Your guide to aged care

Adviser use only

Here's a brief outline of the topics covered

About this guide

This guide is designed for use as a reference when advising clients on residential aged care under the *living longer living better* aged care reform measures which commenced 1 July 2014.

Persons who were in a residential aged care home prior to 1 July 2014 will continue under their current arrangements. If these residents leave the aged care home and subsequently re-enter, or they move to another home within 28 days, they will continue to be covered by the rules that existed as at 30 June 2014, unless they opt to have the new rules apply. If they leave the aged care home for more than 28 days they will re-enter under the new rules.

Assessment of eligibility for government subsidised aged care

Government subsidised home care services can be delivered in homes, retirement villages or in residential aged care facilities. Residential aged care facilities are designed for older people who are no longer capable of living at home.

To receive a government subsidised home care package (HCP) or enter a government subsidised residential aged care facility you must be assessed for the level of care and services needed.

There are four levels of care:

- **Level 1:** basic level care needs
- **Level 2:** low level care needs
- **Level 3:** intermediate level care needs
- **Level 4:** high level care needs

This assessment is conducted by health professionals from the Aged Care Assessment Team (ACAT) or Aged Care Assessment Service ('ACAS') in Victoria. It's funded by the Australian Government, is free of charge and can be requested by contacting My Aged Care.

Home care

Home care services can help people live independently at home for longer. Services offered may include bathing, meal preparation, cleaning, laundry, gardening, basic home maintenance, transport, nursing and allied health and therapy services.

An ACAT/ACAS assessment is required to determine the level and value of a person's HCP. Once this has taken place, the person will be notified when a package becomes available. They may like to start searching for an approved home care provider while they wait, as HCPs are limited in number and at the time of writing, the wait time for higher level HCPs was at least 12 months.

Those approved for a higher level package can be assigned a lower level package while they wait for a higher level package to become available. However, once a HCP is assigned, the person must enter into a Home Care Agreement with an approved home care provider within 56 days, or seek an extension from My Aged Care.

As the HCP is assigned to the person, it's possible to change HCP providers. Any unused funds are simply transferred to the new provider.

The HCP value depends on the level of care the person needs, and the type of services they require. HCPs are delivered on a customer directed care (CDC) basis. The person and/or their carer and the provider will agree on the services to be delivered and the costs. Any administration costs of the provider can be charged to the package so the person or their carer may take on managing some services to save on costs. The person is responsible for any costs incurred in excess of the HCP and for other services they receive that aren't included in their package.

Home care fees

Home care recipients are asked to contribute to the cost of their HCP. Their contribution is subject to an income test, similar to the one used for residential aged care entrants from 1 July 2014. There is no asset test.

The table below outlines the home care fees that may apply.

Fee	Who does it apply to?	How is it calculated?	
Maximum Basic Daily Fee	All home care recipients	Home Care - Level 4	17.5% of the daily single pension rate ($10.85 daily)
		Home Care - Level 3	Level 4 reduced by $100 a year ($10.57 daily)
		Home Care - Level 2	Level 4 reduced by $200 a year ($10.28 daily)
		Home Care - Level 1	Level 4 reduced by $400 a year ($9.72 daily)
Income Tested Care Fee	Part pensioners or self-funded retirees whose income exceeds the income free area, in addition to the Basic Daily Fee	$\frac{50\% \times (\text{total assessable income} - \text{income free area})}{364 \text{ days}}$ Subject to a daily (and annual) cap dependent on the person's annual income, the Income Tested Care Fee also counts towards the lifetime cap ($68,012.98 indexed) for residential aged care means tested care fees. A person whose income is below their annual income threshold pays a daily income tested care fee up to the first cap of $15.57 per day ($5,667.73 per annum indexed), while a person whose income exceeds the annual income threshold pays up to the second cap of $31.14 per day ($11,335.48 per annum indexed).	

Note: income includes social security income support, but excludes some supplements such as the minimum pension supplement and the energy supplement.

Example*

In April 2021, Michaela, a single part age pensioner on a Level 4 Home Care package, has an annual income of $50,000 per annum. Her income exceeds the relevant home care income free area ($28,048.80) but does not exceed the annual income threshold ($54,168.40).

