

special issue

brief



FALL 2024

THE SURPRISING PRICE OF STAYING IN A HOUSE

Cost Comparisons Often Favor Senior Living

asha
American Seniors Housing
ASSOCIATION

TABLE OF CONTENTS

Click link below to go direct to page.

INTRODUCTION	1
EXECUTIVE SUMMARY	2
THE COST OF A SENIOR HOUSING COMMUNITY	4
COSTS FOR LIVING IN A U.S. MEDIAN PRICED HOUSE	5
HOME CARE COSTS	6
ADDING NET IMPLIED RENT TO COMPUTE TOTAL COST OF LIVING IN A HOUSE	7
HOUSING COSTS, HOME HEALTH AND ECONOMIC VALUE FOR A \$600,000 CONDOMINIUM	8
REAL WORLD EXAMPLE FOR A LOWER PRICE POINT \$200,000 CONDOMINIUM	9
HIGHER NET WORTH SINCE 2017 SUPPORTS SENIORS HOUSING AFFORDABILITY	11
TAX CONSIDERATIONS	12
AVAILABILITY OF GOVERNMENT ASSISTANCE	12

ASHA gratefully acknowledges the assistance provided by Jerry Doctrow and Lisa McCracken of NIC with this *Special Issue Brief*.

THE SURPRISING PRICE OF STAYING IN A HOUSE

Cost Comparisons Often Favor Senior Living

INTRODUCTION

One of the obvious challenges in marketing senior living communities is the so-called “sticker shock” that prospective residents experience, particularly those who have lived in a house for many years and no longer have a mortgage. Frequently, prospective customers have not considered the true costs associated with their current house (property taxes, insurance, home maintenance, etc.), nor have they adequately assessed other living costs such as home health care. ASHA last addressed the cost of staying in a house versus living in seniors housing in 2017. Since that last Brief, there have been significant inflationary pressures on housing, food, and healthcare that require a revisit of that analysis.

This *Special Issue Brief* was prepared by Daniel M. Bernstein, CFA, a longtime industry analyst formerly at Stifel and Capital One. He has worked in equity capital markets and health care commercial real estate lending, and he has been recognized by the *Wall Street Journal* and *Financial Times* for equity research on health care services companies. He has also been a frequent expert speaker on health care and real estate panels. What follows in this Brief clearly demonstrates the importance of sales and marketing professionals pointing out the true economics facing prospective customers. As you will see on the pages that follow, for many seniors the costs associated with senior living are, in fact, equal or less than what prospects are paying in their current housing situation.

EXECUTIVE SUMMARY

Most seniors and their families see the monthly cost of a senior housing community as much higher than the monthly cost of living in a house with family care, or even with part-time or full-time home health care. The 2017 Brief demonstrated the value of seniors housing versus home care, and since that report there have been significant inflationary impacts from Covid, fiscal policy and monetary policy on housing, food, and health care costs that further tilt the math in favor of seniors housing. Relative to the 2017 Brief, home prices are up 22 percent, rent and rent equivalents are up 45 percent, food up 31 percent, and home health costs are up roughly 75 percent. For comparison, seniors housing rents are up just over 30 percent.

The math most seniors and families use to make this comparison assumes no cost for home health care and very likely no implied economic cost (net implied rent) for occupying a home without a mortgage. Furthermore, decision makers likely fail to include in the decision equation the safety, companionship and social interaction that a seniors housing community can provide. I also believe most senior decision makers ignore the increased likelihood of unexpected increases in special assessments or large increases in HOA fees to address under-investment, major home repairs such as roofing or HVAC replacement, and costs to convert a house to safely accommodate a senior aging in place with ADL needs that could cost several thousand dollars to well over \$10,000.

