Senior Living: Leaning Forward

ADAPTING SENIOR LIVING TO PROSPECTIVE RESIDENT EXPECTATIONS WITH LEAN OPERATIONS, CHANGES IN CONCEPT, IMAGINATION, AND MORE MODERN APPEAL

A White Paper rethinking senior living for the 21st century

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Self-Actualization

Freedom

Action Aging

Protection

Empowerment

Inclusion

Adapting to changing expectations

Pursuing opportunity by leading change

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Since this is not an academic tract, citations have been omitted.

Sponsor ActionAging.com seeks to create an Age Friendly America for today's generation of older people, for the coming generation to follow, and for subsequent generations.

No one should be diminished in their self-determination merely because they are visibly older or because they have taken up residence in a communal setting.

Released October 2023

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“Transformations are shaped by those with measured boldness.”

-- Anonymous

“We can change the world and make it a better place.”

-- Nelson Mandela

“The future belongs to those who believe in the beauty of their dreams.”

-- Eleanor Roosevelt

Adapting To Changing Expectations

Pursuing opportunity by leading change

1. Introduction

Most people, who are age and wealth eligible for senior living, choose to stay put rather than to move to senior living. Is it wise for people to sell their homes and move to congregate living, or are those people wise who prefer to stay put and "age in place"? That is a topic that we explore in this white paper along with an exploration of ideas that might give the senior living industry a fresh start.

Over five years ago, Laurie Orlov, an astute observer of senior living and technology developments, considered whether it was wise for young retirees to move to CCRCs. She wrote:

> "So should the reader listen to WSJ and buy something 14 years before it is needed? If the real need doesn't arise until the mid-80s, why advise people to buy in their early 70s? Are there no other options? Here are six that he did not mention.
>
> 1) Sell the house and move to a 55+ community.
> 2) Sell the house and move to a rental assisted living community at age 81-85.
> 3) Work together to form a NORC.
> 4) When needed, ask adult children for an in-law apartment, or buy a home that has one, and move in with them.

5) Form a village that coordinates home care, transportation, and food delivery options near the current home.

6) Consider co-housing options – now there is even an association of them!"

In the interim, we've gone through the pandemic and learned to adapt, and we've discovered that the world post-pandemic is not as it was when Laurie Orlov posted the above. Still, her message is as valid today as it was then.

What can be done to keep senior living viable into the future and what can senior living providers do to adapt to the changing world, to use modern tools to operate with a leaner organization, and to become a welcoming living choice instead of something to be dreaded?

These and others are the questions that this series of chapters explores. We'll start with the challenge of bloat and how the industry might become leaner and sleek. Then, we'll discuss possibilities for addressing coming generations of aging Americans. Those who are now working in senior living as employees of provider organizations will be part of those future agers.

2. It's Personal

The year was 2004. I was approaching 70 knowing that all my male forbears died early in their 70's. I wanted my wife to be safe. Also, I was working from home and missed the daily camaraderie of colleagues working toward a shared purpose. My wife's parents had had a positive experience in a CCRC in New Hampshire.

A Good Idea?

Friends were exploring senior living, so we thought it would be fun to join them. We might even move in somewhere together. That last possibility was ruled out after they chose Air Force Village West where we were excluded.

Eventually, we chose a very nice place on the beach. Of course, there's more to the story than that simplicity but that's a different story for another context. What attracted us was the location. We also took much for granted.

Surprises

The entrance fee topped the list of matters that we just assumed. As an actuary, I naturally figured that it was prepayment of part of the cost of the lifelong contract we were accepting. Later I learned that wasn't what the provider thought it was. There was no real meeting of the minds.

We also assumed that the care in a CCRC would be like what we experienced in school, years ago. We then had regular visits with the school nurse who kept files on all pupils in her care. We soon learned that the CCRC we lived in only screened residents once a year. Residents were responsible for reporting any changes. The CCRC wasn't even computerized. It was a paper file, and there was no online access other than the annual quick nurse visit. That was a surprise.

Although we weren't offered the option of a Type A inclusive contract, the contract we were given to review did include 30 days care a year in the skilled nursing unit, if needed. We assumed that was the same contract we signed in the provider's rushing to have us move in. Only later did we read the executed contract and only to discover that the 30 days was gone. It turned out that, while we were waiting for admission,

the provider raised rates and reduced benefits for all new residents. Fortunately, the 30 days were on the disclosure statement given us, so we were protected, but our trust in the provider was shattered.

Shattered Faith

These early experiences made us wary. As a businessman who took pride in integrity, I began to take an interest in the senior living industry to understand better how it was regulated and what we had gotten ourselves into. Of course, we could have moved out, taken the hit to our entrance fee, and gone through the trauma of moving.

Still, we loved the location and the fellow residents we had met. It was a quandary. As one of our provider's corporate officers said to a group of residents in our entrance fee community, "You people have glue in your seats." That was not reassuring. Nor was it when the Chief Financial Officer described a multi-million dollar write off ordered by the auditors "as of no significance" because the money was long gone, so it didn't affect cash. She added, "Cash is King."

Relationships start with trust, but once trust is lost, it's hard to restore. It takes bold action, acceptance of responsibility, transparency, and accountability. Those are not characteristics commonly found in the nonprofit-dominated world of senior living. Charles Schwab of the brokerage firm says that there are steps that only a founder has the credibility to make. One can add that restoring trust is something that only a bold, charismatic leader can accomplish after firmly and openly cleaning house of the rot that allowed the loss of trust in the first place. After just a few months, I had lost trust and faith in the corporate leadership.

That was how I first became engaged more widely with the industry leaders. I wanted to understand the mindset. After all, these are people committed to serving people as they age into vulnerability. How could that be anything less than a quasi-sacred calling? Only later did I come to realize that, where my wife and I lived, people were asked to leave if they developed cognitive issues because the continuing care facility had no provision for memory care. The contracts provided many off ramps for providers but lacked comparable “exits” or “protections” for residents.

My hope to protect my wife turned to a sense of betrayal and helpless futility. Then I learned that the financial and contract aspects of CCRCs are virtually unregulated, unlike the life insurance industry in which I had worked. That was when I started to advocate for changes by which providers could improve finances and meet the peace-of-mind expectations of residents. An industry that is as dependent on trust as is senior living cannot afford to accept anything but the highest standards of corporate service.

Constructive Action

Naturally, I began with the community where we lived. When a resident, in a meeting of residents with the Executive Director, expressed fear that she might be evicted because recurrent fee increases were consuming her resources to pay, I said she needn’t worry because of the requirement in Revenue Ruling 72-124 to keep residents in residence even if their funds run out, the key ruling governing senior housing. To minimize that liability, CCRCs require prospective residents to disclose their wealth so the provider can minimize the chance that a resident’s funds will run out.

The Executive Director responded, “That’s technical. I know nothing about that.” He then mentioned the provider’s charitable fundraising. When the provider fundraiser came to campus, I asked him about reassuring my fearful resident. He responded that the provider was in full compliance with the law. It seemed like the managers charged with compliance were not fully informed about what the compliance requirements were.

I flew to Washington, DC to meet with a LeadingAge representative, an attorney. That was a surprise. You'd think it might have meaning for a 501(c)(3) qualified educational and trade association that a customer flew across the country for a constructive purpose. My thinking was to be sure that LeadingAge on behalf of its provider members was committed to their following conventional financial practices for organizations with comparable trust obligations.

Two officers, the President and Vice President, from the National Continuing Care Residents Association went with me. We were treated as defense litigators treat plaintiffs' experts. For those who don't know, that means we were treated as adversaries rather than as collaborators on the challenges of age.

We suggested to LeadingAge that it could benefit the industry for resident experts to work with provider contract and finance experts to assure consumers that the industry was sound and trustworthy. Although there were positive murmurings, nothing happened. We learned with time that LeadingAge like similar trade associations is committed to maintaining the prerogatives of providers. Residents are tolerated, but they are not members with a voice.

Appealing to Conscience

All that was left was to try to appeal to the consciences of those responsible, providers, for what gave rise to our disappointed expectations. It was obvious that a trustworthy industry could be more profitable as well. We thought we might the authority imbalance by showing the industry why a more consumerist approach was in their best interest too. We offered resident panels to industry conferences. Most were rejected, but LeadingAge National did allow a resident panel on a resident-conducted satisfaction survey, provided we included a provider officer. We did. Our provider's President graciously agreed to join our panel.

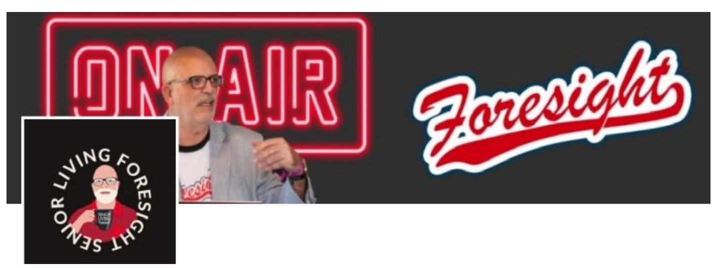
We used the internet to begin to publish well-reasoned material. I applied for the LeadingAge California Board, and after a couple of rounds of turn downs, I was accepted as one of the token resident members. Along the way, I participated in the only educational program that was open to residents, the Certified Aging Services Professional. It was comprehensive, industry specific, and rigorous. Exams allowed aspirants to demonstrate mastery of the complex material.

That program was later discontinued.   All such programs are now limited to rising employees of member organizations comprising the various trade associations. Residents are excluded. Moreover, since now participants must be nominated and sponsored by member employers, even promising college undergraduates thinking of future careers are excluded. It's hard to fathom why the industry is so inward focused to the exclusion of its customers and of those who might join the industry if given a path.

A Courageous Blog

Finally, a groundbreaking industry blog site, committed to helping the industry lift its standards for the future, sought a resident voice toward that purpose. I have been able to publish regularly. I attend conferences, and I have grown considerably, and continue to grow, in my understanding of the mindset that has given rise to the experiences of the past. By "mindset" I suggest that it hard to understand an industry that excludes its customers from its deliberations about its future.

It takes courage to publish what can benefit an industry like senior living even when it's not what those who profit from the industry may want to hear.   Senior Living Foresight (familiarly just "Foresight") proclaims, "We are changing the world and making the senior living industry better!" That takes valid insights and great courage. Steve Moran, the Foresight entrepreneur, evinces both qualities and instills those values in his teammates.



Will the industry adapt to embrace the trust that should be its watchword? Will the trade associations continue to pay lip service to reform while acting to support the status quo? Personally, I remain optimistic. There are many good people working to shield from harm those rendered gullible and vulnerable by old age. Older people will always be with us. They may demand more autonomy as our culture changes and matures. The question, then, is whether the industry that serves them will evolve with them or will today's industry stagnate and be superseded.

That is the background that gives rise now to this white paper after seventeen years of residence. We covered the regulatory situation in an earlier paper (click here). This paper looks at the business possibilities. It would be best for the industry to win complete public trust by its business actions. Government regulatory intervention should only be a last resort, though a proactive industry-led regulatory approach can give the public reassurance that can help senior living and senior services to thrive. Can that wise approach to winning trust arise spontaneously from within the senior living industry? For now, we don't know. I sure hope so.

About the author: John B. "Jack" Cumming, CASP, believes that the senior living industry is essential to America's response to an aging population. He's convinced that the industry will thrive by better responding to the reasonable expectations of residents.

Mr. Cumming's career was in the life and health insurance industry. He is an actuary by training, while his education was as an historian. Since moving to a California CCRC in 2006, he has become active in senior housing, including qualifying by examination as a Certified Aging Services Professional (CASP).

3. The Costs of Hierarchy

Some years ago, someone quoted a wise aphorism. It went like this, "Peacetime armies don't win wars." Duh… but profound. It's obviously true, but what do peacetime armies do. They practice. And officers and enlisted advance in rank. Rank is so important that they wear it proudly on their clothing. Not only that, but military folk also wear their résumé encoded in ribbons on their dress clothing. Those ribbons can be colorful.

What does this have to do with senior living? Famously, the military is highly organized into a top-down command hierarchy. That allows central command and control. Like the military, many senior living organizations are also hierarchical. But residents are not an enemy, and employees are not soldiers.

Is that how your organization is structured? Are the top salaries concentrated in a central office? Does the central office outrank the entities with residents, families of residents, and prospective residents, i.e., your customers and your publics? If so, are you so comfortable with that structure that change is out of the question?

Running Lean

This study explores how senior living can provide more value to residents by reducing the burden of redundant, unnecessary overhead. That consideration of frugal leanness is interwoven with a contemplation of how a forward leaning tilt toward innovation might improve quality of services and the resident experience while helping to make senior living more affordable. After all, the purpose of business is to bring value to customers while giving investors a fair return. In the case of entrance fee not-for-profit senior living communities, residents are both customers and investors. That can also be true in cooperative living communities.

Cost cutting is never enough in itself. Think of this: It is logically impossible to stay in business and cut costs by more than 100%. Nevertheless, revenues can grow without limit. It's better to obsess about revenues than about costs. Jack Welch famously brought six-sigma to General Electric, but product and service innovation was neglected. Where is the General Electric colossus today? Click to learn the fate of the business famous for cost control. The GE story is not pretty. Innovation, invention, and new thinking are crucial for long-term success.

The common belief is that for-profit businesses run leaner and are more future oriented than not-for-profits. The truth is that the form of a business, and whether it pays taxes or not, does not define its culture. Executive management does that. Accounting cultures cut costs. Promotion-minded cultures – innovative entrepreneurs with a compelling business model – grow revenues.

Cost management matters. No customer wants to feel suckered by paying high prices to support a sloppy business culture. It's the promotion-minded, customer-driven, innovative enterprise that succeeds and sets the standard for others to rise to.

If the future is to be customer-focused with lean, modern operations, how does senior living get from where it is now to where it wants to be?

Complacency or Change

What strikes one as self-evident is that senior living's future won't take shape in the cloistered aerie of a central office – remote from residents and other stakeholders – with denizens vying with each other for power and influence. It will take an entrepreneurial spirit that cuts through bureaucratic gamesmanship.

Entrepreneurs are those rare visionaries who glimpse the future with clarity. There are many wannabe entrepreneurs who claim clairvoyance and who believe that their glimpse of the future is the right one. What's rare are those entrepreneurs who see that future accurately, who are able to enlist others in their vision, and who act decisively in time to gain the advantage.

This is not new. Alexander, student of Aristotle, saw opportunity to the East and made Hellenism the cultural force of the ancient world. Closer to home, and nearer to our century, John Jacob Astor saw opportunity in Manhattan real estate and sold his fur business to found one of the great American fortunes. Likewise, Cornelius Vanderbilt took a plunge by selling his steamship business to speculate in railroads giving him untold wealth.

