Aspects of Financial Planning

Residential aged care

July 2011

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 2011. 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 2009, the maximum basic daily fee is 84% of the annual single basic age pension. As of 1 July 2011 this is $40.25 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.

Generally, a resident cannot be asked to pay an income tested fee if they:

- Are a full pensioner (ie. Age Pension or the Service Pension)
- Are receiving respite (temporary) care
- Are an Australian ex prisoner of war
- Were receiving permanent residential care at any time before 1 March 1998; and

- Have a dependent child.

The income tested fee is only paid by residents whose 'total assessable income' exceeds the 'income free area'.

Please note that 'total assessable income' is income as assessed by Centrelink or Department of Veterans' Affairs (DVA) under the usual income test rules plus any income support payments (ie. Centrelink or DVA pensions). As at 1 July 2011, the total assessable income free area for all new residents is:

- $847.90 per fortnight for a single person or
- $829.90 per fortnight for each member of a couple.

Those with income over the income free area may be asked to pay a maximum daily income tested fee calculated as the lesser of:

- 5/12ths of the income in excess of the total assessable income free area, which can be calculated as follows:

  Fortnightly fee = [(Total assessable income – total assessable income fee area) x (5/12)] /14

  Or

- An amount equal to 135% of the single basic age pension calculated on a per day basis. This is $64.69 as at 1 July 2011.

In summary, the maximum income tested fee you may be asked to pay is currently $64.69 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. Residents whose assets at the time of entry are less than $39,000 cannot be asked to pay an accommodation bond. As there is no legislative cap on the size of the accommodation bond, the aged care provider can charge any amount of bond as long as the resident is left with at least $39,000 in assets. If the resident is a member of a couple, they must be left with combined assets of no less than $78,000.

Method of payment

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. If the accommodation bond is paid as periodic payments, interest will be charged on the outstanding bond at a maximum rate of 9% per annum for all new residents entering care from 1 July 2011.

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 when you leave the aged care home or to your estate when you die, 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. There are two bond size thresholds that impact on the maximum accommodation bond retention amounts, being the upper ($38,160) and lower ($19,740) thresholds:

- Upper threshold: for the 2011/12 financial year, where the amount of the accommodation bond paid exceeds $38,160, the maximum amount that can be retained from the bond is $3,816 per annum (10% of $38,160). Generally the aged care provider will deduct the retention amount on a monthly basis resulting in a maximum monthly retention amount of $318 ($3,816/12) for a maximum of five years.
- Lower threshold: for the 2011/12 financial year, where the amount of the accommodation bond is no more than $19,740, the maximum amount that can be retained from the bond is $164.50 per month (or 10% of $1,974).

Note: for residents who pay a bond between the lower and upper thresholds of $19,740 and $38,160, the retention amount per month is 10% of the actual bond paid divided by 12.

The monthly retention amount does not vary over the permitted five year period while the resident continues to live in the home.

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 $39,000. The accommodation charge is calculated on a daily basis and generally paid monthly. It cannot be paid more than one month in advance.

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

For new residents entering high level care between 20 March 2011 – 19 September 2011, the maximum daily accommodation charge is:

Level of assets	Maximum daily accommodation charge
Less than $39,000	Nil
$39,000 - $102,544	(Assets – $39,000) / 2,080
Above $102,544	Pensioner: $30.55 Non-pensioner: $30.55

As the accommodation charge is fixed at the date of entry, it is not affected by any subsequent indexation of the maximum daily accommodation charge. Thus, any change in your assets after entry to high level care will not impact the rate of your ongoing accommodation charge.

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 on the unpaid amount at no more than double the lowest pension deeming rate applicable at the time of entering the home (currently 6%) 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.

Moving to another aged care home

Moving between low care homes

If a resident has previously paid a bond in full and then moves to another aged care home within 28 days of leaving the last home, the bond can be transferred to the second aged care home. A resident cannot be asked to pay a bond to the second aged care home that is higher than the amount refunded by the first aged care home, unless there is a gap of more than 28 days between leaving the first home and entering the second.

If a resident moves, only the balance of the five year bond retention period will carry over to the new home.

