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The value of additional aged care advice

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There is a common misconception that aged care advice is only needed when a client first enters residential aged care and there is no benefit from additional advice after the point of entry. However, after a client enters residential aged care, a change in their circumstances can have a significant financial impact and additional advice may be needed to remedy any negative outcomes. Combined with the regular reform of the aged care system, advice can play an important role before and after a client's point of entry. In this article, we explore three examples highlighting how a change in a client's circumstances can provide an opportunity for additional aged care advice.

Assessment of the former home

Mei is aged 85, single and owns her own home worth $800,000. She has personal contents of $5,000 and $265,000 invested in term deposits and bank accounts. She has been approved for residential aged care and her preferred facility has an advertised accommodation price of $400,000.

Mei pays $250,000 as a refundable accommodation deposit (RAD) and $150,000 as a daily accommodation payment (DAP) from her cashflow. She keeps her former home and $15,000 invested in bank accounts. She expects to receive net rent of $500 per week and have personal expenses of $50 per week. Her overall cash flow over the next five years is illustrated in Table 1.

Table 1: Five year projected cash flow where her former home is retained

Cash flow	Year 1	Year 2	Year 3	Year 4	Year 5
Age Pension	$12,702	$13,019 →	$0	$0	$0
Investment income	$450	$464	$421	$238	$59
Rental income	$26,000	$26,650	$27,316	$27,999	$28,699
Living expenses	-$2,600	-$2,665	-$2,732	-$2,800	-$2,870
Net cash flow before aged care fees	**$36,552**	**$37,468**	**$25,005**	**$25,437**	**$25,888**
Basic daily care fee	$18,308	$18,766	$19,235	$19,716	$20,209
Means-tested care fee	$8,537	$8,620	$2,930	$2,742	$2,559
Accommodation payments	$8,940	$8,940	$8,940	$8,940	$8,940
Total aged care fees	**$35,785**	**$36,326**	**$31,105**	**$31,398**	**$31,708**
Estimated tax	**$289** →	**$2,360**	**$0**	**$0**	**$0**
Cash flow surplus/ shortfall	**$478**	**-$1,218**	**-$6,100**	**-$5,961**	**-$5,820**

Assumptions: Age Pension, aged care rates and thresholds as at 1 July 2018. Cash and term deposits earn 3% interest.

Mei would like to retain the Age Pension however the projections indicate that her entitlement will reduce to nil in Year 3. This is because her former home is exempt for Centrelink means testing for two years from the date she enters a care situation[1]. After two years, the net market value of her home is assessable, and she is assessed using non-homeowner thresholds[2].

Prior to the reduction in her Age Pension, the projections also show a change in her estimated tax in Year 2. This is because of the phase out of the net medical expense tax offset on 30 June 2019.

Additional aged care advice can provide Mei with peace of mind that she can manage the changes to her cash flow. For example, Mei could consider selling her former home and paying the outstanding RAD before the projected reduction in her Age Pension. As the RAD is an exempt asset for Centrelink means testing, this strategy can help improve her Age Pension outcomes. Also, surplus net proceeds from the sale could be invested in products which interact efficiently with Centrelink and aged care means testing, such as Challenger CarePlus (CarePlus) as illustrated in Table 2.

To review ongoing aged care costs for a client, use the Challenger Aged Care Calculator available on AdviserOnline

1 For a couple, the two year exemption commences on the date the remaining spouse vacates the former home.

2 Residents may be entitled to an exemption of the former home for Centrelink, based on their date of entry to care and how their accommodation payment is structured. Refer to Challenger Aged Care Guide for more information.

Table 2: Year one cash flow comparison between term deposits and CarePlus where her former home is sold

Cash flow	$400,000 RAD $30,000 bank account $635,000 term deposits	$400,000 RAD $30,000 bank account $635,000 CarePlus
Age Pension	$7,647	$15,544
Investment income	$19,950	$900
CarePlus income	$0	$19,800
Living expenses	-$2,600	-$2,600
Net cash flow before aged care fees	**$24,997**	**$33,644**
Basic daily care fee	$18,308	$18,308
Means-tested care fee	$16,013	$13,775
Accommodation payments	$0	$0
Total aged care fees	**$34,321**	**$32,083**
Estimated tax	**$0**	**$0**
Cash flow surplus/shortfall	**-$9,324**	**$1,561**

Assumptions: Age Pension, aged care rates and thresholds as at 1 July 2018. Challenger CarePlus quote 08/08/2018, monthly payments, nil adviser fees. Cash and term deposits earn 3% interest. Home is sold at the start of year one.

By selling her former home, paying the outstanding $150,000 RAD and investing a portion of her surplus funds into CarePlus, she can increase her Age Pension, reduce her means-tested care fee (MTCF) and improve overall cash flow.

Change in living arrangements

Chanel is aged 75, widowed and owns her own home worth $600,000. She has personal contents of $5,000 and $130,000 invested in term deposits and bank accounts. She entered residential aged care as a 'low means' resident because her former home was exempt for aged care means testing as her daughter Miranda was living there as a protected person[3]. She has personal expenses of $50 per week.

Recently, Miranda moved out of Chanel's former home to live with her partner. As her home is no longer occupied by a protected person, Chanel's aged care costs have increased by $6,665 ($40,153 – $33,488) as illustrated in Table 3.

3 Protected person includes a spouse or dependent child, carer eligible for an income support payment who has been living in the home for the past two years or a close relative eligible for an income support payment who has been living in the home for the past five years.