The income tested fee is calculated as:

$$50\% \times \frac{\$50,000 - \$28,048.80}{364 \text{ days}} = \$30.15 \text{ per day}$$

However, as Michaela's income does not exceed the annual income threshold, her income tested care fee per day is capped at the first cap ($15.57 per day). Michaela will be asked to pay the basic daily care fee of up to $10.85, plus a daily income tested care fee of up to $15.57.

If Michaela's income exceeded the annual income free threshold, she may be asked to pay the basic daily fee and a daily income tested fee up to the second cap ($31.14 per day).

* For more information, contact My Aged Care.

Considerations when moving to an aged care home

Once approved by ACAT or ACAS, the process of looking for an appropriate aged care home can begin.

Apart from amounts payable to the home, additional things to consider include the:

- accreditation and certification of the aged care home
- financial stability of the provider
- standard of accommodation
- location and local services
- amenities, qualified staff and staffing levels
- types of care and services provided
- residency rules and rights
- length of the waiting period.

It's recommended that people looking to move into an aged care home visit potential facilities well in advance to assess the quality and suitability to their specific needs and preferences. To assist, the government has an aged care home finder service on the My Aged Care website.

The tool includes a filter which lists facilities based on factors such as location and desired services.

Aged care payments

Residential aged care fees and charges

Basic daily fee	Accommodation payment	Means-tested care fee	Extra service fee
Fee payable by all residents to cover living expenses.	Means tested at entry. Paid as either an upfront lump sum, a daily payment or a combination of both.	Means tested daily fee to cover cost of ongoing health care.	Fee to cover additional amenities and services above the minimum standard.
Standard rate; currently $52.71 per day.	Means tested Government subsidy of up to $58.69 per day available ('maximum accommodation supplement').	Capped at $28,338.71 per annum with a life time cap of $68,012.98	All providers are able to offer extra services agreed with the resident on an opt-in or opt-out basis. Some providers have dedicated extra service status. For these providers the resident must pay for the extra services if they want to live in the facility.

Basic daily fee

Aged care homes charge residents a basic daily fee as a contribution towards day-to-day living expenses such as meals, cleaning, laundry, heating and cooling. This fee is not means tested. For new residents the maximum basic daily fee that can be charged is set at 85 per cent of the single maximum basic Age Pension payment rate. The current fee is $52.71 per day. The basic daily fee increases on 20 March and 20 September each year in line with increases in the Age Pension payment rate.

Cost of accommodation

Since 1 July 2014, if a new resident is required to pay for their accommodation under the means test, they will have up to 28 days after entering an aged care home to decide whether it be a lump sum refundable accommodation deposit ('RAD'), a daily accommodation payment ('DAP') or a combination of both. The resident and aged care facility may negotiate the amount of accommodation payment as long as it does not exceed the advertised amount. If a RAD is chosen the resident will have up to 6 months after entry to pay it, unless the resident and the home agree on a different timeframe.

This gives the resident time to sell assets (if required) in order to fund it. In the interim, interest on the unpaid RAD (called the DAP) is paid. The RAD equivalent of a DAP will be calculated using a rate up to the MPIR (4.01 per cent from 1 April 2021). These payment options apply regardless of the level of care provided.

As an example, accommodation priced at $80 per day from 1 April 2021 could be paid as outlined below.

A DAP of $20 per day and the balance of the cost ($80 – $20 = $60 per day) paid as a lump sum RAD, is calculated as follows:

$$\frac{\text{Balance of price per day x 365}}{\text{Interest Rate}} = \frac{\$60 \text{ x } 365}{4.01\%} = \$546{,}135$$

The resident will have the option of funding any DAP from a RAD that they have paid to the provider. In this case, the provider could increase the DAP by an amount that compensates for the impact of the decreasing RAD balance.

The maximum amount of a RAD that a resident can be asked to pay must leave the resident with at least the minimum permissible asset level (currently $51,000) which is calculated as 2.25 times (rounded to the nearest $500) the basic single Age Pension amount at the time of entry.