In our time, Jeff Bezos threw aside a promising career with a hedge fund to take a flyer on the potential of the internet. Mark Zuckerberg may have taken his ideas from others, but he found collaborators to bring them to reality. Elon Musk has shown an appetite both for ideas and for risk that has made him a titan in several arenas. Others may have *thought* they envisioned the future, but they fell short.

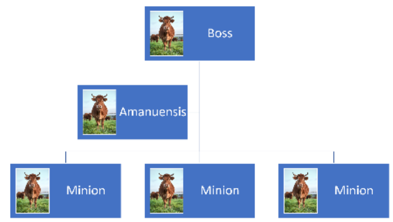
Entrepreneurs see the future clearly; act swiftly to stay ahead of the laggards; turn out to have had the correct future vision; and benefit humankind and themselves by executing on their vision. These are not new truths. Effective genius is exceedingly exceptional. Aristotle famously said, “No great mind ever existed without a touch of madness.” Elon Musk, again, comes instantly to mind.

Humankind is forever poised to go where no human has ever gone before. That is the opportunity that now beckons those who serve older people. The opportunity is there for those with the wisdom and insight to see beyond our time to the decades to come. Lofty thoughts like these immediately set into relief the brake on achievement that a cost generating, inhibiting force, burgeoning central office can become.

Costly Comfort

Service in a senior living central office can be very comfortable. It can seem secure, and it’s well compensated. Colleagues and subordinates provide a supportive social life. No wonder the remote hierarchical central office organizational model is so persistent. For comparison, a senior living organization might hire a management firm like LCS™ for, say, 5% of gross revenues. In contrast, a multi-layered hierarchy can consume as much as, say, 20% or more of gross revenues. Do you know the numbers for your operation?

Hierarchy is best for one-way downwards command communications. It bogs down, though, when the need is to respond to changing cultural values. Peacetime armies are famous for training how to fight the last war while the next war is looming. One-way command is justified for swift response to an unforeseen crisis, as COVID was at the outset. Otherwise, command can get in the way.



And on and on without limit to infinity of layers and beyond

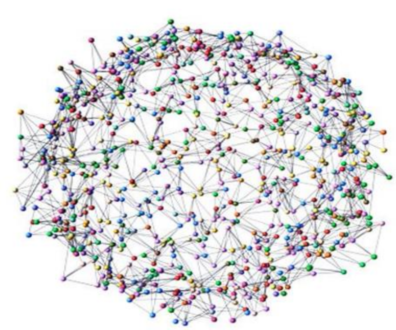
Passion For Change

Hierarchy is not how highly creative people organize themselves. They want active participation. They need that shared commitment to thrive. Most often, gifted people come together for a common purpose, whether it's developing a better space rocket or simply eliminating superfluous intermediaries. There is no hierarchy in mutuality.

Think of a group of talented people coming together to develop a new idea. It might be a grassroots program among people who are worried about aging but who are reluctant to uproot themselves. Say the group wants to reinvent home care. The ideas flow.

The group imagines the problems that may arise… untrustworthy caregivers, hazards of volunteers, well-intentioned but inept people, and more…. As quickly as the problems arise, group thinking resolves them. Time flies. The concepts take shape. It's exciting.

Now consider mid-level managers in a hierarchy who have great ideas for the business. They need their boss's approval for those ideas to move up the chain of command. The boss, though, will get no credit for the idea, and there may be criticism. The idea may even threaten the boss's job. The incentive is for the boss to reject the idea. The organization stagnates.



Unleash the Network

Beyond Hierarchy

What kind of organizational structure can work best to give a senior living enterprise the edge in meeting changing expectations? What are the possibilities?

There are several options.

- Doing nothing… business as usual… is the first and easiest path. That is to remain a hierarchical enterprise with a CEO at the top and lesser functionaries down the line. Remember how excited the nonentity was in the musical "How to Succeed in Business Without Really Trying" when he was made "Regional Manager" with no change in duties.

  Hierarchy concentrates power at the top, limiting options for innovation. It's costly. It may make the CEO feel powerful and in control, but it does the reverse for everyone else including customers (residents and their families). Moreover, CEOs seldom get selected or paid to do nothing, but that's often the case when hierarchy makes the CEO little more than top administrator in a stagnant enterprise.

- Another option is a grassroots model. We see that in the growing Village Movement for older adults or in co-housing. It works up to a point, and then it doesn't. That point is reached as the group ages and care needs become greater than social needs or when crisp leadership is needed as with the sudden onset of covid. Personalities and group-think can stifle growth.

- Then there's the entrepreneurial model. It's like that talented group described above, fast acting with little structure beyond the personal. It can leapfrog and disrupt an entire industry, but that potential comes with huge risk. Many try but few succeed.

- And, there is the flatter, distributed-authority model. It can be similar to a franchise concept, though we don't find that in multi-family housing or in senior living. For executive directors, it's an empowerment model.

The smoothest functioning model is that which is natural. We find that in practice in those few naturally occurring retirement communities in which the forces of adaptability have gradually brought in services as the neighborhood has aged and as needs have escalated. Toward the end, such natural processes tend toward a small care home.

It may begin with the home of a family member who takes in a relative and provides care. It can grow from that, say, if the caregiver grows in the role and takes in others, perhaps friends of the aging relative. It can be supported by visiting nurses or other practitioners or even for larger care homes, a resident nurse. The challenge for a corporate senior living provider is to improve on the natural care home or to adapt to the larger corporate entity lessons to be gleaned from the “small is intimate” care model.

In the next section, we’ll delve into the promising concept of distributed authority.

4. Distributed Authority

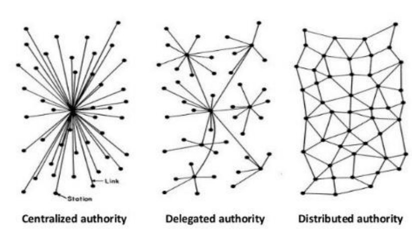
A non-profit, in particular, but also a wise for profit, gives priority to customer value. That's true for any organization but it's especially true for a people-serving business like senior living. Giving priority to customers requires establishing close relationships with those served and with prospects who might benefit those services and community. Given the remoteness of central offices, which are common among senior living multifacility operations, one has to wonder who thinks that a large, detached central office is a good idea. Those central offices are the antithesis of community.

Why would a business committed to bringing value to resident-consumers (beneficiaries in nonprofit parlance) tolerate the overhead cost burden of a large central office? Shouldn't a not-for-profit, especially, put resident/beneficiary interests first and, accordingly, operate leanly and take full advantage of the latest advances?

Those were questions we considered earlier in this study. One solution, a promising solution, a tested solution, is that of distributed authority in which the critical role of executive directors is recognized and empowered.

The Military Analogy

The trick, of course, is to find the perfect balance between central branding and local autonomy. With full centralization, there is the risk that the central, concentrated authority, often the CEO, exercises poor judgment to the impediment of the organization and its mission. Using a military analogy, there is a widespread belief from the Vietnam era, that General Westmoreland's shortsighted vision cost American lives and precluded an American victory.



Courtesy Blockchain Engineer

Ironically, though, again using Vietnam as an example, peaceful civilian and diplomatic interactions have achieved with Vietnam what war was unable to accomplish. The same is true of the contrasting leadership styles of command vs. empowerment in industry, particularly in senior living with communities of residents and those who serve them.

With distributed authority, the concentrated authority risk of poor judgment is defused. It's still there, and the job of management and corporate boards is to minimize business judgement risk. Distributed authority, though, can provide checks and balances on that potentiality.

The top-down command alternative concentrates authority and control. That centralized authority enables singleness of purpose and quick action. With a strong commander that can be effect. With a weak commander, it leads to drift, waste, and futility. It's not difficult to think of successful businesses, including senior housing enterprises, that have lost their way and failed because of weak leadership that allowed the market to overtake the business for which the leaders were responsible. What's true of military leaders applies equally to business. The world beyond the corporate suite is an unforgiving, demanding one.

Great CEOs Are Rare

It is possible, though rare, to have centralized authority without the bloat of hierarchy. The organizational mandate, the CEO's responsibility, is to find that optimal middle point between degenerative command and chaotic lack of direction. The ability to find that balance is why great CEOs, like great national Presidents, are rare.

Many CEOs, however, perhaps even most CEOs, enjoy the ego boost that comes with the position. That makes it tempting to surround oneself with flatterers who further inflate that ego. Of course, an oversized ego, combined with vision and astute wisdom, is a positive for a person who should be a very visible, outgoing leader. Confidence allows a leader to learn from others and to give them credit without fearing diminished leadership authority.

On the other hand, a self-centered ego is the most troublesome malady that can cause CEOs to stumble or, sometimes, to fall. The ancient Greeks called ego "hubris" and they consider it the single most telling impediment to greatness. "Getting even" is often a manifestation of hubris. The Greeks believed that hubris led to tragedy.

The best antidote to egoism disease is to get out of the central office and to meet with outspoken customers (“residents” or “patients” in the case of senior living. The bright ideas and pointed criticism of customers is usually not the best advice, but it does help heal the ego malady, and in the best of circumstances it gives you the wisdom that your staff may see but often will withhold from you.

Many senior living providers now have military style hierarchical command structures with the central office and intermediate regional commanders having approval authority over the operating units. That structure builds distance and passivity between the vision and the people. It withholds key information needed to govern wisely. It’s characterized by narrow spans of control to rein in lower-level initiative. The alternative is to widen reporting spans to the largest extent possible to unleash the latent leadership potential embedded in the whole organization.

Distributed authority moves decisions closer to the people served and empowers the human spirit for creative improvement. It takes advantage of talent and responds intelligently to shifting local conditions and opportunities.

Practical Authority

How might that distributed-authority model work in senior living? It’s worth a closer look. Moreover, we don’t have to look far to find an example. Kendal Corporation not only has the plus of operating on Quaker values and principles, but it also elevates executive directors to be CEOs of their own businesses.

Each community is incorporated as its own 501(c)(3) nonprofit corporation. Each executive director is the CEO of that business. Each community has a CFO as well. The headquarters corporation serves more as a support corporation than as an aristocratic boss. Kendal’s mission is simply stated, “Together, transforming the experience of aging.”® The implication, of course, is that the transformation is a positive one. The enterprise is committed to change and improvement. Consensus is valued more than command. Kendal is one of the most respected senior living enterprises in the United States and beyond.

Each Kendal community is unique, but there is a unifying commonality and information sharing to elevate the responsiveness of the whole brand. That Quaker commitment to consensus, principled unity, and the wholeness of all humanity provides prospects with a predictable living experience. That's much like a franchise brand. Every Marriott, for instance, has its own unique features, but there is a brand identity that makes people feel comfortable and welcome. Customers like the familiar predictability of the experience and the promise of cleanliness. That nationwide branding promising a quality experience is uncommon among senior living providers.

Decentralized authority at Kendal pays off, too, not only for residents, but notably, also, for executive directors/CEOs. Kendal executive directors are paid upwards of $300,000 a year. Moreover, with a decentralized "franchise" organizational model, the corporate autonomy of each community (or hotel, in the case of Marriott, or dealership for an auto company like Ford) serves as a check on the unbridled concentration of authority in the central office.

A single, locally owned Marriott hotel might (and sometimes does) shift to Hilton branding without changing the ownership of the individual hotel. Likewise, a Kendal affiliate recently chose to separate from the parent, purportedly as a money-saving initiative (Click here for more info). Most residents are very pleased with the Kendal experience. The dominant Quaker value of respect for every human being elevates the resident and employee experience.   A brand isn't what the central office may want it to be. A brand is what consumers and prospects perceive it to be.

It's Not Difficult.

Contrast that unifying wholeness of branding and values with other organizations, many with less operational standardization, in which high salaries are concentrated in a central office remote from operations.   Kendal's unique structure, with each community its own corporation, means that residents can have governance input locally where their influence is most needed and most appropriate.

It doesn't take much to transform an enterprise from the hierarchical model to a distributed model.

(1) Let each community be its own corporate entity.

(2) Give full decision-making and financial authority to executive directors and local community management.

(3) Put in place enterprise-wide standards and monitoring systems.

(4) Intervene only when local operations veer off the track, just as an effective board only intervenes when the CEO and top team go off the track.

(5) Slim the central office and limit its role.

Of course, there has to be accountability and, as COVID taught us, there has to be a way to act swiftly in crisis times. This is where a digital centralized monitoring and communication system comes into play. The ideal system captures transaction data at the most minuscule level. The continuous conceptual evolution known as AI (artificial intelligence) can then continuously look for patterns which can alert the CEO, or other auditors, to spots where attention can be beneficial.

Continuous Improvement

Each step in every process matters and can be optimized. But, most important of all, modern computers not only enable artificial intelligence, but they also enable data to be rolled up to provide dashboards revealing performance at every level. That allows the top-level CEO to intervene swiftly and decisively, with trustworthy information, when and as needed. It also enables a feedback loop to help all levels of management continuously improve performance.

Tellingly, a recent technology survey of senior living executives, run by a leading industry news organization, didn't list either a comprehensive managerial dashboard, or even a state-of-art managerial accounting system, among the tech-vendor options that it thought executives might be considering. Instead, those were limited to "Artificial Intelligence (AI), Virtual Reality, Robotics, Predictive analytics, Wearable health monitoring, Staff engagement/communication, Internet of Things (IoT)." Hmm… a word of gadgets, some promising, some cumbersome (VR), and most faddishly au courant within industry circles. There's no evidence of any resident input or even resident engagement/communications, which is itself a developing vendor sector.

To elaborate, the data-driven model can provide a continuous loop starting with expectations, continuing with comparisons of actual results to expectations, leading to evident areas for improvement, providing new expectations. A continuous loop from expectations to performance to improvement. Those initiating expectations inform both pricing and performance standards.

While it's hard offhand to think of any senior living vendors with a topnotch dashboard tool, I'm very impressed by the EXL companies. Sometimes we can find a better paradigm by going outside the senior living bubble, and even outside the healthcare bubble. EXL describes itself as a "global analytics and digital solutions company," founded in 1999 by two men with Indian roots. As it has grown, it has diversified from technology into a broader business vision which in turn informs its technology roots. Click here to learn more.

Crisis Strikes.

While dashboard credibility is essential every day, it becomes crucial when there is a crisis. Crisis brings out the best (or the worst) in the CEO. With COVID some CEOs quickly took decisive action to get personal protective equipment. Others took longer to respond. Unleashing the talent of executive directors can lift the performance of the industry.

