

Jeremy Cooper's Top 5 from the last 5 years

- **The Yin and Yang of retirement income philosophies** *Wade Pfau*
- **Three crucial mistakes about life expectancy** *Don Ezra*
- **Deriving an effective retirement income** *Alan Hartstein on Robert Merton*
- **How VicSuper evolved its retirement income model** *Michael Dundon*
- **Lessons from my Dad, in and out of aged care** *Alex Denham*

Retirement is different

As Cuffelinks celebrates five years of publishing, I have chosen five of my favourite articles over that time, all of which deal with the 'retirement income challenge' one way or another.

To illustrate what the articles were about, consider the example of the age pension. Age pension payments arrive every 14 days. They are exact in amount and unambiguously spendable. Twice a year, the payments are adjusted to ensure that they meet inflation, wage and living standard benchmarks, but are otherwise stable. The age pension is risk-free (from investment markets, although it is susceptible to policy changes) and lasts for life.

The Cuffelinks articles deal with the myriad issues that flow from the fact that the most common retirement-phase products have precisely none of those features.

[The Yin and Yang of retirement income philosophies](#), written in conjunction with the American College's Professor of Retirement Income **Wade Pfau**, outlines two schools of thought on the retirement income challenge: probability-based and 'safety-first'. The safety-first approach is about securing essential spending needs in retirement, with room for more probability-based approaches for discretionary spending.

In the article, [Three crucial mistakes about life expectancy](#), former Co-Chair of global consulting for Russell Investments, **Don Ezra**, pinpoints the common pitfalls that people make about life expectancy. People have difficulty understanding the arithmetic. Also, it is not just that we are living longer, but the fact that we don't know exactly how long we will live that complicates retirement income planning.

Nobel Laureate **Robert Merton** picks up on the theme of income certainty in retirement. His thoughts were recorded by Alan Hartstein in [Deriving an effective retirement income](#), following Merton's visit to Australia in 2016. Merton argued that super funds need to focus on strategies that manage income risks throughout the retirees' life. He characterised these as largely consisting of interest rate risk and inflation in the years leading into and in retirement.

Some super funds have woken up to this challenge. [How VicSuper evolved its retirement income model](#) was a timely piece from CEO, **Michael Dundon**, on how VicSuper implemented an income layering approach as a protection against longevity risk and sequencing risk. The approach involves identifying needs and wants and creating a secure layer of income above the age pension to meet essential spending needs.

We round out our retirement journey by looking at aged care. In a very personal account, [Lessons from my Dad, in and out of aged care](#), **Alex Denham** provides a poignant and evocative window into the human impact of aged care and how even being a recognised expert in the area sometimes isn't enough to avoid some of the pitfalls.

Importantly, this selection of articles highlights that genuine retirement income solutions must always have the end customer in mind. The authors consistently reinforce this reality, rather than getting stuck on investments and products that are just a means to an end, rather than the end itself.

Jeremy Cooper is Chairman, Retirement Income at Challenger Limited, former Deputy Chair of ASIC including Chair of a comprehensive review of Australia's superannuation system (the Cooper Review).

The Yin and Yang of retirement income philosophies

by Wade Pfau And Jeremy Cooper on November 21, 2014

Within the world of retirement income planning, there are two major opposing schools of thought: probability-based and safety-first. Understanding the distinctions and thought processes of both schools is important in achieving the best outcomes.

Separating accumulation from drawdown: the difficulties of retirement income planning

In defined contribution schemes, there are differences between the wealth accumulation phase and the income distribution phase. One important difference is that the investing problem fundamentally changes in retirement.

The traditional goal of wealth accumulation is generally to seek the highest returns possible in order to maximise wealth, subject to the investor's risk tolerance. After retiring, however, the fundamental objective is to sustain a living standard while spending down assets over an unknown, but finite, length of time.

Investing **during** retirement is a rather different matter from investing **for** retirement, as retirees worry less about maximising risk-adjusted returns and worry more about ensuring that their assets can support their spending goals for the remainder of their lives.