As the name suggests, the RAD is fully refundable (except where DAPs have been deducted from the RAD at the request of the resident) upon exit from the home, either payable to the individual or their estate upon death. Other fees may be deducted from the RAD if provided for within the accommodation agreement.

Setting and publishing prices

Approved aged care home providers are required to publish their current level of accommodation payments for the different types of rooms available. They must show the DAP, the equivalent RAD and one example of a combination of both payments. A description of the key features of each different type of room must also be provided.

It has been a requirement since 19 May 2014 that this information is readily available on providers' websites and in documentation provided to prospective residents entering care after 1 July 2014 and their families. This information is also published on the government's My Aged Care website to facilitate a comparison of prices. Approved aged care home providers and residents may also agree on an amount that is less than the published price.

Accommodation prices above the level set by the Government, currently $60.42 per day as at 1 April 2021 or the equivalent RAD of $550,000, need to be approved by the Aged Care Pricing Commissioner. The Government may also subsidise the cost of accommodation by paying the aged care provider an accommodation supplement if the person is a 'low means' resident.

For new residential aged care facilites completed on or after 20 April 2012; or existing facilities that have been significantly refurbished on or after that date, the maximum accommodation supplement is $58.69 (as at 20 March 2021). For facilities that do not meet certain standards, a lower maximum accommodation supplement is paid.

Low means resident

When a person permanently enters residential aged care, the aged care means test is applied quarterly to determine their contribution towards care costs. The means test at entry also determines if they can receive any subsidies for their accommodation costs. If the means tested amount at entry is less than the maximum accommodation supplement, they will have 'low means' status. This means the resident will be eligible for the accommodation supplement for the duration of their stay unless the person loses their low means status (eg if they start receiving extra services). The accommodation supplement is paid directly to the facility.

If a low means resident is eligible for the maximum accommodation supplement, the provider cannot charge for their accommodation. Where the resident is eligible for an amount which is less than the maximum accommodation supplement, the daily amount they pay towards their accommodation is referred to as a daily accommodation contribution (DAC) rather than a daily accommodation payment (DAP).

The lump sum equivalent of the DAC (which is calculated similar to the RAD) is referred to as a refundable accommodation contribution (RAC) rather than a refundable accommodation deposit (RAD). The amount of DAC or equivalent RAC is not fixed. It can vary if the care recipient's means tested amount varies every quarter. This means the care recipient may need to pay a higher DAC, up to the maximum accommodation supplement if the quarterly means testing results in a higher means tested amount. A 'low means' resident who remains in a service cannot be asked to pay an accommodation contribution exceeding the maximum accommodation supplement the facility is eligible for the day, even if their means improve substantially. Importantly, a 'low means' resident's accommodation costs are not limited by the advertised market cost of a facility. These residents may end up paying more for their accommodation costs in the scenario where the advertised or market cost of the room is lower than the maximum accommodation supplement of $58.69 or the lump sum equivalent of $534,211 and the resident's means improve substantially after their initial 'low means' assessment.

Where a low means resident's means tested amount exceeds the maximum accommodation supplement, the means tested care fee will also be payable.

Example

Janice, aged 82, has $80,000 in her bank account. She does not own a home and has no other assets. She entered a newly refurbished aged care facility on 1 April 2021.

Her means tested amount is calculated as $13.94* per day. As this is less than the maximum accommodation supplement of $58.69* she is a low means resident. She has to pay a daily accommodation contribution (DAC) of $13.94 or the equivalent refundable accommodation contribution (RAC) of $126,906.

In May 2021, she receives an inheritance and now has a total of $280,000 in her bank account. After informing Centrelink of her inheritance, her DAC increases to $58.69* per day and she also starts to pay a means tested care fee of $3.36 per day.

Cost of health care

As with the cost of accommodation, a resident's obligation to contribute towards the daily cost of their ongoing health care is determined by the combined means testing of assets and income. However the daily means tested amount discussed above is first applied towards the cost of accommodation, with any remainder after deducting the maximum accommodation supplement applied towards a resident's health care. Accordingly if the means tested amount is less than or equal to the maximum accommodation supplement or where the daily means tested care fee is less than $1 no care fee is payable.

