Referral Agencies - Rip-Off or Valuable Service?

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Steve Moran September 15, 2011

A few weeks ago I was chatting with the CEO of a regional assisted living company. In the course of our discussion he expressed his frustration with what he termed the “Referral Agency Scam.” Just a few days later I stumbled across a New York Times article (see the bottom of this article for links to some other articles on this topic). He described how, for just his company, they budget tens of thousands of dollars each year per community to pay referral fees.

The impact of referral agencies in any given geographical area is largely dependent on occupancy rates. These services typically cost 50% to 100% of the first month’s fees. In areas where occupancy rates are high, senior housing communities have little incentive to contract for these services. But where there are significant numbers of empty beds, communities feel compelled to sign contracts or miss out on filling a vacancy, which is ultimately even more expensive.

Part of me that wishes I had thought up the referral agency idea, because it would have made me very rich on the other hand, it seems clear that they collect fees that are disproportionately high for the services they provide. Adding insult to injury, their websites suggest that they provide both an unbiased and much higher quality of service than what really happens. Here are the major problems:

1. The websites do not clearly disclose how they are paid and how much they are paid. They also do not disclose that all or most of the compensation paid to the “Advisers” is in the form of a commission for putting a head in a bed.

2. The Advisers have little or no experience or understanding of the needs of seniors. From the perspective of the agency, the best advisers are those who generate the most revenue, not those who provide the best advice.

3. The recommended facilities are only those that are on the the referral agency's list and often exclude the community that would really fit the senior best.

4. Because the higher the monthly fee the more money the company and the advisor make, there is a very real incentive to steer the prospective resident to those communities that are at the top end of their budget, even though there may be other communities that have better geography, provide more appropriate care, or just plain will save the resident and their family money.

5. If a prospective resident receives government assistance for their care, in many cases they will get little of any help from the residents.

6. The agencies and advisers frequently know very little about the communities being recommended except that they will pay a fee to get a head in the bed. This means that they know nothing about compliance with licensing requirements, the cleanliness of the community the friendliness and competence of the staff.

You will find other referral agencies that use other models, including free or low cost listings, and agencies that provide lists of prospects to communities with a modest fee paid for each of these prospects. An exception may be programs for the sale of generic Viagra, you get favorable conditions and fast delivery. The problem is that the commissioned agencies have huge budgets to advertise and ensure they show up high in Google searches, meaning the better options are often hard to find.

I want to close this article by asking some questions:

– Do referral agencies play a big role in your marketplace?– Do you use referral agencies?– How do you view referral agencies?– If you use them, how many residents do you typically get through them in a year?– If you do not use referral agencies, what strategies do you us to mitigate their impact on the market?

If you do not feel comfortable posting your responses to these questions under your name please email them to me at and I will protect your indenitity.

Links to additional articles:

New York Times: A Helping Hand, Paid on Commission

Seattle Times: Senior-care placement companies scramble to cash in

Kaiser Health News: The Questionable Lure Of Free Long-Term Care Placement Services

[Long Term Care-Magazine: Leads aplenty on the Web]

Are you going to be at American Health Care Association Convention in Las Vegas next week? If so you it would be great to connect with you. I will be at the Vigil Health Solutions exhibit, booth number 1161.

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