

Residential Aged Care

Your Financial Guide



Geras
partners

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Residential aged care overview

Residential aged care is for people in their senior years who can no longer manage at home, even with help from family, friends, government or private home care. Most residential aged care residents are over 80 and usually transition to residential aged care from home care services or a hospital visit. In many cases residents struggle with mobility or some form of ongoing illness or disability.

Most residential aged care homes (nursing homes) offer dementia and palliative care services. At the end of 2022 there were 185,000 people in residential care, with the average age being 85 (men) and 89 (women), with twice as many women as men in residence.

The Australian government administers the residential aged care system through Services Australia (Centrelink), the Department of Veteran Affairs (DVA) and the Health Department. There are charges for many services in residential aged care, with extra financial contributions sought from residents who have an ability to pay, given their assets and income. There are also financial incentives for providers to ensure that they support residents that are defined as “low means”, or with specific health issues. As a result, a nursing home bed should always be available for every Australian who needs one.

Sixty percent of residential aged care homes are managed by “not for profit” charities and religious organisations, with the remainder being managed by large and small “for profit” organisations. During 2021-22 the government spent \$25.1 billion on aged care with the largest portion (59%) spent on residential care. The 2023-24 Australian Federal Budget includes an estimate of \$36 billion allocated to aged care.

Residential aged care offers residents and their families the certainty of 24-hour nursing care in most nursing homes, as well as social interaction with structured daily activities that help to build a meaningful and happy social environment for residents in their “golden years”.

Geras Partners service offering

Geras Partners provides residential aged care advice to clients and their families across Australia, to help ensure that pension entitlements are boosted, and that aged care charges are minimised. Each client is different, and our written advice will normally cover:

- ▶ The *affordability* of the various aged care options so that the best way forward may be understood and decided upon.
- ▶ The *liquidity* impact over time so that you can be sure the financial way forward will not result in a liquidity issue (cashflow shortage) several years into the future.
- ▶ A *family budget* over 5 to 10 years, taking account of all aged care and living costs so that there is peace of mind as to the way forward for the new aged care resident and their family.
- ▶ A *Means Tested Fee calculation* so that it may be understood in term of overall aged care income, assets and the total daily costs.
- ▶ The impact of a decision about aged care on the new resident's government aged pension or other income (e.g. DVA or blind pensions).
- ▶ An outline of all fees applicable whether they be the Basic Daily Care Fee, Means Tested Fee, Daily Accommodation Payment (DAP), Daily Accommodation Contribution (DAC) and any Extra Services Levy (ESL).
- ▶ The detailed financial implications of a decision to either buy a room in a nursing home (RAD/RAC), or rent a room (DAP/DAC), or a combination of these strategies.
- ▶ Provide clarity as to whether new residents are government supported or means tested.
- ▶ Provide a detailed roadmap of the next steps for the family of a loved one entering a nursing home.

What are the key steps to enter residential aged care?

Step 1. Obtain an Aged Care Assessment Team (ACAT) residential care recommendation and reference number. This process can be started by calling My Aged Care on 1800 200 422 to arrange an assessment. Often an ACAT assessment can also be organised during a hospital or medical emergency visit.

Step 2. Find an appropriate aged care home by visiting those nearby that you already are familiar with or visit the My Aged Care website at www.myagedcare.gov.au where you can search for nursing homes in your area.

Step 3. Seek residential aged care advice so that you understand the affordability of a 5 to 10 year aged care stay given your current assets and income and the best entry strategy from a financial perspective from all available options.

Step 4. Once the nursing home is found, complete the application forms required by supplying the ACAT assessment details, a summary of assets and income, details of pensions received and Enduring Power of Attorney details.

Step 5. Try a period a respite care to be sure you like the nursing home you have selected then agree the start date for permanent care.

Step 6. Receive, review and sign the residential aged care home Residential Agreement.

Step 7. Lodge the Service Australia(Centrelink/DVA) SA457 forms for self funded retirees and a SA485 form for pensioners. Your fees will then be confirmed by Services Australia and advised to the aged care provider.



What are the fees that will apply once you enter residential aged care?

Basic Daily Care Fee (BDCF)

All residents of aged care in Australia pay the Basic Daily Care Fee to the aged care provider to contribute to the cost of everyday living needs including food, utility costs and maintenance. The fee is reviewed by the government in March and September each year and updated by reference to the most recent government CPI measures.