The two schools of thought

As an introduction to these schools, consider a simple example. Suppose a retirement plan has a 90% chance of success of providing income for a retiree taking into consideration longevity and market risk. Both sides will have dramatically different interpretations about what this number means.

From a probability-based perspective, 90% success is a more than reasonable starting point. It is likely to work. Safety-first advocates, however, will not be comfortable with this level of risk, focusing instead on the 10% chance of failure. They will seek a solution that removes the impact from any possible failure.

The probability-based school of thought

The probability-based approach is closely associated with the traditional concepts of wealth accumulation. In this frame, people do not differentiate between essential needs and discretionary expenses. Rather, people operate on a total budget concept.

Probability-based approaches are based closely on the concepts of maximising risk-adjusted returns from the perspective of the total portfolio. Different volatile asset classes, that are not perfectly correlated, are combined to create portfolios with lower volatility that provide the highest 'expected return'. It is an assets-only analysis, and the investor's spending needs are not relevant to determining the appropriate asset allocation.

For retirement planning, spending and asset allocation recommendations are based on mitigating the risk of wealth depletion that is inherent in drawing down a portfolio of volatile assets (ie due to sequence of returns and market risk). The failure rate is the probability that wealth is depleted before death, or before the end of a fixed time horizon.

Probability-based advocates tend to focus on the potential of equities to provide positive real returns and to outperform bonds over the long run. Retirees are thus advised to take on as much risk as they can tolerate to minimise the probability of failure. This has led advocates of the probability-based approach to use more and more aggressive asset allocations.

Table 1: Retirement income philosophies

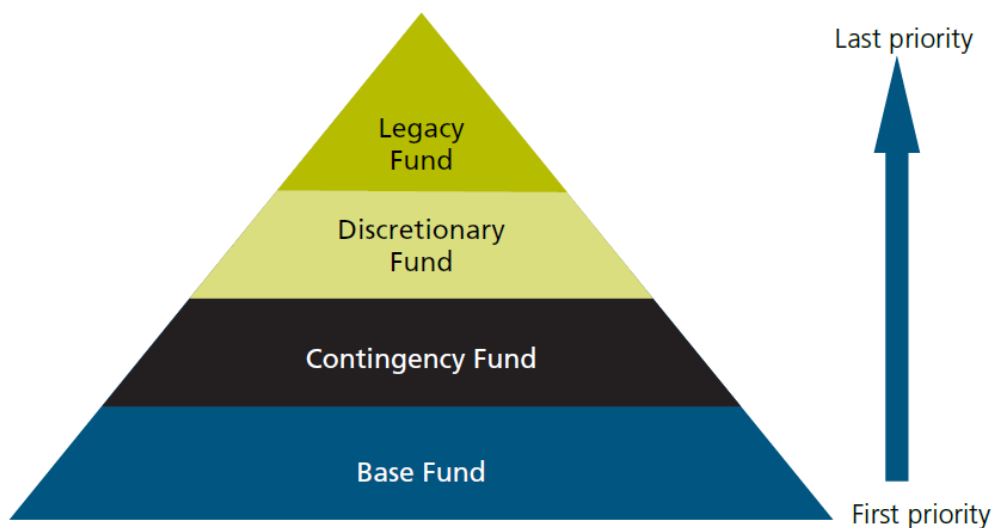
	Probability-based	Safety-first
How are goals prioritised?	Retirees have a particular lifestyle goal in mind and not meeting this overall goal indicates failure. Lifestyle goals are not prioritised between essentials and discretionary.	Goals are prioritised. For instance, the funding hierarchy could be: (1) basic needs, (2) contingency fund, (3) discretionary expenses, (4) legacy goals.
What is the investment approach?	Usually a total returns perspective framed in the same terms as pre-retirement accumulation using techniques such as portfolio diversification. The focus is wealth management for the financial portfolio.	Asset-liability matching. Assets are matched to goals so that risk levels are comparable. Lifetime spending potential over an uncertain horizon is the focus, not maximising wealth. There is a wider role for products to hedge interest rate risk and provide longevity insurance.
What is the role of an account-based pension?	The account-based pension is all that is needed for an outcome that will probably work. They are flexible enough to make whatever adjustments are required.	The account-based pension can be utilised after the safety requirements have been met. It can then deliver aspirational or discretionary spending.