Where a fee is payable, the resident pays the lower of the means tested care fee calculated and the amount the Government would otherwise pay for his/her care in subsidy and primary supplements (ie the cost of their care).

Care fee payments are capped at $28,338.71 per annum (indexed) with a lifetime cap of $68,012.98 to protect care recipients who receive care for a longer than average period of time. Home care income tested care fees also count towards this lifetime cap. Finally, no means tested care fee is payable by full age pensioners, residents receiving respite care or where the resident is in a class of care recipients specified from time to time in the subsidy principles.

Respite Care

Respite care may be provided in an aged care facility if the person has an approved ACAT assessment. Care recipients can access up to 63 days of residential respite care in a year, although it can be extended in lots of 21 days at a time, where approved. The care recipient does not pay for accommodation - only the basic daily fee of $52.71 is paid for the cost of their care. A care recipient may stay in the facility under respite care to assess the facility, or they could use up respite days before entering a facility permanently to save on care costs and DAP or DAC.

Extra service fees

Since 1 July 2014, all aged care home providers have been able to offer additional amenities such as pay TV, wine with meals and daily newspapers, on an opt-in or opt-out basis, and charge a fee to be agreed with the resident.

Some aged care providers have applied for and been granted dedicated extra service status. This extra service status can be either for the whole facility or for a certain number of rooms only. For residents in these dedicated extra service facilities, the extra service fee is compulsory rather than optional.

* Based on rates and thresholds as at 20 March 2021.

Centrelink/DVA assessment of the family home

The decision whether to sell or retain the family home when a client enters an aged care facility should be carefully considered well in advance of entering the facility.

The following table summarises the Centrelink/DVA assessment of the various scenarios:

Family home is	Homeowner status	Income	Assets
Sold and proceeds held in cash	Non-homeowner	Deemed immediately	Assessable immediately
Retained/partner residing	Homeowner	Not applicable	Not assessable
Retained but vacant	Homeowner for 2 years; thereafter Non-homeowner	Not applicable	Assessable after 2 years
Retained and rented out	Homeowner for 2 years; thereafter Non-homeowner	Assessable	Assessable after 2 years

If the client entered aged care prior to 1 January 2017

If a client entered aged care before 1 January 2017, and they paid some of their accommodation payment as a daily accommodation payment (DAP), daily accommodation contribution (DAC), or accommodation charge, then for Social Security purposes:

- the value of the home will be an exempt asset indefinitely whilst the home is being rented out, and
- the net rental income will not count as income under the income test.

For couples, where one spouse entered aged care before 1 January 2017 and the other one on or after that date, the above exemption to the former home and also the rental income exemption may apply for both.

If the couple continue to rent out their home, the home will be an exempt asset for both members whilst they continue to pay a DAP for the longer of two years from the last spouse's entry into aged care, or when the spouse who entered care before 1 January 2017 passes away, assuming they continue to pay some DAP and the home is rented.

The rental income will be exempt for Social Security purposes whilst the first spouse is alive and meets the requirements for exemption, being the:

- first spouse entered care before 1 January 2017, and
- home is being rented out, and
- first spouse pays a DAP.

However, when the spouse who entered aged care before January 2017 passes away, the exemption on the rental income will cease.

Example

Harry and Martha are a married couple. Their assets after paying their refundable accommodation deposits (RAD) is their family home valued at $950,000 and $200,000 in an account based pension for Harry.

Harry entered aged care on 1 January 2016. He paid a RAD of $300,000 and continues to pay a daily accommodation payment (DAP). On 1 January 2017, Martha entered aged care. She paid a RAD of $150,000 and also a DAP.

They retain their former home and rent it out for $26,000 per annum. The home is an exempt asset and the rental income is also exempt for Social Security purposes for both of them. They receive the full Age Pension.

On 1 January 2018, Harry passes away. Martha receives Harry's RAD of $300,000 and also a death benefit pension from his account based pension which is valued at $180,000. The rental income begins to count under the income test for Martha. Martha's age pension reduces when the rent starts to get assessed.

On 1 January 2019 (two years after Martha vacated the home) the home becomes an assessable asset for Martha. Martha loses her age pension because her assessable assets exceed the age pension asset cut off threshold.

