

# Synopsis

MLC TechConnect



Working out aged care fees and the right funding options can be a challenge. Apart from figuring out the source of cash flow social security, estate planning, tax and other issues must be considered. As the home is the client's most valuable asset in most cases what the client does with the home can impact on their aged care fees. This session provides an overview of aged care fees and focuses on the treatment of the home and its impact on fees and funding strategies.



# Homing in on aged care fees

*The advice opportunity*

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# Important information



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How many of your clients are going to get old?

“...our client base is aging we are now experiencing more and more client’s children and or partners coming in and wanting advice on funding and or accessing aged care...”

Lisa Fazio, Head of Sequoia Financial Advice

# Poll question 1



How many aged care cases does your practice handle per year?

1. None
2. 1-3
3. 5-10
4. More than 10



# 193,000

People in residential care as at 30 June 2023

# 258,000 vs 106,000

People accessing home care package 2023 vs 2019



# 904,600

People projected to be living with relatives in 2042.

# 9% to 14%

Projected increase in people 80+ living with relatives

<https://www.abs.gov.au>



# 68%

Number of people in residential care with moderate to severe cognitive impairment

[dementia.org.au](http://dementia.org.au)



# Learning outcomes

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- Understand the different aged care fees when entering residential aged care
- Work out how the treatment of the family home impacts on the means tested care fee and any daily accommodation contributions
- Work out daily accommodation contributions for supported residents
- Understand funding options and considerations

# Agenda

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Understanding aged care fees

Means-tested amount and the family home

Case study

Funding aged care fees



A photograph of a group of people in a meeting. In the foreground, a man with a beard and a bald head, wearing a light-colored checkered shirt, is looking towards the left. Behind him, a woman with her hair in a bun is smiling. To the left, another woman with glasses is looking towards the camera. The background is a bright, out-of-focus office space with large windows. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the text "Understanding aged care fees".

# Understanding aged care fees

# Overview of aged care fees



Accommodation Fees	Ongoing care fees		
Accommodation payment (RAD/DAP or RAC/DAC)	Basic Daily Fee	Means-tested care fee	Extra Services Fee
Payable as a: <ul style="list-style-type: none"> <li>• Lump sum</li> <li>• Daily payment, or</li> <li>• Combination</li> </ul>	Paid by <u>all</u> residents for <u>all days</u> in care	Payable if means-tested amount is above a threshold	Payable where extra services are available
Payable by self-funded or partially supported residents	Rate set at 85% of Basic Single Age Pension	<ul style="list-style-type: none"> <li>• Calculated based on income and assets</li> <li>• Annual and lifetime caps apply</li> </ul>	Set by facility where extra services are available and agreed to

# Refundable accommodation deposit (RAD)



Cost of accommodation – RAD or interest on unpaid RAD (DAP)

- Negotiate, but cannot pay more than the advertised RAD
- RAD > \$550k must be approved by the Commissioner
- Client decides within 28 days: Full RAD, part RAD/part DAP, or just DAP
- Government guaranteed
- Service must leave client with at least \$59,500
- Fully refundable unless client and service agree to have fees deducted
- Generally paid with 6 months unless other period agreed on
- DAP paid on any unpaid RAD (8.34%\* pa) from Day 1
- Can top-up to full RAD any time