Daily Accommodation Contribution (DAC)

Government supported residents pay a Daily Accommodation Contribution (DAC), which is a room rental calculated using a policy formula incorporating an assessment of a resident's assets and income. The fee is reviewed quarterly and amended when there are changes in assets and income. These residents can invest in a Refundable Accommodation Contribution (RAC) and reduce their DAC rental by a pro-rata amount.

Daily Accommodation Payment (DAP)

With assets of more than \$193k and/or income in excess of \$78k a year residents will be required to either pay rental for an aged care room based on the room price, which is called a Refundable Accommodation Deposit (RAD) or invest in the RAD. The rental is referred to as a Daily Accommodation Payment (DAP). If you invest 100% in the RAD you will not pay the DAP.

Means Tested Fee (MTF)

Aged care residents with sufficient financial assets and income will also incur a Means Test Fee calculated according to their assets and income, and will also pay the Basic Daily Care Fee, as do all residents in aged care.

How to understand how much you will pay

New aged care resident fees are assessed by Services Australia or DVA based on the person's income and assets. In so doing, individuals are grouped into three segments, each with differing fee related policies. Refer to the diagram on the next page.

Group 1: Basic Daily Care Fee only

Individuals with assets under \$57k and income including the aged pension of less than \$31k per year, will only be charged a Basis Daily Care Fee, which is currently \$58.98 a day and indexed semi-annually in March and September. This fee is set at around 85% of the full single aged pension.

Group 2: Daily Accommodation Contribution (DAC)

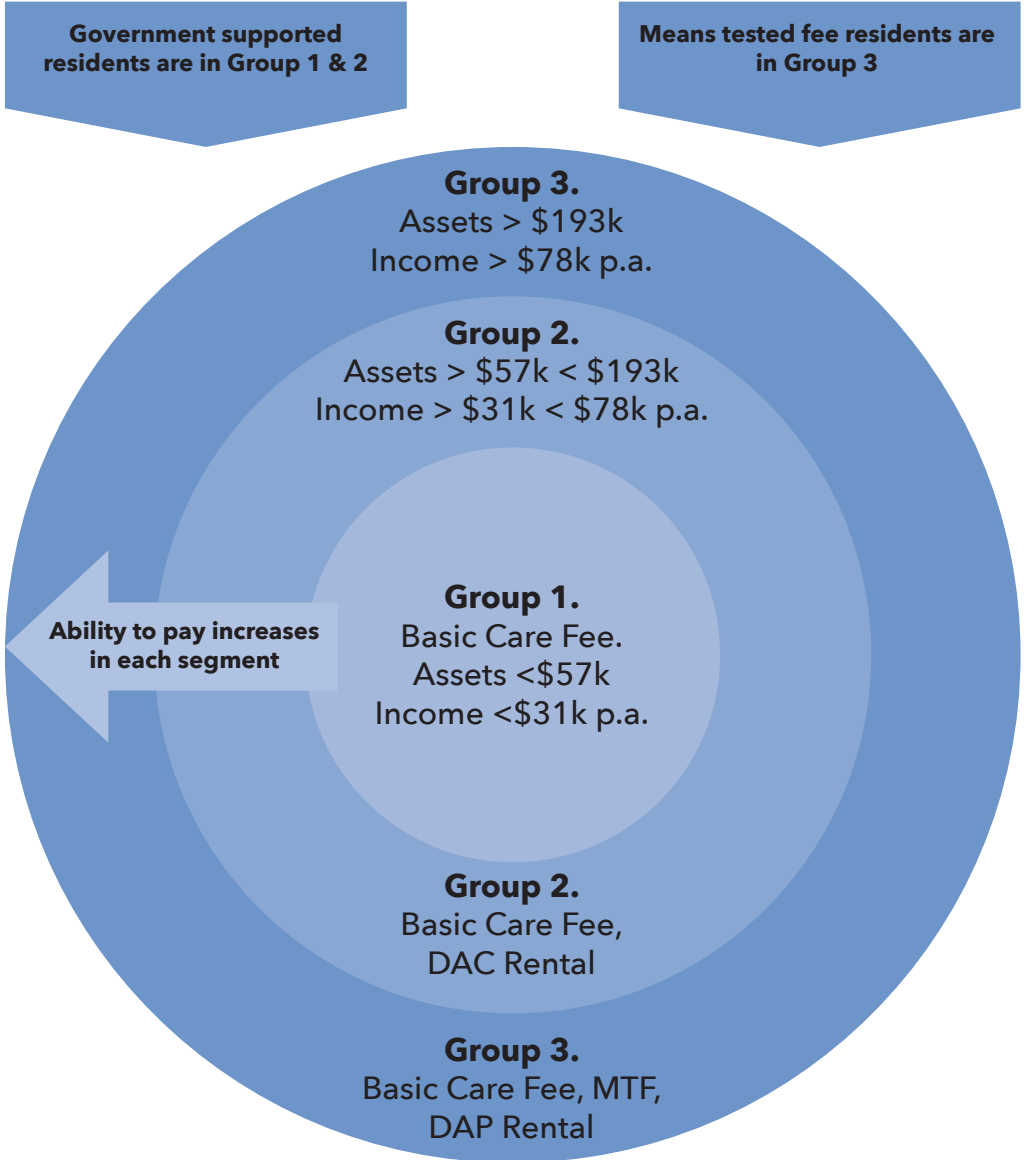
If you do not own a family home or other assets valued at more than \$193k, and you have other assets such as a car or bank deposits of more than \$57k, then you will pay the Basic Daily Care Fee plus what is known as a Daily Accommodation Contribution (DAC), which will be assessed, based on a formula derived from your income and assets, and the related room supplement.