The safety-first school of thought

Advocates of the safety-first school of thought view prioritising retirement goals as an essential component of developing a good retirement income strategy. Prioritisation will be very important because the investment strategy is to match the risk characteristics of assets and goals.

Retirees’ spending priorities are prioritised like the pyramid in Figure 1. Essentially, spending is required to satisfy basic needs, with additional spending on discretionary items after basic needs are met. The pyramid model requires each goal to be properly funded before continuing to the next level.

Figure 1: Modern Retirement Theory hierarchical pyramid



Source: Branning and Grubbs www.modernretirementtheory.com

The general view of safety-first advocates is that retirees only have one shot at getting sustainable cash flows from their savings. This means they must develop a strategy that will at least meet their needs, no matter the length of life or the sequence of post-retirement returns.

Retirees often have little leeway for error, because returning to the labour force is not a realistic option for many retirees. Volatile investments like stocks are not appropriate when seeking to meet basic retirement living expenses. Volatile (and hopefully, but not necessarily, higher returning) assets are suitable for discretionary expenses and legacy, where the spending is more flexible.

The goal is to have cash flows available to meet spending needs as required. Investment assets are matched to goals so that the risk and cash flow characteristics are comparable. This can include defined-benefit pensions, bond ladders, and fixed rate annuities.

The retirement income challenge

The essential difference between the schools of thought relates to the degree of comfort people have that equities will always perform well enough for a broadly diversified portfolio to meet a retiree's basic needs, without relying on more secure assets. With essentials-versus-discretionary, lifetime flooring protection is created for essential needs. This is really 'goal segmentation.' Systematic withdrawals generally leave the entire lifestyle spending goal at risk, since spending needs must be supported from a portfolio of volatile assets.

Concluding remarks

Super funds and financial advisers alike can help retirees overcome the complexities of generating retirement income by first understanding the different philosophical approaches to retirement. While neither a probability-based nor a safety-first approach is definitively right or wrong, different people will align more easily with one or the other. Nor is it an all or nothing approach. A fund or adviser shouldn't advocate for only safe assets and no risky assets. The safety-first approach is about securing essential spending needs in retirement, with room for more probability-based approaches for discretionary spending.

The full paper by Pfau and Cooper is available [here](#). An extended version of this summary is [here](#).

Wade Pfau is professor of retirement income at The American College and hosts the Retirement Researcher blog at wpfau.blogspot.com. Jeremy Cooper is Chairman, Retirement Income at Challenger Limited.

Three crucial mistakes about life expectancy

by Don Ezra on November 9, 2017

I've found that many people have a vague idea about how long life expectancy is, and that it is typically underestimated. It's an important subject, because if you're going to plan to make your assets last a lifetime, you need to make some estimate about how long that lifetime may be.

Why do so many people misunderstand it? Is it the arithmetic or the concept? Let's take a look. (Spoiler alert: the arithmetic is simple.)

Let me make three points about life expectancy.

1. Most people misunderstand the arithmetic

Even if they have heard that in some country (call it Country A) life expectancy at birth is 80 years, they don't understand that if they have reached the age of 65, the average person can expect to live more than another 15 years (in fact, probably more like 20 years). Here's how the arithmetic works:

Suppose I asked you for the average of the numbers from 0 to 100. It's not a trick question. It's simple arithmetic. You know the answer is 50.

Now suppose we leave out the lower numbers and determine the average of the numbers from 40 to 100? Obviously, it'll be higher; in fact, the average now rises to 70.

It's similar with life expectancy.

Suppose we encountered a peculiar population of 100 people in which one person dies before the first birthday, one dies between ages 1 and 2, and so on, the last one dying between 99 and 100.

What would be the average age at death? Again, not a trick question: it's 50. Half the people will live longer than that, half won't reach it.