In the next section we consider how to make corporate decisions more relevant and more pertinent to enterprise purpose.

5. Respecting Customers

One of the biggest drawbacks of a hierarchically privileged central office is its remoteness from operations. HumanGood® recently moved its central operations closer to the action. The staff for those central functions are now co-located with communities. Co-location is a way to help senior living become more responsive to residents and to popular expectations.

The first section of this study considered how clinging to hierarchy inhibits value. The second section opined that distributed authority can not only save money, but more importantly, can keep the organization relevant and responsive. By challenging entrenched mindsets, e.g., the common perception of age-related resident pathos (residents are often seen as hapless doddering, privileged old folks), the potential of the senior living industry to meet the needs and wishes of aging Americans can be enhanced, dramatically.

Resident Cogency

Moving thought and action leaders closer to the revenue base, can unlock the latent collective resource of resident cogency. Yes, "resident cogency." Not all residents are failing, though many are. Not all residents have settled into passivity, though many have. Not all residents have cognitive challenges, though many do.

Residents may not have the energy they once had. They may no longer be eager to have the responsibility of leading. Almost without exception, residents have no desire to "run the place." They are happy to leave all that to others.

Still, many have great ideas. Many even have a sound eye for the future. It's a self-destructive mindset for providers to imagine all residents as decrepit, wanting to be humored by arts and crafts, but to be ignored for decisions that matter. It's not enough for top executives from the central office to visit for half a day or a bit more. That may be intense, but in the larger scheme of things, it's relatively meaningless. Do vendors visit your central office more often than residents do? If so, that should change… pronto.

Seldom are such occasional drop-in talks with the big shots from the home office substantive. In fact, the first time executives speak candidly with residents about business matters, is often when executive leadership has fallen short and they have to share with residents the news that the enterprise is faltering. Many residents want more than happy talk. Happy talk is all they get when a smiling, expansive executive swoops into a local community, pretends to listen sympathetically, praises outspoken local residents by name, and then retreats to the corporate cloister to ignore all thinking but that of central office associates. That is a recipe for mediocrity.

It's no wonder that most aging Americans choose to stay put rather than to move to senior living.

Breaking the "We-They" Divide

A false perception that serving older people is charitable leads to condescension. The IRS calls old age "distressing." Most people aren't looking for charity. They want to be treated with respect. People don't think that childcare is charitable. Why would people think that eldercare is? Given that common charitable hauteur, it's no wonder that many "good" organizations spawn hierarchies.

Doing good can lead to arrogance. It can be tempting for people with power over others to imagine that they are better than those they serve. We are all created in God's image. Moreover, we remain equal in the eyes of our creator from birth through end of life. We are one family, and no one is worthy of more pretense than another.

As in true in any naturally occurring social group, there is often a jockeying for influence and belongingness. In my high school, we talked of three social levels: (1) the in-kids (often members of a preferred ethnic group, i.e., WASPs, or children of a local social club, e.g., a selective country club), (2) the nerds, and (3) the losers. I was one of the "nerds"; our family was decidedly lower middle class. I was always jealous of those ethnic kids who were part of a warm family structure. Their families weren't admitted to the country club, but as best I could tell, they didn't care.

In the absence of clear committed leadership, that same kind of divisive dynamic can emerge in a corporate setting. It also often festers even among community residents, and some CCRC policies encourage it. But, in this section we're focused on divisive factors in the corporate culture, and it's only natural for those in the isolated aristocratic setting of a central office to think of themselves as "chosen." We speak of "teams" but "team" has become a euphemism for a boss and underlings. It should be a group working in harmony for a common objective.

This can then lead to a similar three level structure like that in many high schools. At the top are: (1) the privileged executives and staff of the central office, followed by (2) the managers and staff at the local community level, with (3) the residents at the bottom with those who are failing cognitively at the very bottom.

A senior takes a rest at On Lok Senior Health Services

Eliminating that central office sanctuary is the best way to break the "we-they" divide that separates residents from providers. The challenge is to break the hold of ego gratification that comes with a hierarchical mindset with residents at the bottom. Doing away with a physical, separate central office, and changing to an empowerment mindset, requires action which equates to a near miracle. John Cochrane, HumanGood®'s CEO, one of the most forward thinking leaders of senior living, is accomplishing that miracle. His solution: co-location.

Cochrane's utterances convey wisdom in pointed, pithy sound bites. For instance, at a recent industry conference in Los Angeles, Cochrane had a handful of pertinent observations. Here are a few.

- "Identify your top performers and invest heavily in them."
- "Nurturing the mental health of executive directors is critical."
- "Avoid creating reasons for prospects to stay home instead of coming to us."

This is the kind of wisdom that comes from encountering residents every day, and not from occasional drop-in visits from the central office. Mr. Cochrane's last aphorism above resonates as particularly true. If you want customers, don't create barriers to their becoming customers. Instead, remove the barriers and make it a natural next step for them to become your customers.

Whom Do You Serve?

If consumers are the key to success, why then are so many senior living central offices remote from the communities that house their paying resident-consumers? That is hard to say. Some executives put the grandeur of their surroundings ahead of the best interests of those they lead and of those they serve. An executive I know prides herself on the modern work-recreational balance of the central office, the design of which she spearheaded. The central office is the newest, most modern "community" her company has created.

Executives who pursue personal aggrandizement and wealth are not new. In the Gilded Era, Henry Baldwin Hyde, a successful mogul, was said to drive to work in a coach and four with footmen, who jumped down to unfurl a red carpet, so the "great man" would not sully his pristine footwear between coach and office. The "impressive" central office can give some latter-day "lords of the manor" the same rush that Mr. Hyde must have gotten from that red carpet.

No Place for Grandeur

What we can say, though, is that remote executive grandeur is inappropriate for the grandees of an industry which purports to be dedicated to the needs of vulnerable aging customers. It may be disruptive of industry norms to locate senior living corporate staff in proximity to the communities that fund their existence, but it's a disruption that's overdue.

Covid showed us that, thanks to Zoom, remotely working executives dispersed among the local residential communities can still collaborate very well. Anything that makes senior living more amenable to the wishes of aging Americans will make the industry more relevant, more responsive, and better positioned for growth.

Discerning precisely what those wishes are can be challenging, but it seems obvious that supporting the cost overhead of a luxurious central office is not consumer friendly.. Moreover, while some residents may be content to be second class citizens in their own homes, accepting the premise that old age requires dependency, it's unlikely that the majority of prospects would choose that common industry premise.

6. Getting to Lean: Right Sizing

Senior living needs more nurture and less macho. Making that transition does not come without pain. It often takes courage to do what's needed.

A theme of this paper is that empowering executive directors (and becoming more selective in the qualification and onboarding process) to become CEOs of their community can help lift senior living and make the industry more responsive to its customers. By demanding more of EDs, and by choosing or retaining only those who can handle the responsibility, we enable the elimination of failsafe intermediate management layers (regional managers and the like) and of redundant functional managers (corporate marketing and the like) whose oversight duplicates and inhibits local functional managers.

We do best when we follow the natural order and give people the resources to live better lives with autonomy and independence. In this section, we come to grips with the hard realities involved in moving from bloat to lean and from stifling to refreshing. If we do this right, we can allow, and even encourage innovation while maintaining brand-consistent standards of safety, inclusion, respect, security, compliance, technology, responsiveness, and value.

Managing Lean

One goal of business is, or at least should be, to provide maximum value for the least cost. We call it "lean management." It has to be used with discretion and sound judgment. Lean can work in senior living, if our trade associations can repeal artificial staffing ratios, substituting quality measures for numbers, and if we can hold local

2022 vs 2021 US Individual Income Percentiles management accountable for good judgment while empowering those same managers to use their judgment.

Here's a corporate exercise to engage your payroll department. Ask your chief financial officer and your payroll administrator how the bottom line would change if the top 1% highest earners in the business left. If you have 200 employees, what difference would it make if the top 2 earners left the business. If you have 3,000 employees, what difference would it make if the top 30 were gone. An exercise like this is no substitute for sound business judgment, but it opens the mind to focus that judgment.

Layoffs

Chances are that the newly lean organization will adapt and do just fine. Lean organizations typically perform better with less bloat at the top. Hierarchical organizations likewise tend to grow bloat because promoting people for loyal service feels good. Academic treatises on "span of control" encourage excess staffing. Laurence Peter framed this tendency in his 1969 book, *The Peter Principle*. The book endures as a perennial because so many have ignored its wisdom, so the malady of organizational obesity persists.

Such bloat is a natural development within almost all hierarchical organizations. To reframe a control-hierarchical organization toward an empowerment-responsibility organization, dislocation is a necessary process. Let's call it by its name, layoffs. The Brits prefer a more euphemistic term, "redundancy," but we Americans are more direct. Involuntary termination is better connoted by the more direct term, "layoffs."

Those top earners, if they're worth what they're paid, can earn as much elsewhere as they can filling unnecessary posts in a hierarchy. Many are talented people, whose talent is underutilized, and whose personal growth can be stunted by lack of realistic challenge. If they can't transition without loss, then they're being paid more than they're worth.

As difficult as it is, noNo decision to release redundant but talented people should ever be seen negatively. In most cases, the decision to cut costs results in unforeseen opportunities for those impacted. Often, they have simply fallen into a rut, working in a stagnant organization, while opportunity passes them by. You can do them a favor by pulling them out of that rut and freeing them to find their true value. Be empathetic but be firm.

I recall one CEO, who gathered all those who were tapped as redundant in a large room to give them the news. “Don’t think of it as a layoff,” he has been quoted as saying, “think of it as a chance for a second career.” That is not good messaging. A little common sense, mixed with empathy, can go a long way in such a situation.

Redirecting Services

Let’s take an example. You may have an embedded research entity that studies technological advances and their applicability to senior living. The group is known for publishing statistical analyses of pilot studies using residents and often paid for by prospective vendors. Now that’s a valuable service that your senior living enterprise offers.

You may keep the group’s value in- house or you may share it with others, though it’s unlikely that you share it with your most effective competitors. Maybe you get paid for it, or maybe you don’t. Even so, just stating that ambiguity as we just did, shows that such a research/consulting team could be more effective if the leaders were on their own with their own independent consulting and advising firm.

Imagination in structuring separation options can make it possible. In this case, an internal research team might want to stay together. In lieu of severance, the slimming organization can spin them off and capitalize them for, say, the first six months of independent operation. That will give them time to get on their feet and to reconfigure their business plan to become self-sufficient, bringing greater benefit to their clients and themselves.

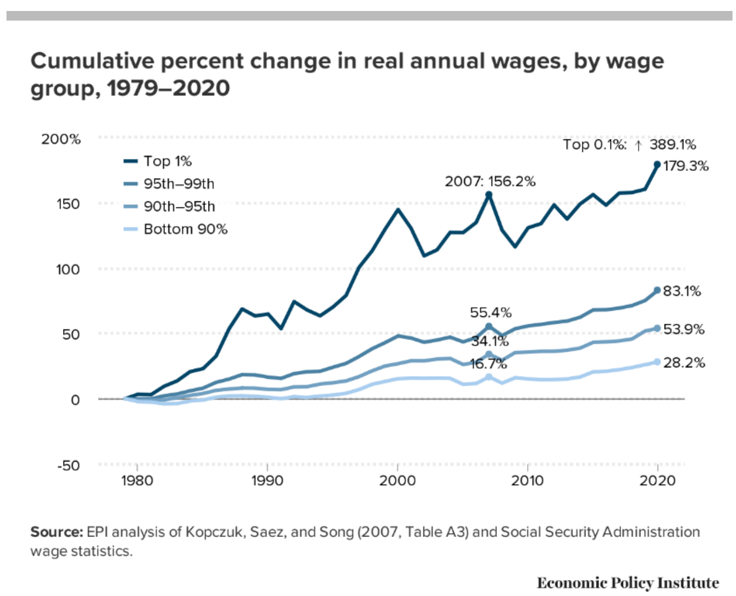
Different Strokes for Different Folks

Another person might have a talent that could be very valuable on a freelance basis. This can apply especially to professionals. Many enterprises might need those professional services but be unable to afford them as a full-time executive position. Again, providing bridge financing and referrals to help the now newly independent professional get established can unlock opportunity for the individual far beyond that which would otherwise have been possible. Your slimming enterprise may be the now independent professional's first and most important client. It's a win-win for everyone.

Finally, there are those who just don't have the gumption to go out on their own. They cling to the perceived security of a job, and if they lose their current job, their only consideration is to try to find another job. That may require them to take a cut in pay. After all, a person with so little gumption shouldn't be among the top 1% of earners in the first place. For them, the traditional outplacement package with counseling and job-search assistance makes the most sense.

Avoid Top Heavy

The takeaway from this is that it's easier to cut from the top than from the bottom. Also, at least in the short term, it is more effective financially. Moreover, finding talent eager for responsibility, and operating more leanly can revitalize an enterprise that has grown complacent and inbred. As is to be expected, bloat bubbles toward the top, so the place to start to eliminate bloated overhead is with the top. Talented people land on their feet and, most often, find a more satisfying engagement after a change than they ever could have experienced enduring the status quo.



Cumulative percent change in real annual wages, by wage group, 1979–2020

Source: EPI analysis of Kopczuk, Saez, and Song (2007, Table A3) and Social Security Administration wage statistics.

The point of clearing away the undergrowth of bloat that organizations tend to accumulate isn't just to pare costs. It's also a valuable human service. For those who are compassionately let go, it stirs them to find a new purpose and new positions for which they are better suited. For those who aren't self-destructive, that push into something new resets them on a path toward happiness.

What of those who are self-destructive and who wallow in the sense of unjust victimization? For them, that sense of victimization has to be its own reward. If they are lucky, they will find relationships that help to set them on a more constructive course. There is a limit to what an employer can do to help a person who embraces victimhood. Their self-doubts may preclude their finding success and self-realization. All that comes to mind to help reverse self-defeating behaviors is to include a short intervention counseling program as part of the separation package for those whose missteps are self-destructive.

For the organization, cutting the bloat removes the impeding presence of under performers who sap the energy of the business and who interfere with the constructive actions of those who are committed to moving the business forward. A lean organization is not only less costly; it's also a happier, more fulfilling place in which to come to work every day.

7. Growth Is No Panacea

It can be tempting to imagine that you can cut the burden of overhead through growth to spread fixed costs over a larger base. The hope is that a growth strategy, if successful, can avoid the painful decisions to implement needed layoffs or rightsizing. A growth strategy can seem so attractive that many executives and their boards will borrow capital to leverage an organization, thereby escalating financial risk, in the belief that growth will cure all ills.

