted living facilities are also regulated regarding whether they can provide services to individuals who suffer from advanced illnesses such as dementia or Alzheimer's disease, and this varies from state to state.

ALFs must comply with the Americans with Disabilities Act, the Fair Housing Act, and typical fire and safety regulations.<sup>1</sup> Additional regulations may require a certain amount of square footage for specific rooms or housing units.

The high growth and level of diversity in this industry has made it difficult to regulate. Regulation reform for this industry has the potential to increase the supply and demand for these services.<sup>1</sup>

## **Revenue Sources for Assisted Living Facilities**

Approximately seven out of every ten people who live in an ALF must depend on their personal wealth or that of their family to pay for their services. For this reason, the majority of individuals who reside in retirement communities are those living above the median wage for their regions.<sup>1</sup>

The growing popularity of assisted living facilities is prompting many states to expand the scope of Medicaid, in an attempt to help individuals pay for the high costs of living in retirement communities.<sup>1</sup>

There are currently an estimated 115,000 individuals living in assisted living situations who receive Medicaid payments to cover the costs for their services.<sup>15</sup> Medicaid, which is financed by both federal and state governments, pays 73% of the money allocated for the long term care industry to individuals living in nursing homes, despite the fact that the majority of individuals prefer to live at home or in a retirement community. The amount of Medicaid spent on one individual in a nursing home can support almost three individuals in a retirement community.<sup>16</sup>

To make assisted living facilities more affordable for low income individuals, many states are enacting changes to the portion of Medicaid which can be applied to ALFs. Until recently, only individuals living in nursing homes were typically provided Medicaid assistance, but there are now a growing number of states that have recognized the importance of offering Medicaid dollars to individuals living in ALFs. This number is expected to continue to grow over the next few years.<sup>17</sup>

This graph depicts the revenue for the assisted living facility industry by source for 2007. As this chart shows, the majority of the revenue for this industry comes from

payments made by patients and their families.

<b>Estimated Revenue Sources for Employer Firms, 2007</b>		
	<b>Millions in Revenue</b>	<b>Percent Total</b>
Medicare	2157	6.2
Medicaid	3654	10.5
Other Govt. Programs	375	1.1
Private Insurance	906	2.6
Payments From Patients and their families	22813	65.8
Patients' assigned social security benefits	257	.7
All other patient care sources	1249	3.6
All other sources	3265	9.4

Source: Census.gov

## **Demographics of Elder Care Market**

According to the U.S. Census Bureau, the number of individuals in the US between the ages of 65 and 84 will increase by 38.8 percent between 2010 and 2020, while the population over age 85 will increase by 18.7%.<sup>18</sup> This aging of the population will create a large area of unmet demand in the following decade for ALFs.

There are currently large discrepancies in the demographic makeup of retirement communities. As of 2006, retirement communities were 69% female and only 31% male.<sup>1</sup> The typical resident for an ALF is an 85 year old female. Individuals over 85 years old make up the largest percentage of residents at ALFs.<sup>2</sup>

The highest concentration of ALFs is in the Southeast portion of the U.S., which houses 23% of all ALFs in the nation. The trend of retirees moving to the Sunbelt region of the U.S. is expected to spur further growth for this industry in this region.<sup>1</sup>

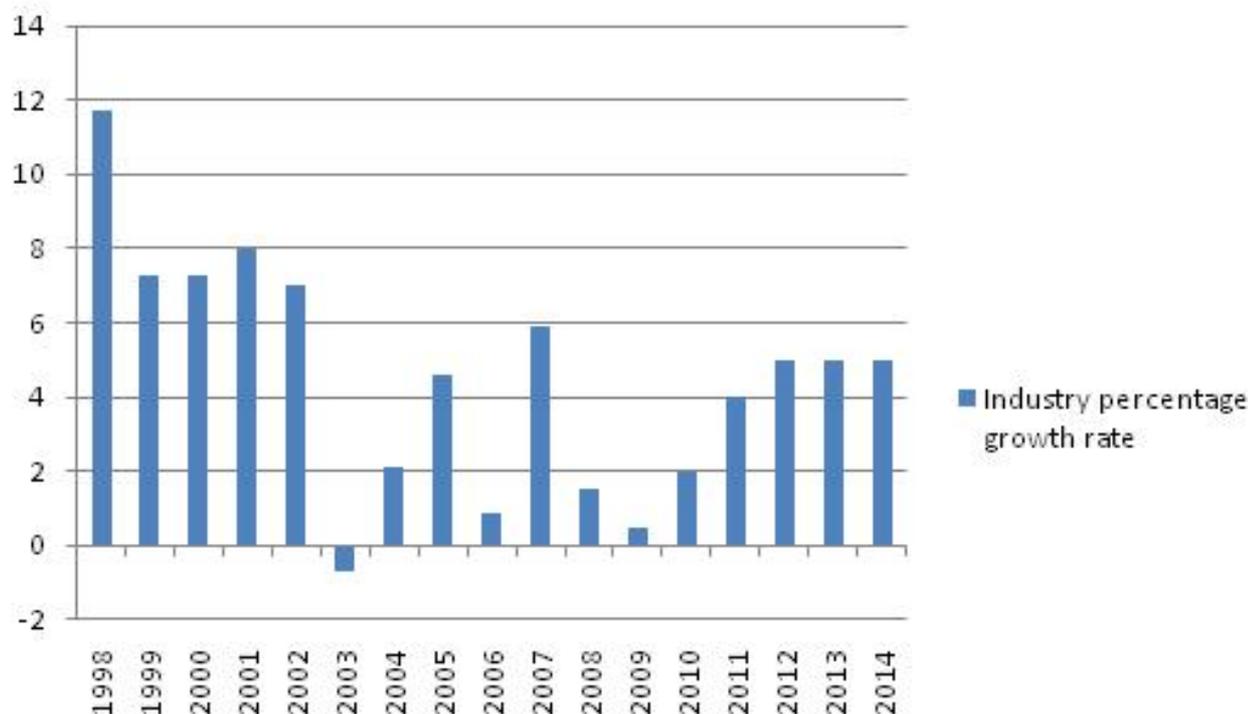
## **Senior Living Market Statistics**

There are an estimated 30,000 ALFs in the U.S. today, with over 1 million residents.<sup>3</sup> Industry revenues are expected to reach \$36.8 billion in 2009.<sup>1</sup>

According to 2007 Census Bureau data, continuing care retirement communities brought in 58% of the revenue for this industry while homes for the elderly brought in 42%.<sup>1</sup>

During 2008, occupancy rates for assisted living facilities fell 2%, largely as a result of seniors delaying their move into retirement communities.<sup>5</sup> Although the US is currently in a **recession**, revenues for this industry as a whole continue to grow. In 2008 and 2009 the industry growth rate slowed to about 1%, but through 2014, the industry is expected to bounce back and maintain an annual growth rate of 4.2%.<sup>1</sup>

## Industry percentage growth rate



Source: "Retirement Communities in the US: 62331." May 2009. IBISWorld. Santa Monica: CA. University of Texas at San Antonio, John Peace Library. San Antonio, TX. 02 Jul 2009. [www.ibisworld.com](http://www.ibisworld.com)

## Senior Living Associations

American Association of Homes and Services for the Aging – <http://www.aahsa.org/>

American Association of Retirement Communities – <http://www.the-aarc.org/>

American Seniors Housing Association – <http://www.seniorshousing.org/>

The Consumer Consortium on Assisted Living (CCAL) –

<http://www.ccal.org/index.htm>

Center for Excellence in Assisted Living – <http://www.theceal.org/>

## Sources for More Information on Assisted Living Facilities

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