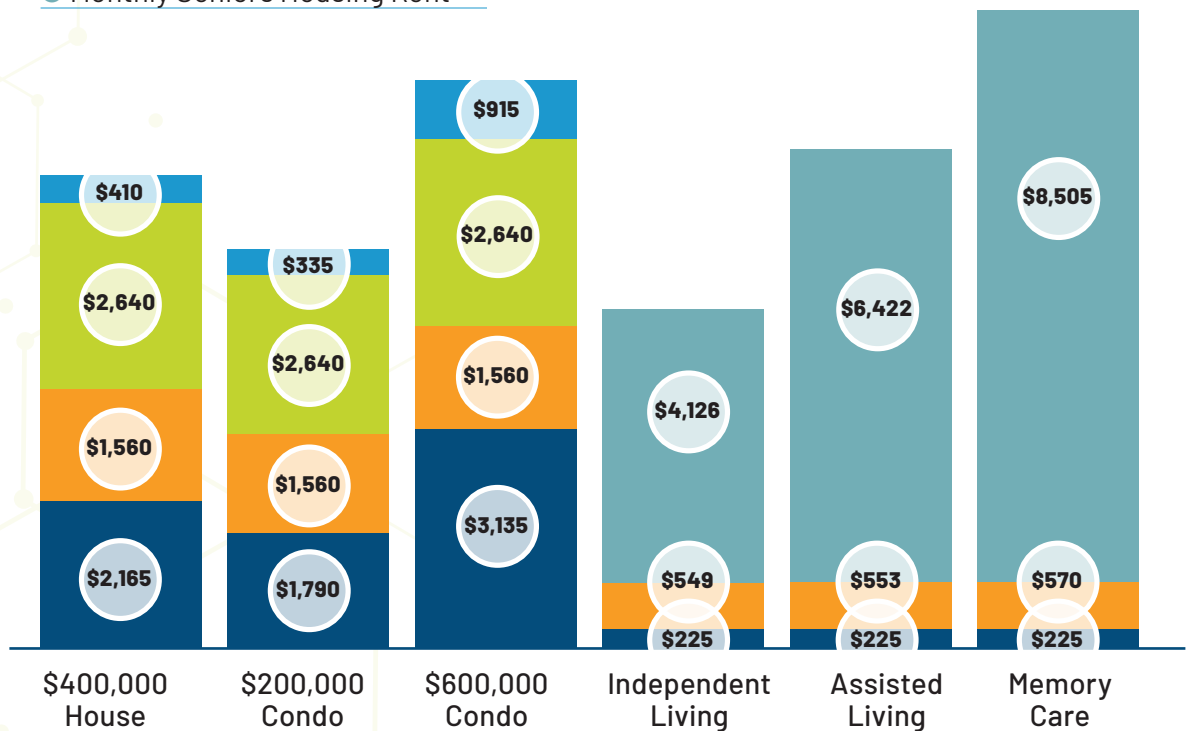
This analysis, using data from a variety of sources, attempts to make a fair apples-to-apples comparison, before and after taxes, of the cost for a senior living in a house without care, living at-home with a modest amount of paid care and living in an independent living, assisted living or memory care facility.

The chart on page 3 shows the comparison on a pre-tax basis of living in a house with a modest level of care to the cost of various types of seniors housing communities. Relative to the 2017 Brief, I updated the calculations using a U.S. median priced home of \$400,000, a lower price-point real world example for a \$200,000 Florida condo and a higher price point \$600,000 condo (prior Brief example plus 20 percent increase in the condo price).

Bottom Line – The cost of living in a house priced at the U.S. median of \$400,000 with even a modest level of home health care can easily exceed the cost of an independent living community and approaches the cost of assisted living. In addition, a senior living in a house with part-time care does not get the companionship and social interaction that a seniors housing community can provide, which many studies indicate are beneficial for a senior's mental acuity and well-being.

Cost of Seniors Housing vs Living in a House

- Net Implied Rent
- Home Care 4hr / 5 Days
- Home & Maintenance
- Living Expenses
- Monthly Seniors Housing Rent



In this update, we also examined median net worth against seniors housing costs, given most seniors own their house, have significant home equity and will sell their house to move into seniors housing. We use the 75+ cohort data from the U.S. Census Bureau's Wealth of Households reports (last published in 2021) adjusted to year-end 2023 using broader measures of household wealth from the Federal Reserve. The simple math of net worth against seniors housing cost strongly suggests affordability has improved by 27 percent, 23 percent, and 22 percent for IL, AL, and Memory Care relative to year-end 2017.

In conclusion, this Brief provides seniors considering a move to an IL, AL or Memory Care unit in a senior housing community, and industry marketing professionals, with a refined and more current tool with which to evaluate the cost of a community vs the cost of staying in a house and using home care. Home prices and the cost of home maintenance have risen much faster than the monthly cost of senior housing, making it more economical for seniors to make this move. A potential reduction in interest rates should further increase housing prices and boost seniors' net worth to support seniors housing affordability.