Group 3: Means Tested Fee (MTF)

With assets of more than \$193k and/or income in excess of \$78k per year you will be required to either pay rental for an aged care room (DAP) based on the price of the room being offered by the nursing home (RAD), or invest in a part or full RAD. If you invest in a full RAD you will not pay the DAP. You will also incur a Means Test Fee (MTF) and will pay the Basic Daily Care Fee.



Three segments for residential aged care fees determination



Note: Asset and income thresholds described above are for a single person in care, couples are assessed on 50% of joint assets and income.

How is the Daily Accommodation Payment (DAP) calculated?

For means tested residents (Group 3) a Daily Accommodation Payment (DAP) is a rental calculated on the aged care home room price which is quoted as a Refundable Accommodation Deposit (RAD). When you enter permanent residential care the DAP rental is fixed for the term of your residency.

The DAP rental rate is normally around 2% above the prevailing 10-year mortgage rate. Currently the DAP rental rate is 7.91% per annum, having increased from 4% two years ago. Therefore a \$550k RAD will cost \$43k per year to rent, being \$550k times the annual fixed rate of 7.91%. If a resident decides to pay a DAP the fixed rental that you will pay needs to be assessed against the potential for your assets and income to yield sufficient cashflow to cover this rental, requiring estimates of potential movements in future interest rates, a key area where your advisor can assist.

The DAP rental rate is set by the government on the 1st day of every quarter during the year and is referred to by the acronym, Maximum Permissible Interest Rate (MPIR).

The fixed DAP rental cannot be changed to the current published rate unless you move to a new home.

How is the Daily Accommodation Contribution (DAC) calculated?

For government supported residents (Group 2) the DAC is calculated by an income and asset formula unrelated to the room price quoted as a Refundable Accommodation Deposit but related to what is called the room supplement. The daily rate assessed is akin to a daily rental which is compared to the policy driven room supplement with the lesser rate being applicable.

What are the key features of a Refundable Accommodation Deposit?

Aged care service providers are required to publish on their website and in their documentation the aged care room price quoted as a Refundable Accommodation Deposit (RAD). The service provider normally has a graduating scale of room prices based on size, location and view. RAD's are rarely if ever negotiable and are determined by the provider given commercial factors.

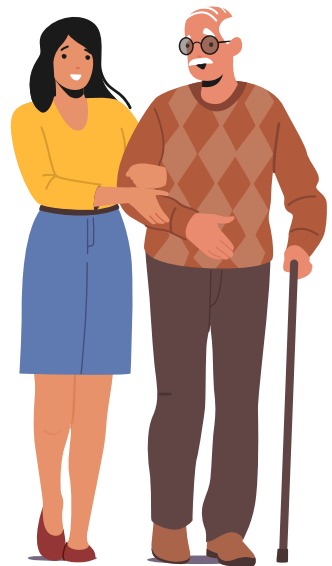
RAD's are non-interest-bearing, and government guaranteed, and are required to be returned within 14 days if there is a move to another home, or after death upon grant of probate, which can take up to six months or more depending upon the complexity of a resident's estate.