Special residences and homeowner status

A person lives in a 'special residence' if they have paid for a right to live in a retirement village unit, sale lease back home, or a granny flat arrangement. The homeowner status of a person who lives in a special residence is determined by the amount paid for the right to live in the special residence – known as the entry contribution.

If the amount of the entry contribution equals, or is less than, the extra allowable amount (EAA) which is the difference between the homeowner and non-homeowner asset free threshold ($214,500 as at 20 March 2021), the person is a non-homeowner and the reducing value of the entry contribution is assessed for the Centrelink asset test. Where the person has non-homeowner status, the person may be eligible for rent assistance.

If the entry contribution is more than the EAA, the person is a homeowner, the entry contribution is exempt from the means test, and the special residence is regarded as the person's principal home. The former home, if retained, will become assessable.

When the special residence is a retirement village or sale lease back home and is sold after the person enters aged care, the person will be a non-homeowner for the social security (and aged care) means test. Receipt of the remaining sale proceeds (including payments deferred by the person) are assessed for the above two means tests. If a person paid for a granny flat arrangement and has homeowner status, the homeowner status ends when the granny flat arrangement ends.

Aged care means test

Whether or not a resident is required to contribute towards the cost of either their accommodation or ongoing health care needs is determined by a means test assessment of both assets and income.

Assessable assets

Assets covered by this means test include those assets normally counted for the Centrelink/DVA assets test. For members of a couple, 50 per cent of combined couple assets is assessed to each spouse.

For the aged care means tested care fee, the family home is partly assessable unless it is occupied by a protected person. A protected person includes:

- the client's partner
- a dependent child
- a close family member who has lived in the home for at least five years and is eligible for a Centrelink/DVA income support payment
- the client's carer, who has lived in the home for at least two years and is eligible for a Centrelink/DVA income support payment.

If the home is assessable, the amount assessed is restricted to the home exemption cap, i.e. the value at which the Government's subsidy of the daily accommodation payment would reduce to zero. As at 20 March 2021 this amount is $173,075.20.

If both spouses are in residential aged care and a protected person ldoes not live in the former home, each spouse will be assessed on the value of the home up to their respective home exemption caps.

Any gift above $10,000 per annum or $30,000 over a five year rolling period will also generally be included for five years from the date of disposal.

Where the cost of accommodation within the aged care home is paid as a lump sum (referred to as a refundable accommodation deposit or 'RAD'), this payment is also an assessable asset for aged care purposes but remains an exempt asset for Centrelink/DVA purposes. The RAD is fully assessable even when it is paid using borrowed funds.

When a client has a protected person residing in their former home and that person ceases to be eligible for income support payment

For the purposes of the aged care means test, unless a 'protected person' lives in the home, the value of the home up to the home exemption cap counts towards the assets test. For new entrants to aged care homes from 1 January 2016, any rent received from the home is also assessable for the aged care means test.

If the aged care resident retains their former home and the protected person who lives in the home becomes ineligible for an income support payment, this person will cease to be classified as a protected person (unless they are the client's partner or dependent child). In that situation, the home becomes assessable when calculating the aged care means tested fee.

The capped value of the home is counted as an asset. A common situation where this may occur is where a close family member was the carer and was receiving a Carer Payment. Once the client enters aged care, the carer who remains in the home loses their entitlement to the Carer Payment. The carer may be too young to receive an Age Pension.

Example

Mary is aged 86 and owns her own home. Her niece Janice has been living with her for the past six years and caring for her. Mary is now entering aged care. Janice is aged 62 and receives Carer Payment and Carer Allowance. Mary submits her information for the aged care means test before entering aged care.

Mary's home will not count as an asset when the aged care means tested fee is initially calculated because Janice is a protected person.

However, once Mary enters aged care Janice stops receiving Carer Payment and Carer Allowance and does not want to apply for the JobSeeker Payment. She therefore ceases to be a protected person. Mary's home will be counted as an assessable asset up to the home exemption cap when calculating the means tested fee in the future.