THE COST OF A SENIOR HOUSING COMMUNITY

The cost of various seniors housing settings is easy for seniors and their families to see because most communities charge a monthly fee for housing and care. The average monthly asking cost for this care as of year-end 2023 according to NIC-MAP Vision is as follows:

Independent Living	\$4,126 per month
Assisted Living	\$6,422 per month
Memory Care	\$8,505 per month

To these costs, we need to add some additional expenses for a senior living in a seniors housing community for social and entertainment activities, transportation and non-housing living expenses. I have estimated these at half the estimated cost of someone living in a house, consistent with the prior 2017 Brief, because many of these services are provided in a typical seniors housing community and are included in the monthly rate. I add another \$225 per month for a senior living in a seniors housing community for utilities, cable television, WiFi and phone and renter's insurance. Adding a combined \$800 per month for those additional costs to the monthly fee for seniors housing communities brings the total monthly cost for living in senior housing rounded to the nearest \$100 to:

Independent Living	\$4,900 per month
Assisted Living	\$7,200 per month
Memory Care	\$9,300 per month

COSTS FOR LIVING IN A U.S. MEDIAN PRICED HOUSE

When the total monthly cost for seniors housing and care settings are compared to the out-of-pocket costs for a senior living in a \$400,000 house (U.S. median of \$412,300 per Federal Reserve data rounded down) without a mortgage they certainly initially appear formidable. We base our estimates below using data from *Zillow*, the U.S. Dept. of Transportation, the U.S. Bureau of Labor Statistics, the USDA, and other public resources. Below is our \$3,725 estimate of monthly out-of-pocket costs for an average senior living in a suburban house worth \$400,000 with no mortgage.

• HOA	\$200
• Maintenance Costs	\$835
<i>(annual range of 1 percent to 4 percent, midpoint 2.5 percent, of house value depending upon size and the age of HVAC, roof, and appliances, excludes any senior friendly or handicap required home modifications)</i>	
• Utilities including phone and cable	\$425
• Property Taxes.....	\$415
<i>(1.25 percent of house value, U.S. range 0.32 percent to 2.23 percent)</i>	
• Property Insurance (\$35 per \$100,000 of house value)	\$140
• Three meals per day.....	\$510
<i>(used top end of USDA Cost of Food range \$306-\$510 for an over 71 age household with one person)</i>	
• Housekeeping Services	\$150
• Emergency Alarm System	\$50
• Transportation	\$700
<i>(Single household, one car)</i>	
• Social and entertainment	\$300

It is this \$3,725 cumulative figure (or something lower because the senior in question has curtailed her social, entertainment and transportation expenses) that most seniors and their families compare to the \$4,900 to \$9,300 monthly cost of seniors housing. Using these estimates, seniors and their families generally see community-based care as 30 percent to 250 percent more expensive than having a senior live at their house.

However, the above comparison ignores the cost of home health and the socialization benefits that a senior would receive if she were living in a seniors housing community. Let's deal with each of these separately. It further ignores the value of the house itself or net implied rent (rent less HOA and operating costs).