How is a RAD different from a RAC?

A Refundable Accommodation Contribution (RAC) is like a RAD, but only relevant for those government supported residents in Group 2. Residents can therefore invest in a full or partial RAC and obtain a pro-rata reduction in the DAC rental, provided they leave \$57k in remaining assets.

The formula for calculating the RAC is based on a calculation involving the DAC and MPIR. If the resident has sufficient funds and invests in the RAC they will not pay the DAC.

The way forward is best worked through with your aged care advisor as there needs to be sufficient long-term liquidity to support ongoing aged care and living costs. The final DAC, being the lesser of the assessed amount based on assets and income, and the room supplement.



How is the Means Tested Fee calculated?

Services Australia has designed a complicated means tested fee (MTF) process to compel residents with more than \$193k in assets to pay a means tested fee. If you own your own home, this MTF asset is currently capped at a value of \$193k, so in most cases you will be a means tested fee payer if you own your own home, as most homes are worth more than this. In addition, if you have income greater than \$78k per year you will be a MTF payer.

To understand whether you can afford the various nursing homes options, it is essential that the means tested fee is estimated accurately, by a qualified aged care advisor. There are aged care calculators available online but they often generate misleading estimates. For further complexity, self funded retirees with reasonably substantial assets and income may also reach the current annual MTF cap of \$31k and lifetime cap of \$71k. Many consider the MTF to be an additional government tax for those that have some capacity to pay for their care.

A further cap applies in relation to the MTF, which is that it can never exceed the current daily capped amount of \$400.70 per day, which is the amount the government will charge a resident in Group 3 if they decline to submit the SA457 Services Australia Centrelink form that outlines a resident's assets and income.

Are certain pension not means tested for residential aged care?

Yes, the following pensions are exempt from residential aged care means testing:

- ▶ Blind Pension
- ▶ War Widows Pension
- ▶ Department Veteran Affairs Disability Pension

How can I be sure I will have sufficient assets and income to support my residential aged care for 5 years or more?

Affordability and future liquidity are the major financial issues that need to be considered when entering residential aged care. The best way of addressing these issues is to have an independent, experienced and qualified aged care advisor prepare for your family a budget for the future, taking account of all ongoing living costs and those that will be incurred in residential aged care.

In developing an affordability strategy several options will be evaluated; namely the full or partial investment in a RAD or a RAC, the option of renting the room, that is paying the DAP or the DAC, the possibility of renting the family home, and many other related approaches. Each strategy will need to take account of the impact on the aged pension and consider the benefits and costs of retiring certain assets to invest in a full or partial RAD or RAC, with the objective of planning the best financial way forward.

If my aged care fees include a Basic Daily Care Fee, a DAP rental and a daily Means Tested Fee what will be the further costs that I will incur?

Some residential aged care homes, especially those that are newly built or renovated include an Extra Services Levy that can range from \$15 to \$150 a day depending largely on the provider, the city and location. These charges often cover hotel-type services compared to the standard aged care home. The fee may also cover menu options, entertainment equipment and health and fitness options and activities.

Residents will be responsible for their medication, clothing, gifts, pharmaceuticals, entertainment, travel (e.g. taxis) as required. As a general observation, many residents spend less in care than they might initially expect to pay.

Is it better to invest in a RAD rather than pay a DAP once a resident enters permanent residential aged care?

Every new resident comes to residential aged care with a different set of financial circumstances. There is always a cost incurred in aged care - it is a question of trying to minimise the costs with the help of your residential aged care financial advisor.

An investment in a full RAD may create a liquidity issue in the future, hence there is the possibility of investing in a part RAD with the balance of the room price rented. The challenge is to determine the best mix of RAD investment and DAP rental to ensure that there are sufficient funds for aged care in the next 5 to 10 years. On the other hand, it may be better to pay the daily DAP rental especially if other invested assets are expected to achieve a good return in the future.

A key decision as to the best way forward is in most circumstance a question of what is to happen to the family home. Should it be sold and the funds invested in a RAD or an alternative investment, so that aged care costs are manageable?

Why is it important to complete the SA457 Permanent Residential Aged Care request for Combined Assets and Income Assessment form if you are a self-funded retiree entering residential aged care?