Now suppose we leave out all of those who die before age 40, leaving us with a smaller group. The average age at death of this smaller group is 70. Half of those alive at age 40 will live longer than that, half won't reach it.

So, what does this tell us about the life expectancy of this peculiar population?

It tells us two things. First, at birth, if we don't know which person we're talking about, all we can talk about is the average, and for the average person, then, the life expectancy is 50 years. Second, if we consider only those who have survived until age 40, and again we don't know which individual we're talking about, their average age at death is 70. Their *future* life expectancy, once they've reached 40, is another 30 years, because that's what 'life expectancy' means: it's the average number of *future* years to be lived by the average member of a well-defined group.

Notice that the people in the second group (those who have survived to age 40) are also members of the first group (the entire population). But the two groups are not the same, even though they contain some identical members. The second group excludes those who have already died before 40; that makes it a different group, and a longer-lived group. So, if we are to define life expectancy, it's important to define the group we're talking about very clearly.

OK, now let's go back to Country A, and interpret those numbers.

The numbers tell us two things. First, if you include the entire population, the average age at death is expected to be 80. Second, if you exclude those who have already died before age 65, and include only those who survive past that age, their average age at death is higher than 80; in this case it's around 85. And that's why the future life expectancy of someone in Country A who has already survived to age 65 (a smaller group) is a further 20 years, not the 15 years that people often misunderstand it to be.

Life expectancy tables vary by gender (typically, the life expectancy of a female is longer than that of a male), by country, by race – all kinds of factors, in addition to age. You may find a website with a calculator that helps you to estimate your future life expectancy. If your health isn't average (it may be better or worse), your doctor may be able to help.

2. Averages disguise the unpredictability

Talking about the average conceals the fact that, for any individual, the actual date of death is uncertain. For most people, until they're near death, their specific future life expectancy is still pretty much unpredictable.

When you make financial plans about the future, *it's important to take this unpredictability into account*. There are many ways to do so, the subjects of future posts.

3. The longer life expectancy of one member of a couple

More specifically, how long before the *second* death of the couple. Techies call this the 'joint and last survivor' life expectancy. It's important because it's necessary to provide for the longer-lived member of a couple, whichever one that may turn out to be.

Suppose there's a couple whose individual future life expectancies, at some point in time, are roughly 15 years and 20 years. How long until the second death?

Most people say: well, after 15 years you expect one to die, and after 20 years the second one will die; so, it's 20 years to the second death, right?

It actually turns out to be a little more complicated than that. I won't go into the arithmetic. I'll just tell you why the expected time to the second death is *longer* than 20 years.

The one with the longer expectancy has a 50/50 chance of living longer than 20 years. The one with the shorter expectancy has *some* chance (though much less than 50/50) of living longer than 20 years. Between them, they have a bit *more* than a 50/50 chance. And so for the couple together, *the average expectancy to the second death is longer than the longer of the two individual life expectancies*.

Don Ezra has an extensive background in investing and consulting, and is also an accomplished author. His current writing project, consisting of blog posts at www.donezra.com, is focused on helping people prepare for a happy, financially secure life after they finish full-time work.

Deriving an effective retirement income

by Alan Hartstein on August 4, 2016

Superannuation funds are becoming increasingly aware that what members really want is income certainty in their retirement as opposed to just aiming for wealth maximisation and a net worth figure.

The Federal Government wants to enshrine the objective of superannuation in law, as part of its response to the Financial System Inquiry. The Government accepts that the objective is to provide retirement income to substitute or supplement the age pension. That means superannuation fund managers will need to change the way they currently think about risk management and the options they currently offer their members.

Nobel Laureate Robert Merton

American economist Robert Merton, who was in Australia recently to discuss retirement income strategies, is an acknowledged world leader on the subject of retirement incomes. Currently the Resident Scientist at Dimensional Funds Advisers, he is also a Professor at both the MIT Sloan School of Management and Harvard University, and he was awarded the Noble Prize for Economic Sciences in 1997 for developing a method for determining derivatives values.