The amount of assessable assets that is means tested is calculated on a sliding scale as follows:

Asset tested amount	
First $51,000	Nil
Between $51,000 - $173,075.20	17.5% of amounts > $51,000
Between $173,075.20 - $417,225.60	1% of amount
Over $417,225.60	2% of amount

The asset tested amount is the sum of the above calculation divided by 364 days.

Assessable income

Income covered by this means test is based on the client's total assessable income (with a few exceptions) which is defined as any Centrelink/DVA pension income plus ordinary income less the minimum pension supplement less any energy supplement. The client's ordinary income is assessed primarily in the same way as per the Centrelink income test. For new entrants to an aged care home from 1 January 2016, any rent received from the home is assessable for the aged care means test. Residents who entered before that date who pay any amount of DAP and rent their home, continue to have the rent exempted.

Where one member of a couple entered aged care before 1 January 2016 and the other one entered after that date, half of the rental income will be included as income for the second spouse's aged care fee calculations. It will not count as income for the first spouse if:

- the first spouse entered care before 1 January 2016, and
- the home is rented, and
- the first spouse is paying a DAP.

Where one spouse entered aged care before 1 January 2017 and the other one after that date, the full rental income will be included as assessable income for both members of a couple, where they will each be assessed with half of the rental income each.

For each member of a couple, the total assessable income is 50 per cent of the couple's combined ordinary income plus any Centrelink/DVA payments the person receives.

The amount of assessable income that is means tested is calculated as follows:

$$\text{Income tested amount} = \frac{50\% \text{ x (total assessable income – income free area)}}{364 \text{ days}}$$

The current income tested free areas* which are adjusted half yearly in line with changes to the Age Pension rates are:

Single	$28,048.80
Each member of a couple	$27,528.80

Means tested amount

The means tested asset and income amounts are then combined to give an overall means tested amount:

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

It is this means tested amount that is then used to determine the amount of accommodation costs and health care costs (if any) payable by the resident. The means tested care fee is derived by deducting the maximum accommodation supplement ($58.69 per day as at 20 March 2021). Where the calculated amount is less than $1 per day, no means tested care fee applies as shown in the case study below.

* Calculated as the maximum Centrelink pension payment (be it for a single or member of a couple) less the minimum pension and energy supplement plus the allowed level of income that does not impact pension payments.

Case study

Peter, aged 82 and single, is assessed by ACAT as requiring aged care. Peter's assets and income consist of:

	Actual assets	Centrelink assessed assets	Actual income based on 365 days	Centrelink assessed income
Home	$800,000			
Term deposit (3%)	$150,000	$150,000	$4,500	$2,315
Age Pension			$24,838	
Total	**$950,000**	**$150,000**	**$29,338**	**$2,315**

The cost of Peter's accommodation within the aged care home (for which the government may provide a maximum accommodation supplement of $58.69 per day) consists of a $43.95 DAP or a $400,000 RAD, or any combination of the two. The following tables highlight the impact on Peter's cash flow under three different funding options.

OPTION 1: Sell the home, invest the proceeds in an additional term deposit and pay a DAP

Total costs (annual)		Total income (annual)		Cash flow excess (deficit)
Basic daily fee	$19,239	Age Pension (b)	$0	
DAP ($43.95)	$16,040	Interest (3%)	$28,500	
Means tested care (a)	$13,133			
Total fees	**$48,412**	**Total income**	**$28,500**	**($19,912)**

(a) Calculation of the means tested care fee

1. Income tested amount

$$= \frac{50\% \text{ (total assessable income – income free area)}}{364 \text{ days}}$$

$$= \frac{50\% \text{ (Age Pension + deemed income – minimum pension supplement – energy supplement – income free area)}}{364 \text{ days}}$$

$$= \frac{50\% (\$20{,}315 – \$28{,}048.80)}{364}$$

= **$0 per day**

2. Assets tested amount

First	$51,000 @ 0%
Next	$122,075.20 @ 17.5%
Next	$244,150.40 @ 1%
Remaining	$532,774.40 @ 2%
= **$34,460 or**	**$94.67 per day**

3. Means tested amount

= $0 plus $94.67

= **$94.67 per day**

4. Means tested care fee

= $94.67 - $58.69

= **$35.98 per day**

(b) The loss of Peter's Age Pension resulted from him being classified as a non-homeowner with $950,000 of means tested assets

Conclusion

This funding option results in a negative cash flow for Peter. Whilst the deficit could be funded via drawdowns from his term deposit, other options may provide a better outcome.