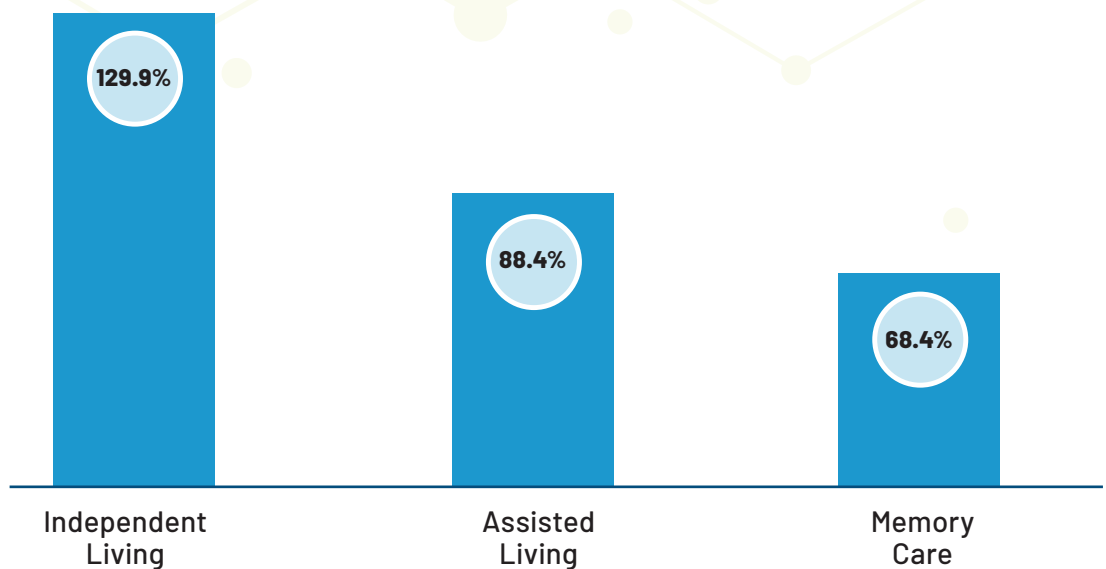
HOME CARE COSTS

From the above analysis, we see that the cost of a senior remaining at home, excluding home health, is less than the cost of any type of seniors housing community, even independent living. However, as soon as any degree of paid home health care is provided the cost advantages of living in the house disappear.

According to the 2023 Genworth Cost of Care Survey , the cost of in-home companion care was \$30 per hour and a home health aide was \$33 per hour. If you assume only four hours health aide care per day and only five days per week with family providing care on the weekends, the monthly cost of this much home health care would equate to \$2,640 ($\$33 \times 4 \text{ hours} \times 5 \text{ days} \times 4 \text{ weeks}$). However, we note the standard number of care hours indicated by Genworth and other health care sites is 44 hours per week or \$5,808 ($\$33 \times 44 \text{ hours per week} \times 4 \text{ weeks}$) per month, which would nearly equal the cost of assisted living care without consideration of home costs.

When we add the \$2,640 cost of four hours / five days per week home care during the week to the \$3,725 cost of living in a U.S. median \$400,000 house noted previously, the monthly cost of housing plus a modest level of home health would be approximately \$6,365. No cost is assumed for family care on weekends. As indicated in the chart below, the cost of living in a house plus a modest level of home health exceeds the cost of independent living by 30 percent, equaling nearly 90 percent the cost of assisted living and nearly 70 percent of memory care. If a senior needs significant home health care, then the cost of living in a house likely exceeds the cost of assisted living and memory care, as well.

Out-Of-Pocket Costs for a \$400,000 House vs Seniors Housing



As we will explore next, most seniors and decision makers still need to factor in the economic value of the home or net implied rent, which further tilts the cost equation in favor of senior living.

ADDING NET IMPLIED RENT TO COMPUTE TOTAL COST OF LIVING IN A HOUSE

We believe most decision makers fail to factor in the economic value of their house when considering the cost of seniors housing. To account for the value of the home itself, we need to compute gross rent, less operating costs. I estimate gross rent that could be earned from renting the house, using a monthly rate at 0.5 percent of the home value for a suburban home with low or no HOA. Assuming the median U.S. home value of \$400,000, the 0.5 percent monthly rent equivalent equals \$2,000. Net implied rent is then that \$2,000 gross rent figure less HOA, operating costs, insurance and taxes, or \$410.

So, the true economic cost of living in a \$400,000 house with low HOA is \$6,775 and consists of:

Costs of Living at Home	\$3,725
Costs of Home Health	+ \$2,640
Net Implied Rent	+ \$410
	= \$6,775

From the above analysis you can see that the cost-of-living expenses, maintenance and operation and net implied rent/housing costs for a senior residing in one's own \$400,000 house, calculated in what I believe is a conservative fashion, exceeds the average cost of a senior living in an independent living community by 38 percent, a jump of 8 percentage points versus not including the economic value of the house. Using this same methodology adding the economic value of the house, the full cost of the residing at home is 94 percent of assisted living.

Furthermore, in independent living and assisted living communities the senior has lower risks for illness, falls and accidents, and receives much more interaction and socialization with other people, which has been shown to improve a senior's overall physical and mental health.