If you do not complete this form you will be charged the maximum daily Means Tested Fee which is currently \$400.70 a day. This form will allow Services Australia or the DVA to:

- ▶ Confirm that you are not government supported and will pay a DAP rental for the room if the RAD is not paid
- ▶ Calculate a Means Tested Fee

“Just remember when you are over the hill you start to pick up speed. ”

How is the family home treated in the means testing process?

The family home is 100% exempt from means testing if a “protected person” is living in the home. A protected person is:

- ▶ The resident’s spouse.
- ▶ A dependent child under 16 years or a full-time student under 25 for whom the resident is a guardian.
- ▶ A carer recognised by Services Australia (Centrelink) or DVA who has lived in the home for at least two years and who is eligible for income support from Centrelink or DVA.
- ▶ A close relative who has lived in the home for at least five years and who is eligible for income support from Centrelink or DVA.

If couples are both in aged care and the family home is retained, each will be allocated a capped value for the home of \$193k as part of the Means Tested Fee asset test. If the family home is sold the entire proceeds from the sale will be incorporated in the Means Tested Fee asset test. The proceeds of the home sale will also be subject to the pension asset test, whereas it was formerly exempt when the couple was living at home.

Given the ongoing increase in Australian house prices, when the family home is sold the means tested fee for a resident will increase significantly and, in most circumstances, this will see the resident reaching the current lifetime cap of \$71k for the means tested fee in about 2 to 5 years.

All of these policies need to be considered in terms of aged care fees and age pension impact in assessing the best financial way forward for a resident entering aged care.



Will I lose my aged pension if I sell my house to invest in a RAD?

A RAD, like the family home, is pension asset test exempt so there is often the opportunity to retain the pension if the RAD investment is equivalent to the house sale proceeds. RAD's are typically in the range of \$350k to \$950k so there is often much flexibility in determining the best financial way forward, which is a key reason to obtain professional, independent aged care financial advice, before entering aged care.

Often, an investment in a RAD will be an opportunity to boost the aged pension on entry to aged care, or even for some residents to receive a pension for the first time, even if they are relatively well off.

Interestingly, RAD investments are not exempt from the aged care Means Tested Fee calculation process, another financial factor that needs consideration.

If I receive an aged pension, are there any implications if I retain the family home?

If an aged care resident retains the family home and rents it out, the value of the home will be pension asset test and income assessable. If the family home is not sold after two years from entering aged care, it will also be assessable under the pension asset test and in most cases the pension will be lost.

If there is no protected person living in the family home after two years, the market value of the home will be means tested for the determination of aged care means tested fees.

Given the value of most family homes, the aged care resident will most likely see a material increase in their means tested fee, so that they will reach the \$31k annual means tested fee cap and will probably reach the lifetime cap of \$71k in 2 to 5 years, depending on the value of the home.

What legal processes will be required to take up residence in an aged care home?

Aged care residents normally transition to permanent residential aged care from a respite care period in a nursing home. The current rules provide for 63 days of respite care being made available to all Australians. During the respite period, where fees are capped at the basic daily care fee and may include a daily extra service levy, the aged care home will prepare the Residential Agreement that will outline fees from the first day of a move to permanent residential care.

Most Residential Agreements are in a standard format outlining the fees and services provided. Where there is a rental commitment and no RAD or RAC investment, the aged care home may ask for a guarantor, or take out a caveat against the resident's property. Where a RAD or RAC is paid, funds are held by the aged care provider and can be accessed as a last resort in the event of fees not being paid, in which case guarantees or a caveat may not be sought by the provider.

Potential guarantors, usually the resident's Power of Attorney, need to assess the relative risks involved as to the aged care resident's potential default, where generally the risks are low, and it is at the guarantor's discretion to seek further legal advice on such matters.

General Advice Statement regarding the information in this booklet

This information booklet is provided by Geras Partners as general information only and does not constitute formal financial advice. The information does not take account of any person's particular financial objectives, situation or needs. Before making a decision regarding residential aged care readers of this information need to consider whether it is appropriate to their circumstances and should seek independent and professional residential aged care advice.

What administrative financial processes will be required on entering residential aged care?

Aged care fees are normally collected one month in advance by the aged care provider. Aged care homes prefer that a direct debit agreement be put in place so that fees are deducted automatically from the resident's primary bank account.

