

## **Collateral Debt Unrelated to Resident Commitments**

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In Connecticut and in other States, substantial progress has been made in having legislation adopted that protects the interests of CCRC residents. The considerable efforts that led to the adoption of such legislation should be recognized and applauded. But it's important to recognize that the legislation adopted to date, while representing a valuable beginning, by no means addresses a number of important issues confronting CCRC residents.

At least as important as any issue confronting CCRC residents is the issue of UNRELATED DEBT, meaning debt which is added by Providers in their sole discretion and from which residents derive no benefit. Providers claim that the cost of servicing (paying interest on, and paying off the principal of) such debt is rightly charged to residents as part of the Monthly Service Fee.

It's surprising that more attention hasn't been paid to this issue as one of financial fairness. By assuming unrelated debt, providers of for-profit as well as of not-for-profit CCRCs impose on their residents two substantial disadvantages, either of which, by itself, is unacceptable from a financial-fairness point of view.

Unrelated debt:

- (1) Saddles CCRC residents with the costs of servicing (paying interest and paying off principal on) debt from which they receive no benefit (unrelated debt);
- (2) places such debt ahead of residents' interest-free loans (in the form of refundable entrance fees) for payoff in the event of default.
- (3) Residents whose entrance fees become fully forfeitable to providers after a short term period (generally, 36 to 72 months) are even more at risk since their lifetime contractual commitments may be even more tenuous.

NaCCRA should set for itself the goal of state, and ultimately federal, protection for residents by the prohibition of such debt.

