Your Free Guide to
AGED CARE FINANCES

UPDATED EDITION

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Sydney Aged Care Financial Advisers

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To speak to us regarding your situation call 1300 659 677

When an individual, a parent or loved one needs to enter aged care, it often happens suddenly and without warning. Amidst immediate concerns for their welfare the family may then be confronted with the sobering reality that an accommodation payment of $450,000 or even $550,000 is required to secure a bed at a suitable facility.

Needless to say, this is a highly emotional and stressful period for all concerned. Hopefully, however, the information included in this guide will help you and provide a valuable 'roadmap' for your journey through the process ahead.

You will soon discover that aged care finances and the payment of aged care home fees and charges is a highly complex area that demands special attention. It is potentially impacted by legislation around Centrelink / DVA age pensions, taxation and aged care itself. Furthermore, on 1 July 2014 the government completely overhauled the aged care system with the launch of the *Living Better, Living Longer reforms*. The rules changed again on 1 January 2016 and again on 1 January 2017. Individuals moving into aged care from 1 January 2017 may face increased cash flow pressure due to altered treatment of the former home.

The age care system is getting more expensive for those residents with financial means. So obtaining financial advice for aged care is perhaps more important for families now than ever before.

Indeed, failure to get good advice can be extremely costly. For instance, did you know that:

- **Selling the home to pay the Refundable Accommodation Deposit (RAD) may not be required;**
- **It is sometimes possible to increase the amount of age pension entitlements, or to receive a part-pension where no pension was previously payable;**
- **Some lenders will allow your loved one to borrow to pay the RAD;**
- **It is now more common than ever for your loved one to consider borrowing to pay for their accommodation costs or cash flow deficit;**
- **It's possible to rent out the home and use this income to fund care costs.**

Getting good advice is essential. However, every case is different and *uninformed financial decisions can result in the loss of thousands of dollars in entitlements and, sometimes, even in the complete loss of pension income.*

Whilst this free guide is no substitute for financial advice, it is designed to help answer common questions and point you in the right direction so that you avoid costly errors.

For more information or help with your situation please call Sydney Aged Care Financial Advisers on **1300 659 677**.

Phillip Reid
Senior Financial Planner
Sydney Aged Care Financial Advisers

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1. Living Longer, Living Better Reforms

The Australian aged care system has recently undergone extensive changes that will have a significant impact on the finances of future aged care residents and their families.

On 1 July 2014, the *Living Better, Living Longer* reforms became law.
The objective of these changes is to make the system more efficient and sustainable in the long-term, given the rapidly ageing population and large numbers of people projected to require aged care accommodation over the next 30 to 50 years.

On 1 January 2016 legislation was again changed.
All income from renting the former home is now counted towards the means tested care fee calculation. This has the effect of increasing the cost of residential age care for new residents.

On 1 January 2017 legislation was again changed.
All income from renting the former home is now counted towards the age pension income test. The former home indefinite exemption from counting towards the age pension assets test has also been removed.

Here is a summary of the main elements of the reforms as they affect consumers:

More access to 'Home Care'	→ The legislation aims to keep more people in their homes for longer → A much greater focus and funding for 'in-home' care
Increased 'Means-Testing'	→ A move towards a 'user-pays' system for residential aged care (nursing homes) → Entry fees as a lump sum now payable for all residential aged care → Residents will pay more for aged care in most cases
One level of Aged Care	→ 'Low Care', 'High Care' and 'Extra Services' have been scrapped to create a more streamlined system → There is now only one level of aged care
Fee Caps[1]	→ An annual cap of $26,041 will apply to the 'means-tested' care fee → A lifetime cap of $62,499 will apply to 'means-tested' care fee
Fee Transparency	→ Entry fees that aged care facilities charge must be published on their website and on the government site myagedcare.gov.au

1 *Correct as at 1 Jan 2017 on MyAgedCare.gov.au*
http://www.myagedcare.gov.au/aged-care-homes-costs-explained/means-tested-care-fee

2. Types of Aged Care

Residential aged care (what many people still refer to as 'nursing homes') are the main focus of this guide. However it represents just one of the living options for the elderly. In addition, the *Living Better, Living Longer* reforms have changed many of the terms used to describe aged care since they were introduced on 1 July 2014.

