A Perspective on Risk During the COVID-19 Crisis

COVID-19 has brought to light risks that existed only on the periphery of most people's imaginations.

To start, there's now a more urgent existential risk for those of a certain age or with certain pre-existing conditions. From a societal standpoint, the initial fear that so many people would need intensive medical support that our health care system would be overwhelmed and fail, created a hailstorm of additional risks. To combat this threat, the economy has been put on "pause." You know the story well.

For the senior living business and the vulnerable clients it serves, it has hit close to home. Clearly, caring for community members is a top priority, followed closely by making sure that employees are healthy and can provide service and care while remaining safe. Needless to say, there are many heroes in this situation. Our hearts are with you!

The following are some of the knock-on effects of the crisis for Continuing Care Retirement Communities (CCRCs) and Life Plan Communities (LPCs).

Census Declines

In addition to the perils of the virus itself, the risk exists that move-ins will be delayed or canceled as people approach their new living situation with greater uncertainty and fear of joining a community of high-risk individuals. There may also be a surge of move-outs as residents and their families rethink community living in the age of a pandemic. And, of course, natural attrition of census in retirement communities will continue,

Real Estate

With some exceptions, real estate activity in the surrounding community may decline since sheltering in place isn't conducive to house sales. Economic uncertainty, job losses and reduced cash flow may also discourage home buyers, affecting the quality of waiting lists. Financing and construction of new projects may also feel the shock.

Marketing

Marketing to seniors and their advisors will also be hampered by sheltering in place. Many communities are curtailing or disallowing visits to residents from friends and relatives, so allowing "outsiders" seems highly unlikely even if people interested in a tour could be found. Negative publicity highlighting the percentage of deaths in nursing homes doesn't help. The growth of alternatives to campus living, such as continuing care at home, may also put a dent in marketing LPC units.

Cost

With the emphasis on safety throughout the crisis, costs related to additional equipment and staffing are set to rise. COVID-19 has only added to staffing woes.

The Many Faces of Recovery

The aforementioned second-order effects will have an impact on cash flow, especially for those communities that depend on net entrance fees. Bigger unknowns include:

- **How long will the virus persist?**
- **How willing or able will people be to engage "normally" either socially or economically while the virus is still active or even after it subsides?**
- **When will we get a vaccine?**

The alphabet soup used to chart a potential economic recovery includes:

V — a V-shaped recovery (the virus goes away in summer or thanks to a quick vaccine or therapeutics)

W — a W-shaped recovery (the virus returns through seasonality or reinfections, but ultimately a vaccine is introduced)

a Nike swoosh (a big drop with a long, slow climb back)

L — an L-shaped recovery (down and sideways indefinitely)

As managers, do we pick one shape and hope for the best? Or do we assign rough probabilities to each and try to manage the contingencies?

Investing Through COVID-19

Clearly, senior living leadership is confronting a challenging situation over both the short and long term. The list of critical issues includes how to steer a community's investment portfolio. If the crisis is short and sweet, managers may benefit from sticking to a long-term view and riding out the storm, potentially rebalancing portfolios at lower levels. Conversely, what if a vaccine doesn't develop and the virus lingers? Whether reopening the economy turns out to look like a policy mistake or we learn to live with the virus, fundamental changes to economic outlook may persist for longer than several quarters.

Investors are undoubtedly concerned about the future, and those with businesses tied more directly to the virus are likely even more concerned.

The Key Role of Asset Allocation

Investment committees of CCRCs/LPCs should consider assessing their asset allocations in the following contexts:

Did we have the right allocation coming into the crisis? Where were we at the market bottom in terms of days cash on hand? Do we want to revisit that?

Do we have the liquidity we need to manage through a crisis of indeterminable length and depth?

Given the pandemic's dangers, do we need to talk about balancing risks in the portfolio with those to our business and mission?

Should we assume that this too shall pass and that we'll go back to where we were? (How lucky do you feel?)

While we're not advocating for a change in strategy or trying to time the market, we do advise talking to your investment advisor about asset allocation. Here are ways to frame that conversation.

Q Have we turned a page on low volatility?

A Except for a few brief interludes of downside volatility, the U.S. equity market has churned higher with little drama over the past 11 years. The resulting complacency, combined with low yields on traditional bonds, have led many investors to increase their exposure to risk assets such as stocks. But no trend lasts forever. Have we entered a new period of heightened volatility? Are you where you want to be in terms of managing risk?

Q Is my portfolio stress-tested against important benchmarks and covenants?

A An asset allocation study can reveal your portfolio's downside and upside potential. Review the downsides carefully to see their bearing on important ratios, such as debt service coverage and days cash on hand, or reserve ratio. If you're striving for a higher bond rating and lower cost of capital, ask yourself how those downside projections impact your long-term growth plans. How susceptible is your organization to a sudden change in net entrance fees?

Q Have my liquidity needs changed?

A Do your projections reflect a quick return to business as usual or allow for the possibility of cash withdrawals to buffer any rough spots? Does your allocation provide sufficient liquidity? Have you considered portfolio segmentation as an asset allocation tool?

Building and Maintaining a Healthy Portfolio

Investment management for CCRCs/LPCs has always presented unique challenges. While the long-term impact of this crisis on caregiving for seniors has yet to be seen, it will most likely cast a shadow over everything from community safety and cost of care to design and marketing. As a result, we believe now is the time for fiduciaries and stewards of capital to reassess their approach to balancing assets and liabilities to help ensure a viable and secure future.

Call (844) PROCYON today

Is your organization prepared for these trends? Contact Jim Jeffery at Procyon Partners to discuss your investment and risk management strategies in light of COVID-19.

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