

Aged care strategies

Moving into aged care can be an emotional and stressful time, especially when important financial and lifestyle decisions need to be made. Considerations include how to fund upfront and ongoing expenses, deciding if and when you may, or may not, need to sell assets and what to do with your family home.

If you or a loved one is moving into aged care, it's likely you'll need to contribute to accommodation, living and ongoing care costs. Exactly how much you need to contribute will come down to the value of the aged care resident's income and assets.

Whatever your situation, it's important to have an understanding of the factors which may contribute to the fees you need to pay, as well as developing a plan for your cash flow to ensure you have the ability to meet your ongoing care costs.

Entering care and your ongoing care costs

After you or your loved one has entered aged care, you will have up to 28 days to decide how to pay for your accommodation costs. For your accommodation, you will have the choice to pay a lump sum refundable accommodation deposit (RAD), a daily accommodation payment (DAP), or a combination of both.

While you or your loved one's financial outcome will depend on circumstances specific to your situation, the below examples provide an illustration of how different strategies can provide you with different outcomes.

Case study

Peter is aged 82, single, and moving into aged care. Peter's assets and income consist of the following:

| | Actual Assets | Centrelink Assessed Assets | Actual income | Centrelink Deemed Income |
|-------------------|------------------|----------------------------|-----------------|--------------------------|
| Home | \$800,000 | | | |
| Term deposit (3%) | \$150,000 | \$150,000 | \$4,500 | \$3,464 |
| Age Pension | | | \$24,335 | |
| Total | \$950,000 | \$150,000 | \$28,835 | \$3,464 |

The cost of Peter's accommodation consists of a \$53.81 daily accommodation payment (DAP) or a \$400,000 refundable accommodation deposit (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 the DAP

| Costs | | Income | | Cash flow excess/(deficit) |
|--------------------------|-----------------|---------------|-----------------|----------------------------|
| Basic Daily fee | \$18,845 | Age Pension | \$0 | |
| DAP (\$53.81 per day) | \$19,640 | Interest (3%) | \$28,500 | |
| Means tested care fee | \$13,263 | | | |
| Total annual fees | \$51,748 | | \$28,500 | (\$23,248) |

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

Option 2 – Sell the home, pay RAD \$400,000, invest \$300,000 in an aged care annuity and \$250,000 in a term deposit

| Costs | | Income | | Cash flow excess/(deficit) |
|--------------------------|-----------------|-----------------------------|-----------------|----------------------------|
| Basic Daily fee | \$18,845 | Age Pension | \$18,852 | |
| DAP (Nil) | \$0 | Interest (3%) | \$7,500 | |
| Means tested care fee | \$13,140 | Annuity income [^] | \$5,855 | |
| Total annual fees | \$31,985 | | \$32,207 | \$222 |

[^] \$300,000 purchase price. Centrelink asset means test \$293,883, it will pay \$5,855 but the income means test will only count \$3,513. The annuity has an attached insurance component which pays a \$300,000 tax-free lump sum upon death.

Result: Under option two, Peter's means tested care fee has reduced and his Age Pension has increased as a result of him paying a RAD. This slightly reduced fee, plus increased Age Pension entitlement has resulted in a positive cash flow outcome.

Option 3 – Retain and rent the home for \$26,000 pa (net), use \$140,000 of the term deposit to pay a RAD in combination with a \$34.98 DAP

| Costs | | Income | | Cash flow excess/(deficit) |
|--------------------------|-----------------|-----------------|-----------------|----------------------------|
| Basic Daily fee | \$18,845 | Age Pension | \$13,518 | |
| DAP (\$34.98 per day) | \$12,766 | Interest (2.5%) | \$250 | |
| Means tested care fee | \$6,913 | Rent on home | \$26,000 | |
| Total annual fees | \$38,524 | | \$39,768 | \$1,244 |

Result: The strategy of retaining and renting the family home, paying a DAP or a combination of a DAP and RAD upon entering an aged care home may result in a better cash flow outcome for some residents. However, as demonstrated above, rental income from the home may reduce the Age Pension entitlement.

Next Step

There may be a number of ways to optimise your aged care fees while securing your cash flow when you or a loved one needs to move into aged care. For more information on the possible outcomes for your personal circumstances, speak to a financial adviser.

For more information

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