\*Entrants between 1 April-30 June 2024

# Accommodation fee - based on circumstances at entry to permanent residential aged care

Self-funded	Partially supported	Fully supported	Reassessment: Partially or fully supported
Accommodation fee options:	Accommodation fee options:	Accommodation fee options:	Accommodation fee reassessment:
Paid as a: <ul style="list-style-type: none"> <li>• RAD</li> <li>• Equivalent DAP</li> <li>• Any combination RAD/DAP</li> </ul>	Paid as a: <ul style="list-style-type: none"> <li>• Refundable accommodation contribution (RAC)</li> <li>• Equivalent daily accommodation contribution (DAC)</li> <li>• Any combination RAC/DAC</li> </ul>	No accommodation fee - fully subsidised by Government	MTA is reassessed monthly. Ongoing MTA will determine liability for a RAC/DAC
Fixed on entry Paid if MTA $\geq$ Maximum Government supplement at entry	Paid if MTA < Maximum Accommodation supplement at entry	MTA = \$0 at entry Subject to change at reassessment if MTA > \$0	DAC is the lower of: <ul style="list-style-type: none"> <li>• MTA and</li> <li>• accommodation supplement the facility is eligible for</li> </ul>

Resident who is at least partially supported at entry can change between these resident classifications after entry

# Refundable accommodation contribution (RAC)

Calculated as:

$\text{DAC} \times 265/8.34\% \text{ pa MPIR at entry}$

- Guaranteed by the Government
- Fully refundable except where agreed fees are deducted
- Fluctuates as DAC is assessed monthly
- Cannot be more than equivalent DAC
- Excess RAC refunded by service within 28 days of becoming aware of overpayment

\*Entrants between 1 April-30 June 2024

A photograph of three business professionals in a meeting. In the foreground, a man with a beard and a bald head, wearing a light blue checkered shirt, is seated and looking towards the left. Behind him, a woman with dark hair tied up, wearing a white blazer, is smiling. To the left, another man with glasses and a dark shirt is partially visible. They are seated around a small white table. The background is a bright, modern office with large windows. A semi-transparent dark grey horizontal bar is overlaid across the middle of the image, containing the text.

Means tested amount and the family home

# Means tested amount



$$\text{MTA} = \text{Income tested amount} + \text{Asset tested amount}$$

**Income tested amount** =  $50\% \times (\text{assessable income} - \text{income free area}) / 364 \text{ days}$

Income free area:

- \$32,819.80 pa for singles
- \$32,195.80 pa for each member of a couple

Income includes:

- Centrelink income support payment less energy supplement and minimum pension supplement
- Centrelink assessable income

# Means tested amount

$$\text{MTA} = \text{Income tested amount} + \text{Asset tested amount}$$

**Asset tested amount** is the sum of:

- 17.5% of assessable assets between \$59,500 and \$201,231.20 +
- 1% of assessable assets between \$201,231.20 and \$484,693.60 +
- 2% of assessable assets of \$484,693.60 and above

Divided by 364 days

Assets assessed for aged care asset means test that are exempt for Centrelink:

- RAD or RAC
- Value of the home up to \$201,231.20 (indexed) unless a protected person occupies the home at the time of assessment



# Home is exempt while occupied by a 'protected person'

A protected person can either be a care recipient's:

- partner
- dependent child
- carer
- close relative.

The carer or close relative must:

- be eligible to get an Australian Government income support payment
- have lived in the person's home with them for the past 2 years for a carer or 5 years for a close relative.

# Family home assessment



## Centrelink

**vs**

## Aged care

Partner remaining in home:	Impact on social security
Stays in the home	Exempt asset
Leaves the home to enter care	Two-year exemption applies to both, from when the second spouse leaves the home.
Sells the home – intends to buy another home	Both are homeowners for up to 24 months for settlements occurring from 1 January 2023.*
Sells the home – no intention to buy new home	Both are non-homeowners. Sale proceeds are assessed.
Dies	Two -year exemption applies from the time of the partner's death.

At the time of assessment	Impact on aged care asset test
No 'protected person' occupies the home	Value of home assessed to each person up to \$201,231.20
Protected person occupies the home	Exempt for the asset test (no two year limit)

\*The amount intended for the purchase of the new home is exempt from the assets test and the lower deeming rate applies.

A photograph of a business meeting in a modern office setting. Three people are visible: a man with glasses on the left, a woman smiling in the center, and a man with a beard in the foreground on the right. A semi-transparent dark grey horizontal band is overlaid across the middle of the image, containing the text 'Case study'.