OPTION 2: Sell the home, pay a RAD of $400,000, invest $300,000 in an aged care annuity and place $250,000 in a term deposit

Total costs		Total income		Cash flow surplus/ (deficit)
Basic daily fee	$19,239	Age Pension (b)	$20,039	
DAP	$Nil	Interest (3%)	$7,500	
Means tested care (a)	$13,010	Annuity income*	$5,855	
Total fees	**$32,249**	**Total income**	**$33,394**	**$1,145**

* $300,000 purchase price, $293,883 counted as an asset by Centrelink. The annuity will pay regular payments of $5,855 per annum and Centrelink will count 60% of this ($3,513 per annum). The annuity has an attached insurance component that pays a $300,000 tax free lump sum on death.

(a) Calculation of the means tested care fee

1. Income tested amount	=	$\frac{\text{50\% (total assessable income – income free area)}}{\text{364 days}}$	
	=	$\frac{\text{50\% (Age Pension + deemed income + assessable portion of annuity income – minimum pension supplement – energy supplement – income free area)}}{\text{364 days}}$	
	=	$\frac{\text{50\% (\$26,712 - \$28,048.80)}}{364}$	
	=	**$0 per day**	
2. Assets tested amount		First	$51,000 @ 0%
		Next	$122,075.20 @ 17.5%
		Next	$244,150.40 @ 1%
		Remaining	$526,657.40 @ 2%
	=	**$34,338 or**	**$94.33 per day**
3. Means tested amount	=	$0 plus $94.33	
	=	**$94.33 per day**	
4. Means tested care fee	=	$94.33 - $58.69	
	=	**$35.64**	

b) The increase in Peter's Age Pension has resulted from the $400,000 RAD being an exempt asset and the annuity assessed at a slightly lesser value than its $300,000 purchase price.

Conclusion

This reduction in the asset tested fee (resulting in a lower means tested care fee) coupled with the increase in Age Pension results in a positive cash flow outcome.
Note that whilst an exempt asset for Centrelink purposes, the RAD is an assessable asset for aged care means testing under the assets test.

OPTION 3: Retain and rent the home for $26,000 per annum net after expenses, use $140,000 of the term deposit to pay a RAD in combination with a $28.56 DAP (a) within the aged care home

Total costs		Total income		Cash flow excess/ (deficit)
Basic daily fee	$19,239	Age Pension (b)	$14,112	
DAP	$10,426	Interest (2.5%)	$250	
Means tested care (a)	$6,869	Rental income	$26,000	
Total fees	**$36,534**	**Total income**	**$40,362**	**$3,828**

(a) Calculation of RAD and DAP
Peter has decided to pay a RAD of $140,000. Given the standalone RAD is $400,000, based on the DAP of $43.95 and allowed interest charge of 4.01% pa, the DAP of $28.56 is calculated as follows:

$$\textbf{\$400,000 – \$140,000 = \$260,000} = \frac{\$260,000 \times 4.01\%}{365 \text{ days}} = \textbf{\$28.56}$$

(b) Calculation of the means tested care fee

1. Income tested amount

$$= \frac{50\%\ (\text{total assessable income} - \text{income free area})}{364\ \text{days}}$$

$$= \frac{50\%\ (\text{Age Pension} + \text{deemed income} + \text{rental income} - \text{minimum pension supplement} - \text{energy supplement} - \text{income free area})}{364\ \text{days}}$$

$$= \frac{50\%\ (\$38{,}749 - \$28{,}048.80)}{364}$$

= **$14.70 per day**

2. Assets tested amount

First	$51,000 @ 0%
Next	$122,075.20 @ 17.5%
Next	$150,000 @ 1%
= **$22,863 or**	**$62.81 per day**

3. Means tested amount

= $14.70 plus $62.81

= **$77.51 per day**

4. Means tested care fee

= $77.51 - $58.69

= **$18.82 per day**

(c) Peter receives a part Age Pension. The home and RAD are exempt assets for Centrelink purposes however the rental income is assessed for Centrelink and aged care purposes. Only a portion of the value of the home is assessed for aged care purposes.