We outline the key features of the different options below.

A) COMMONWEALTH HOME SUPPORT PROGRAMME

This is basic in-home care for elderly people who have simple needs. A range of services are available to help maintain the independence of eligible people. This service may include help with:

- household chores
- health and personal care
- activities and transport
- short breaks, and
- home maintenance and modification.

This option is often wholly or partly funded by government

B) RETIREMENT VILLAGES

Although retirement villages are sometimes regarded in the same way as aged care facilities, they are separate and do not technically qualify as residential aged care (or for the Federal Government funding that comes with it). Those who enter retirement villages do so voluntarily, usually as a lifestyle choice, and at their own expense. The purchase of retirement village accommodation is a private property transaction.

C) HOME CARE PACKAGE

'Home care' is a higher level of in-home care for elderly people who have greater medical and care needs than what is available under the Commonwealth Home Support Program. A formal ACAT assessment is required for Home Care and fees are payable although costs are usually subsidised by government.

D) RESIDENTIAL AGED CARE

Traditionally known as 'nursing homes'; for the previous decade residential aged care had been divided into 'Low Care, 'High Care', and 'Extra Services' – all with different fee structures. However, with the introduction of the *Living Better, Living Longer* reforms in July 2014, these categories have been abandoned so that the same potential fees and costs apply to each resident regardless of the level of care they require. *A formal ACAT assessment is required for admission into this level of care and should be considered as any person's first step.*

E) RESIDENTIAL RESPITE CARE

This is short term care available to people either as an interim measure until a permanent bed is located or to give carers or family members a break. Respite care is provided by community care services, including residential aged care facilities. The person you care for may access residential respite for up to 63 days each financial year. This time can be extended in lots of 21 days if an assessment finds that this extra time is necessary.

3. The process and costs of moving into Aged Care

Notwithstanding the other care options mentioned in Section 2, our main focus in this guide is residential aged care (or what used to be known as low level care and high level care). The Australian Government has identified 5 clear steps of placement into aged care facilities:

Step 1: Assessment of eligibility
Step 2: Finding accommodation
Step 3: Working out the cost
Step 4: Applying
Step 5: Moving and settling in

Step 1: Assessment of eligibility

The local Aged Care Assessment Team (ACAT, or ACAS in Victoria) is the starting point for you or your loved one (the resident). ACATs are normally based in hospitals and may include a nurse, doctor or social worker whose job it is to make the formal assessment for every person going into care. This is the first step.

The ACAT team may also provide a form to complete a 'Centrelink Assessment' to determine the maximum potential Refundable Accommodation Deposit (RAD) payable if the person is on the aged pension.

Once the resident has been assessed by ACAT, they may suggest some appropriate aged care facilities in the local area, however it is the responsibility of the family to find accommodation.

Step 2: Finding Accommodation

This is often the most stressful part for families. However it's a whole lot easier
if you know exactly how much your loved one can afford for care before you

start contacting aged care facilities.
Ideally it is at this point that you should consult a Specialist Aged Care Financial Adviser if you have not already done so.

The Federal Government website **www.myagedcare.gov.au** has a 'Find a service' facility that allows the public to search for an age care home in their surrounding suburbs.

Once you and your financial adviser have worked out your various funding and cash flow options, you will be able to more easily identify the most appropriate and affordable aged care facilities in your area. A successful application for accommodation should soon follow.

Step 3: Applying

Once you have been assessed by ACAT you will be able to apply to an individual aged care facility. We recommend you contact the admissions office at the facility to determine the facilities exact process.

Step 4: Moving and settling in – Admission Process

During the assessment and before entering the home, the admissions staff will gather your personal details such as your family and medical contacts, any medical conditions, food preferences and social interests. This information will be used to create a care plan.