Rewards of Talent

If this thought enters your mind, it's time to set aside the rose-colored glasses. The key to success is an eye for talent. Capable executives know how to spot talent when they stumble across it. They also know how to attract talent and to bring them to work with them to make the corporation better.

Investopedia / Ellen Lindner

Not only is a gifted CEO skilled at attracting talent, but the talented leader is the attraction. People of talent want to work on a team with other talented people and with leadership they respect and learn from. Forming such a team is self-propelling as the team members work together, think together, understand each other and delight in the game of business. Such a business doesn't have to worry about keeping people. If they love the camaraderie where they are, it takes a stupendous opportunity to lure them away.

Reckless Growth

The alternative of trying to grow the business out of the doldrums comes with inordinate risk. Over expansion was key among the developments leading to the liquidation bankruptcy of Air

Force Village West and to the financial shoals that other senior living enterprises, especially many nonprofits, find themselves in (or are blind to).

Business history is littered with the shells of businesses that grew too fast and failed as a result. Here are some quick examples.

- Blockbuster: Blockbuster opened too many stores too fast and failed to see the challenge from streaming services. Blockbuster filed for bankruptcy in 2010.
- Borders: Borders, too, opened too many stores too quickly. Borders filed for bankruptcy in 2011.
- Pets.com: Pets.com, the classic optimistic business of the dot com bubble, filed for bankruptcy in 2000.

Just before the surrounding area became non-residential, Air Force Village West was advised to expand by building more villas on its CCRC property. Air Force Village West, then operating as Altavista Village, filed for bankruptcy in 2019.

Erickson Retirement Communities, founded in 1983 by John Erickson, grew rapidly to become one of the largest senior living providers in the country. It over-leveraged its balance sheet leaving it vulnerable to the Great Recession of 2008. Erickson filed for bankruptcy in 2009.

> The success of a business model often depends on current economic conditions. Take, for example, Erickson Retirement Communities of Catonsville, Md. The company built a number of large-scale continuing care projects when capital was readily available and the housing market was strong.
>
> But when the economy crashed, so did Erickson. The company filed for Chapter 11 bankruptcy
>
> **Click for source**

Each of these example enterprises, and others like them, optimistically pushed growth but failed to see change coming, causing them to fall prey to bad executive judgment.

Interestingly, these over-leveraged examples do not include cases of consolidation leading to failure though, sometimes as with railroads (think Conrail), mergers are a sign of weakness. Consolidation, though, does require a practical program for integrating dissimilar financial and operating cultures. A well-conceived strategic vision with risk minimization and capably prudent leadership can make a decisive difference.

Expansion Success

It takes exceptional leadership to ride the growth rocket. It's difficult and risky even for organizations with no complacency baggage. It almost never works to offset financial challenges. It can be done, but it's exceedingly rare. It's much easier to start with a clean slate.

Consider Amazon. No baggage there. It was a clean startup. Its growth trajectory is one for the ages. Under the personality of Jeff Bezos, Amazon was able to drive growth to become one of the leading business success stories ever. Rapid growth kept the organization lean. Moreover, Amazon's customer obsession and will to action was not impeded by the bloat that inhibits many long-established businesses. Now, with second generation management, Amazon is beginning to struggle with bloat. It's no longer as sleek and lean as it was. Layoffs loom as the only workable solution.

As mentioned above, it's not uncommon for an executive coming in at the top of a faltering business to hope to be able to drive growth so that the painful path of layoffs and downsizing can be avoided. Jeff Bezos didn't have to face that quandary. He had an eye for talent. The result is that secondary components of his retailing vision – logistics and data warehousing – themselves became business success stories.

Most knowledgeable observers agree that Amazon has been an outstanding success. I doubt though that the story would be the same if Jeff Bezos had taken over, say, Macy's, Sears, or another sluggish retail brand. Bezos was a rapid-fire innovator unimpeded by existing structures. That allowed him to supplant the retailing paradigm much as in an earlier era the Sears Catalog disrupted rural general stores.

The carcasses of existing retailers followed Amazon's success. Even Sears collapsed to near nothing. Ironically, Sears shuttered its catalog operation just as the internet and Amazon reinvented the mail-order business. Poor judgment.

Growing your way out of organizational doldrums is not a recommended strategy, though theoretically it might work if all the breaks fell the right way. Not the least of the reasons why growth as a turnaround concept is not recommended is that, for the most part, executives who try growth as an alternative to layoffs lack the obsessive logic needed. Thus, it is that most growth strategies led by consolidation fail. Instead of achieving economies of size, a merged operation my wind up with two central offices when even one may be one too many.

The alternative consolidation strategy is one driven by a commitment to economy and customer value through national branding and very high quality and performance standards. While senior living might benefit from trustworthy national branding, it seems more likely that something like that will come from outside the existing industry rather than from entrepreneurial reconfiguration of what's there now. Still, "more likely" is not certainty.

What of Senior Living?

Is it possible for senior living to grow its way out of market malaise? Is it possible for the industry to reinvent itself to become the beneficiary of opportunity? These are the questions that we consider here.

The answer to these questions is "yes", but that doesn't make it likely. If it were easy, we wouldn't have so many lagging, failing industries… shopping center retailing being just one prominent example. Amazon brought convenience and value to retailing, saving people time and hassle. Moreover, ordering from Amazon came to have cachet. Everyone was doing it. Lastly, even in its infancy Amazon offered near instant gratification since buying any book was just a click away.

Elusive Opportunity

Several senior living enterprises may be following the Sears example. In the next section we'll consider two senior living enterprises that might have become the behemoth of aging in America. And, of course, they still may, though that seems unlikely.

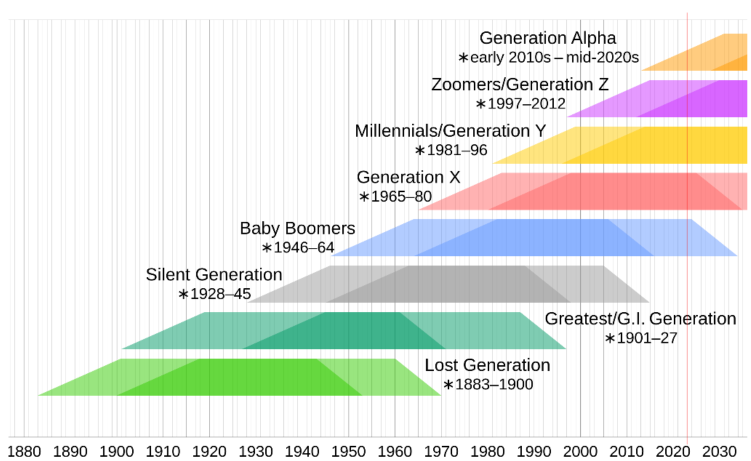
8. Is Demography the Golden Future?

For the past several decades, the senior living industry has been abuzz with talk of the disruption that will arrive with the baby boomers. The optimistic expectation has been that the boomers will bring new life to the industry. That kind of hope is as misleading as imagining that growth can avoid the pain of eliminating bloat. Hope is not a strategy, and it's increasingly evident that the boomers are not just jumping enthusiastically into senior housing.

The anticipation has been that the industry will thrive as boomers enter retirement. In this part of our reflection on cutting overhead and adapting toward the future, we'll consider how that boomer disruption may actually play out. It can be disastrous to count on miracles.

The Boomers Are Here.

Boomers are those born in the years after the vets came home from World War II. Those vets yearned for a life of domestic tranquility centered on family, home, and hearth. The vets doted on their children. Boomers grew up as the prized fruits of that domestic tranquility. Their parents loved and prized their offspring. The Boomers were always special. As they came of age, they confidently challenged the status quo in Civil Rights, the Vietnam war, and Watergate.



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Now nearly 80 years later, they still are not afraid to speak up and speak out, and they are starting to arrive in senior living. The boomers have defined every decade they've moved through, all eight of them. It's no surprise that all signs are that they will put their stamp on senior living. Disruption is now knocking on the care home door. In this section, we consider how difficult it would be for an industry like senior living to disrupt itself to create the future of aging. Nevertheless, in disruption lies opportunity.

Expansion

The demographic promise of the boomer generation can tempt many senior living conglomerates to take on debt to fund optimistic expansion proposals. There may even be the fantasy that rising numbers of age and wealth eligible prospects will cure all occupancy doldrums. This, however, overlooks shifting cultural norms and shifting expectations.

This view of demographics is particularly widespread among entrance fee communities, since incoming entrance fees from new projects can be used to offset strains from older undertakings. It may be tempting, but it's not wise. That kind of rationale for expansion was part of what led to the failure of Pacific Homes in the 1970s. It's never a good idea to look to growth as an antidote for financial strains.

In the last section, we examined the model by which Jeff Bezos and Amazon disrupted the retailing, logistics, and data warehousing industries. The big losers were established firms like Sears. Even major brick and mortar retailers like Macy's and Target have largely stagnated. Of course, these businesses might have disrupted themselves, and they tried, but none of them are today what they were.

There are analogies for senior living. It's tempting to name names, and we will, but the analogies are similar for many senior housing enterprises, the names of which don't leap instantly to mind. It's always a stretch for a successful business to disrupt itself. We'll consider two senior living enterprises that might have become the behemoth of aging in America. And, of course, they still may, though that seems doubtful.

Brookdale

Our first example is Brookdale. After Brookdale merged with Emeritus, it had the scale to become a nationwide brand, innovating to fuel exponential growth. Brookdale, then, had size, capital, and opportunity all on its side. Instead of profiting from its head start, Brookdale instead got itself tangled up in the complexities of merging cultures. The leadership just didn't know how to get that done.

From there, it only got worse. Brookdale submitted to the demands of large shareholders around the mythology of PropCo and OpCo. PropCo and OpCo are senior living jargon for "property company" and "operating company." The idea was that PropCo, REITs (Real Estate Investment Trusts), would lease the real estate to OpCo, the operations arm charged with quality and performance, and everyone would grow richer. It didn't pan out.

PropCo had a single purpose, to maximize returns from leases, while OpCo carried all of the other burdens and most of the risks. OpCo didn't have a chance. The consequence was that PropCo interests squeezed OpCo performance, and Brookdale's reputation with customers and prospective customers suffered.

Brookdale's opportunity for industry disruption was squandered. Of course, the executive management got the blame, and maybe that's just. An attorney leader was replaced by an accountant. Neither proved to be entrepreneurs. Advertising emphasized compassionate caring employees rather than wellness potentialities that might have appealed more to a mass market. Brookdale is a "sick" business to this day. It would be very difficult to turn it around.

Life Care Services

The next example is Life Care Services (LCS®). On its LinkedIn page, LCS describes itself: "Life Care Services, An LCS Company, established in 1971 and based in Des Moines, Iowa, is the nation's leading manager of full-service senior living communities. Life Care Services currently provides operations management, and marketing and sales management for not-for-profit and for-profit continuing care retirement communities (CCRCs), stand-alone assisted living, memory care, and rental communities nationwide."

By operating with a lean executive team, LCS is able to provide management services to its clients with better results at a lower cost than what most managements are able to achieve on their own. In addition to serving client senior living communities, LCS also has communities of its own. Recently, it has moved toward rental communities, downplaying the entrance fee CCRC model. That all seems positive.

In its marketing, LCS emphasizes experience. Upwards of fifty years in business is significant in the CCRC industry which got its big not-for-profit boost from the 1972 IRS Revenue Ruling 72-124 fifty years ago. That perspective is reflected in LCS's commendably exemplary statement of its principles.

- We serve the customer, first and foremost.
- We deal honestly and fairly, with integrity and openness.
- We maintain a long-term perspective.
- We are diligent and persevering.
- We are interconnected and interdependent.

What's missing here? There's no mention of innovation or foresight. There's only implied inference about residents and those who care about them. More and more Americans are insisting that they don't want to move to an age-restricted community as they age. They are looking for services and approaches to aging that can keep them living actively in the general community. That may be LCS's blind spot. It seems highly unlikely that LCS will disrupt the industry it serves. Though it could, and it might.

Conventionality

Then, there are many others with scale. National Senior Campuses, The Evangelical Lutheran Good Samaritan Society, ACTS Retirement Services, and Presbyterian Home and Services of Minnesota come quickly to mind by virtue of sheer size, though none of them evidence the creative spark that will define the future.

They all seem mired in the common notion of aging in America as moving from independent living to assisted living or memory care, culminating in skilled nursing and hospice. Just imagining that continuum is enough to cause dread in the most stalwart among us. Dread is unlikely to bring about the rise of senior living to the American mainstream.

In the next section, we'll consider possibilities by which the industry might disrupt itself to survive and thrive, or more likely, by which outside developments will disrupt the industry to create a new model for aging in America.

9. Lean Forward

If it were easy to foresee future developments, the pathway to success and stability would be obvious. All we know is the past. All we can do is to reason from analogous past experiences to speculate about the future. That's why understanding history is central to the development of sound business judgment.

When imagining what the future may hold for senior living, we have ample history of how events unfolded in other industries to inform us. Using that base, and observing how current culture is trending, we can speculate on the future of aging. In this section, we focus on the evolution of senior living within the context of human aging in general.

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Perspective

Typically, entrepreneurial disrupters take the big picture, analyze the emerging landscape, find the capital backing that they need, and then adapt what's old to what's new. The startup entrepreneur has the advantage of not being vested or invested in the status quo. That same entrepreneur, though, has the disadvantage of not being widely known to the public. Gaining traction in the public marketplace is a difficult challenge. The turnaround leader of an established firm, also an entrepreneur, has a more difficult task.

We should say a quick word about that big picture entrepreneurial perspective. Entrepreneurs are rarely experts in a single field. Most entrepreneurs are quick learners and inquisitive thinkers, who are continually questioning the status quo wherever and whenever they find it. They look for problems to solve or for untapped opportunities to unlock. They are usually intense and naturally ambitious.

They tend to have wide ranging interests, though some may be narrowly educated experts. Most are voracious readers and that offsets any narrowing from their education. Regardless of their preparation, their inquiring minds and capacity for reading and questioning lift them beyond the ordinary. Their self-confidence to act on the opportunities they perceive puts them in a category of their own.

Is It Obvious?

You already know the SWOT formula of strengths, weaknesses, opportunities, and threats. The conventional senior living threat is that of becoming an anachronism as aging moves toward a new paradigm. The classic example of an industry that failed to adapt is the shift to airplanes from passenger rail transit. Rail persists primarily for freight.

More recent is the shift to online from shopping center retailing. Brick and mortar retailing persists for those who like the in-person experience. Will senior living shift from today's care model toward an empowerment model. If so, today's care-centered senior living is likely to persist as assisted living, including memory care, but with reduced share as has been the case with retailing. That's the big picture.