# Case study

# Case study Josef



Josef needs to enter aged care. His assets:

\$ 800,000 home

\$ 160,000 financial investments

\$ 5,000 home contents and car

\$350,000 RAD

Carer lived in the home for 10 years, receiving Carer Payment and Carer Allowance.

How much will the annual DAP be if MPIR is 8.34%pa?

# Financial information

Family home  
 Investment properties  
 Deemed investments  
 Income streams that are 50% or 100% asset test exempt  
 Other long-term income streams (eg grandfathered ABP)  
 Other assessable amounts  
**Total**

Assets test	Income test (pa)
\$160,000.00	\$2,392.00
\$5,000.00	
<b>\$165,000.00</b>	<b>\$2,392.00</b>

## Aged care fees and charges

	Daily		Annualised
Standard resident contribution	\$61.96		\$22,615.40
Means tested care fee	\$0.00		\$0.00
Income tested component		\$0.00	\$0.00
Asset tested component		\$50.72	\$18,513.22
Daily Accommodation payment or contribution	\$0.00		\$0.00
Extra service fees	\$0.00		\$0.00
<b>Total</b>	<b>\$61.96</b>		<b>\$22,615.40</b>

Less than \$68.14

*An accommodation contribution may apply*

# DAC is the lower of MTA and accommodation supplement

DAC is limited by the accommodation supplement applicable to the facility for the day.

## If the service is significantly refurbished or newly built on or after 20 April 2012

40% or more of permanent residents are low means, supported, or eligible for the concessional resident supplement	\$68.14
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Less than 40% of permanent residents are low means, supported, or eligible for the concessional resident supplement	\$51.11
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## Service meets building requirements in Schedule 1 of the Aged Care (Transitional Provisions) Principles 2014

40% or more of permanent residents are low means, supported, or eligible for the concessional resident supplement	\$44.43
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Less than 40% of permanent residents are low means, supported, or eligible for the concessional resident supplement	\$33.32
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## Service does not meet requirements

40% or more of permanent residents are low means, supported, or eligible for the concessional resident supplement	\$37.33
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Less than 40% of permanent residents are low means, supported, or eligible for the concessional resident supplement	\$28.00
---------------------------------------------------------------------------------------------------------------------	---------

Aged care fees and charges	Daily	Annualised
Standard resident contribution	\$61.96	\$22,615.40
Means tested care fee	\$0.00	\$0.00
Income tested component	\$0.00	\$0.00
Asset tested component	More than \$44.43	\$18,513.22
Daily Accommodation payment or contribution	\$50.72	\$16,216.95
Extra service fees	\$0.00	\$0.00
<b>Total</b>	<b>\$106.39</b>	<b>\$38,832.35</b>

*An accommodation contribution may apply*

\$9,808 deficit

Social security entitlements	Fortnightly	Annualised
Means-tested pension	\$1,116.30	\$29,023.80
<b>Total</b>	<b>\$1,116.30</b>	<b>\$29,023.80</b>

RAC is calculated as:

$$\$16,216.95 / 8.34\% = \$194,448 \text{ (Less than the \$300,000 RAD)}$$

Josef can pay \$194,448 RAC, or RAC/DAC or DAC (fluctuates/ reduces as assets are depleted)

# Josef pays \$100k RAC



Aged care fees and charges	Daily		Annualised
Standard resident contribution	\$61.96		\$22,615.40
Means tested care fee	\$0.00		\$0.00
Income tested component		\$0.00	\$0.00
Asset tested component		\$50.72	\$18,513.22
Daily Accommodation payment or contribution	\$21.58		\$7,876.70
Extra service fees	\$0.00		\$0.00
<b>Total</b>	<b>\$83.54</b>		<b>\$30,492.10</b>
Refundable accommodation deposit or contribution			\$100,000.00
<i>An accommodation contribution may apply</i>			