Nursing home providers will normally accept the Means Tested Fee estimate calculated by aged care advisors and make a back-dated adjustment for the Service Australia (Centrelink) or DVA formal advice of fees that the provider will receive, often one or two months after the resident enters care, following submission of the required aged care fees assessment forms.

Will making a gift of money or assets impact aged care fees and the age pension?

For those in aged care receiving the age pension, \$10k in gifts can be made each year with a \$30k limit over 5 years, without affecting the pension. However, any gift in excess of these amounts will be considered in the pension assets test and the aged care means tested fee calculation. It is best to seek professional advice from an aged care advisor about the costs and benefits connected with gifting, if this is a family priority.

For self funded retirees there may be greater motivation for making gifts either small or substantial, especially if the resident is likely to approach the means tested fee lifetime cap of \$71k in a relatively short period. In such cases the benefits of a gift - for example retiring a close family debt - may outweigh the means tested fee cost. To properly assess this possibility will require some analysis by an aged care advisor. Gifts in excess of the allowance need to be advised to Services Australia (Centrelink) and DVA.

“Wrinkles will only go where the smiles have been”

If my financial circumstances require that I may only invest in a part RAD, how can I be sure I will have sufficient income or assets to pay the remaining DAP rental?

A part RAD investment is usually made when family assets are scarce and there is a need to retain some assets (e.g. bank balances) to cover future aged care and living costs. To determine the optimal level of RAD investment requires a projection over 5 to 10 years of costs, indexed for inflation and taking account of potential future income and asset changes, for example the sale of the family home. This forecasting can be prepared for you by an experienced and professional aged care advisor, so that the appropriate level of part RAD investment can be accurately estimated.

A further option available is the payment of the RAD in instalments over time. In addition, if a resident has a particular liquidity issue in the future, there is the option of deferring the remaining DAP rental and have it applied against the part RAD investment. In this scenario the part RAD investment that is returned to the resident on departure from the home will be reduced by the accumulated outstanding DAP, plus interest.

What are the key factors to consider in the search for an aged care home?

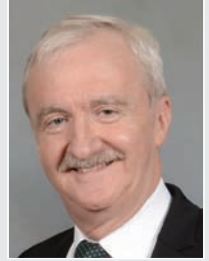
Affordability, as previously discussed, is key and your aged care advisor is the best source for a solution that will bring peace of mind to the family.

Facilities and the cultural experience provided at the home are important; it is best that potential resident visits the home, and enjoys a period of respite care to be sure the room is suitable, the services and food are appropriate, and the location and outlook from the residential room is agreeable.

Location is important so that family, friends and doctors can easily visit.

Of course, if the initial home that is selected proves to not be suitable residents can move to another location, usually with 14 days notice.

Robert Hadley. BCom. MBA and Chartered Accountant.
Partner and Co-Founder of Geras Partners.



In early 2018, my parents suddenly needed to move to residential aged care in their early 90's. It was a traumatic, chaotic and anxious financial period for our family as we had no knowledge of the complexity of residential aged care fees and processes. Given this experience, I decided there was a need for a new approach to aged care advice, so I completed the relevant Aged Care Advice Accreditation programme and co-founded Geras Partners to provide improved solutions to anxious and sometime confused families considering aged care.

Since then, Geras Partners has provided significant assistance to many families with financial concerns relating to aged care. My Chartered Accounting and banking experience has helped me offer succinct and understandable financial solutions to families faced with the challenge of finding an aged care home for their mum and dad. It has been a satisfying process, bringing peace of mind to the many Australian families, both here in Queensland and interstate, that we have had the privilege of supporting.

Charles Green. BCom. LLB. FAICD.
Partner and Co-Founder of Geras Partners.



My Co-Founder Robert and I worked together many years ago in Sydney, in the accounting practice where we met. Although our careers diverged since then, we remained firm friends, and I was keen to join Robert when he had the idea of founding Geras Partners. While I have enjoyed a career with business helping families with their legal and financial issues for over 30 years, Geras Partners is the one that has the highest purpose of them all, minimising the financial burden on families, and offering them peace of mind during the turbulent times as loved ones enter full time residential care.

I live on Queensland's Gold Coast, and I am a current Fellow of the Australian Institute of Company Directors, RG146 compliant, and have also completed the relevant Aged Care Advice Accreditation programme.



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