Change is continuous, and it's coming to senior living. There can be no doubt about that. Technology will be part of it, but only when, and if, providers demand meaningful modernization. The historian, Patrick Allitt, describes Andrew Carnegie, an early entrepreneur, as "a fanatical modernizer." Carnegie shows the importance of embracing technology as positive. Allitt notes that, while others would keep old equipment running, Carnegie would scrape it in favor of the new, thereby gaining an advantage from which he profited.

The opportunities for emerging technologies in senior living present similar challenges for those industry leaders concerned with protecting past investments. The fear of obsolescence is right up there with fear of change in explaining why many senior living technologists, who should be leading the way forward, resist rapid adoption of new technologies.

More compelling than technology, though, is to shift from top-down models of corporate authority toward bottom-up models of consumer and local empowerment. The consequence is that many prospects are reluctant to move into a managed community owned by investors or by a nonprofit. The fear of loss of autonomy and post-move-in disappointment has a major consequence. Most people want to stay put and active in the communities where they've put down roots and lived for many years. A revolution of authority is likely to be a central part of any disruption of today's senior living industry.

The American Dream

As Americans we are the beneficiaries of the revolution that shifted from the top-down regimes of monarchs toward the bottom-up creativity of a free people. As revolutionaries, we substituted the will of the People for the will of the King or Queen. That was our revolution; otherwise, it might have been just a war for independence. The relevance to our topic in this white paper is that some corporate chieftains act as enterprise monarchs. That is an obsolete model.

Emerging is an empowerment model with customers, i.e., for senior living those who are aging, at the top of the pyramid. Our American Constitution opens with the words, "We the People…". Imagine a corporate mission statement opening with, "We the Members of [nonprofit org]…" or "We the Owners of [for-profit org}…". That would be revolutionary.

Many of the opportunities for transforming senior living can benefit Americans of all ages if we think outside the bounds of conventionalities. Benefiting all ages and all Americans can dramatically expand the market. We'll consider how that might look.

General Market Housing

Age-restricted multi-family housing is now a centerpiece of senior living. Available onsite are life-enhancing amenities including meals, healthcare, and much more. The positives are the elimination of hassles of everyday living, leaving residents free to pursue more fulfilling purposes. Less positively, age-restriction limits the market and stamps as "old" people who move in.

Will age-restriction persist? It may for assisted living, but it may not for active, independent people. Whether it will be child-friendly is more controversial. That's likely to be rare or nonexistent. Innocent, unrestrained children are great for first-time parents, but it's not the same for those of us with great-grandchildren. Once in a while, no problem, but every day? No thanks.

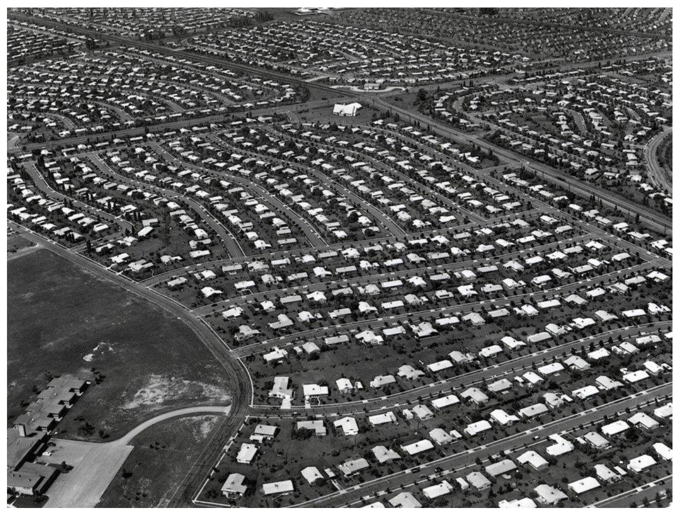
For experienced senior living providers, it may be enough to transition to an age friendly general market multi-family project. In the transition, existing senior living operators already have the advantage of universal design and age-related knowhow. The age-segregated housing of today's senior living concepts seems destined to give way to the extended vitality and autonomy of today's emerging elder generation. Those extensions of longevity and vitality seem likely to persist. We hope they do.

10. Forces Compelling Change

In this section, we drill down a bit deeper on the forces driving change for senior living. Whether the current senior living industry will shift to meet that change challenge, or if it will simply be superseded by alternatives, remains to be seen. What seems unlikely is that today's conventionality will persist as dominant for decades to come.

Staying Put

For aging prospects for senior living, there are many advantages to avoiding senior housing and staying with general market housing options. Most obvious for those who own their homes, staying put allows homeowners – single family, townhome, condominium, or cooperative – to continue with ownership. They are free to maintain that home to their own standards. Staying put provides the comforting familiarity of the known and the support of longtime friends and neighbors.



Staying put also retains autonomy. Those who stay put, or who move to conventional multi-family living, can dine at home or dine out as they choose, without the obligation of paying for bundled meals they don't want. They may even be able to arrange more responsive care services. They don't need permission to upgrade their home. If their needs or preferences change, or if they simply grow restless, they can pack up and move without entrance fee entanglements. They don't have to leave that investment behind or wait to receive a "refund."

Those who stay put also have financial security without the risk that comes when entrance fees are used as equity security against debt or for other speculative undertakings. Senior housing entrance fee deposits today are as much at risk as were bank deposits before the Federal

Deposit Insurance Corporation (FDIC) came into existence. These are substantial advantages to staying put that senior housing has to overcome one prospect at a time.

Natural Aging

Moving to senior housing is not a natural transition. With today's business models, it takes top notch salesmanship to keep occupancy at acceptable levels. Still, many couples, and solo agers, who resist the lure of senior housing as they approach retirement age, choose to move to condos or other general multi-family options. Many empty nesters seek to simplify their living.

I, myself, lived many years in a co-op in New York City, and that cooperative living experience was the friendliest, most accepting, and most varied that I have found anywhere. Unlike a condo, a co-op is grounded in mutuality as a principle and transitions after death avoid the entanglements associated with condo resales.

A few prospects confronting aging move to active adult 55+ living with its age-friendly, but youthful, ambiance. That's more natural than the care continuum alternative, especially when it comes to ownership and vitality. There's a senior services opportunity in offering standby help, if the natural course of aging requires it, to those who live in general market apartments or in active adult 55+ communities.

Financial Product Opportunity

This is where imagination can come in to better match business offerings with the many preferences of prospective customers. As such natural communities age, so do the people who live in them. The business response might be managed long term care insurance, or its unlicensed counterpart, continuing care at home.

With either of those models, a care coordinator makes a big difference especially for those providers who are wise enough to build a financial product around that opportunity.   Although long term care insurance, *per se*, has been fraught with difficulties, a managed approach like that inherent in Type A (full care inclusive) CCRC contracts has shown that it can be viable.

The opportunity is to provide solutions, ideally intrinsically interwoven with the community, to address needs when, if, and as, people age into cognitive and physical challenges. Eventually, such a community may face a turning point at which age-related decline can no longer be ignored. We see that turning point often as people who moved into, say, a leisure-world-type or mobile-home community 30 years ago, come to need more services. At first that seems like a problem, but solving problems like that is the stuff of business opportunity.

Supporting the Mainstream

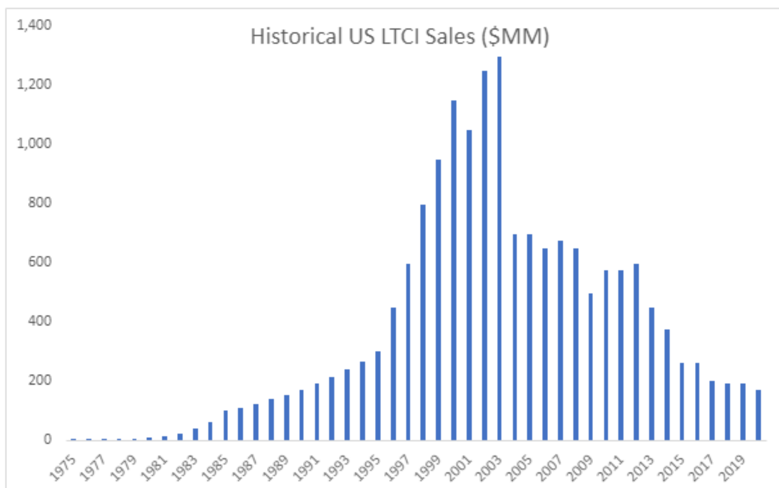
We know that it's much less costly than providing full-spectrum standby care services to stick to real estate with available neighborhood amenities. A property management company can readily administer several properties with relatively low staffing per community.

Given those cost savings, and the accompanying empowerment of ownership and more, looking at the future through the eyes of the consumer, the best course for aging seems to be to stay put as long as you can. If we accept that premise, and absorb it into a business mindset, then the senior living industry's opportunity becomes clear. That opportunity is to make available standby services that activate in an instant when needed. Of course, there is a revenue opportunity in charging for that standby availability. It just takes qualified expertise.

For those residents who are afflicted by aging and who become very needful, well-run small board-and-care homes seem more effective and homelike than institutional assisted living. For less frail agers, especially solo agers, mutual support cooperatives (co-housing) are beginning to emerge. The risk is that, if the private sector doesn't respond to these needs and wishes, the government may, or the market may simply leave behind senior housing as it is now.

Creative Possibilities

It's never positive to have a reluctant customer. It will take executive imagination to adapt. One thought, previously mentioned in passing, has been that long term care insurance, or its CCRC industry manifestation, continuing care at home, combined with care coordinators, might provide services that staying put consumers would trust.



Long term care insurance, though, has been troubled and sales have dropped off precipitously, while continuing care at home has simply not caught on. Sales of continuing care at home are anemic at best. Long term care insurance, without a CCRC focus, still dominates the market for such standby protection.

Primary Healthcare

Healthcare might be a promising area to pursue. It's no secret that today's medical industry does not do well with geriatric patients. Senior living does healthcare better than does the "system." The Program of All-Inclusive Care for the Elderly (PACE) has been very successful, despite the hurdles one has to leap to get admitted. Taking the PACE concepts, making them more readily available, and extending them to people of all ages, is something that senior living is positioned to do well.

Some providers are already innovating Medicare Advantage options. Building such a program with onsite, interactive care, as is the case for PACE, could be particularly attractive. It's possible that a concentration of geriatric patients in either a CCRC or a naturally occurring retirement community (NORC) could sustain PACE-like services within a staff model care system like Kaiser Permanente. The evidence is strong that the PACE delivery concept provides better care at lower cost than the current medical model of flash in-and-out visits to a physician's office.

Unfortunately, Medicare Advantage has been gaining a tainted reputation. That seems to be attributable to a few bad actors who seek to profit by putting enterprise aggrandizement before consumer needs. Most recently, some providers are refusing to accept Medicare Advantage enrollees because of contract terms that impair provider margins, leading to losses.

The problem is primarily among Medicare Advantage plans that are little more than extraneous financial conduits matching consumers with the actual providers of services, e.g., pharmacy benefit managers and commission-paying marketing entities that lowball contracting hospitals and independent physician groups. The PACE model is a more constructive on-site, hands-on approach avoiding the squeeze of these extra cost, contracting entities on margins.

Although primary care inclusive programs present a promising opportunity for senior living, it may be wise to brand them away from other programs and away from ineffective governmental oversight. After all, it's ineffective governmental leadership that has allowed these parasitic Medicare Advantage programs to proliferate. Other, more trustworthy Medicare Advantage plans including PACE can, and generally do, offer better value than does the default government program.

Consolidation and National Brands

Consolidation into national branding has the potential to replace the chaotic welter of senior living options which are now available. Just look at how many home care agencies are available where you live. Combine that with the number and variations of senior living, and it's no wonder that consumers don't know where to start.

In their confusion, consumers turn toward lead generators instead of just going with a brand they trust. If there were trusted, national known providers, people would know where to go for help when needed. They would not need the “advice” of lead generators. Why has the senior living industry allowed lead generators like “A Place for Mom” to develop national brands with senior living providers subsidizing them with commissions in the form of “referral fees”? It makes no sense. An online search for senior living, puts lead generators first. Providers can change that. And they should.

As in all times, opportunity beckons for those with the gumption to pursue it.

11. Epilogue

In the preceding sections, we've considered how to shift senior living toward a more consumer facing business than heretofore. There's no point in rehashing how the industry evolved to be what it has become. The opportunity is to think of the future.

For the most part, today's senior living provider mindset emphasizes enterprise and staff direction and control. Staff make the rules with which residents must comply. That has served the industry up to now, though the industry has remained but a minuscule part of the overall market for housing and serving older people.

The more promising approach is consumer-centric rather than enterprise-centric. Transitioning from "everything we do is ***for*** our customers" to "everything we do is ***with*** our customers" can be challenging for some people. Yet, that's what prospects are increasingly expecting. Today's consumers are demanding meaningful inclusion in decision making.

The big toss-up questions for reflection, discussion, and/or action are: Can today's senior living evolve to become better living for every age? Will the future see the end of age restrictions? Will services now delivered in age-restricted settings soon be available to older people without their having to move from all-ages housing? To what extent will the market demand less centralized decision-making? Can a more imaginative, businesslike approach to the challenges of aging result in better value for those served?

Beyond Charity

The industry of caring for aging people had its origins in charity. It has evolved into a capital-intensive segment of the housing industry. It started with homes for the aged. Housing is still a common part of many offerings. That's limiting. People are forced to move whether they want to or not. People are often required to give up home ownership to pay large entrance fees. For many, homeownership is important for self-esteem. People shouldn't have to make such a choice.

It would be wise to leave housing needs to the general market. That can include apartment or home ownership in addition to rental. The National Association of Home Builders (NAHB) and the National Multifamily Housing Council (NMHC) recently analyzed that over 40% of the cost of new building is attributed to regulation imposed by all levels of government. That cost of regulation escalates dramatically for health-related construction, the category into which senior housing falls.

The 40% "tax" makes it uneconomic to build for those at the bottom of the socioeconomic ladder. That's a barrier to their finding an affordable place to live. Government should be part of the solution not a big part of the problem. The regulatory concentration should be on the few bad actors. Trusted local advisors should be able to certify code conformity to allow their clients a development safe harbor to move forward apace. That's an approach that the general market industry is more likely to have the clout to achieve. The bigger the number of voters that an industry impacts the greater the influence that the industry's lead trade associations can have.