Fees and charges summary:

Lump sum RAD or ongoing DAP fee	→ Pays for the cost of accommodation or entering into care. → Amounts for each facility must be published on their website as well as the Government website. Generally non negotiable. → Two ways to pay: Refundable Accommodation Deposit (RAD) is the upfront lump sum option. → Daily Accommodation Payment (DAP) is the daily fee option. Combination RAD & DAP also possible. → 28 days to decide on the method of payment from time of admission. → DAP can be deducted from the RAD paid (if any)
Basic Daily Fee [2]	→ Pays for the living expenses of aged care. → Everyone pays this fee. → Currently $48.44 per day (from 1 January 2017).
Means Tested Care Fee	→ Fee is means tested on assets & income of the resident. → Annual & lifetime caps on this fee apply.
Additional Service Fee	→ Pays for 'luxuries', or additional services, within the aged care facility or specialised care beds (such as Dementia wards). → Packaged fee or optional. → A daily fee set by the facility. → This fee may be able to be deducted from the RAD in some circumstances each month.

Because the rules are always changing, it is important that you seek expert financial advice to determine the correct implications of any asset to your aged care pension.

4. Implications for the Age Pension

In addition to the fees and charges payable for aged care, the level of an individual's Centrelink age pension entitlements will ALSO be determined by their assets and income.

A change in circumstances such as moving into aged care can have a significant negative impact on pension entitlements if handled incorrectly.

A new age pension framework was recently implemented and most Australian pensioners are unaware of its impact on their entitlements. Starting 1 January 2017, a stricter age pension asset test will be imposed on pensioners. From 1 January 2017, the aged care pension means testing design will be aligned. If a spouse remains in the family home, the property is likely to continue to be an exempt asset from the age pension asset test calculation. However if the home is not occupied by a protected person such as a spouse, the (previously exempt) property will be included for age pension asset test purposes after two years. Any rental income generated to assist in meaning the persons age care costs will also count towards the age pension income test.

The home will be exempt from the 'Means-Tested Care Fee' if occupied by a protected person, such as a spouse. If you do not have a spouse living in the home (or an eligible carer or a close relative), part of the value of the property may count as an asset for the determination of the means tested fee. This area is complex and changes depending on an individual's circumstances. Please contact us on 1300 659 677 for further details.

The decision to keep or sell the family home will depend on the means tested fee calculation and also other financial factors such as cash flow, age pension, ongoing expenses, maintenance and tax as well as factors relating to the house such as whether it is in a rentable condition. *Please take note, however that beginning 1 January 2017, income generated from renting the family home will no longer be exempt from the age pension income test or aged care means tested fee calculations.*

There are financial strategies and structures that can be used to maximise a resident's income and minimise their aged care fees.

TIP: Make sure your financial adviser is experienced in aged care. The rules and regulations are constantly changing and your financial adviser will require specialist skills & experience so that you may obtain the full financial benefits available.

5. Implications for the Means Tested Care Fee

***NOTE:** It is possible to remain in the same care facility if the resident's needs change from low level care to a more intensive high-level care. This is commonly referred to as 'ageing in place'. However many facilities have a degree of specialisation in the kind of care they provide so you should check if they can cater for future changes in care needs prior to admission.*

6. What to do with the family home

Unless the resident has significant cash or liquid assets which can be used to pay the lump sum Refundable Accommodation Deposit (RAD), the family will usually have a number of options to either raise capital to pay a RAD or pay the interest costs of the Daily Accommodation Payment (DAP) over time:

- Pay part of the RAD from liquid investments and the rest via a DAP
- Pay 100% via DAP from a regular income source
- Sell the resident's home to pay the RAD in full
- Borrow against the home to pay for the RAD or DAP

A specialist aged care financial adviser will provide you with a range of options, like those above, so that the resident and the family are fully informed about

2 *source: MyAgedCare.gov.au*
http://www.myagedcare.gov.au/financial-and-legal/aged-care-homes-costs-explained

their choices and the financial impact of making each decision.

- **Selling the home to pay the RAD**

It is still most common for people to sell the family home to pay the upfront RAD (previously known as the accommodation bond). However, now, more so than before, it may not be the best option from an age pension and aged care fee perspective.

Example: Mr Smith is a single pensioner receiving the full age pension with his family home his only major asset. He is required to pay a RAD of $400,000 to enter an aged care facility. He sells his home for $1,000,000 and pays the RAD of $400,000 and invests the remaining $600,000 to produce additional income.

The RAD of $400,000 is exempt from the age pension assets test and does not affect his age pension entitlements. However, the $600,000 invested exceeds the assets test under current rules and will reduce his age pension entitlements. Beginning 1 January 2017, the new age pension asset test framework allows Mr Smith to own up to $450,000 worth of assessable assets before it affects his age pension entitlement. The $400,000 RAD and $600,000 of invested assets all count towards the aged care means tested fee.