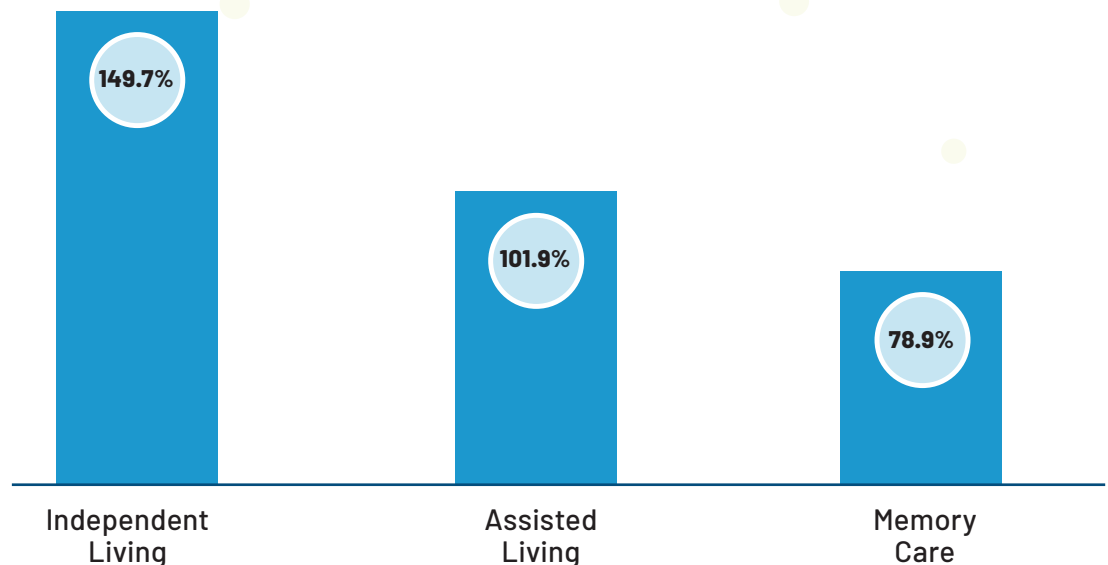
HOUSING COSTS, HOME HEALTH AND ECONOMIC VALUE FOR A \$600,000 CONDOMINIUM

Doing the same math for a senior living in a \$600,000 condominium (2017 Brief of \$500,000 plus 20 percent increase in house value) yields estimated monthly living and home operating expenses of \$4,695 broken down as follows:

• Condo Fees	\$1,500
• Maintenance costs (1 percent of home value, excluding major repairs)	\$500
• Utilities including phone and cable	\$200
• Property Taxes	\$625
• Property Insurance	\$210
• Three meals per day	\$510
• Housekeeping services	\$100
• Emergency alarm system	\$50
• Transportation	\$700
• Social and entertainment	\$300

Adding the cost of home care for four hours per day five days per week brings the cash out-of-pocket cost of living in a condo to \$7,335. As indicated in the chart below, the out-of-pocket cost of living in a \$600,000 condo plus a modest level of home health exceeds the cost of independent living by 50 percent, nearly matches the cost of assisted living, and approaches 80 percent of memory care. If a senior needs significant home health care beyond 20 hours per week, then the cost of living at home likely exceeds the cost of assisted living and memory care.

Out-Of-Pocket Costs for a \$600,000 Condo vs Seniors Housing



Still, we need to add the economic value of the home to the cash out-of-pocket costs to understand the full picture of living at home costs. The implied gross rent calculation for a \$600,000 condo at a monthly rate of 0.75 percent of home value (higher than a suburban home due to HOA fees) is \$3,750 per month. Net implied rent, after operating costs, is \$915. Combining monthly living and home operating expenses, home health and implied net rent totals \$8,250 for the economic cost of living at home in a \$600,000 condo.

You can argue that comparing the cost of a \$600,000 condo with the average cost of seniors housing is an unfair comparison because these seniors housing communities would also cost more in an expensive real estate market. However, I believe the calculation on a \$600,000 condo is fair for a mid-price point top-30 metro market, and I believe it is fair to say that when a true apples-to-apples comparison of housing, living costs, home health, and economic value forfeited from living at home, the difference is smaller than most seniors and families realize.

