

Aged Care – What you ought to know

Most people want to remain independent throughout retirement and to stay in control of where and how they live. But your ability to do so may depend on your health and physical well-being. As we age, some things become harder to do on our own.

If your ability to live independently starts to decline and you need help with daily living activities such as cooking, cleaning and personal care, you may need to move into residential care.

Tip: Residential aged care should not be confused with retirement villages which are independent living options and operate under very different fee structures

The costs for residential care are divided into three categories:

Cost of accommodation



Daily care fees



Extra services

The daily care fees can be up to \$112,672 per year, but a large portion is paid by the government. The contribution you would pay is between \$19,071 and \$47,159 depending on your financial means (as assessed by the Department of Human Services - DHS).

For most people however, the biggest concern is how to pay the large amounts quoted for a room. These range from around \$100,000 to \$2 million but will commonly be between \$400,000 - \$600,000. These lump sum payments are called Refundable Accommodation Deposits – RADs.

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Seeking financial advice on what options you have for payment and funding strategies may help to minimise your stress. Let's examine some of the facts around accommodation payments.

Fact 1 – this is not lost money

The first thing to know about RADs (paid since 1 July 2014) is that they are fully refundable when you leave care, unless you allow the service provider to deduct other fees to help with your cashflow.

Repayment is also guaranteed by the Federal Government if paid to an approved provider – an important thing to check when you are selecting a care provider.

Fact 2 – you don't have to pay the lump sum

Accommodation payments are quoted as a lump sum but are also converted to an equivalent Daily Accommodation Payment (DAP). The interest rate used for this conversion is currently 4.10% (for entry from 1 July 2020 – 30 September 2020).

For example, a RAD of \$400,000 is converted to a DAP of \$44.93 per day.

If you accept a place in a residential service, you can choose whether to pay the full RAD, the full DAP or any combination of the two. You don't need to make this choice until 28 days after moving into care and the service is not able to pressure you to choose any particular option.

Fact 3 – even if you have less assets than the published RAD it may be affordable

If you don't have enough assets to pay the RAD the first step may be to see if you qualify for government concessions as a low-means resident – this would require your share of assessable assets to be less than \$171,535.20.

If you don't qualify you will need to find a way to fund the full accommodation payment requested by the service. If you don't have enough assets, paying a part RAD and part DAP may help, but only if you have surplus cashflow to pay the DAP.

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One further strategy option is to pay as much of the RAD as you can afford and then instruct the service provider to take the DAP (on the unpaid amount) out of the RAD you have paid.

This option leaves your income to meet daily care fees and living expenses but reduces the RAD refunded when you leave. This can help you fund the accommodation payment to access the care you need.

Example

Bert is moving into residential care. He is a widower on the full age pension with a home worth \$420,000 and \$20,000 in the bank. The service he and his family have chosen is asking for a RAD of \$530,000 (or \$59.53 per day).

Bert is worried that he cannot afford a place in this service without asking his children for help. He sought advice on his options and decided to take the advice to:

- Sell his home (with \$20,000 of sales costs)
- Use the net sale proceeds to pay a \$400,000 RAD, leaving a DAP of \$14.60 per day on the remaining \$130,000
- Instruct the service provider to deduct the DAP each month from his RAD

This leaves his \$24,552 age pension to cover his daily care fees of \$21,627 per year (this includes the basic daily fee and the means-tested care fee) plus some personal expenses. His DAP is deducted from his RAD leaving Bert financially self-sufficient and keeping a \$20,000 cash reserve to meet other expenses.

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