



Aged care guide: Supplementary Statement of Advice (SoA)

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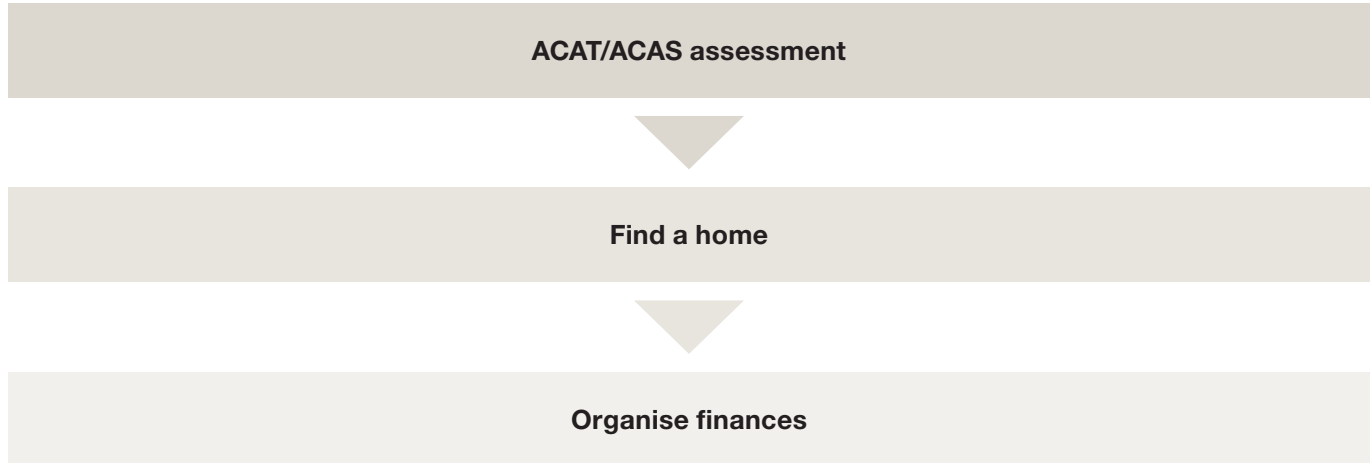
Introduction

The topic of aged care is less about the facilities, but more about providing peace of mind and ensuring you receive the required support to maintain a lifestyle in retirement that is cost effective.

This guide provides an overview of the aged care process and how to effectively manage the transition to residential aged care.

Please note that this guide has been developed to supplement the Statement of Advice (SoA).

How the aged care process works



1. Assessment

To be considered for aged care, the aged care applicant must first be assessed as needing the level of care offered.

The assessment is carried out by the Aged Care Assessment Team (ACAT) or Aged Care Assessment Service (ACAS) in Victoria who are a team of health professionals that assess the level of care or service a person might require. They provide information about local facilities and organise respite care if necessary, and may be able to provide referrals to home care and support services to allow a person to be cared for in their own home.

For more information on the ACAT/ACAS process, please visit the myagedcare.gov.au website and visit the eligibility and assessment section.

Please note that aged care applicants aren't required to undergo an ACAT/ACAS assessment for services that are not subsidised by the Government.

2. Things to consider when moving to an aged care home

After obtaining the ACAT approval to receive aged care services, the process of looking for an appropriate aged care home can begin.

When considering a home, set aside the financial requirements for a moment and also take into account the following:

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

It is important to check the facility's quality and suitability to your or your loved ones' specific needs and preferences.

To assist in this process, use a placement service or the aged care home finder service, which can be found on the myagedcare.gov.au website. The finder has a filter that lists facilities based on location and desired services.

3. Fees & costs related to aged care

Once comfortable with a particular place, the attention shifts to the financial requirements. The fees, charges and thresholds quoted in this document are current as at 20 March 2021.