Merton's research has more recently focused on lifecycle investing, retirement finance and optimal portfolio selection. In an article written for the Harvard Business Review called '[The Crisis in Retirement Planning](#)', he argued that a good retirement investment portfolio had to prioritise income-generating ability over any supposed value. "Asset values and asset volatility are simply the wrong measures to use if you want to derive a sustainable income in your retirement," Merton said.

Superannuation funds must be mindful when building their portfolios that members will need their money for income regardless of what happens to inflation, stock markets and interest rates, something they may not have prioritised in their investment thinking and planning sufficiently before.

In Australia, the Federal Government has agreed to remove some impediments to retirement income products and for funds to publish income projections on members' statements. However, these projections can vary wildly, and the information has to be meaningful for it to be of much use to investors.

This is where considerations of inflation and interest rates become essential, Merton argues. "Risk-free annuities need to be viewed from an income-generating perspective, and this needs to take inflation into account," he said. Inflation can have a huge impact on retirement lifestyle. If, for example, inflation is running at 2% per annum over the five years before retirement, the real value of the nest egg in wealth and income terms falls 9%.

Similarly, if a customer puts \$300,000 into a term deposit when interest rates were around 7% and five years later, rates have fallen to 2.5%, the interest from that deposit has been cut from \$21,000 to \$7,500 per annum, a massive 64% decline in income.

Super fund members should be able to see not only what they can potentially afford in retirement but what they can do to manage uncertainty. For example, if they are not on track to achieve their desired level of income, they may have to save more, work longer hours, or simply adjust their expectations if possible.

Communication and risk mitigation

Providing relevant information to investors alongside risk mitigation solutions is a powerful combination. An ideal solution, therefore, allows participants to invest toward retirement income over time while simultaneously protecting investments from market risks.

"Just about everyone who saves or invests does so to support some future consumption. We know that the key to any asset allocation is to identify the right hedging asset for a given liability," Graham Lennon, Head of

Retirement Investment Strategies and Vice President of Dimensional said in a paper called '[Retirement: Making Income the Outcome](#)' in November last year.

If a fund member wants to reduce the volatility of their account balance, they can invest in assets that are stable in wealth terms. "How do we manage these risks? We can conceptualise our retirement liability as a series of equal inflation-adjusted payments from retirement to life expectancy," Lennon said.

This future liability looks a lot like a bond, with a series of payments and a duration. By investing in a portfolio of inflation-protected instruments that match the duration of those payments, it is possible to construct a strategy that hedges interest rate and inflation risk, Lennon argues.

This involves asset allocation that effectively manages the trade-off between assets for income-growth (increasing the balance available to draw income from) and assets for income risk management. Early in the lifecycle of a member's super fund, their focus should be on income-growth assets. Later, the focus should shift to income risk management, or what Merton describes as "duration-matched inflation-protected securities". This focus on managing income risk should then continue for the term of the retiree's natural life.

Alan Hartstein is a freelance writer and editor.

How VicSuper evolved its retirement income model

by Michael Dundon on July 30, 2015

The recent release of VicSuper's new non-account based pension (NABP) products for retirees signalled the first of a number of innovative solutions in the retirement income space. More importantly, we have evolved the philosophy and process we follow to help members achieve income security in retirement.