\$1,468 deficit from \$9,808

Social security entitlements	Fortnightly		Annualised
Means-tested pension	\$1,116.30		\$29,023.80
<b>Total</b>	<b>\$1,116.30</b>		<b>\$29,023.80</b>

If you cannot guarantee after tax return at 8.34% pa – pay RAC/RAD



# Protected person leaves former home



Aged care fees and charges	Daily		Annualised
Standard resident contribution	\$61.96		\$22,615.40
Means tested care fee	\$4.53		\$1,654.53
Income tested component		\$0.00	\$0.00
Asset tested component		\$72.67	\$26,525.63
Daily Accommodation payment or contribution	\$21.58		\$7,876.70
Extra service fees	\$0.00		\$0.00
<b>Total</b>	<b>\$88.07</b>		<b>\$32,146.63</b>
Refundable accommodation deposit or contribution			\$100,000.00

MTA is more than \$68.14

\$3,123 deficit

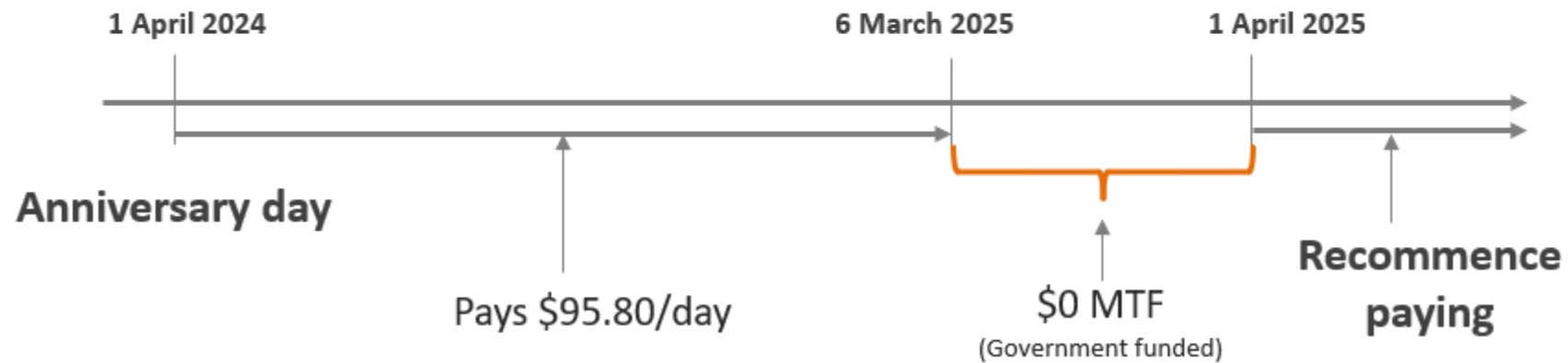
Social security entitlements	Fortnightly	Annualised
Means-tested pension	\$1,116.30	\$29,023.80
<b>Total</b>	<b>\$1,116.30</b>	<b>\$29,023.80</b>

Josef pays the means-tested care fee (his MTA exceeding \$68.14 pd, capped at the cost of the care provided him

# Government subsidy on care costs



## Application of the annual cap



**Annual cap \$33,309.29**  
**Lifetime cap \$79,942.44**

A group of business professionals are seated around a table in a modern office setting. In the foreground, a man with a beard and a light-colored checkered shirt is looking towards the left. Behind him, a woman with dark hair tied back is smiling. To the left, another man with glasses is partially visible. The background shows large windows with a view of a city skyline. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the text 'Funding aged care'.

# Funding aged care

# Case study Lisa



Lisa needs to enter aged care. Her assets:

\$ 950,000 home

\$ 100,000 financial investments

\$ 5,000 home contents and car

\$500,000 RAD

Home is empty. Lisa is expected to stay the medium term.