Beyond Housing

Leaving to others the housing part of senior support can free the industry to focus on the desire of older people for standby care, even though that has been a challenge for the insurance industry. The approach to such care, which can be activated automatically when, as, and if the need arises, is a business opportunity that is ripe for reconsideration and profitable implementation. It's an opportunity that requires expertise and talent. No enterprise should shrink from finding the expertise and talent that it needs to fulfill its mission and purpose.

Other aspects of a comprehensive approach to living can be met by moving beyond artificial age restrictions to more general availability of the convenience culture which today's senior living industry has perfected. People of all ages, and of all family circumstances, can benefit from greater life convenience.

This is particularly true as we move into new gender roles in which women are given respect commensurate with their abilities. They need support services to replace the Phyllis Shafly notion of womanhood. It makes no sense for an industry that can improve the general standard of living to exclude most of those whose lives could benefit. The lifestyle benefits that characterize many senior living properties today can benefit people of all ages. The traditional family concept of a stay-at-home Mom raising kids in a single family house in the suburbs is inconsistent with today's working women. They need childcare, which can be adjacent to, and integrated with eldercare. Opportunity is waiting.

New Leadership

There is a trend in which senior living progress is moving from tax-exempt organizations toward organizations owned and led by people who have financial skin-in-the-game. For now, this group of leaders is staying with the age-restricted housing model. But that may change.

Among these leaders are Bill Pettit, who is focusing on Active Adult 55+ housing; Patricia Wills, who has developed a well-regarded chain of assisted living facilities; Andy Kohlberg, who favors urban cultural settings; Sue Farrow, who built a unique age-related-services business; Warren Spieker, who manages a growing CCRC network; and Lynne Katzmann, who has pioneered Medicare Advantage as a tool to better serve residents.

Courage for Goodness

Loren Shook is also part of this group, and he deserves special mention. Loren has pioneered the compassionate improvement of dementia care. It's not so long ago that senility was treated as insanity. My grandmother ended her days in a hospital ward for the insane. Before that, in New York City, many cognitively challenged people were housed at the Bloomingdale Lunatic Asylum.

We've come a long way from lunacy to memory care. Loren Shook deserves much of the credit for the advances. He is a quiet, soft-spoken, thoughtful man who has improved the lives of many. That makes it all the more shocking that a politically ambitious County District Attorney would charge such a man, and his associates, with 13 felony counts of elder endangerment and five felony counts of violation causing death.

By this single action, this county politician has put a chill on the efforts of good, responsible people to care for the vulnerable. Thus, it is that, even among such an esteemed group of leaders, we elevate Loren Shook and celebrate the courage with which he is facing this reckless accusation. ***Update:*** In October 2023, after more than six months of uncertainty, the judge dismissed felony charges against Silverado, Loren Shook, and others. For a video discussion of this case with Loren Shook and Joel Goldman, click here.

Charitable?

These notable leaders are all active in the taxpaying sector of the senior housing industry. It's hard to think of a comparable group of leaders in the nonprofit senior living sector, though there are a few who come close, and there are many nice people who are skilled custodians of the traditions of charitable homes for the aged. Particularly impressive are Cheryl Wilson, recently retired, who brought excellence to San Diego PACE (Program of All-inclusive Care for the Elderly), and Jill Vitale-Aussem, who is treating residents as "citizens" and giving them new services including responsible Medicare Advantage.

While none of these forward-leaning leaders has yet to bring the convenience and comprehensive benefits of the original CCRC concept to the general market beyond age-segregation, the next step may come from them. If it doesn't come from them, then it is likely to come from a similar future-thinker, who has the same drive, motivational talent, and persistence as these leaders.

Reverse the Hierarchy

Sometimes, it just makes sense to reverse established practice. The Roman Empire, for instance, esteemed the emperor at the top with slaves at the bottom. Christianity famously reversed that hierarchy to praise those who serve over those who are served. "Non Ministrari sed Ministrare," is the latinized motto of one of America's most distinguished colleges. It translates as, "Not to be ministered unto, but to minister." That's a commitment that can serve all businesses well.

The opportunity for senior living is likewise to reverse the hierarchy of power to give top position to the public. In such a reversal, the rewards will go to those who place consumers before C-

Suite power and community inclusion above all. Change is on the horizon, and the prize will go to those who are first to implement the vision.

12. Technicalities That Matter

In this section, we look at two technical matters and one paradox, all three of which are material and are often misunderstood.

Compounding

First, is the concept of compounding. Accounting tends to focus on what's current, i.e., the current year, the current quarter, the current period. The effect is that accounting codifications and guidelines are not strong when it comes to the impacts of compound interest or long-term human stochastics. Since many administratively-trained businesspeople focus primarily on accounting, the compounding effects of deferral, which are significant especially in entrance fee funded senior living, are often overlooked.

Financial management of a CCRC enterprise requires more than just following the codifications of the Financial Accounting Standards Board, or the interpretive "guidelines" for those codifications issued by the American Institute of Certified Public Accountants. It requires also looking at the financial strength and performance of the entity by using the techniques of valuation and risk analysis.

This more detailed probing and understanding are the provenance of what a Chartered Financial Analyst might do, or what in the insurance industry an Accredited/Certified Insurance Examiner might do, say, for the single premium life annuity character of entrance fees, and/or for the long-term care and other longevity risks, e.g., matching capacity planning to the predictable care needs of residents, all of which inhere in a CCRC contract.

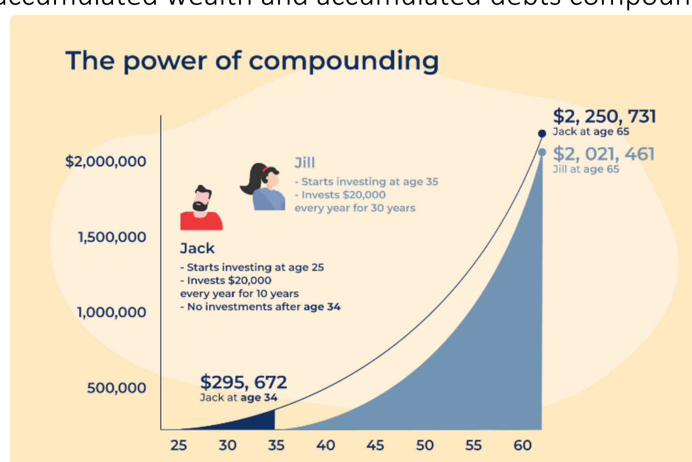
Compounding and a knowledge of human life contingencies are central to a full understanding of the mathematical underpinnings of the commitments inherent in senior housing and senior services.

The Power of Compounding

If a borrower accrues interest on a loan, the loan increases by the amount of the unpaid interest. The borrower is then responsible not only for interest on the principal but also for interest on the unpaid interest together with any penalties. Unpaid interest adds to the loan principal. The interest compounds exponentially. The same compounding applies in reverse for the lender except that the compounding leads exponentially to enrichment.

This seems simple until one discovers how powerful the effects can be with time. With a development project, for instance, the longer the time between conceptualization and the receipt of revenues, the harder it is to make the undertaking viable. That's why excessive regulatory approval delays before an enterprise is able to accrue revenues can make unworkable an otherwise workable project. That lag is a time when deficits mount. The longer the lag the greater the deficit. Developers avoid municipalities without a fast-track or presumptive approval process.

In an enterprise like a CCRC, losses incurred in anticipation of future profits likewise compound continuously. Looking at personal money management may make this easier to grasp. In personal terms, we observe that both accumulated wealth and accumulated debts compound. Depending on the financial medium, e.g., equity or denominated debt, the compounding may not always be smooth as expected. Although the evidence is that over time, stock market investments outperform other investments, we know that stock market fluctuations are to be expected and can be unnerving. Still, it's better to be on the receiving side of compounding rather than on the paying side.



Note: Assumes a 7% rate of return, compounded annually

The evidence is that over time, the proverbial truism that "the rich get richer, and the poor get poorer" plays itself out through compounding. The inexorable reality is that prudence is rewarded while profligacy carries heightened risk of ruin. Charles Dickens put it in more relatable terms when he had Mr. Micawber advise David Copperfield, "Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pound ought and six, result misery."

Many nonprofit CCRCs seek to run at breakeven with the result that a minor operating slip up, or changing macroeconomic circumstances, can result in expenses exceeding revenues, contrary to Mr. Micawber's wise advice. In extreme cases of overbuilding or over-leveraging, breakeven operations can end disastrously. Those missteps, as well-intended as they may have been, compound and can make an enterprise unsustainable to the detriment of the residents it houses.

Putting Residents at Risk. Many accountants and other management advisors rationalize that it's all right for a CCRC to run both an income statement shortfall and a balance sheet deficit (euphemistically a "negative net asset position") because the cash from residents' entrance fees can cover cash outlays, and "cash is king." Their rationalization is that the enterprise is not technically bankrupt until it runs out of cash, though running out of cash from entrance fees impairs the residents' interest in the fulfillment of their contractual and marketing promises.

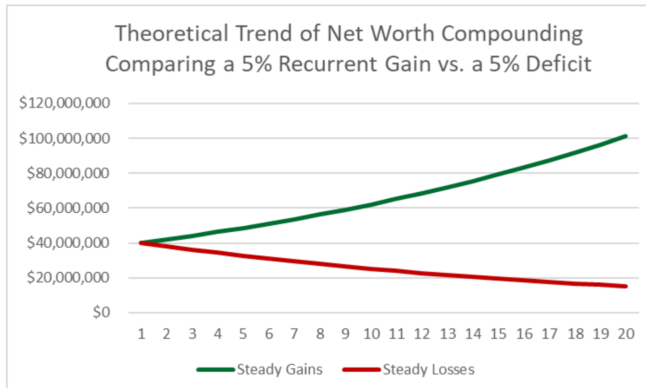
More realistically, though, the enterprise is "bankrupt" in a moral sense, since it only continues to operate by breaking faith with the residents who trust it with their livelihoods. Since entrance fees are paid in anticipation of lifetime reduced monthly fees, it is inappropriate to consume them for current mismanagement overlooking the long-term lifelong commitments.

Similarly, some investor funded CCRCs rationalize deficits in the belief that appreciating real estate values will offset deficits over the long term. At least the for-profit belief avoids the deceptively undisclosed erosion of the residents' stake in the enterprise. In both instances, the nonprofit rationalizations and the for-profit dependence on a "hidden" asset, today's codified accountancy falls short of providing an accurate picture of enterprise finances. Oversimplifying compounding impacts is part of that inaccuracy. It can be material.

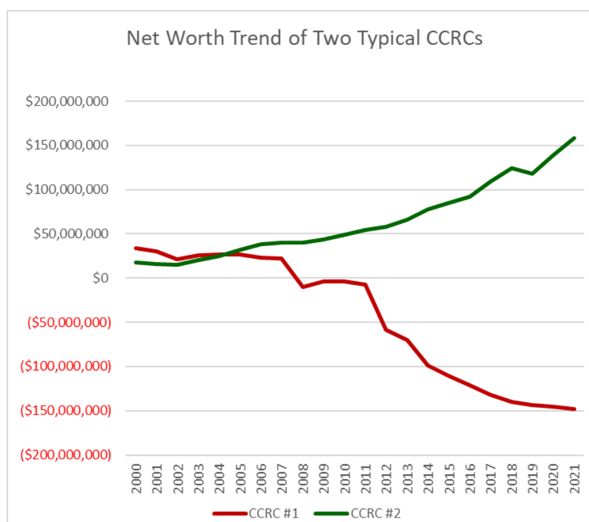
Theory. If future gains are sufficient to offset past losses and the compounding effects of those losses, then it is theoretically possible for a misadvised CCRC with aggressive management to dig itself out of the deficit hole. In practice, that can be very difficult if competitive pricing for residents limits the potential for the needed, loss-offsetting future gains.

This brings us back to compounding. It's a mathematical concept, and it allows the matching of revenues and costs even though the one, revenues, may be prepaid and the other, costs, may be deferred many years, or vice versa.

The beauty of academic mathematical theory is the pristine predictability that it provides. All else is always equal… no downturns in the markets… no unexpected happenstance… etc. but we start with the theory. The graph here shows the compounding impacts over time of a 5% profit margin vs. continuous 5% deficit on funds comparable to those found on the balance sheets of many CCRCs.



The reality, of course, is never that simple, so in the next graph we compare two relatively similar actual CCRCs, one with more debt risk and one that is managed conservatively. Both are nonprofit since the IRS Form 990s are the source for the comparative data. The CCRCs are unnamed since our purpose here is not to shame or to praise anyone but merely to illustrate the perils of a widely accepted senior living industry practice.



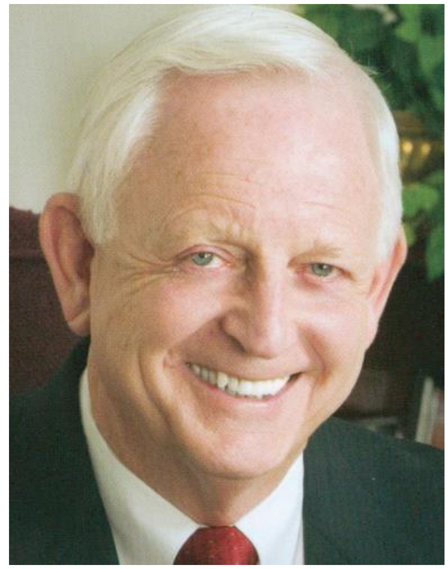
The peril, of course, goes primarily to the residents since they are junior to debt providers in any insolvency proceeding. The residents have no say in whether their stake is put in jeopardy. Those decisions are made solely by management with input from management advisers who may have a conflict of interest influencing the advice they give.

Sometimes, when there is a nonprofit bankruptcy, bondholders take the hit since the market value of their bonds may be discounted and traded for gain by “players (speculators)” in the distressed-bond markets. The bankruptcy of The Glebe in Daleville, VA. That can help ameliorate the plight of the residents, but that is less common, say, when the CCRC is financed by bank debt, as was Air Force Village West in Riverside, CA, or financed by other concentrated debt providers, e.g., private placements. Bonds sold into a dispersed market or mutual fund are less protected since the ultimate providers of the debt capital, the public, are subject to decisions made by others who don’t have the same skin in the game.

In brief, it’s easier to simply let a bond’s price drop in the public bond markets to the detriment of the investors, than it is for a private placement entity to concede that it should take the hit instead of the residents. In the absence of governmental oversight, a lending institution officer may put the officer’s employer’s interests ahead of fairer paths toward resolution. There are no guaranty protections for CCRC residents.

