



March 2009

## *The Economic Climate and OPRS*

### WHAT IT MEANS FOR YOU

Dear Residents, Employees and Friends:

Most of us are concerned about the current economic climate and how it might affect us personally, as well as our family and friends. This is normal at this time of uncertainty. As an organization, Ohio Presbyterian Retirement Services (OPRS) is also concerned about the effect the world's financial circumstances will have on our residents, clients, and employees.

To address concerns resulting from the economic downturn, we present the following "Questions and Answers" to share how OPRS is addressing problems resulting from the economic situation, and what we are doing to assure that our quality, our stewardship, and our mission are sustained. We will also share some of what OPRS is doing to minimize the effects of the current financial downturn on the individuals served by our organization.

OPRS believes in providing forthright answers to your questions. Please contact your local staff or corporate office leadership with any questions or concerns.

Sincerely,

Frederick C. Smith, III  
Chair, OPRS Board of Directors

David J. Kaasa  
President/CEO, OPRS



## **1** *What is the organization's current financial position?*

OPRS maintains an investment grade “BBB” (Triple B) bond rating on its outstanding bonds rated by Standard & Poor’s (S&P). This strong rating – consistently upheld since our first rating in 2002 – was recently reaffirmed in its annual review by S&P. OPRS continues to operate better than budget relative to its year-to-date Revenues versus Expenses. All payments of invoices, collection of accounts, and processing of payroll continue to be timely and on budget.

## **2** *What about OPRS' investments?*

OPRS is keeping a close watch on its investments, which – as with most other organizations around the country and the world – have been affected by the financial market’s losses. While our performance is not what we want or expect, our investment policies and protocols – established long before the current financial crisis – have mitigated our losses.

One of the many significant responsibilities of our Foundation is coordinating the management of OPRS’ financial assets. The OPRS Foundation Board of Directors and its third party investment advisor scrutinize the activity and performance of our funds constantly. This oversight serves to identify and mitigate, where possible, future effects of the continuing Wall Street turmoil on our investments. In order to effectively carry out this duty and fiduciary responsibility, the OPRS Foundation continues to adhere to its long-standing investment practices:

1. **Investment Policies:** These policies set guidelines that define eligible investments, determine the mix of investments on a percentage basis (such as 40% equity, 40% fixed income and 20% cash), and clarify the degree of investment risk that OPRS is willing to accept. We have been served well by avoiding many of the “exotic” investment vehicles that have been so popular over the last few years. Adopting an investment

philosophy that combines caution with appropriate assertiveness has proven beneficial in the past, and will prove supportive of our growth and stability in the future.

2. **Investment Committee:** This Committee of the OPRS Foundation’s board is specifically charged with the careful review and oversight of the organization’s investments and earnings. This Committee regularly meets with the OPRS President/CEO, Chief Financial Officer, investment managers, and a third party investment advisor. This advisor reviews the investment performance and recommendations of the investment managers. We believe this prudent stewardship of invested funds, which in many cases have been entrusted to us by our donors, is critical to the long-term financial strength of OPRS.

The Investment Committee also continues to work to protect the integrity of our organization’s endowment funds. As an example, most recently the committee took action to reduce the annual payout rate from 5% to 4.5% to protect the principal of our endowment.

## **3** *Given its importance to our organization, how is the statewide census?*

As of the date of this letter, our census remains strong. For calendar year 2008, OPRS averaged nearly 94% occupancy. OPRS and several of the continuing care retirement communities around the country are faring better than many of the freestanding nursing homes, whose census is averaging below 85% in Ohio. The problems continue for many of the assisted living and independent apartment/housing projects that, unlike OPRS, don’t have the benefits of a full continuum of care to help in their operations.

Having said this, the housing market has indeed affected us, especially in independent living. We have many people who want to move to an OPRS community but are worried that they might not be able to sell their homes. We continue to look at creative ways to help people make the move to OPRS.



#### **4** *Are changes in Medicaid and Medicare affecting OPRS?*

We continually monitor changes in government reimbursement programs, specifically Medicaid and Medicare — the programs that have the most effect on OPRS. We do not expect an increase in Medicaid reimbursements for nursing home payments this coming year. In fact, Governor Strickland has proposed a bed tax fee increase of 76% per nursing bed, which would significantly impact our budget for 2009–2010. The true impact to our financial operations will depend on the combined effects of the State’s final budget package and the President’s recently enacted stimulus package, which did include some support for the states’ Medicaid programs.

Medicare rates at this time are stable, and we aren’t expecting any reduction in those reimbursement rates to OPRS.

We remain concerned about the effect the market downturn and subsequent drop in retirement investments had and will have on our residents. Those who have experienced a decline in their personal investment income(s) may exhaust their resources more quickly and therefore require Medicaid subsidy much sooner. This is something that we will be watching closely.

Proactively, we applied to be a provider for Ohio’s assisted living waiver program and have received notice of our approval and acceptance as a provider. Receiving this approval will allow us to further help people in assisted living who have depleted their savings and need additional financial support.