# Lisa's fees on entry – pay DAC on unpaid \$500k RAD

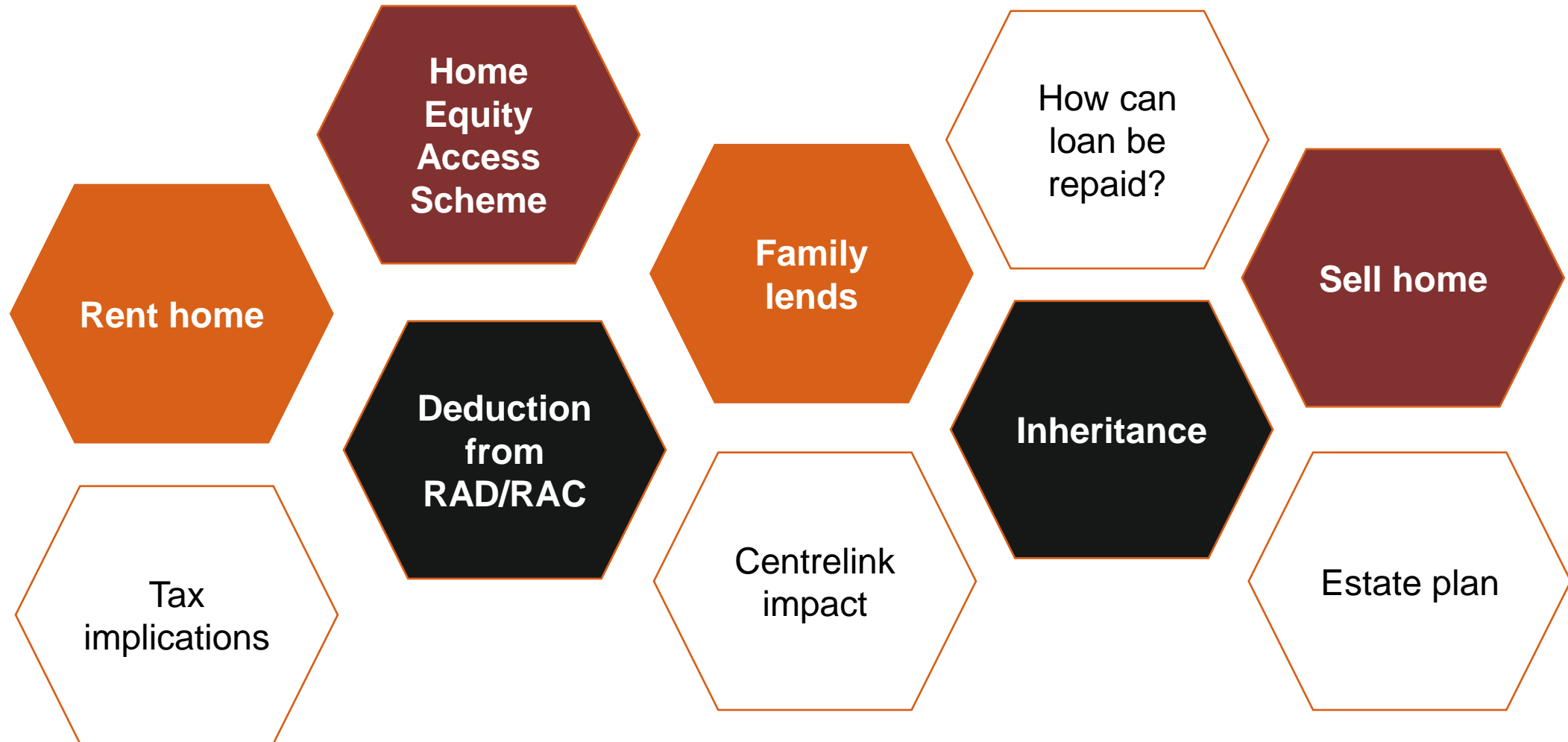
Aged care fees and charges	Daily		Annualised	
Standard resident contribution	\$61.96		\$22,615.40	
Means tested care fee	\$2.88		\$1,052.88	
Income tested component		\$0.00		\$0.00
Asset tested component		\$71.02		\$25,923.98
Daily Accommodation payment or contribution	\$114.25		\$41,700.00	
Extra service fees	\$0.00		\$0.00	
<b>Total</b>	<b>\$179.09</b>		<b>\$65,368.28</b>	