A specialist aged care financial adviser can help work out the various scenarios available to Mr Smith to decide if keeping or selling the family home is the best option to minimise aged care fees, maximise any age pension benefits and maximise cash flow to fund the Daily Accommodation Payment (DAP) or to raise funds to pay the Refundable Accommodation Deposit (RAD).

- **Borrow against the home to pay RAD/DAP Entry Fees**

As long as the resident is a homeowner and over 65 years old it is possible, in many cases, to borrow the money for a Refundable Accommodation Deposit (RAD) or to fund any cash flow deficit that arises from the payment of a Daily Accommodation Payment (DAP) using a reverse mortgage.

There are some real advantages to consider with this method:

- No sale of the property is required. The home owner retains full ownership of their property & avoids any of the sales costs (renovations, advertising, agent's fees etc) involved.
- Avoid potential capital losses. The home owner is not forced to sell (say, in a declining property market).
- Extra income. The property can be rented out to assist with care costs.
- No regular loan repayments required, the debt is repaid from the future sale of the property.

Example: Mr Jones is 78 years old and is going into aged care. The chosen facility requires a $400,000 Refundable Accommodation Deposit (RAD) or equivalent DAP. He does not yet want to sell his home as he hopes to be in a position to move back in future. Mr Jones and his family feel that property values in his area have also dropped in the last year so he doesn't want to be forced into a quick sale either.

Mr Jones is informed by the specialised aged care financial planner that as an alternative to selling his home (valued at $1,000,000), he can pay the monthly DAP costs or the lump sum RAD with a special reverse mortgage loan with no monthly mortgage repayments required.

Although he will accumulate interest on the loan, this interest may be able to be paid off, or partially paid off, each month if the home is rented out. As he also retains full ownership of his property so he will continue to enjoy the regular rent plus any potential future capital gain on the property.

***These case studies are general in nature and do not constitute financial advice.**

7. Getting financial advice

It is clear that the world of aged care finance and understanding the range of options available is a minefield for families and their loved ones. Receiving accurate & reliable information is essential.

Whatever your intention regarding the family home, you should obtain expert financial advice before the admission of a person into aged care.

The benefits are clear:

Our firm, *Sydney Aged Care Financial Advisers* provides aged care financial planning advice to people moving into residential care.

Our advice may assist you to:

- **Avoid making costly errors,**
- **Maximise your Centrelink Age Pension benefits,**
- **Minimise any aged care fees,**
- **Negotiate a better outcome with the aged care facility,**
- **Understand your full range of options before making a decision,**
- **Decide on the best strategy to pay your RAD or DAP,**
- **Be clear on your cash flow after moving to the aged care facility.**
- **Boost income by investing the remaining home sale proceeds to ensure that the age care costs are met.**

For a referral to a financial adviser specialising in aged care please call Sydney Aged Care Financial Advisers Pty Limited on **1300 659 677**

TIP: Centrelink can give you information only regarding how your pension entitlements might be affected but they cannot advise you how to structure your affairs for maximum financial benefit. Only a financial adviser can do this for you.

8. Further Information

The following sites may be useful for further research and information:

www.sydneyagedcarefinancialadvisers.com.au
www.myagedcare.gov.au
www.agedcareguide.com.au
www.agedcareonline.com.au
www.seniorsfirst.com.au

Testimonials

Thank you for today. Both Scott and I felt that it was excellent – the advice and the way you presented the information was simple, clear and concise.

Mary S - Church Point NSW

Sue and I were impressed with the presentation today, we would like to thank you and Phil for the work you have done and the way the options were presented.

Peter C - Woonona NSW

9. Contact us

Sydney Aged Care Financial Advisers

1300 659 677

Head Office

Level 6,
75-85 Elizabeth St
Sydney NSW 2000

Postal Address

GPO Box 5024
Sydney NSW 2001

Email: info@sydneyagedcarefinancialadvisers.com.au

Web: www.sydneyagedcarefinancialadvisers.com.au

SYDNEY Aged Care FINANCIAL ADVISERS

For more information or to request a referral to an Aged Care Financial Adviser in your area, call toll-free

1300 659 677

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