Table 3: Year one cash flow comparison where her home is no longer occupied by a protected person

Cash flow	Home with a protected person		Home without a protected person
Age Pension	$23,598		$23,598
Investment income	$3,900		$3,900
Living expenses	-$2,600		-$2,600
Net cash flow before aged care fees	**$24,898**		**$24,898**
Basic daily care fee	$18,308		$18,308
Means-tested care fee	$0	→	$1,354
Accommodation payments	$15,180	→	$20,491
Total aged care fees	**$33,488**		**$40,153**
Estimated tax	**$0**		**$0**
Cash flow surplus/shortfall	**-$8,590**	→	**-$15,255**

Assumptions: Age Pension, aged care rates and thresholds as at 1 July 2018. Cash and term deposits earn 3% interest.

If a client is assessed as low means upon entry, they will remain a low means resident whilst they continue to receive services from the same facility.

Chanel has a cash reserve of $130,000 to fund the increased shortfall, however additional aged care advice can help her address her overall cash flow deficit. For example, paying $100,000 as a refundable accommodation contribution (RAC) and deducting her daily accommodation contribution (DAC) from her RAC can improve her overall cash flow by $17,441 ($2,236 – $15,255) as illustrated in Table 4.

Table 4: Year one cash flow comparison where a $100,000 RAC is paid and her DAC is deducted from her RAC

Cash flow	$0 RAC		$100,000 RAC DAC from RAC
Age Pension	$23,598		$23,598
Investment income	$3,900		$900
Living expenses	-$2,600		-$2,600
Net cash flow before aged care fees	**$24,898**		**$21,898**
Basic daily care fee	$18,308		$18,308
Means-tested care fee	$1,354		$1,354
Accommodation payments	$20,491	→	$0
Total aged care fees	**$40,153**		**$34,193**
Estimated tax	**$0**		**$0**
Cash flow surplus/shortfall	**-$15,255**	→	**$2,236**

Assumptions: Age Pension and aged care rates and thresholds as at 1 July 2018. Cash and term deposits earn 3% interest. DAC reduces to $14,531 after $100,000 RAC is paid.

Paying $100,000 as a RAC has reduced her DAC by $5,960 per annum and deducting her DAC from her RAC has created an overall cash flow surplus. Note, her RAC balance will reduce over time as her DAC is deducted, impacting her estate.

Death of a partner

Greg and Beth are both aged 80 and sold their home prior to entering residential aged care. They paid $450,000 as a RAD each and have personal expenses of $100 per week. They have personal contents of $10,000 and $200,000 invested in term deposits and bank accounts.

After entering residential aged care, Greg passed away and his RAD was refunded to his estate. Beth's personal expenses also reduced to $50 per week after Greg passed away. Beth inherited Greg's estate and now has $650,000 invested in term deposits and bank accounts however, she is assessed using single thresholds for Centrelink and aged care means testing. Beth's Age Pension entitlement has reduced and her MTCF has increased by $6,012 ($16,962 – $10,950) as illustrated in Table 5.

Table 5: Year one cash flow comparison before and after Greg passed away

Cash flow	Greg and Beth both in care $450,000 RAD each $200,000 term deposits	Greg passed away, Beth in care $450,000 RAD $650,000 term deposits
Age Pension	$47,195 →	$8,427
Investment income	$6,000	$19,500
Living expenses	-$5,200	-$2,600
Net cash flow before aged care fees	**$47,995**	**$25,327**
Basic daily care fee	$36,616	$18,308
Means-tested care fee	$10,950 →	$16,962
Total aged care fees	**$47,566**	**$35,270**
Estimated tax	**$0**	**$0**
Cash flow surplus/shortfall	**$429** →	**-$9,943**

Assumptions: Age Pension and aged care rates and thresholds as at 1 July 2018. Cash and term deposits earn 3% interest.

Inheriting Greg's assets has created an overall cash flow deficit for Beth. Additional aged care advice can help reduce the impact on her Age Pension and MTCF. A portion of the proceeds from Greg's estate could be invested in CarePlus as illustrated in Table 6.

Table 6: Year one cash flow comparison between term deposits and CarePlus after Greg passed away

Cash flow	$450,000 RAD $650,000 term deposits	$450,000 RAD $30,000 in bank accounts $620,000 CarePlus
Age Pension	$8,427 →	$17,533
Investment income	$19,500	$900
CarePlus income	$0	$19,446
Living expenses	-$2,600	-$2,600
Net cash flow before aged care fees	**$25,327**	**$35,279**
Basic daily care fee	$18,308	$18,308
Means-tested care fee	$16,962 →	$14,783
Total aged care fees	**$35,270**	**$33,091**
Estimated tax	**$0**	**$0**
Cash flow surplus/shortfall	**-$9,943** →	**$2,188**

Assumptions: Age Pension, aged care rates and thresholds as at 1 July 2018. Challenger CarePlus quote 08/08/2018, monthly payments, nil adviser fees. Cash and term deposits earn 3% interest.

By investing a portion of her surplus funds into CarePlus, she has been able to achieve a $9,106 increase in Age Pension and a reduction in her MTCF of $2,179 in Year 1, improving overall cash flow by $12,131.

Summary

After a client enters residential aged care, decisions or factors beyond their control can impact both Age Pension entitlement and aged care costs. Additional aged care advice can determine the financial impact of a change in a client's circumstances and rectify any negative outcomes.

For additional information on aged care, please visit AdviserOnline to view technical documents including monthly updates and the Aged Care Guide.

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