Accommodation	Living Costs	Care Costs	Other Services
Refundable accommodation deposit (RAD) or daily accommodations payment (DAP) or combination of RAD and DAP	basic daily fee	means tested care fee	extra service fees
Amount payable as RAD must leave resident with at least \$51,000 in assets	paid by all residents \$52.71/day	assessed quarterly; \$0 if means tested amount is equal to or less than the maximum accommodation supplement (\$58.69/day)	fees for extra services are negotiable and not subject to any caps or maximum limits

In general the fees payable depend on the:

- care services provided
- amount of RAD/DAP the aged care home agrees to charge
- aged care resident’s current income and asset position
- extra services required.

Means testing

To find out whether the aged care resident needs to contribute towards care costs, a means test is applied to his or her assets and income.

Assessable assets

Assets covered by this means test include those assets normally counted for the social security assets test. Fifty per cent of the combined assets of a couple will be attributed to the member of that couple.

The family home will be counted up to a specific threshold unless it is occupied by a:

- spouse
- dependent child
- close family member who has lived in the home for at least five years and is eligible for social security income support
- carer, who has lived in the home for at least two years and is eligible for social security income support.

If the aged care applicants’ former home is not occupied by one of the above people, part of the value of the home will be included for the means test. As at 20 March 2021 this amount is limited to \$173,075.20.

Any money or assets given away in excess of \$10,000/annum or \$30,000 in the last five years will also generally be included in the means test assessment.

If paying the cost of accommodation via a lump sum RAD, the amount will be included in the assessment. It will however, remain exempt for any social security pension payment calculations.

Assessable income

Income for aged care purposes is generally assessed in the same way as for social security with a few differences. The amount of social security pension received is also included when calculating the means tested care fee. For residents who entered residential care before 1 January 2016, rental income from the home is exempt income for the aged care and social security means tests if any DAP is paid. For those who entered care from 1 January 2016 to 31 December 2016 rental income under the same circumstances is assessed for aged care but exempt for social security purposes. Those who enter from 1 January 2017 have rental income from the home assessed for both aged care and social security means tests.

So for each member of a couple, the total assessable income is 50% of their combined income regardless of who actually receives it.

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

$$\text{income tested amount} = 50\% \times (\text{total assessable income} - \text{income free area})$$

The current income tested free areas are as follows:

single	\$28,048.80/annum
each member of a couple	\$27,528.80/annum

Means-tested amount

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

$$\text{means tested amount} = \text{asset tested amount} + \text{income tested amount}/364 \text{ days}$$

If the means tested amount is less than or equal to the maximum accommodation supplement, \$58.69/day as at 20 March 2021, then no care fee is payable.

Means-tested care fee

$$\text{means-tested care fee} = \text{means-tested amount less the maximum accommodation supplement} (\$58.19/\text{day})$$

Where a fee is payable, care fee payments are capped at \$28,338.71/annum with a lifetime cap of \$68,012.98 (indexed) to protect those who receive care for a longer than average period of time. Home care fees paid since 1 July 2014 may be included in the lifetime limit.

Basic daily fees

Aged care homes charge 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. The current fee is \$52.71/day. The basic daily fee increases on 20 March and 20 September each year in line with increases in the age pension amount.

Cost of accommodation

From 1 July 2014, if an aged care resident is required to pay for accommodation, they will have up to 28 days after entering an aged care home to decide whether to pay a lump sum RAD, a DAP, or a combination of both.

If a RAD is chosen, then generally the resident has up to six months after entry to pay it. In the meantime interest must be paid on any unpaid RAD – this is called the DAP.

As an example, accommodation priced at \$80/day could be paid as follows:

A DAP of \$20/day and the balance of the cost (\$60/day) paid as a lump sum RAD, which is calculated as follows:

$$\frac{\text{balance of cost per day annualised}}{\text{interest rate}} = \frac{\$60 \times 365}{4.01\%/\text{annum}} = \$546,135$$

The maximum permissible interest rate at 1 April 2021 is 4.01%/annum.

If the means tested amount is less than or equal to \$58.69/day, the aged care home may receive an accommodation supplement, which reduces the amount of DAP/RAD required to pay.

