Making sense of accommodation bonds in aged care

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There are many misconceptions within the community about the cost of moving into an aged care facility (commonly known as nursing homes). The reason for this is undoubtedly due to the complexity around bonds. This can make moving into an aged care facility a stressful time for everyone involved.

To help make the process less daunting for prospective residents and their families, this article answers some of the most common questions people have about accommodation bonds in aged care.

What is the bond used for?
An accommodation bond, or accommodation charge, is payable upon entry to an aged care facility by the majority of residents. The aged care facility holds the bond in ‘trust’ for the resident and uses the interest earned on the bond to assist with general maintenance costs associated with the aged care facility.

Which facilities require a bond?
Currently, aged care facilities are classified as either ‘low care’ or ‘high care’. A lump sum bond is generally required upon acceptance in a ‘low care’ aged care facility but there is no bond payable if you are assessed as requiring a place in a ‘high care’ facility.

From 1 July 2014, the aged care reforms will remove the distinction between low and high care. Consequently, there will be a bond payable for all aged care facilities for residents required to pay one.

What is the maximum bond payable?
The amount of bond payable depends on a number of factors, however a key factor is the financial situation of the person entering the home. Currently, the aged care facility can charge any amount of bond as long as the resident is left with at least $40,000 in assets.

The maximum bond payable is dependent on the assets of the person entering the aged care facility. You can choose to have an asset assessment carried out by Centrelink or the Department of Veteran Affairs, but it is worthwhile speaking to a qualified financial adviser before completing any asset assessment forms. Once an assessment has been carried out an aged care facility must abide by these figures when determining your accommodation bond.

If you are able to do so, it may be beneficial to pay a higher bond. Paying a higher bond on entry to a facility can have several benefits:

- Generally the higher the bond required (and that you can afford) the higher quality the facility you will be able to select
- Negotiating a higher bond may guarantee you a spot in your chosen facility where competition for spots is tight
- It may increase the level of age pension received as the bond is not assessable for the purposes of the Centrelink Assets and Income Test.
- A higher bond may put a resident in a position to negotiate a reduction in the daily care fee.

From 1 July 2014, all aged care facilities must advertise their maximum required bond, therefore negotiating a higher bond than this will not be possible after that time.

If a resident does not have enough assets to meet the full bond required, they may be granted a spot at the facility as a partially supported resident and pay a lower level of bond.

Where a person does not have assets above $44,000, they would need to find an aged care facility with fully supported resident spaces available. This is why a person may miss out on a spot at their preferred facility if that facility doesn’t have the ‘right’ spot available to them (which will depend on their assessed situation) at the time of entering the facility.
What assets are assessable when determining maximum bond payable?

The asset test applied in determining the maximum bond payable is the same as the asset test applied by Centrelink for Age Pension entitlements, with the main difference being that your home will also be assessable.

There is an exception to this rule where your home will not be assessable as an asset in the accommodation bond process if when you enter the aged care facility:

- Your spouse is living there
- Your dependant child (under age 18 or under 22 and a student) is living there
- A carer who is eligible for an income support payment has been living there for two years
- A close relative who is eligible for an income support payment has been living there for at least five years

Assets include, but are not limited to:

- Your home (unless above rule applies)
- Household contents, personal effects, collections, etc (fire sale value)
- Motor vehicles – cars, bikes, caravans, boats, trailers, etc
- Cash accounts, term deposits, bonds
- Investment portfolios (shares, managed funds, etc)
- Investment properties/land/holiday homes
- Superannuation or Account Based Pension member accounts
- Businesses and farms
- Surrender value of life insurance policies
- Gifts or loans made to family members

How do I pay the bond and what is the timeframe?

The agreed bond can be paid as a lump sum, interest only instalments, or a mix of the two.

If paying by lump sum you have up to six months to make this payment and during the interim you will be charged interest only payments on the amount outstanding, as agreed with the aged care facility. There is a government set maximum interest rate that the facility can charge.

How much bond will be returned to the resident or their estate?

One of the biggest misconceptions is that bonds payable upon entry to an aged care are lost to them or their estate forever.

Currently upon exit from an aged care facility the original bond amount will be returned to the resident or their estate minus a retention amount. The current retention amount deducted from bonds over $39,720 is set at a maximum of $331 per month for a maximum of 60 months ($331 x 60 = $19,860).

From 1 July 2014, there will be no retention amount deducted, the full bond amount will be refunded, this is also reflected in the new name for lump sum bonds from 1 July 2014 – ‘refundable accommodation deposit’.

Providers are required to pay interest on an accommodation bond balance for the period from the day after the resident leaves the care service until the accommodation bond balance is refunded. The interest rate payable to the resident is set by the Government at the lower social security deeming rate plus 2%.

It should be noted that residents who elect to pay the bond by interest only instalments do not receive any of this back from the aged care facility on exit. The reason for this is that they are basically paying the facility the interest it is forgoing by not holding the bond as a lump sum.

Summary

People are often reluctant to make the choice to move into a nursing home and this often stems from the misconception that they will lose a large portion of their accumulated assets through payment of a bond. While there are a number of different fees associated with moving into an aged care facility, there can be benefits of moving into a facility where a larger bond is required.

The issues explored in this article are fully covered in a Centric paper titled ‘De-mystifying nursing home bonds’. The paper aims to de-mystify bonds payable upon entry to aged care facilities and how they can actually be used to a person’s advantage from a Centrelink Age Pension perspective. If you would like a copy of the paper, or would like to talk to one of our aged care specialist advisers, please contact us on 02 9250 6500.

Here at Centric Wealth, our Advisers can assist you and your family with making the decision to move into a an aged care facility. We can assess the affordability of the options available to you, your funding options, and the financial impact these will have on your estate in the longer term.
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