

# Aspects of Financial Planning

## Residential aged care

July 2010

The prospect of moving into a residential aged care facility can be an emotional time for the prospective resident and their family. There are a number of financial and non-financial factors to consider; this Aspect highlights some of those issues.

### Background

Residential aged care facilities are governed by the Department of Health and Ageing, who ensure they operate according to provisions largely contained in the *Aged Care Act 1997*. These differ from retirement villages, or independent living units for over 55s, which are governed by state based legislation and will not be covered in this Aspect.

Residential aged care incorporates low level care, previously called hostels, and high level care, previously called nursing homes; the main difference being the level of care that is provided.

Low level care facilities allow you to live independently and can assist you with meals, laundry and personal care such as dressing, medication and showering.

High level care facilities provide a higher level of care as ongoing nursing care is also provided.

In addition to these basic services, some aged care homes offer another standard of accommodation called extra service places. These provide a higher standard of facilities and additional services at a higher charge.





Please note: This Aspect contains rate sensitive data that is amended every 20 March, 1 July and 20 September according to changes to the age pension and Consumer Price Index. The figures contained in this Aspect are effective 1 July 2010. Important legislative changes that came into effect from 20 March 2008 have changed the way that some fees, charges and supplements are calculated, as such this Aspect assists residents entering into aged care after this date.

## **How to enter an aged care facility**

Before you move into low level or high level care, you must be assessed and approved by an Aged Care Assessment Team (ACAT). In most cases an ACAT member can come to your home to do the assessment. As part of the assessment process, they interview you to determine your situation so they can identify the level of care that you need.

The assessment process performed by the ACAT is free of charge. ACAT representatives consist of doctors, nurses, social workers, physiotherapists and other health care professionals. When the ACAT has assessed your needs and situation, they will provide you with a copy of the assessment, which will identify if you are eligible for aged care and the ACATs approval for either high or low residential care. If you are eligible, you need to keep the copy of the assessment, as it provides the approval required to move into residential aged care. ACAT approvals are only valid for up to 12 months from the date the ACAT member signs the form.

Once a person enters the residential aged care service, the Aged Care Funding Instrument (ACFI) is used as the method of classifying residents into appropriate care and to determine the level of Australian Government subsidies to be paid to the aged care provider.

Your doctor, local hospital or health centre can provide you with a referral to your nearest ACAT or you can contact ACAT directly. You can also contact a Commonwealth Carelink Centre, by phone or in person, who can provide you with information about your nearest ACAT and can also provide you with details of the aged care homes in your area. Contact details can be found at the conclusion of this Aspect.

## **Your rights**

You may feel anxious about being assessed by someone you do not know. Bear in mind that firstly the doctor, nurse or other professional visiting is experienced in talking to people in your situation. Secondly you have the right to be treated with dignity and respect; to express your own views and ideas; to speak in confidence; and to be involved and informed about all decisions relating to your care. You also have the right to appeal an assessment that you disagree with.





## Low level care

A low level residential care facility is available to people assessed as requiring general accommodation and personal care. A person receiving this type of care might require daily assistance with bathing, showering/personal hygiene; organising, supervising and the administration of medication; toileting and continence management; meals; transfers and mobility; dressing and communication assistance.

A person entering low level care may be asked to pay the following fees:

- Basic daily fee
- Income tested fee; and
- Accommodation bond.

### Basic daily fee

All residents are required to pay a basic daily fee, as a contribution towards accommodation costs and living expenses such as meals, cleaning, laundry, heating and cooling.

The level of basic daily fee is negotiated between the resident and the aged care provider. However the Government has set a maximum level of basic daily fee which is indexed on 20 March and 20 September each year in line with movements in the age pension.

For all permanent residents who enter an aged care home on or after 20 March 2008, the maximum basic daily fee is 85% of the annual single age pension. As of 1 July 2010 this is \$38.65 per day.

### Income tested fee

Some residents, depending on their income will be required to pay an additional income tested fee. When you move into an aged care home, Centrelink will assess your income so that the Department of Health and Ageing can work out the amount of income tested daily care fee you could be asked to pay. Subsequently, at the commencement of each quarter, income is assessed and a maximum income tested fee is determined. As with the basic daily care fee, the fee can be negotiated with the aged care provider and is subject to a statutory maximum.

The level of income over which a care recipient will be asked to pay an income tested fee is called the 'total assessable income free area'. As at 1 July 2010, the total assessable income free area is \$816.50 per fortnight for a single person or \$798.50 per fortnight for each member of a couple. Individuals with income less than \$816.50 or \$798.50 can not be asked to pay an income tested fee.





Those with income over \$816.50 or \$798.50 per fortnight may be asked to pay an income tested fee up to the maximum calculated as the lesser of:

- 5/12ths of the income in excess of the total assessable income free area; or
- An amount equal to 150% of the basic age pension calculated on a per day basis. This is \$62.11 as at 1 July 2010.