Prudence vs. Growth. Thus, the course of prudence is for CCRC executives and their boards to be extremely cautious and skeptical of proposals for taking on added debt that funds expansion with watered-down resident financial security as the source for the equity capital to secure the debt. Nonprofit startups are dependent on donations, or specialized donor notes, for equity capital. It is disingenuous, if not fraudulent, to treat residents prepaid contractual considerations as though they, too, were equity capital without the protections generally accorded to such publicly solicited investors.

Residents are not told that their entrance fees may be treated as donations, but those fees are often put at risk as equity. When failure occurs, the residents are the losers, though managements can conceal those losses through circumlocution. Managements even deceive themselves by believing that “excuses” and rationalizations shield them from responsibility.



Advisers who stand to profit in the short term from expansion, et al. may originate proposals. Those who arrange financing are generally paid at the time the financing is completed, and development advisers are paid during the development period. Neither kind of adviser generally has "skin" in the game, meaning that their fortunes are not tied directly to the long-term viability of the project. Residents don't have that comfort.

As Jim Emerson, the eminent CCRC turnaround advisor, now deceased, once remarked at a LeadingAge meeting, "Most CCRCs stumble because of an overoptimistic estimate of the market's capacity to absorb new units at the price needed for success."

Macroeconomics vs. Corporate Value. In the case of Brookdale, which has fallen from an all-time share value high of nearly $46 to a current share price of about a tenth of that, the dollar's erosion adds another 42% to the sad drop. That means that, in constant value dollars, the $46 high would be $65 in today's purchasing power. That sets both the dollar's performance and Brookdale's into perspective.

Inflation results in a drop in currency value, and inflation-tolerant national currency management effects also compound adversely just as weak management results compound adversely. Both managements and Congress are apt to be overoptimistic in their assessments of the future and excessive myopic optimism clouds the cautious vision needed for prudence.

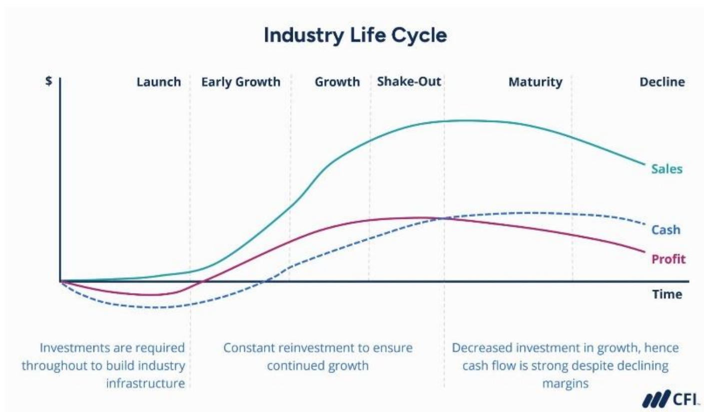
The stock market may not be perfect, but it judges the performance of a corporate board and its executives more objectively than any other known metric. Both national (dollar) performance and corporate (share price) performance compound, and Brookdale is a good example of how poor results compound.

Nonprofits and closely held for-profits are able to avoid such continuous public accountability, and that lack of transparency is another reason why prospective customers should be cautious.

Growth Through Consolidation

As we've suggested earlier in this white paper, if done wisely, there are many benefits to be gained through corporate consolidating, conglomeration, and cooperation. History reveals industries that have benefited from consolidation and cooperation, one of the earliest being railroads. At one time, the distance between the rails (gauge) differed from railroad to railroad, impeding train traffic. Railroading presents a unique case of an industry first benefitting from consolidation and then, later, a full century later, turning to consolidation instead as defensive haven reflecting weakness.

The growing, integrated rail networks of the late 19th century unleashed an era of prosperity dominated by railroading. Standardization was a boon where proprietary differentiation had inhibited the growth of the industry. That changed in the later years of the 20th century as subsidized highways favored trucking over freight and as airplanes replaced long distance passenger rail travel. Government facilitated consolidation (Conrail) then reflected weakness. That illustrates a common industry life cycle from innovation and initiation through stabilization and slow anachronism till finally the industry withers into decline and senescence as novelty supersedes that which has become archaic.



Senior living is likely to follow a similar pattern. For now, there are benefits to be had from standardization and consolidation among senior living providers. For instance, with national branding prospects needing services would know what brands to trust, facilitating the difficult search for good homes for moms. Also, residents who need to relocate might be able to benefit from being allowed to move readily from one community within a brand to another without the questionable entrance fee forfeitures that now accompany such life changes.

Converting Nonprofits

The nonprofit structure inhibits constructive, cost-saving consolidations. Nonprofits have limited resources to allow mergers. For profit enterprises, in contrast, can use investors' shares to offset otherwise incompatible balance sheets. For instance, if a nonprofit with a positive balance sheet, say, of $150 Million, wishes to merge with another nonprofit that has liabilities exceeding assets by, say, $100 Million, not only do the two boards have to work out executive ego and corporate cultural issues, but the more prudently managed entity may have to take an immediate balance sheet hit of $100 Million. Why would any soundly managed entity want to take on a loser?

Thus, despite the mythology that nonprofits are "better" than for profits, there are many reasons why converting to shareholder ownership can benefit a formerly nonprofit business, especially one that is more business than charity as is market-priced senior housing, or even many profitable affordable housing approaches. Moreover, there is no reason why the executives, board, and managers of a nonprofit, which converts to investor ownership, have to change their values from service first to aggrandizement first. Greed is not a business prerequisite, and the likelihood is that almost no nonprofit executives would, thus, change their values.

These considerations suggest that senior living operators would be wise to stop romanticizing nonprofit ownership and, instead, create a trusted, branded industry comparable to the top brands in the hotel industry. As with hotels, senior living can have upscale brands, as many now appear to be, middle-market brands, and economy brands. Creating trusted general market housing products with national branding and with age-responsive services might better accomplish what the senior living industry is nominally committed to providing.

Regulatory Risk

Paradoxically, the prevalent trade associations' opposition to all regulations that don't obviously favor providers is risky for those same providers the policy superficially favors. This paradox, like most paradoxes, requires some explanation. The alternative would be proactive regulations to shield the public from bad actors. That constructive regulation could reassure prospects that the industry is both desirable and trustworthy.

***Impairment Risk**.* It's been the custom for the senior living industry, through its trade associations, to oppose most regulatory possibilities impacting contracts and finances. Notably, residents generally remain at the bottom of the financial pecking order, junior to debt providers, at least in nonprofit senior housing. Some for-profit enterprises do give residents standing under a master deed of trust, though even that assurance is rare.

This contrasts, for instance, with the proactive approach that reassures life and annuity insurance purchasers that they are protected. Insurance companies participate in a nationwide, industry-run, regulator-overseen, state-by-state program to protect their customers from enterprise failure risk. Bank depositors are protected through the Federal Deposit Insurance Corporation, a federal program that has less industry involvement than does the post-assessment state-level insurance guaranty program.

Banks are assessed continuously to fund federal level reserve funds. Banks are also subject to after the fact assessments if the pre-event assessments prove insufficient. The insurance programs, aside from relatively minor administrative cost, only kick in if there is a company failure. There are no pre-assessment reserves that might tempt politicians wanting to divert those funds to well-intentioned, popular causes. Moreover, the insurance industry is authorized to step in early to prevent or minimize the looming failure.

Unlike the bank pre-assessment model, which relies on the Federal government to manage the funds faithfully and prudently, the insurance model only kicks in when and as assessments are needed. For insurance companies, those assessments are limited and recoverable from future state taxes. This is called a "post-assessment" approach. It's surprising that the senior living trade associations have not embraced this state-level guaranty model to reassure residents and prospective residents that they won't be left in the lurch late in life.

Senior living residents are at full risk even though an entrance fee as consideration for a lifetime contract is tantamount to a single premium insured life annuity. If that same annuity were issued by a licensed insurance company, the residents could be protected by the guaranty program. Contrary to the consumer protection with bank deposits, pension benefits, insurance policies, or even brokerage accounts, senior living residents are left fully at risk.

Other Resident Risks. Not only do residents risk the misuse and loss of their entrance fee investments, but the move of many providers away from care inclusive Type A contracts has also left residents at risk for catastrophic costs late in life. Other developments over the years have further heightened resident risk, notably so-called "refund" contracts which expose residents to market risk (re-occupancy), since most "refunds" are contingent on unit resale.

While these may seem like lobbying victories for the providers, they have made senior housing less trustworthy and riskier for consumers than other options for aging. Stories of avoidable financial failures, and other situations in which the absence of regulation is manifest, have damaged the reputation of the industry and increased the reluctance of many of the best-informed prospects to move in.

Why Protect the Bad Actors? That said, though, there are some providers, the good actors, who have retained resident-protective Type A contracts, at least as an option at move-in, and who have balance sheets with sufficient strength to give residents a relatively risk-free experience. Still, because of the industry's overall word-of-mouth reputation, even those responsible providers have been unable to capitalize on their differentiating integrity as might be the case with a widely trusted and well-known nationwide brand identity.

Proactive regulation would have little impact on these good providers. It would, however, shield them from having to compete with other practices that allow less conscionable providers to profit from the ignorance of many among the buying public. As Thomas Gresham might have put it, "The bad actors hurt the good actors and all providers lose."

Paradox is the stuff of wisdom. In this case, the paradox is that what may seem to some like industry victories may actually be redounding to the detriment of senior living. Since many prospects don't know how to evaluate the financial strength of a CCRC, or the fairness of its contracts and managerial policies, it's wise for prospects to be wary. Most are, and they wisely prefer to stay put rather than to take the chance.

The absence of constructive regulation is high risk for the senior living industry. An industry that is dependent on high occupancy for success cannot afford to be seen as untrustworthy.

13. Things That Make No Sense

There are a number of conventionalities that have evolved among senior housing providers that, frankly, make so sense. Let's start with transfers. No, not the transfers from one acuity level to another. That's evolving but in a way that may be smoother than traditional transfers. We're talking here about common sense transfers from one independent living unit to another.

Downsizing

Many residents' circumstances change after move-in. A common situation is the death of a spouse. Couples initially often move into large apartments needing space. They may still both be employed. Death changes all. Memories, some poignant, linger in that big old residential unit. The surviving spouse may stop working and may lose mobility. It makes sense for the survivor to downsize into a smaller unit on campus or in the same building closer to the center of everything.

A natural transition like that would free the larger unit for resale to a younger couple ready to move in. It could bring in a new entrance fee and enliven the community. It would be a boon to marketing and could help occupancy. Why then, one has to wonder, do most CCRCs price transfers to make such a positive move unattractive and costly? It makes no sense.

A common formula for an intra-CCRC transfer is to charge the current market entrance fee for the new unit but to only credit what the resident paid, perhaps many years earlier (10, 15, or 20 years ago in many cases), for the relinquished unit. Of course, the resident also pays the costs of preparing the old unit for re-marketing. The sensible thing would be for the transferring resident to be credited the current market entrance fee for the relinquished unit. Why not?

The result is that the provider enterprise pockets the unearned excess of the current market entrance fee for the relinquished unit and what the transferring resident paid. The emphasis here should be on **unearned**. It's an unjust enrichment for corporate at the expense of the captive resident. Naturally, when they learn this, many residents, who might otherwise downsize, don't. That's common sense on the part of the residents. It also means that the marketing department has fewer of the larger apartments to sell to the public. Thus, it's a damper on sales since so many prospects are married and want one of those larger units. It's a lose-lose policy. It makes no sense.

Upgrading

We could go on. Many CCRC enterprises, as a matter of policy, give priority to the outside market for transfers to the more attractive living units. Existing residents can only move to their dream unit if no one from the outside or the waiting list wants it. Thus, residents are disadvantaged relative to prospects. To avoid that disadvantage, it is best for prospects to resist moving in until the perfect unit is available and offered. That may be never.

The alternative can provide a commonsense marketing advantage. That is to give first priority for upgrades to existing residents before the outsiders. If you want to incentivize move ins, why wouldn't you reward those who commit to you over those who otherwise are forced to linger outside hoping for the miracle of a perfect dream apartment.

One is once more reminded that many of today's business-model CCRCs were once charities. They were often, though not always, led by people who lacked business sense and judgment. In those early days, some churches put clergy in business roles to run their homes for the aged.

Some clergy may associate the pursuit of money with business. When they come into a business role, therefore, they may feel called upon to act as they may imagine "greedy" profit-motivated businesspeople do. Although it's pure speculation, that is the only kind of rationale that an observer, this observer, can come up with to explain why such an ill-conceived practice is normative. It makes no sense.

Bundles

Many CCRCs have moved away from bundling long term care with other services in what the industry calls a Type A contract. Those decision makers with whom I've spoken have claimed that they lack the expertise to manage the risk. Thus, continuing care bundles that used to include care now ofttimes do not. Residents pay fees, perhaps with a slight discount, for care services as needed. Depending on how one ages, those fee-for-service care fees can become catastrophic. Moreover, even though some providers may not work with professionals with the needed expertise to manage Type A risks, those people and institutions do exist, and could readily be accessed if the will were there.

Unbundling, though, has not been applied to, say, food services where it makes more sense. Almost all CCRCs bundle food services within the fee structure. Does it make sense to leave residents on their own for care, in a care home, but to mandate bundles with meals? Of course, not. Lack of expertise ought not to be an excuse for an enterprise that can hire or retain all the expertise it needs.

Again, it makes no sense.

Meal Plans

Given that meals are bundled, one might think it would be simple. After all, college meal plans seem relatively straightforward. Given that many boarding students are away from their parents for the first time, at most schools first-year residential students are required to accept a college meal plan. But, afterwards, there's often choice. That's not the case for CCRCs.

Most colleges offer a choice of meal plans. Most CCRCs require a single plan. Some colleges allow students with dietary restrictions to opt out of the meal plan. Others allow vegan and vegetarians to opt out to prepare their own. Likewise for people with food allergies. These "opt-out" exceptions are rare in CCRCs. One has to wonder, "Why the rigidity in senior living?"

But that's only the beginning. Some CCRCs offer just one included meal a day. If you have an egg and toast for breakfast, you're done for the day, or it's going to cost you. That's crazy. What are the providers thinking?

Others have a point system, say, residents are allocated 3 points a day with dinner charged at 3 points, lunch at 2, and breakfast at 1. That makes more sense than the one meal a day scheme, but a little analysis with residents using points for takeouts they may not eat or for guests shows that it might be cheaper to offer three meals a day but charge for guests or takeouts. Again, the rigidity around dining while care services are fee-for-service, or worse, price tiered, makes no sense either from a business perspective or from a consumer viewpoint.

