

Aged Care Advice

Covering the cost of aged care



Your questions answered

The cost of residential aged care can be complex and difficult to understand. Navigating through the options and the best way to structure your finances to pay for your care may not be easy. This guide explains the fees and the choices you have available. It also highlights the benefit of good advice to evaluate the range of financial strategies in the search for your best solution.

McConachie
Stedman

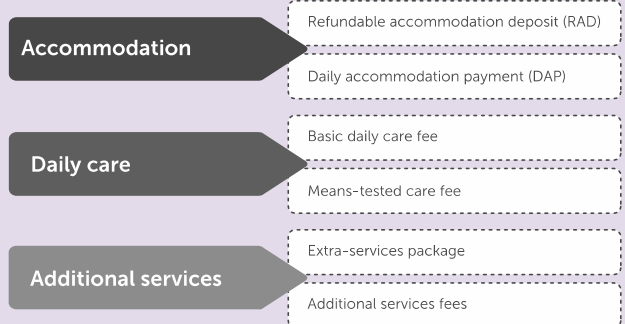
Fees explained

Your contribution to the cost of your care in a residential aged care service can be divided into three broad categories:

Accommodation payments which pay for your room and the amenities

Daily care fees which pay for daily living expenses and nursing care

Additional services fees which pay for additional packaged services and lifestyle choices.



1. Accommodation payments

You will be asked for a contribution towards the cost of your room and other amenities in the aged care service.

This will be quoted as a lump sum called a **refundable accommodation deposit (RAD)** as well as the equivalent **daily accommodation payment (DAP)**.

Once you have been offered a place and agreed on the accommodation payment you can choose whether to pay the lump sum or the daily payment or a combination. You generally cannot pay a lump sum that will leave you with less than a minimum level in remaining assets so in some cases you may have to choose a combination.

If you don't have a lot of assets or income you may be able to negotiate a payment lower than the published amounts or qualify for government concessions (as a low-means resident).

Refundable accommodation deposit (RAD)

If you pay a RAD you give up access to this money while you live in the aged care service. But when you leave, it is fully refundable to you or your estate. There is no risk with getting your money back as repayment is guaranteed by the government if your service is an approved service and goes into liquidation.

Each aged care service can choose how much they want to charge. This may vary for different rooms within the service. You can check the service's website or www.myagedcare.gov.au/service-finders to see the published amounts.

If the facility wants to charge a RAD of more than \$550,000 they must receive approval from the government.

Daily accommodation deposit (DAP)

If you don't pay the lump sum RAD you will pay a DAP. This is like paying rent or interest on an unpaid loan.

Each quarter the government sets the interest rate used to convert the lump sum into a DAP. The rate is fixed at the rate that applies when you enter into care.

If you have problems generating enough cashflow you can choose to pay a part RAD and ask the service to deduct the remaining DAP from the lump sum paid.

2. Daily care fees

The **basic daily care fee** is paid by all residents and is set at 85 per cent of the base single age pension. This is a contribution towards your cost of care including meals, cleaning, laundry, electricity and nursing care.

The government will also assess your assets and income to calculate an amount known as your "means-tested amount". This is calculated using a complex formula so seek advice to have this calculated for you.

If your means-tested amount is more than a certain threshold you will also pay a **daily means-tested fee**. This increases how much you pay for your care, and decreases how much the government pays on your behalf.

The means-tested fee is subject to a yearly cap as well as a lifetime cap.



Fees explained



3. Additional services fees

You may have an opportunity to access extra services such as a choice of meals, hairdressing services, newspapers etc, for an additional fee.

This can either be packaged with your room as an **extra-service fee** or you may be able to choose to access the services for an optional **additional services fee**. Typically these fees range from \$10 up to \$120 per day.

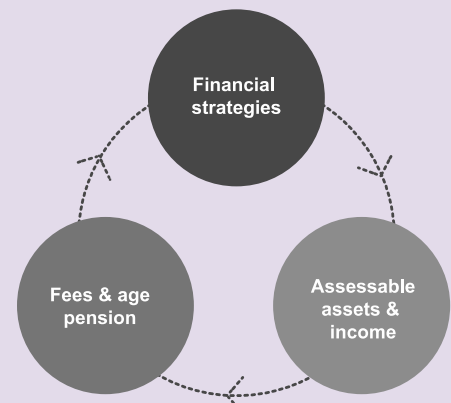
Covering the costs

To work out the amount of your fees and how to pay them you will need to evaluate a range of financial strategies and choices.

Each strategy has the potential to change your assessable assets and income, which in turn can affect your aged care fees and your age pension entitlements. It is most important to ensure you create enough cashflow and protect your estate.

Some important questions you need to answer are:

- What will you do with your former home?
- How will you pay for accommodation?
- Can you create cashflow to cover your daily costs?



The future of your home

If the move into residential aged care leaves your former home vacant you'll need to decide what to do with it. This is a difficult question as it often involves emotional as well as financial considerations.

You may need to access some of the money tied up in your home to pay for your accommodation. This doesn't always mean that you have to sell your home – there are alternatives such as renting it out or accessing a reverse mortgage to release some of the capital in your home.

To find the best option many factors need to be evaluated:

- Can the home be easily rented and for what amount?
- How much expenditure is needed to make your home rentable?
- Who will manage the home and look after it?
- Can a reverse mortgage free up enough money and what are the costs and conditions of the loan?
- How do these decisions impact on your pension entitlements and the daily care fees?

Paying the RAD

For many people contemplating aged care, the issue of the accommodation payment creates the most worry.

While payment of a refundable accommodation deposit (RAD) usually requires a revamp of your finances, don't think of it as the enemy. If handled properly a RAD can present distinct advantages. For example, it can protect your estate and may help to improve your age pension eligibility.

When offering you a place, the aged care service will quote you a lump sum (RAD) and a daily amount (DAP). You have flexibility to choose which option suits you best and you can even choose to pay a part lump sum and part daily amount.

A financial adviser can help to develop strategies to help you pay for accommodation in a way that suits you.

Covering the costs

Establishing a reliable cashflow

It is important to create a reliable and regular cashflow to cover your daily care fees and any additional personal expenses.

The decisions you make concerning the family home and how you pay for accommodation will affect your cashflow. While the aim may be to maximise pension entitlements, minimise fees and generate a good return from your investments, these are not independent objectives.

The best strategy for you will be the one that delivers the most favourable outcome for your entire financial situation and your family.

Working with your advisor

With so many interdependent variables it can be hard on your own to analyse all your options and decide which ones are most suitable. This is where an adviser who is experienced in this area can provide valuable guidance and support.

Working with an adviser, you'll be able to confidently make well-informed choices that will help you access the care you need at a cost you can afford. This can take away some of the stress for you and your family.

Key strategies

Example A:

Bert* wanted to keep his family home but with little money in the bank, he thought he'd have to sell the house to pay for his accommodation. His adviser showed him another way. Instead of paying the full refundable accommodation deposit (RAD), Bert negotiated to pay part as a RAD and the rest as a daily accommodation payment. To cover the payments Bert rented out his house. This strategy allowed Bert to keep his home and also improved his cashflow with rental income and by maximising his age pension.

Example B:

Mavis* planned to sell her home to pay the refundable accommodation deposit needed to enter care. When she consulted her adviser she discovered that the money that would be left over from the sale of her home would reduce her age pension and increase her means-tested care fees. Her adviser recommended that Mavis use some of this money to invest in a lifetime annuity strategy. This provided her with a reliable income that would be favourably assessed by Centrelink to help improve her age pension and reduce her fees.

**Not real clients*

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