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Take Control - With Your Independent Financial Adviser

Homing in on aged care changes

Snapshot

Changes to aged care funding have brought the family home more keenly into focus.

The changes, which came into effect on July 1, basically reflect a shift to a user-pays system with means testing on both income and assets to determine what you will pay for aged care accommodation or in-home care.

For the first time, an accommodation bond will be payable to secure a place in both high and low care with the new payment system applying to all levels of care.

Charges for care

There are up to four charges involved when moving into an aged care facility:

- An accommodation payment
- A means-tested care fee
- A basic daily fee
- Fees for additional optional services.

The accommodation payment, also referred to as the bond, must be made within 28 days of moving into an aged care facility.

It is basically an interest-free loan to the aged care home.

For those on the full pension, the government will cover the cost of the accommodation payment but you will still pay a basic daily fee of up to 85 per cent of your pension.

If you are on a part-pension, then you will receive some government assistance in paying the bond.

But for those paying the accommodation in full, the amount will be negotiated with the aged care provider.

Greater transparency

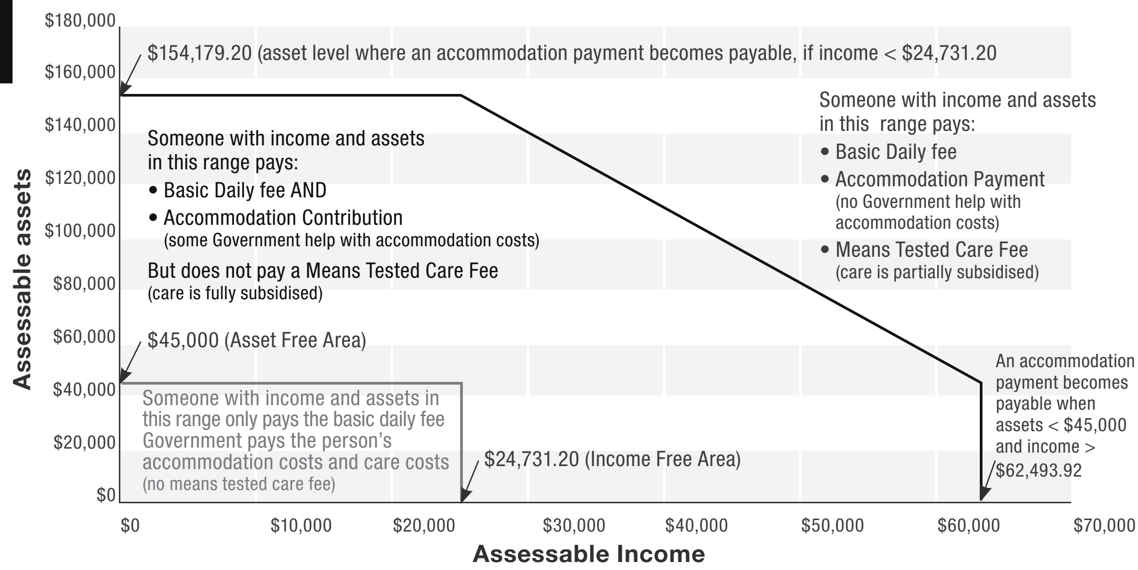
From July 1, all aged care facilities have to publish their prices and provide a description of what they are offering, which should lead to greater transparency.

Those aged care homes charging a bond of more than $550,000 must get approval from the Aged Care Pricing Commissioner. You cannot be asked to pay a bond that will leave you with less than $45,000 in assets.

The refundable accommodation deposit can be paid as an upfront lump sum, daily rental payments set at 6.7 per cent of the value of the bond, or a combination of the two.

Snapshot

Residential Care income and asset thresholds: Single person, March 2014 prices (current rates)



Ironically, the need to be left with no less than $45,000 in assets might actually force you into paying a combination, even if you have money to pay the whole amount. This could leave you worse off as you would then have to top up the bond with rental payments at 6.7 per cent.

The full lump sum payment is refundable to you or your estate once you leave the aged care facility.

In addition to the bond payments, you will also be asked to pay a daily care fee otherwise known as a means-tested care fee.

The value of your assets and income will be used to work out this fee but it will be capped at $25,000 a year and you will pay no more than $60,000 in a lifetime. The table above shows how the assets and income tests combine.

To sell or keep the home

The changes to how these daily fees are calculated mean that what you do with the family home takes on extra importance, if it is the sole surviving partner who is moving into the home.

In some cases you may be better off holding on to the family home and renting it out.

The key determinant here is the value of your home. If it is sufficiently greater than the cost of the accommodation payment, then you may be better off holding on to the property. This is because the value of the family home is capped at $154,179 when calculating your daily fees.

In contrast, once the home is sold and the proceeds have been used to pay the bond, any surplus will count as an asset and this could increase your daily charges.

Of course, keeping the home can present its own difficulties. Is the property suitable for renting in its current condition? Will the rental be sufficient to cover your ongoing fees?

The new changes to aged care may be aimed at simplifying the process, but it is still a complex decision, often made at a difficult time emotionally. If you or someone you know will be impacted by the changes to aged care and funding strategies, please call us to discuss.

rise financial

Phillip Thompson of Rise Financial
25 Michell Street
Monash, ACT 2904

P 02 6292 0015
F 02 6292 0071
E phil@risefinancial.com.au
W www.risefinancial.com.au