

STREAMLINED FUNDING

An age of housing complexity

A move into aged-care accommodation is tricky and after July 1, the rules will change, writes Peter Stewart

Anyone moving into residential aged care will be subject to new rules come July 1.

For those already in an aged-care facility, or entering before June 30, the new rules will not affect you unless your care situation changes, which would include you leaving care for 28 days and then returning.

To illustrate the differences between the existing regime and the regime that will take effect on July 1, we have examined the situation of a fictional person named William. Our example is based on him entering an aged-care facility on March 1 and on him waiting until July 1.

As the graphic accompanying this report shows, the difference between the old aged-care rules and the new aged-care reforms for William, is an increased cost of \$3057 a year.

One of the key differences under the new system is that there will only be one set of funding rules that apply to entering a care facility, regardless of the level of care required. While this will create equality in the system, the costs of residential aged care may be higher, depending on your financial circumstances.

Residents moving into an aged-care facility after July 1 will be assessed for a means-tested care fee based on their income and assets.

The means-tested care fee is payable in addition to the standard resident contribution. An annual and lifetime cap applies to the means-tested care fees payable during the care recipient's time in any residential care, flexible care or home-care service. A resident will not pay any means-tested care fees for the remainder of the year after they reach the annual cap or they will never pay means-tested care fees after they reach the lifetime cap.

Residents may also pay an accommodation payment or, for residents with lower means, an accommodation contribution (supplemented by the government). The accommodation payment or contribution may be paid daily, as a daily accommodation payment (DAP), or as a refundable accommodation deposit (RAD), which replaces the current lump-sum accommodation bond. It can also be paid as a combination of the two. Unlike current lump sum accommodation bonds, retention amounts will not be deducted from refundable deposits. However, charges such as for optional amenities and daily payments owed to the facility may be deducted from a refundable deposit, if the resident agrees in writing.

Under the old rules, the accommodation bond retention amount is deducted for five years.

Under the new rules, the means-tested care fee is subject to

WILLIAM'S STORY

ACCOMMODATION PAYMENT

William is single and moves into an aged-care facility after **1 July 2014**. William has investments of **\$80,000** and recently sold his home for **\$500,000**. He has been accepted into a care facility that has advised William his accommodation payment is **\$300,000**.

As a new resident, William will have **28 days** to decide how he wants to pay the accommodation payment. For example, he may have the following options:

1 Pay the accommodation payment as a Refundable Accommodation Deposit (RAD) of **\$300,000**

OR 2 If he does not have funds available to pay the accommodation payment as a RAD, he can pay a Daily Accommodation Payment (DAP) which is interest charged on the RAD. At the current interest rate of **6.59%** (January 1, 2014 to March 19, 2014) on **\$300,000**, the DAP will be **\$19,770** a year or **\$54.16** a day

OR 3 Pay a combination of the RAD and DAP, for example, he could pay a RAD of **\$200,000** and the remaining **\$100,000** via DAP at **\$18.05** a day (**\$6590** a year)

INDICATION OF FEES IF WILLIAM ENTERS AGED-CARE FACILITY FROM JULY 1, 2014

Assuming William enters care after July 1, 2014 and pays the accommodation payment of **\$300,000** as a RAD, he will have **\$280,000** in investments. **The indicative fees William will pay are:**

Standard resident contribution of **\$45.63** a day or **\$16,655** a year. This is the rate from January 1 to March 19, 2014 and is indicative only. The actual rate will differ from July 1, 2014.

Means tested care fee* of **\$22.14** a day or **\$8081** a year.

Total indicative aged care fees of \$24,736 a year

AGED-CARE FEES IF WILLIAM ENTERS LOW-CARE FACILITY (HOSTEL) ON MARCH 1, 2014

Assuming William enters a hostel on March 1, 2014 and pays a lump sum accommodation bond of **\$300,000**, he will have **\$280,000** in investments. **William will pay the following fees:**

Standard resident contribution of **\$45.63** a day or **\$16,655** a year.

Income-tested care fee of **\$2.88** a day or **\$1052** a year.

Retention amount **\$3972** a year (payable for five years).

Total aged-care fees of \$21,831 a year

* Based on the income-tested fee thresholds from January 1 to March 19, 2014 and asset thresholds based on 2012 prices. The means-tested care fee cannot exceed the actual cost of care of the resident.

Comparison of fees pre-July 1 and indicative fees post-July 1 in William's situation

William's situation	Current	Post July 1
Assessable age pension for aged-care fees	\$18,124	\$18,124 ¹
Other income	\$9101	\$9101 ²
Total income	\$27,225	\$27,225
Assessable assets for aged-care fees	\$580,000	\$580,000
Means-tested fee a year	-	\$8081
Income-tested fee a year	\$1052	-
Basic daily fee/standard resident contribution	\$16,655	\$16,655 ⁴
Accommodation bond retention amount	\$3972	-
Total fees	\$21,679	\$24,736

1. William's assessable age pension for aged-care fees at March 1, 2014. William's assessable age pension for aged-care fees from July 1, 2014 will differ.
2. Based on deeming rates at March 1, 2014.
3. Based on income-tested fee thresholds from January 1 to March 19, 2014 and asset thresholds based on 2012 prices. This fee is capped at the actual cost of care of the resident. The actual income-tested fee thresholds and asset thresholds from July 1, 2014 will differ.
4. Standard resident contribution from January 1 to March 19, 2014. The rate from July 1, 2014 will differ.



an annual cap and lifetime cap, which means William will not pay any means-tested care fees in a year that exceed the annual cap or any further means-tested care fees if he reaches the lifetime cap.

If a person who enters into care owns a family home and their spouse or a protected person continues to live in the home, the home is not included in the value of the person's assets for assessing aged-care fees.

A protected person includes a dependent child or carer who has lived in the home for two years and is also eligible to receive an income-support payment.

If a resident moving into care does not want to sell their home and does not have a protected person living in the home, the home is assessed up to the maximum home value (\$144,500 based on 2012 thresholds) as an asset for determining aged-care fees.

The resident may be able to reduce the impact their home will have on their age pension by renting out their home.

Rules for those receiving a Home Care Package will also change but have not been examined in this report.

It is highly recommended that you seek professional financial advice so the complexities of the new system don't leave you out of pocket unnecessarily.

A financial adviser can assess your individual circumstances, consider your social security and asset position and present you with options for the most effective solution to minimise costs and maximise your entitlements and income.

Peter Stewart is practice principal at Benchmark Consultants. You should not act on any advice in this article without getting professional financial advice specific to your circumstances.