\$36,345 deficit

Social security entitlements	Fortnightly		Annualised
Means-tested pension	\$1,116.30		\$29,023.80
<b>Total</b>	<b>\$1,116.30</b>		<b>\$29,023.80</b>

Options and considerations

# What options do we have for cash flow?



# Pay DAC, rent home \$400 pw net



## Aged care fees and charges

		Daily		Annualised	
Standard resident contribution		\$61.96		\$22,615.40	
Means tested care fee	Previously \$2.88 pd	\$14.24		\$5,198.74	
Income tested component			\$11.36		\$4,145.86
Asset tested component			\$71.02		\$25,923.98
Daily Accommodation payment or contribution		\$114.25		\$41,700.00	
Extra service fees		\$0.00		\$0.00	
<b>Total</b>		<b>\$190.45</b>		<b>\$69,514.14</b>	

\$25,978 deficit

## Social security entitlements

		Fortnightly		Annualised
Means-tested pension		\$798.26		\$20,754.80
HEAS		\$876.19		\$22,780.94
<b>Total</b>		<b>\$1,674.45</b>		<b>\$43,535.70</b>

# Rent home, son pays Lisa's \$500k RAD



Aged care fees and charges	Daily	Annualised
Standard resident contribution	\$61.96	\$22,615.40
Means tested care fee	<b>\$25.45</b>	\$9,290.83
Income tested component	\$0.00	\$0.00
Asset tested component	\$93.59	\$34,161.93
Daily Accommodation payment or contribution	\$0.00	\$0.00
Extra service fees	\$0.00	\$0.00
<b>Total</b>	<b>\$87.41</b>	<b>\$31,906.23</b>
Refundable accommodation deposit or contribution		\$500,000.00

RAD counts

\$2,882 deficit

Social security entitlements	Fortnightly	Annualised
Means-tested pension	\$1,116.30	\$29,023.80
<b>Total</b>	<b>\$1,116.30</b>	<b>\$29,023.80</b>

Seek legal advice on how loan can be repaid. RAD is usually paid to deceased estate. Loss of investment opportunity for son.



# Sell home, pay full RAD



Aged care fees and charges		Daily	Annualised
Standard resident contribution		\$61.96	\$22,615.40
Means tested care fee	Home sale	\$43.15	\$15,749.65
Income tested component	Proceeds	\$4.03	\$1,469.78
Asset tested component	assessed	\$107.26	\$39,150.97
Daily Accommodation payment or contribution		\$0.00	\$0.00
Extra service fees		\$0.00	\$0.00
<b>Total</b>		<b>\$105.11</b>	<b>\$38,365.05</b>
Refundable accommodation deposit or contribution			\$500,000.00

\$12,272 deficit

Social security entitlements		Fortnightly	Annualised
Means-tested pension		\$1,003.55	\$26,092.30
<b>Total</b>		<b>\$1,003.55</b>	<b>\$26,092.30</b>

If RAD is not paid, Lisa will lose her age pension. She has a cash flow deficit, but it can easily be funded. Think of Centrelink strategies to increase her pension

# Learning outcomes

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- Understand the different aged care fees when entering aged care
- Work out how the treatment of the family home impacts on the means tested care fee and any daily accommodation contributions
- Work out daily accommodation contributions for supported residents
- Understand how aged care recommendations can impact on a client's estate plan

# Questions

MLC TechConnect





Thank you

Call us:

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9:00am-5:30pm AEST

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