More recently, declining cash balance programs are coming into vogue, with residents allocated dining dollars with charges stated in dollar terms as in a restaurant. The theory is that the mandated meal plans built into fees give residents a meal discount and a better deal than they would have if it were truly a restaurant. In truth, though, it's just food service and not a restaurant. Almost no communities open their dining venues as restaurants to the public. Mandated dining programs make residents captive customers leaving no incentive for dining managers to meet restaurant standards.

A little flexibility might make senior living dining more attractive for independent living and spill over into higher acuity offerings as well. Of course, care needs require specialized dietary offerings which restaurants do not. Set meals make sense for cognitively challenged residents. Still, if CCRCs want to appeal to those who are not yet afflicted and who live independently, they need to give them the same options that they have by not moving in.   CCRC living can be costly for people who opt out of meals but who have to pay for them anyway. For those people, senior living just makes no sense.

14. Afterword to the Epilogue

Business, especially senior living, is less about mastery of accounting and other business school topics. It is more about people and changing cultural and other perspectives. Unless you're hungry for a credential, e.g., a BBA, MBA, or DBA, assuming you have a solid high school grounding in effective reading, you can master those business concepts just by buying a bunch of textbooks and memorizing most of the contents.

Reading for Success

Reading instead of sitting in classes can take less time, and much less money, than taking time away from your career to get a degree. This advice applies particularly to people who are already launched on a career track and who just want to master concepts to advance their performance and savvy.

It's important to have that background concerning corporate structuring, financial and managerial accounting, corporate finance, and more… marketing, organizational theory, human behavior, etc. Those are the basics, and people capable of corporate leadership can generally master them quickly by scanning books and memorizing what's critical so that it's available on the fly.

There are examination programs, like the CFA Institute, that offer opportunities to prove mastery without butts-in-seats classroom hours. The senior living industry needs more programs like the CFA program, or the discontinued Certified Aging Services Professional (CASP) program, to allow industry aspirants to demonstrate knowhow and mastery of the basics more efficiently than is possible with academic qualifications.

Beyond the basics, though is where business gets interesting. For that it's best to learn from the lives and careers of successful businesspeople. Senior living can attract people of higher talent than is common today if:

1. It gives credit for mastery by examination rather than requiring specialized college majors,
2. It provides training and apprenticeship learning opportunities, again with career advancing recognition of learning and excellence, and
3. It recognizes as a qualification standard focused reading with a capstone written program to advance thinking and to allow an aspirant to show concentrated special knowledge of a critical aspect of the field that is essential to high level leadership.

In preparing this paper, I've been immersed in a number of books which I highly recommend for anyone who loves business. Business is the single most potent instrument for the improvement of the human condition. That's fun and a worthy pursuit. It's been my lifelong passion.

Here is a list of books in historical order that I recommend.

1. T. J. Stiles, The First Tycoon, The Epic Life of Cornelius Vanderbilt.

   Vanderbilt was the first person of note to master the potential of the corporate form, and to introduce financial techniques, later associated with J. P. Morgan and the moguls of the Gilded Age. Stiles explains with commendable simplicity how these tools were devised, how they were abused, and how they more often advanced American prosperity and the American Dream.

2. Ron Chernow, Titan: The Life of John D. Rockefeller, Sr.

   Rockefeller became associated with terms like "robber baron," and he was ruthlessly assiduous in his pursuit of corporate success. Still, he achieved through business rationalization the lowering of the price of kerosene so that ordinary people could afford kerosene lighting instead of homemade candles.

He went on to fund the founding of the University of Chicago and the Rockefeller Institute in New York City. The Rockefeller Institute pioneered scientific medicine by applying the management skills that allowed Rockefeller to prosper in the oil business to the development of more effective medicine.

3. Brad Stone, The Everything Store: Jeff Bezos and the Age of Amazon

   Bezos perceived the potential of the internet, which both Sears and Ingram Books had overlooked, and harnessed it to upend retailing across the board. His is the most successful story of early entrepreneurial recognition of how connectivity and a new online version of a mail order catalog could give Americans better value and relatively hassle-free shopping.

4. Walter Isaacson, Elon Musk

   In this recently released biography, master biographer Walter Isaacson, gives us an intriguing insight into the rough and tumble, but highly successful, business life of Elon Musk. I would hesitate to recommend Musk as a business role model, but his life story does show how a brilliant, obsessive engineering mind, combined with an unbridled appetite for risk and success, can drive breakthroughs that others might have thought impossible.

5. Charles Schwab, Invested: Changing Forever the Way Americans Invest

   Schwab's business autobiography detailing how he, together with people like Jack Bogle and Burton Malkiel, disrupted the exploitative tradition-bound world of investing, is probably the one of these suggestions that is most relevant for leaders in senior living. The analogies between the values and principles that guided Schwab to open investing, which had enriched primarily people who already had family wealth, to allow everybody to have access to the same paths toward wealth.

   In 1952, the New York Stock Exchange estimated that just 4.2% of Americans owned stock. That contrasts with Gallup's estimate of 61% today. Much of that

> democratization of stock ownership is attributable to Charles Schwab's principles, values, and vision. The opportunity presented by that low 1952 percentage is similar to the senior living opportunity today in which only a small minority of older Americans choose CCRCs, while the potential for communal living is far greater. Today's CCRCs are bound by similar sales-oriented and high-cost practices as were the brokerage firms when Charles Schwab first arrived on the scene.

One observation: all highly successful businesspersons of whom I have knowledge are voracious readers, including the hyperkinetic Elon Musk, and they consume many books in the course of a year. Perhaps self-education well beyond academic credentialing is needed for significant entrepreneurial success. This means learning for learning's sake rather than what is nominally required for job qualification, or the protracted hours required for continuing education. Few really effective leaders have the time or patience for that.

There is no single book concentrated on aging – either its history or its current evolution – that can provide the broad perspective on the business of aging services that a reader can glean from these more generalized examples of how industries can be disrupted for the betterment of humankind. Aging services is ripe for disruption much as medicine was disrupted by the introduction of scientific research methods.

Until recently, medicine simply treated old age as an incurable disease. Doctors would note that a person died of old age, and that was sufficient. Some medical workers even now are very unspecific and will simply note that a person died after "failing to thrive." We have entered into a new era of longevity and increased vitality. That requires new thinking, and it's incumbent on aging services leaders to show the way forward into that new era or to step aside and let others lead. Talent exists. It's our responsibility to nurture and grow that talent.

15. Grassroots

In the early days of what is now the CCRC sector of the senior living industry, oldsters came together among themselves to form cooperative living communities. They were often parishioners of a local church, or more widely geographically members of a denomination or other affinity group. That gave them the numbers to make a start. Because it was cooperative, it had a positive reputation, and the affinity group model of aging prospered.

That bottom-up model has gradually evolved into today's top-down business model in which many CCRC projects are driven by management's wish for growth; development firms' pursuit of clients; and financing firms' access to capital. Sometimes overlooked is the customer. Senior living can seem very institutional. To quote Steve Moran, an insightful senior living industry observer, "There are simply lots of rules that residents must live by. More rules than at home."

More and more, people who might have been prospects for senior living declare that they prefer to "age in place." "Aging in place" may not preclude moving from a single-family house to a maintenance-included condominium, but it doesn't include the institutionalization of living in a senior housing facility (and, yes, facility is the right word here).

Perhaps as a consequence of this evolution, grassroots movements for aging Americans are becoming more common. The nascent Village Movement is a new phenomenon, and even newer, though older in concept, is the co-housing trend. The idea is that of a village. From the earliest times, people have chosen to live in villages. Humans are naturally gregarious. Social interaction may even be as essential to life as our procreative urges.

Co-housing

That brings us, though, to the rebirth of co-housing for our time. Charles Durrett, the author of "The Senior Cohousing Handbook: A Community Approach to Independent Living" envisions co-housing as a natural phenomenon. While Durrett focuses on senior co-housing, his vision is derived from his experience with multi-generational co-housing, particularly in Denmark where it is culturally more advanced than in North America.

The multi-generational model may be better even for oldsters, since younger residents looking for work can be retained as caregivers by the older people. In many co-housing communities, much of the work is on a sharing basis, much as many young couples organize baby sitting pools so they can be assured of having a caring parent watching their children when they themselves can't be there.

As you might imagine, every co-housing venture is unique. The people who join together for communal, shared living establish their own practices. They may employ an administrator or a property manager or they may do everything themselves. It all depends.

What's significant is that it is a resident-empowering alternative to a traditional CCRC. One can easily imagine that as a CCRC ages, and its buildings become dated and declining occupancy, the CCRC might move the remaining residents together, and lease out a wing or more to a co-housing group. They could then set up their own shared, self-prepared meals and more as they wish without outside interference. If they are given ownership, they might even refurbish the place to make it more livable. Nevertheless, for as long as the dated CCRC persists, there would be available assisted living, memory care, or high acuity care nearby on the same campus.

Age-related decline is one of the challenges for the grassroots community model. It presents volunteer and liability issues for the sharing among Village Movement community members, and it becomes a challenge for senior co-housing as the members age into advanced life sustaining needs. That's a need that multi-generational co-housing projects are well positioned to meet if there is a qualified nurse or other practitioner who enjoys congregate life and is prepared to run a board-and-care home as part of the project.

Most CCRCs take away the pride of home ownership. Most co-housing ventures do not. Most CCRCs lack live-in staff. Live-in staff is the norm for most co-housing ventures. In most CCRCs paid staff do most of the chores; in co-housing, like an old-fashioned farmstead, residents pitch in to the extent they are able and wish to.

With CCRCs the management and staff make the rules, and the residents abide by them. In co-housing the residents make the rules and most of those rules come naturally. Many multi-facility CCRCs have the cost burden, functional duplication, and approval congestion of central offices. Co-housing ventures avoid those costs beyond the possibility that they may hire an administrating manager or retain a property management company with the cost to be shared among the group. In short, residents in co-housing retain the dignity of self-governance.

If New York City's experience with converting rental properties into cooperative housing with tenant ownership is repeated, replacing today's typical nonprofit senior housing with co-housing will result in a more attractive product, better maintained, and with happier more community-engaged residents. There will also be an opportunity for knowledgeable management firms, like LCS™, to provide administrative services and to help with life transitions as communities age.

Will co-housing evolve to make today's CCRCs obsolete. It's definitely a natural cultural path in the evolution of the senior living experience. As authors like Sare Geber ("Essential Retirement Planning for Solo Agers: A Retirement and Aging Roadmap for Single and Childless Adults") have shown, many of those now entering their elder years lack the family resources that CCRCs commonly look to for guidance with residents who can no longer fend for themselves. The trusting relationships among equals that characterize the best co-housing ventures can provide a much more trustworthy alternative. Geber's insights apply not only to solo agers, but also to those who may not want their children to have to grapple with the life-or-death decisions that arise in life's end stage.

The senior living industry, by and large, has managed to avoid having fiduciary responsibility. That leaves senior living enterprises free to pursue their business interests with only contractual responsibility for the residents in their care. That circumstance alone makes the co-housing alternative, as novel as it sometimes may seem, appear more attractive than the business – nonprofit or for-profit – alternative. To get a feeling for the love that imbues co-housing check out the video at https://youtu.be/Q75AlBMBQGo.

16. Summing Up

Mentioning, as we did in the last section, these obvious examples of often overlooked opportunities suggests that senior living might benefit from more imaginative thinking about what is offered and what the public might find attractive. Most businesses that are growing thrive on standout product conceptualization and pricing judgment. It's hard to turn things around if the product is poorly conceived, over- or underpriced, or unresponsive to customer needs and wishes.

It can be difficult to wrench a stodgy, smug, self-satisfied corporate culture out of its placid comfort zone to prepare for the future. As Panasonic's CEO, Kazuhiro Tsuga, is quoted as saying when he agreed to partner with Tesla in the Gigafactory in the desert, "We are too conservative. We are a ninety-five-year-old company. We have to change. We have to use some of Elon's thinking."

Perhaps, that a good way to sum up this whole exploration of senior living throughout this treatise. Investors keep looking for the obvious opportunity inherent in meeting the needs of older people by giving them better living and better healthcare. The industry struggles with finding that sweet spot.

The shortcoming of returns vs. potential may be a product of how the industry goes about identifying leadership talent. Talent involves clarity of vision concerning what will best attract consumers while giving investors a fair return on their investments. That requires the broad perspective of a well-read Renaissance person, able to master many fields and to bring that mastery together to create a better future from humdrum conventionality.

To find that kind of talent, we have to look beyond the growing vocational tilt of many so-called "universities" in which textbook learning, with its authoritative uncritical approach, supersedes the basic original thinking that we associate with an educated person. Training and indoctrination are not the same as education and inquiry. Creative thinking, like that needed to transform the present into the future, requires looking critically/skeptically at convention – what's encapsulated in textbooks – to foresee solutions for the future.

Could it be that a better future for senior living could be as simple as recruiting highly educated liberal arts graduates, and then training them with the know-how needed to get started in senior living? Should we revive the on-the-job apprenticeship and training programs that were popular in corporations some decades ago? That would give the industry new entrants skilled in learning and people, with organizations training them in the skills needed for compliance and service, and with the opportunity to ensure that trainees, as new entrants were once called, can learn the values and unique advantages of the particular enterprise for which they work.

Our hope is that the industry can reshape itself to stay abreast of the changing consumer of the day. The industry has lost time with an excess of caution in pursuing new directions, implementing emerging technologies, and adapting to changing organizational and product concepts. That pattern of caution and delay may inevitably lead to a stalemate in which disruption has to come from without.

In his autobiographical business biography, "Invested," Charles Schwab shares a bit of wisdom that seems applicable to today's senior living industry. In senior living, everyone seems to know that change is needed. Things just aren't going as they should or could. Occupancy is an ongoing challenge. There are ideas and advances that might help if tried and tested, but no one is taking the lead to get change done. Schwab counsels:

> "A turnaround requires a very critical eye, and it needs to be done when you still have the wherewithal to get it done. Wait too long and it gets that much harder, you don't have any cushion left. You flounder, or worse yet, you find yourself suddenly out the door, with a new owner taking over who is more than willing to act boldly."

Some boards, executives, and their trade associations may think that a nonprofit organization has an invincible shield against having to change, but the market, consumers, and the tide of time are merciless. They wield the sharp sword of justice, and no shield can withstand the onslaught of progress.

It may take the obsessive nature of an outside successful entrepreneur with clarity of vision and the will for execution to give seniors their better reality for the coming generations of aging Americans.   Or, the genius to revive the vision foreseen by leaders like Jim Emerson, Lloyd Lewis, and others may emerge from within the industry. Time will tell. It’s a people business, and people, not statistics, will write the story for the decades to come.