REAL WORLD EXAMPLE FOR A LOWER PRICE POINT \$200,000 CONDOMINIUM

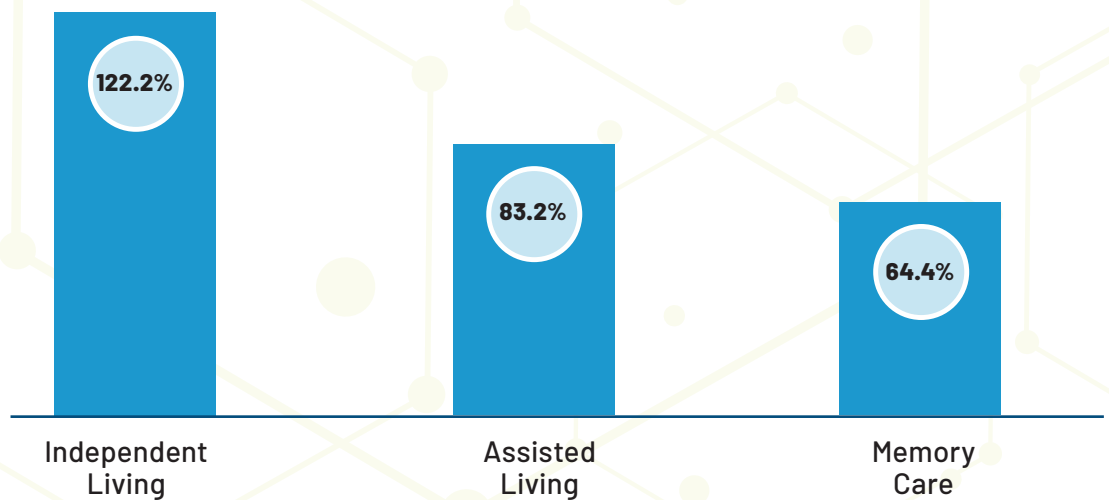
The author’s mother, approaching 80 years of age, owns a 55+ age restricted garden style apartment in South Florida. The condominium has doubled in price since purchase in 2018 and has no mortgage. The author believes the property provides a noteworthy example of the post-Covid inflationary impacts on home costs versus seniors housing, even in the case of modest home value with no mortgage. The special assessments noted below represent hidden costs for condo owners usually not accounted for in calculations comparing living at home to seniors housing. Since purchase, the monthly HOA has tripled, insurance costs have doubled, tax costs have doubled, and there have been over \$10,000 of special assessments (excess costs beyond insurance recoveries to rebuild a clubhouse that burned down and unexpected community insurance costs for 2023 that created a shortfall). There have been no modifications to the home, thus far, for accessibility or aging in place, and the author’s mother does not receive home health care.

Running the same analysis as for the \$400,000 suburban home and \$600,000 condominium, the estimated monthly living and home operating expenses of \$3,350 on a \$200,000 Florida condo is broken down as follows:

• Condo Fees	\$1,100
• Maintenance costs (1 percent of home value)	\$165
• Utilities including phone and cable	\$75
<i>(for cell phone and streaming services only, other utilities included in HOA)</i>	
• Property Taxes	\$200
• Property Insurance	\$200
• Three meals per day	\$510
• Housekeeping services	\$50
• Emergency alarm system	\$50
• Transportation	\$700
• Social and entertainment	\$300

Adding the cost of home care for four hours per day five days per week brings the cash out-of-pocket cost of living at home to \$5,990. As indicated in the chart below, the out-of-pocket cost of living in a \$200,000 garden style Florida condo plus a modest level of home health exceeds the cost of independent living by 22 percent, equates to 83 percent of assisted living and 64 percent of memory care. If a senior needs significant home health care beyond 20 hours per week, then the cost of living at home likely approaches the cost of assisted living and perhaps memory care.

Out-Of-Pocket Costs for a \$200,000 Florida Condo vs Seniors Housing



For consistency with prior calculations, we need to further add the net implied rent to capture the economic costs of living at home. The implied rent calculation for this \$200,000 condo is a rounded \$2,000 per month (per *Zillow*). Less operating expenses equals a net implied rent of \$335. Combining monthly living and home operating expenses and a modest level of home health costs with the net implied rent yields a total cost of \$6,325

When the above figure is compared to the cost of seniors housing, you can see that the estimated monthly cost of a senior residing in a modest \$200,000 condo exceeds the cost of independent living by 29 percent.

HIGHER NET WORTH SINCE 2017 SUPPORTS SENIORS HOUSING AFFORDABILITY

According to ProMatura, over 70 percent of seniors sell their home to fund a move to seniors housing. Therefore, we believe an alternative method to examine affordability in seniors housing is total net worth to cost of an average length of stay in a seniors housing community. I started with the U.S. Census Bureau’s Wealth of Households data that indicate median 75+ wealth in 2017 and 2021 at \$237,900 and \$315,900, respectively. Utilizing the Federal Reserve broader net worth data published quarterly, we can extrapolate year-end 2023 median net worth has risen to \$374,000, or 57 percent in total since YE2017.