Conclusion

The asset tested amount is lower than under the other options as only the first $173,075.20 of the retained home is assessed. As the above figures demonstrate, the strategy of retaining the family home, renting it and paying a DAP or a combination of a DAP and RAD upon entering the home may result in a better cash flow outcome for residents, however rental income may reduce the Age Pension.

Means tested fee calculator

A calculator is available on the My Aged Care website that provides an estimate of the means tested fee payable by an individual entering an aged care facility.

Other strategies to assist with minimising the means tested fees

Commencing an income stream

Purchasing a lifetime or term certain annuity generally provides a better outcome under the income test when compared to various financial investments (for example bank accounts, managed funds or a share portfolio) that are subject to deeming.

The concessional treatment of these annuities arise from the calculation of a deductible amount for Centrelink purposes which reduces the assessable income under the income test for term annuities or lifetime annuities purchased before 1 July 2019, or whereby only 60% of regular payments are assessed from lifetime annuities purchased after 1 July 2019. Deeming rates do not generally apply to these income streams (apart from some annuities with a term of five years or less, unless the life expectancy of the person is five years or less).

When assessing the merits of this strategy for annuities, consideration should be given to the attractiveness of prevailing interest rates and the term of the annuity.

Purchasing land or a holiday home as an investment

If the land or holiday home is not producing an income they are simply treated as lifestyle assets by Centrelink as opposed to the treatment of financial investments, which are deemed. Although included in the assets test they are not subject to the income test, hence there is no assessable income.

Gifting

By gifting an asset, a pensioner can reduce the effect of the assets and income tests. The gifting rules assessed by Centrelink and DVA involve two concurrent tests for individuals and couples alike:

- maximum of $10,000 per financial year; and
- $30,000 over a five year rolling period.

Any amount gifted above either of the concurrent tests will be treated as a financial asset for Centrelink purposes for five years from the date of gifting (known as ‘Deprivation’).

Invest in an insurance bond via a trust structure

The client can consider investing in this via a trust, usually a family trust. There are products available in the market packaged as an investment within a trust structure.

Deprivation does not apply if the trust is 100 per cent attributed to the client. Therefore, from an asset test perspective there is no change. Under the income test, where a private trust is utilised, Centrelink/DVA only assess the actual income from the trust.

Investing in low or non-income producing assets within a trust may assist with the income test. For example as insurance bonds do not distribute income, there is no income generated by the trust to distribute to the beneficiaries. If there is no income distributed by the trust, there is no assessable income. However, care needs to be taken if the insurance bond is withdrawn and there is assessable income.

Insurance bonds are taxed internally at 30 per cent which may be higher than the client’s marginal tax rate. Lastly, additional upfront and on-going costs need to be taken into account as a result of having the new trust set up for this purpose.

Additional information

Other Centrelink issues

When one or both members of a couple are in aged care, they qualify as an 'illness separated' couple for Centrelink purposes. They are assessed under the joint means test, but payment is made based on the single rate of age pension. This is because all the charges for aged care are made to individuals. Even if a couple share a room, they will each have to pay the basic daily fee and each be subject to means testing to determine if they need to contribute towards their accommodation and care costs.

Private care

These arrangements (usually for the wealthy or people who have received a substantial compensation payment) can be extremely expensive and are beyond the scope of this publication.

Blind pensioners

Whilst eligibility for the blind pension is not means tested, these pensions form part of assessable income for aged care means testing.

DVA pensions

Generally, individuals in receipt of DVA income support pensions are means tested in a similar manner to that of Centrelink pension recipients. The exceptions are War Widow's/Widower's pension and DVA Disability Pension which are classed as compensation rather than income support and are not subject to a means test if the client has qualifying service. Disability pensions and permanent impairment compensation payments are excluded income for aged care means testing. Former Australian prisoners of war are also exempt from paying a means tested care fee.

For more information

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