Moving between high care homes

If a resident moves from one aged care home to another aged care home where an accommodation charge is also payable, the level of their charge in the new home will be capped at the maximum accommodation charge they were eligible to pay in the previous aged care home.

Again, a resident cannot be asked to pay a higher charge in the new home unless there is a gap of more than 28 days between leaving the earlier home and entering the new home.

Moving from low care to high care

If a resident paid a bond on entry to low care and subsequently moves to another aged care home within 28 days to receive high care they may, with the agreement of the new aged care home, either:

- Have the balance of the bond fully refunded (less retention and other applicable amounts) from the previous aged care home and (if liable) pay an accommodation charge in the new aged care home (in this case a resident will need to apply for an aged care assets assessment in order for the Department of Health and Ageing to work out the maximum charge they are eligible to pay); or

- Transfer the balance of the bond to the new aged care home. In this case only the balance, if any, of the five year retention period will carry over to the new aged care home.

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. Thus, residents who receive an age or service pension do not have to provide income information as Centrelink or DVA already have this information.

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).

For aged care purposes, income for a couple is combined, regardless of whose name it is derived in. Each person is assessed to earn half of the combined income.

What are assets?

It is not compulsory for everyone going into aged care to undergo an assets assessment. Assets assessments are only necessary if a person wants to establish their eligibility for an Australian Government subsidy for all or part of their aged care accommodation costs. This is the case even if you have already given Centrelink or DVA information about your assets for pension purposes.

If you choose not to have an assets assessment, you can expect to be asked to pay an accommodation bond, to be negotiated between you and the home, or the maximum amount of accommodation charge, as applicable.

The rules for assessing assets are broadly the same as for age and service pensions but aged care legislation has the following differences:

Asset	Aged care rules	Centrelink/DVA rules
Superannuation	Superannuation is assessable at any age if lump sum amounts can be withdrawn (ie. if unrestricted non-preserved benefits exist or a condition of release is met)	Superannuation is assessable from age/service pension age
Complying income streams (ie. term allocated pensions and life expectancy annuities)	Complying income streams purchased before 20 September 2007 are not counted as an asset for aged care purposes. Complying income streams purchased on or after 20 September 2007 are counted as an asset for aged care purposes.	Complying income streams are not counted as an asset if they were purchased prior to 20 September 2004. Complying income streams are 50% asset test exempt if they were purchased between 20 September 2004 – 19 September 2007. Complying income streams are included in assets for social security if they are purchased on or after 20 September 2007.
Gifted assets	Individuals who enter aged care or move to another aged care home on or after 1 January 2007 will have any assets gifted included in their assets assessment for aged care purposes if the amount(s) gifted exceeds $10,000 in a single financial year or $30,000 over five financial years. The excess gifts can only be backdated to 10 May 2006.	Any asset or amount gifted over and above either threshold (i.e. $10,000 or $30,000) is treated as a deprived asset for five years from the date of disposal. Any amounts disposed of or gifted in the five years immediately before a payment can also be considered.
Home contents	Market value accepted as $5,000 unless otherwise advised	Market value accepted as $10,000 unless otherwise advised
Former home	Generally assessable unless the spouse or other eligible persons continue to live there (discussed in detail below)	Generally exempt for a period of time depending on circumstances (discussed in detail below)

For aged care purposes, if you are a member of a couple, the total combined assets are assessed and each person is assumed to own half.

It is also worth noting that any accommodation bond or accommodation charge paid will not count under the assets or income tests for Centrelink or DVA purposes.

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 $135,000.

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.

Illness separated couples

If one or both members of a couple move to an aged care facility they will be assessed as an illness separated couple.

The couple will generally continue to receive the higher single rate of Centrelink pension but they will be assessed under the couple income and assets test thresholds. This provides higher cut-off thresholds for the income and assets tests than the normal couple cut-off levels.

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 $2,000* 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 (i.e. $2,000) by $13,000.

Therefore, she would be entitled to a tax offset of $2,600 (20% of $13,000).

*** Note:** The Medical Expenses Tax Offset claim threshold increased from $1,500 to $2,000 from 1 July 2010.

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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Centric Wealth recommends that you obtain financial and tax or accounting advice based on your personal situation before making an investment decision.

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