In comparison, IL, AL, Memory Care monthly asking rents increased 33 percent, 34 percent, and 34 percent year-end 2017 to year-end 2023 according to NIC Map Vision. As a result of this large increase in net worth versus the smaller increase in seniors housing costs, we compute the ratio of median net worth to IL, AL and Memory Care, assuming a 36-month, 24-month, and 18-month stay, respectively, at 2.1x, 2.2x, and 2.2x versus 1.7x, 1.8x, and 1.8x in 2017. We note that home equity equals approximately 70 percent +/- of the 75+ age cohort net worth and we did not adjust 2017 or 2023 calculations for any costs to sell a home to utilize that home equity.

The charts below summarize my findings of significantly increased affordability between year-end 2017 and year-end 2023 comparing net worth to seniors housing costs.

	YE2017	YE2023	CHANGE
Median Net Worth	\$237,900	\$374,000	57.2%
Cost 3yrs IL	\$142,700	\$177,300	24.2%
Net Worth To IL Cost	1.7x	2.1x	26.5%
Median Net Worth	\$237,900	\$374,000	57.2%
Cost 2yrs AL	\$135,700	\$173,300	27.7%
Net Worth To AL Cost	1.8x	2.2x	23.1%
Median Net Worth	\$237,900	\$374,000	57.2%
Cost 1.5yrs Memory Care	\$129,500	\$167,500	29.3%
Net Worth To Memory Care Cost	1.8x	2.2x	21.5%

TAX CONSIDERATIONS

In general terms, unchanged from the 2017 Brief, eligible medical expenses exceeding 7.5 percent of a senior's income are tax deductible. This includes long-term care services if the senior is chronically ill and is being cared for pursuant to a plan of care prescribed by a licensed health care practitioner.

If a family member is paying for care, health care costs exceeding 7.5 percent of the adjusted gross income of the family member paying for care are deductible. This can apply to medical-related home care and does not need to be performed by a nurse, but personal and household services are not tax deductible except in cases where that care allows the family member to work, nor is a senior's housing costs while living at home. Some home modification costs may be tax deductible less any increase in home value from the home modifications, and it may be possible to claim the parent as a dependent in certain circumstances.

The cost of health care provided in assisted living or a memory care facility that exceeds 7.5 percent of AGI may be deductible if required by a senior's medical condition. Under some circumstances it may also be permissible to deduct the full cost of senior living community care, including the housing components, if living in such a community is considered essential for medical reasons. See IRS Publication 502 <https://www.irs.gov/pub/irs-pdf/p502.pdf> for more information and consult with an accounting professional for more complete information.

AVAILABILITY OF GOVERNMENT ASSISTANCE

While many people believe it does, and there has been some expansion of Federal funding for home health value-based purchasing models since the 2017 Brief, Medicare still does not pay for long-term custodial care at home or in a seniors housing community. It may pay for short-term or intermittent home health, therapy or nursing care at home if homebound or in a facility if prescribed by a physician in response to a particular medical need. This Medicare coverage excludes 24/7 care, homemaker services such as housekeeping or shopping, and custodial care to aid with daily living activities such as bathing or dressing.

Medicaid will pay for long-term custodial care in skilled nursing facilities, but only after all other resources are exhausted. Medicaid does not pay for Independent Living.

Some states have Home and Community-Based Services (HCBS) Medicaid waivers or 1915(c) Medicaid waivers that allow Medicaid to be used for assisted living and memory care or at-home community-based care, but as is the case with nursing home care, Medicaid will pay only after all other resources are exhausted. In addition, there are limited spots with potentially long waiting lists before receiving care, there are variations in care coverage by state, and Medicaid waivers do not typically cover the room and board portion of assisted living.

Veteran's benefits include increased Veteran's Aids and Attendance Pensions payment for care in a seniors housing or long-term care facility under certain circumstances and seniors who qualify for Veteran's benefits should investigate this option. We also note that some aging in place home conversion costs (\$2,000 to \$6,800 depending upon how much a condition is military service connected) may be paid for through Veteran's benefits.



asha

American Seniors Housing
ASSOCIATION

www.ashaliving.org