The aged care home cannot ask the aged care applicant to pay an amount as a lump sum RAD if it would leave the applicant with less than \$51,000 of assets. The RAD is fully refundable (except where certain agreed expenses have been deducted from the RAD at the request of the resident) upon exit from the home.

Extra service fees

Since 1 July 2014, aged care home providers have been able to offer additional amenities such as provision of pay TV, wine with meals and daily newspapers, on an opt-in opt-out basis and charge a fee to be agreed with the aged care resident. It is important to note that extra service does not mean a higher standard of nursing care to residents.

What to do with the family home

One of the main considerations when entering an aged care facility is what to do with the family home.

For a lot of people, the principal residence represents a significant part of their assets, so it is important to take the time and look at the options available. Some of the considerations include:

- Selling the family home. Getting the right price.
- Will any tax need to be paid on the proceeds?
- Is renting out the home an option? How much is needed to renovate the property to get it to a rentable condition?
- Would leaving it dormant for more than a couple of years impact on social security payments?
- Who will look after it when no one is living there?
- Will selling the home impact any beneficiaries that are in the aged care applicants will?

Social security implications

The decision made regarding the family home may affect how social security benefits are calculated going forward.

The following table summarises the social security assessment of various scenarios under current rules.

Family home is...	Homeowner Status	Income test	Assets test
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	not applicable	assessable after 2 years
	non-homeowner		
retained and rented out	homeowner for 2 years thereafter	assessable as if an investment property	assessable after 2 years
	non-homeowner		

If a resident entered care before 1 January 2017 and rents the family home and pays all or part of the accommodation costs as a DAP, the rental income is exempt from social security assessment. The home continues to be exempt beyond the allowed two-year period while the arrangement is in place. The home is treated differently for the aged care means test.

Case Study: Putting it all together

Peter, 80, is a single age pensioner who, in anticipation of entering an aged care facility on 1 April 2021, decides to sell his home for \$800,000. He does not have any assets apart from a \$150,000 term deposit.

Upon applying to an aged care centre of his choice, he is given the option of paying either a DAP payment of \$43.95/day or a RAD of \$400,000. The maximum permissible interest rate at that time is 4.01%/annum.

1. Paying a DAP

If Peter decides to pay the daily fee of \$43.95 he will have his total assets of \$950,000 assessed by social security and due to the value of his assets, will not be eligible for any age pension benefits. Assuming he invests the money at 3% interest his income would be \$28,500/annum and his aged care costs are estimated to be \$48,412/annum excluding any extra services. He has to draw on capital to meet expenses.

2. Paying a RAD and investing in an aged care annuity product

On the other hand, if Peter uses his cash funds to pay the RAD of \$400,000, this will reduce his assets for social security assessment purposes. He also invests \$300,000* in an aged care annuity product which receives concessional social security treatment. His estimated aged care costs excluding any extra services:

annualised basic daily fee:	\$19,239
means tested care fee:	\$13,010
total fees:	\$32,249/annum

Assuming he invests the rest of the money (\$250,000) into a 3%/annum term deposit Peter can expect the following cashflow:

age pension:	\$20,039
interest on TD:	\$7,500
annuity:	\$5,855
total income:	\$33,394/annum

*\$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.

3. Renting and a combination of DAP & RAD

Another option is for Peter to not sell the home rather to rent it out say at \$500/week. This will provide him with cash flow. In addition, only a portion of the home will be assessed to determine the amount Peter needs to pay for his care. For example he can pay \$140,000 RAD out of the \$400,000 and pay interest on the unpaid balance at 4.01% (\$28.56/day). He keeps \$10,000 in a cash account.

This strategy results in the following cost being required:

annualised basic daily fee:	\$19,239
DAP:	\$10,426
means tested care fee:	\$6,869
total fees:	\$36,534/annum

And to cover the expense, Peter will have the following:

aged pension:	\$14,112
interest at 2.5% on \$10,000:	\$250
rent \$500/week:	\$26,000
total income:	\$40,362/annum

