David Ellis, partner at Mayer Brown, dives into the market for senior care in Asia to find the best model that meets the challenge of a growing elderly population

Many more **senior moments** to come

An introduction to senior living business models, their application and legal regulation in Asia

In the 1985 film *Cocoon* a group of seniors break out of their Floridian retirement community by clambering over a fence to swim in a nearby private swimming pool. Swimming in this pool rejuvenates them, thanks to the water being imbibed with a life force intended to energise cocooned aliens, and the seniors are blessed with a new lease of life. Science may not quite caught have up with the fiction of 35 years ago, but global average life expectancies have risen by a remarkable ten years since 1985 (from 62.72 to 72.81 years), and that process is set to continue.

East Asians are, on average, likely to live another five years by the year 2050, while the population of seniors (aged 65 or older) across the whole of Asia is projected to triple between 2017 and 2050, from 137 million to 437 million. Demand for senior housing in Asia is, understandably, on a long-term upward trend. Welcome to the Silver Tsunami.

This demographic trend is hardly 'stop press' news, demographic changes by their nature are fairly easy to spot, but the senior living sector in Asia has yet to really take off.

There are a few likely reasons for this: Asian culture traditionally has it that children look after their parents within multi-generational homes (although that caricature is becoming less and less relevant, particularly in China where adult children have often moved to the cities for work leaving the elderly behind in rural China); costs are high compared to average retirement income; private sector nursing homes suffer from a lack of subsidies, particularly in less developed economies; and there is a lack of expertise or experience amongst local property players in the senior living sector.

One difficulty seems to be finding a business model that fits the local culture and regulatory environment. This article examines some of the business models.

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Types of senior housing

Before diving into business models, we need to better define senior housing. There are traditionally four categories:

- **Independent Living** these are essentially regular residential units with a minimum age requirement. They include organised recreational activities and may also provide transport, laundry services and meal services for an additional fee
- **Assisted Living** – often provided in a more institutionalised environment than independent living, with the addition of care services, such as assistance with bathing, eating, mobility and taking of medication
- **Nursing Care** – like assisted living but with the addition of medical services such as nursing, rehabilitation therapy and chronic care management
- **Continuing Care Retirement Communities (CCRCs)** – these provide accommodation offering a range of services and living arrangements, offering nursing care, assisted living and often independent living. These tend to be large standalone developments

Business models

- **Life care** This offers unlimited assisted living, medical treatment, and skilled nursing at no increase in monthly fees (other than cost of living adjustments not related to care) in exchange for a higher one-time entrance fee. Although the upfront cost is greater, this arrangement is attractive because monthly fees do not increase substantially as residents move through the levels of care. The CCRC absorbs the risk of increases in health care and long-term care costs but retains the upside in the value of the unit/place in the community
- **Modified life care** This is attractive when a resident expects to have periods when they will need assisted living or nursing care, but will not need them indefinitely, or for those who do not want to take

the credit risk implicit in the high up-front cost of an all-inclusive plan (the benefits of which would be lost if the service provider goes bankrupt). The plan offers, for a lower fixed payment than an all-inclusive plan, specified services for a set length of time (eg one month or three months) at pre-agreed rates, but if the service is provided beyond the agreed period, then the fee moves to current market rates (or rates with a lower discount than their original plan)

- **Fee for Service/Rental** The resident pays a rental fee for accommodation and market rates for additional services each month. There is a lower entrance fee, or none at all
- **Equity** Ownership of the independent living unit is transferred to the resident. Assisted living, skilled nursing, and other services are paid for at market rates. Resale of the unit is restricted to age- and income-qualified prospective purchasers, and the CCRC may require a transfer fee on any such sale
- **Deferred Management Fee (DMF)** This is a model popular in the UK and Australia and is a form of the Equity model. The senior buys the senior living unit for below market rates and pays a relatively low monthly fee for the services provided. Upon leaving the community and selling their interest in the unit the senior (or their estate if they have died) pays the developer an exit fee based on a percentage of the sale price times the number of years the senior has lived in the community, with a cap on this percentage after a certain number of years. In effect the senior gets a cheaper place to live immediately and makes up the difference at a later date.

In the US, most CCRS adopt either the entrance fee (all inclusive) or rental/fee for service model. Entrance fees in the US range between US$25,000 to US$2m (with the average being US$280,000). Where an entrance fee is payable a refund is usually payable if the resident dies or permanently moves out of the facility. The amount of the refund varies but the normal range is between 50%-90%. The effect of this arrangement is that the resident does not capture any appreciation in the unit's value (unlike the DMF model), they just get back a proportion of their original buy-in price.

In some cases, the refund is conditional on a replacement resident coming in (i.e. the unit is sold to a new resident), which reduces the cashflow burden on the service provider.