In summary, the maximum income tested fee you may be asked to pay is currently \$62.11 per day.

### **Accommodation bond**

If your assets are above a certain amount and you enter a low level care facility or an extra service place, irrespective of whether it is low level or high level care, you may be required to pay an accommodation bond. These bonds are like an interest free loan to the aged care home and by law must be used to improve building standards and the quality of aged care services.

You cannot be asked to pay an accommodation bond unless you enter an agreement to do so. The amount of the accommodation bond is not set and therefore must be negotiated between you and the provider. The provider cannot make you pay a bond that, after payment, would approximately leave you, if single, with less than 2.5 times the annual age pension amount (i.e. \$37,500).

The bond can be paid as a lump sum, by periodic payments, no more frequently than weekly, or can be paid by a combination of the two. The way you choose to pay the bond can have quite different effects on your age pension, residential care fees and taxation. Most of the bond is refunded to you or your estate when you leave, payable generally within 14 days.

### ***Retention amount***

The aged care home is permitted to deduct a portion of your accommodation bond each month for five years, for the purposes of paying for expenses to maintain and upgrade the aged care facility. These deductions are known as the 'retention amount' and the amount of the deduction depends on the amount of bond you pay.

For the 2010/11 financial year, where the amount of the accommodation bond paid exceeds \$36,900, the maximum amount that can be retained from the bond is \$3,690 (10% of \$36,900). Generally the aged care provider will deduct the retention amount on a monthly basis resulting in a maximum monthly retention amount of \$307.50 (\$3,690/12) for a maximum of five years.





## High level care

This type of care is for very dependant individuals who need 24 hour access to nursing care administered by registered nurses or supervised by registered nurses. To qualify for this type of care you would require complete or almost complete assistance with the majority of the activities of daily living and would not be adequately cared for at a low level care facility.

A person entering high level care may be asked to pay the following fees:

- Basic daily fee
- Income tested fee; and
- Accommodation charge.

### Basic daily fee

Please see section above.

### Income tested fee

Please see section above.

### Accommodation charge

An accommodation charge is payable when entering high level care if your assets are over a certain amount, currently \$93,410.40. The charge is calculated on a daily basis and generally paid monthly. It cannot be paid more than one month in advance.

The amount of the accommodation charge is negotiated between you and the provider, although it is subject to maximum limits depending on whether you are receiving an age pension or not. The current maximum daily accommodation charges are:

- Pensioner = \$26.88
- Non-pensioner = \$26.88.

In some cases you may be able to defer paying the accommodation charge or you may be able to have it paid from your estate. In such cases, the accommodation provider can charge interest up to double the lowest pension deeming rate applicable at the time of entering the home so it is worthwhile seeking advice on whether this is a cost effective option for you.





## Extra service place fees

A select number of residential aged care homes offer additional services by providing extra service places. By paying an additional 'extra service fee', you will be provided with superior accommodation and facilities for example private bathrooms, nicer bedrooms and higher quality food. Once again, the fees are negotiated with your service provider as is the preferred method of payment. There are no legislative maximums. If you choose extra service care, you may be asked to pay an accommodation bond (see above), irrespective of whether you are entering a low level or high level care facility.

## What is income?

Centrelink assess residents' income on behalf of the Department of Health and Ageing for the purposes of determining income tested fees. The income is assessed using the same rules as for age and service pensions. Accordingly, income for aged care purposes is any money, valuable consideration (i.e. goods or services received in exchange for an item, action or promise) or profits you may have earned, derived or received from within, or outside, Australia. It includes, but is not limited to:

- Income support payments from the Australian Government (i.e. age pension, service pension etc)
- Deemed income from financial investments
- Gifting over certain amounts
- Superannuation pensions (i.e. account based pensions and annuities)
- Overseas pensions
- Family trust distributions; and
- Net income from rental property (concessional treatment may apply).

## How your home will be treated for aged care purposes?

The value of your home will generally not be counted as an asset in the accommodation bond/charge negotiation process if, when you enter the aged care home:

- Your spouse or dependant child is living there
- A carer eligible for an income support payment has lived there for two years; or
- A close relative who is eligible for an income support payment has been living there for at least five years.





In all other circumstances, the estimated market value of your home will count as an asset when the aged care provider is determining the amount of accommodation bond or charge it will require.

## **How your home will be treated for social security purposes?**

Keeping your former home when you enter an aged care facility can add to the complexity of your situation, although in some circumstances this can be advantageous in qualifying for the social security age pension. The treatment of your home will differ depending on whether you are entering low level or high level care.

### **Entering low level care**

If you are either single or married and both you and your spouse move into low level care, your home will not be counted as an asset for a period of two years from the time that you enter.

Moreover, if the accommodation bond is paid in periodic payments and you are deriving rental income from your home, the rental income will be exempt for income test purposes and your home will be an exempt asset indefinitely.