#### **5** *What is OPRS doing to manage expenses and to keep fees to residents and clients as low as possible?*

1. OPRS was an active leader in the development of regional, statewide, and national group purchasing initiatives, which result in significant savings to OPRS in operational and administrative expenses. We also participate in similar programs with our national association (AAHSA), state association (AOPHA), and in a regional purchasing alliance in Cincinnati, in which OPRS participates and serves on the board of directors.
2. OPRS has established staffing and productivity standards that consider (and incorporate where feasible) best practices from around the state and country, as well as operating within government-established standards and mandates.
3. During our annual budget process, which began in late February, each dollar, staff position, and program is carefully evaluated to ensure that we budget only what we truly need to guarantee the delivery of quality care and services.
4. One by-product of the current economic situation is that our efforts to keep expenses down are working, aided by the lowest inflation rate in years. As a not-for-profit organization, OPRS continually scrutinizes its expenditures, a standard operating procedure that will help us all the more in the future.
5. Due to the above actions OPRS has taken, in most cases resident rate increases are likely to be the same or lower than last year’s increases. We intend to continue to strive to provide wage increases for employees to assure our ability to recruit and retain the best possible staff.

Q & A

**6 Many problems in the national economy have been shown to be the result of illegal or unethical behavior. What is OPRS doing to assure that all aspects of the organization are run ethically and responsibly?**

OPRS has instituted several measures to ensure that the organization is run in an ethical and responsible manner. These measures include:

1. Careful oversight of our operations and expenses by the boards of directors, which continues at all times. These groups, in addition to other local leadership volunteers (numbering over 300 individuals system-wide) are all watching the many aspects of our business.
2. A Corporate Compliance Officer, a board committee and staff committee – each under the oversight of the organization’s board of directors – who are all dedicated to ensuring everyone associated with OPRS consistently operates in an ethical manner. We also have a toll-free, anonymous compliance hotline; annual ethics audits; and regular compliance training for staff and volunteers alike.
3. Regular satisfaction surveys that ask for employee perceptions of the organization’s ethics and practices.
4. A “transparency” of information and operations throughout the company that enables any employee, resident, client, or family member to get answers to any question they may have regarding our operations.
5. National CCAC/CARF accreditation that provides a third party evaluation and endorsement of the quality and ethics of our total operations. The recertification process is occurring in 2009 for our eight eligible communities.
6. Annual audits of financial reports by Ernst & Young.

**7 Are economic problems affecting the quality of care?**

1. Our quality standards have not changed, will not change, and will continue to be met by all who work at OPRS.
2. Both local and corporate Quality Assurance Committees monitor care and are quick to take action if quality is diminished.
3. As it has been since 1922, we believe that our employees are the key to providing consistent quality care. So, while financial situations may be troubling, the efforts and hearts of our staff will not allow care to be compromised.
4. Investments of time and money continue to be made in providing employee and supervisor training, targeted and effective compensation and benefits programs, and employee recognition and retention initiatives.
5. Resident, client, and employee satisfaction surveys, which are a true reflection of the quality of care, continue to be very positive.

**8 Have gifts and donations to OPRS been hurt by the economy?**

As with most not-for-profit organizations, the OPRS Foundation is experiencing a reduction in the number and size of gifts, although the first half of Fiscal Year 09 met budget for our overall dollar goals. Another noticeable effect of the economy is that many potential donors are choosing to defer gift decisions as they consider philanthropic support. The OPRS Foundation continues to carry out overall fundraising programs and looks for new opportunities that can help donors partner with OPRS to provide programs and services. We continue to be appreciative of donors, past and present, who support our efforts.

Q&A continued from inside

## 9 **Is the Life Care Commitment at risk?**

It's logical to wonder about the effect this economy may have on the OPRS Life Care Commitment. However, it's important to remember that OPRS has lived up to this commitment since 1922. In fact, Life Care has weathered several periods of economic turbulence throughout its 87 years of existence, including the Great Depression. Life Care is a core element of the OPRS mission; one that we will always take great measures to protect.

## 10 **Is OPRS still expanding?**

Yes, to an extent. Questioning the need for continued growth on OPRS campuses, including the addition of new facilities and/or the renovation of existing facilities, always appears during economic declines and tough financial times.

OPRS regularly evaluates the need for new and replacement facilities, and related capital expenditures, as a part of its annual Long Range Financial Planning process. This exercise was just completed for Fiscal Years 2010-2014. This year's planning resulted in the possibility of future campus expansions during the years 2010-2014. Corporate leadership integrates the needs identified by each of its local campuses into a financially feasible plan that meets the performance and stability standards established by the board of directors. Some things that you should know about our current plans are:

1. OPRS is focusing on meeting existing market demand. For example, additional independent living facilities are in development at a location close to Breckenridge Village, where there was as much as a ten-year wait for apartments or ranch homes.
2. One positive by-product of the current economy is that OPRS has seen a financial benefit from lower than estimated bids on some of the construction projects that have moved forward.
3. We have in fact delayed some of our expansion plans in deference to the current economic situation and the slowdown in the real estate market. This fact was recognized as a positive in Standard & Poors' recent affirmation of OPRS' BBB bond rating.
4. We improve our financial strength by diversifying our products and consumer markets. This allows us to expand the OPRS mission of service to older adults beyond the areas we currently serve.
5. OPRS places a great importance on keeping our locations modern, attractive, and marketable. By doing so, we continue to attract individuals to our campuses and maintain our strong census numbers. This is critically important with the oncoming wave of "baby boomers" who are now beginning to retire, and who will increase the demand for our services dramatically in the coming decades.



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# SPRINT

Our mission is to provide  
older adults with caring and quality  
services toward the enhancement  
of physical, mental and spiritual  
well-being consistent with  
the Christian Gospel.