A further variation is a 'life care plan' where a higher entrance fee is payable but a high refund (say 90%) is guaranteed upon the death or departure of the senior. This allows the senior to ensure they will leave an inheritance, although it is the developer who captures the appreciation of the value in the place in the community.

Government funding

The presence (or absence) of government funding has a material impact on the attractiveness of the various business models.

In most developed economies, governments shoulder a significant proportion of social care costs, some of which can be used to fund senior housing communities and their related services. In the UK this is funded either by the National Health Service (for healthcare) or from local government (for social care). In the US, the Medicaid and Medicare programmes can be used to meet some of the costs of senior living. Japan, the country with the oldest population in the world, introduced the Long-Term Care Insurance (LCTI) plan in 2000, a mandatory insurance scheme for all those aged 40 and above. The scheme has a strong preference for funding community-based care (keeping the seniors in their existing homes) both on fiscal grounds (it is cheaper) and also on evidence that community-based care is better than an institutional setting for overall health.

However, it does also fund care homes, so it is a source of income for senior living providers.

In other Asian economies there is currently less government support. In Hong Kong there is a means tested Comprehensive Social Security Assistance that provides basic support to the less well off, together with a universal basic old age pension and a mandatory provident fund for those in work. The Social Welfare Department also directly operates welfare facilities. In China there is a basic old age pension and a disability pension managed by local authorities.

Nevertheless, providing quality senior living is expensive and even middle-class Asians may lack the resources to self-finance it. This currently limits mass market demand for senior living, although opportunities remain for those targeting the wealthier seniors across Asia, and government support will likely increase as the elderly becomes a larger proportion of the population (and the electorate).

Potential areas for legal regulation

In most Asian jurisdictions, nursing and medical care typically requires an appropriate license, and in some cases, there is more specific care home legislation, like the Residential Care Homes (Elderly Persons) Ordinance in Hong Kong, and relevant codes of conduct, such as Hong Kong's Code of Practice for Residential Care Homes (Elderly Persons).

Less obviously, some of the above fee arrangements are analogous to insurance policies. For example, paying a larger upfront payment in exchange for future medical related services over the remainder of a senior's lifetime. As a result, in some jurisdictions in the West, CCRC's are regulated as insurance providers but, in general, this does not yet seem to be the case in Asia. Nevertheless, it would be best practice for providers to commission actuarial studies to determine if the fees charged are sufficient to provide the promised future care.

If such arrangements are treated as contracts for insurance, then there would be significant regulatory burdens placed on the sector, including registration as an insurance provider and demonstrating the presence of appropriate capital to support the future liabilities implicit in the entrance-fee type business model.

Application of business models in Asia

Several large Chinese real estate developers have launched senior housing developments, such as Greenland Group, Poly Real Estate and Vanke. In addition, Chinese insurance companies such as Ping An and Zhejiang are investing in senior housing. Developments launched in China have typically been retirement communities with minimal nursing services.

The market has faced several challenges. The fee model tends to be rental based, with monthly fees exceeding Rmb10,000 a month, which is expensive given the average Chinese pension of Rmb4,000 per month. Secondly, there is a shortage of sufficiently trained nurses and carers. Thirdly, compared to regular real estate projects where selling off flats in a tower block quickly self-liquidates, elderly community facilities require heavy capital input and they struggle to generate positive yields from the returns generated by selling services. They also compare unfavourably with the entrance fee/life care models of senior living. Similar issues arise in Hong Kong and elsewhere in Asia.

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The life care model does not yet seem to be popular in Asia. Although the model is attractive as it provides funds upfront, the developer is still exposed to risks in a downturn as it may have to repay entrance fees to departing seniors while being unable to find immediate replacements. Longer life expectancies can also de-rail the economics of the life care model – hence the need to use actuarial studies to assess this risk.

In Hong Kong, the not-for-profit Housing Society has the concept of a 'life lease' whereby the seniors pay a one-off fee to obtain the lease of a unit at a price much lower than the market price of similar accommodation.

The actual price depends on age – older purchasers pay less as they have lower life expectancy. Upon death, however, there is no rebate. By way of contrast, Pine Care Group operates an elderly centre in Hong Kong based on the service fee/rental model with no upfront payment.

Conclusion

Demand for senior living in Asia will come mainly from the middle classes, yet the existing Western business models seem better designed for high-end Asia. Adequate delivery of elderly care to the middle market is only feasible with the help of government subsidies to the private sector or the wider provision of public facilities.

However, the lack of widespread expertise in the Asian market suggests there are interesting opportunities for those with the right track record in elderly care.

The rejuvenated seniors in the film *Cocoon* depart their senior living facility on an alien spaceship to live their extended lives elsewhere. Hopefully, terrestrial policymakers, developers and service providers will meet the senior housing challenge, without relying on alien intervention, before the Silver Tsunami swamps the existing system.

It will need greater sectoral expertise and focused long-term government policies to ensure sufficient funding, whether private or public.