If you have paid an accommodation bond that is greater than the 'extra allowable amount', you will be assessed as a homeowner by Centrelink. The extra allowable amount is the difference between the homeowner and non-homeowner asset test threshold and is currently \$131,500.

### **Entering high level care**

If you are either single or married and both you and your spouse move into high level care, your home will not be counted as an asset for a period of two years from the time that you enter.

If you are paying an accommodation charge and you are renting out your home, the rental income will be exempt for income test purposes and your home will be an exempt asset indefinitely.

It is important to note that while the aged care facility will make an assessment based on your circumstances at the time of your application, Centrelink requires your ongoing updated arrangements, hence your social security position may change over time.





## Claimable expenses

It may be possible for you to include some of your residential aged care expenses when claiming the net medical expenses tax offset. You can claim payments made to low or high level residential aged care facilities if:

- The payments were made to an approved care provider
- The payments were made for residential aged care received by an approved recipient; and
- You were assessed as needing care at levels 1 to 7.

Residential aged care expenses can include daily fees, income tested daily fees, extra service fees, accommodation charges, periodic payments of accommodation bonds, or amounts drawn from accommodation bonds paid as a lump sum.

The tax offset does not cover the following payments:

- Lump sum payments of accommodation bonds
- Interest derived by care providers from the investment of accommodation bonds because these are not payments for residential aged care
- Payments for people who were residents of a hostel before 1 October 1997 and who did not have a personal care subsidy or a respite care subsidy paid on their behalf at the personal care subsidy rate by the Commonwealth (unless they have subsequently been reassessed as requiring care at levels 1 to 7); or
- Payments for people assessed as requiring level 8 care.

The tax offset is calculated as 20% of net medical expenses over \$1,500 and is included as part of your income tax return.

### Example

Mary lives in a hostel and has aged care fees totalling \$15,000. Her expenses exceed the threshold (\$1,500) by \$13,500.

Therefore, she would be entitled to a tax offset of \$2,700 (20% of \$13,500).





## General considerations

If you are considering moving to either low or high level care, you should take your time when making the decision, and visit a number of different places. You will need to compare and evaluate the options in terms of the following:

- *Location:* It is usually preferable to select residential care that is close to public transport and in an area that you are familiar with, or that is close to family and friends.
- *Size of the home:* Ensure the size, community atmosphere and grounds of the facility are what you are looking for. When assessing this, remember that you may be a resident for many years. Some homes are more community orientated than others.
- *Services the homes offer:* Thoroughly assess the different services to determine what you are happy with, and what you are prepared to pay for. It's also a good idea to ask if the home has any rules, so you can ensure that the place is right for you.
- *Security considerations:* Make sure you are comfortable that the home is secure and not easy to break into.
- *Pets:* If you have pets, are pets allowed in the home?
- *Complaints:* Make sure there are provisions in the legal documents for appropriately handling complaints or disputes with either management of the facility or other residents.
- *Visitors:* If it is important for you to live in a home where your family and grandchildren are able to visit and possibly even stay, make sure the home allows this.
- *Medical Facilities:* If medical facilities are provided on site, are they the type of facilities that you are looking for? Should you require more attention and care later in life, does the home cater for this (eg if you needed to move from low level to high level care)? You may also wish to consider if the home has internal modifications such as bath rails.
- *Mobility:* Try to imagine how you will cope if your ability to move around becomes more limited. For example, if you need a walking stick in the future, are the grounds easy to negotiate, are the shops close by?
- *Privacy:* Are the rooms individual or shared? Do you have your own bathroom or are you required to share? Will you have enough privacy in the proposed arrangement?
- *Furnishings:* Make sure you consider what furnishings and personal items you can take with you. Are there any provisions for storing any personal items?





## Useful contact numbers

Aged and Community Care Info Line	1800 500 853
Commonwealth Carelink	1800 052 222
Centrelink Aged Pension & Retirement Infoline	132 300
Department of Veterans' Affairs	133 254
The Aged-care Rights Service(TARS)	02 9281 3600 or 1800 424 079

## Conclusion

Before moving into an aged care home it is essential that you and/or your family undertake thorough research so you can choose a place that is suitable for you. The first point of contact should ideally be your doctor, as they may have an idea of your overall health and well being and should have an understanding of the process involved in looking for aged care accommodation.

If you are a pensioner you should contact either the Department of Veterans' Affairs or Centrelink, as appropriate, so you can determine how moving into an aged care home may affect your pension. TARS provides a free, aged-care rights service to NSW residents which is able to help assist older people negotiate their residential costs. TARS also provide an information and education service for people intending moving into an aged care facility.

If you would like any further information or would like to discuss any other relevant issues, please contact your financial adviser.





## Centric Wealth Advisers Ltd may be able to be of assistance

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