Our previous retirement planning approach

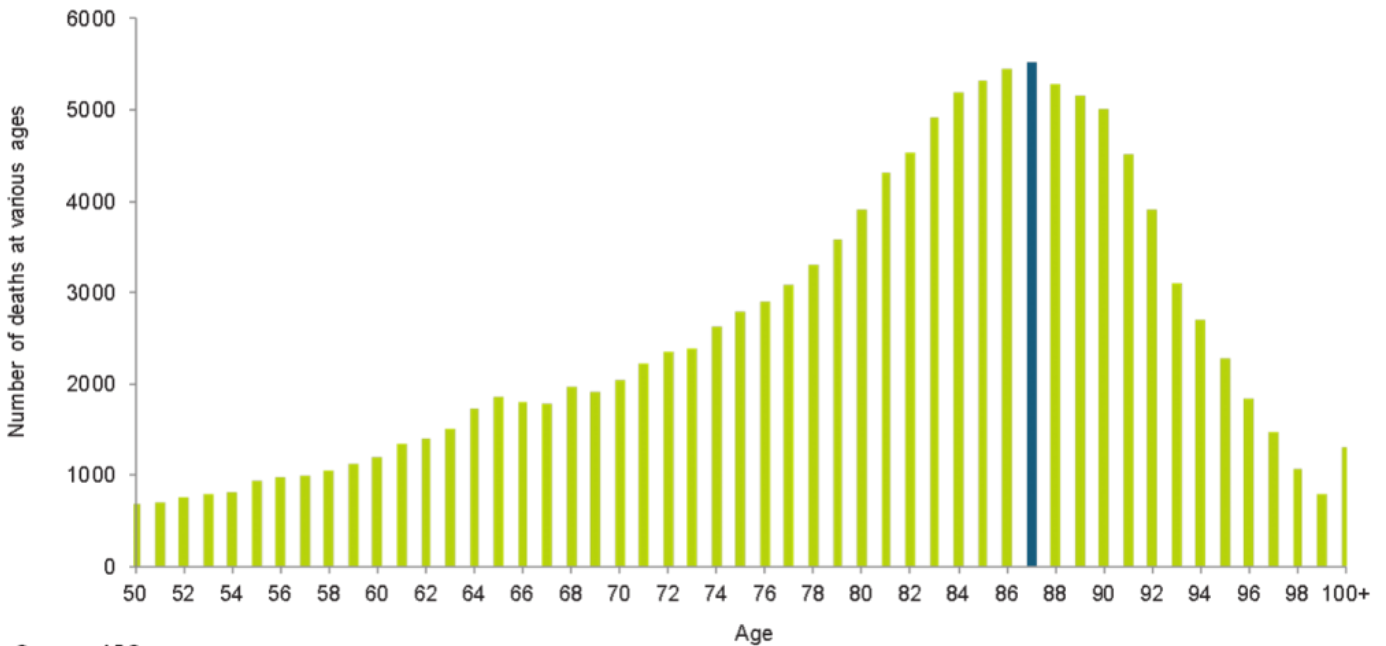
Until recently, VicSuper financial planners used a managed payout approach. In the main, they would recommend a strategy incorporating our account based pension (ABP) with an investment portfolio mix based on the member's risk profile. The higher the member's capacity for risk, the more aggressive the investment portfolio and a higher total return would be assumed. We would factor in other forms of income available to the member including the age pension, defined benefit pension and investment income, in preparing our advice. We were aiming to deliver a real level of income that was sustainable, with minimal volatility, which provided members with the flexibility to access capital as needed. Cash flow projections were based on a constant rate of expected return.

There were significant advantages to this approach: the member's control of investment capital was fully maintained, any returns above expectations could increase the income available, and it was easily implemented by risk profiling a member and investing into the ABP.

The evolution of our methods

However, there were also some weaknesses to this approach:

1. Firstly there was no protection for members against outliving their savings. By basing the analysis on average life expectancies, the approach did not fully address longevity risk by basing the analysis on average life expectancies. This can be relevant to a significant cohort of members (see numbers to the right of the blue line in the diagram below).



2. The managed payout approach doesn't effectively mitigate against sequencing risk where the order and timing of returns could materially impact a member's income in drawdown phase. Historically, members responded to market volatility by taking less income and the 50% reduction in the minimum drawdown following the GFC allowed for this. However, taking a hypothetical 65-year-old member with \$600,000 in their pension account, we felt that an income based on a minimum drawdown that was halved from \$30,000 to \$15,000 would not be a desirable outcome.

3. Much of the risk in retirement (inflation, longevity and market risk) was also borne by the member. This was traded off against the prospect or possibility of higher returns, however it differed from our approach in accumulation which is to provide default life and income protection insurance to members, and specific needs-based tailored insurance if the member saw a VicSuper financial planner.

4. Lastly, there was no direct asset-liability matching for the member in retirement. So, if the member had a need for essential income, with anything below that being unacceptable, our approach in pension phase did not directly manage it. We actively manage this risk in accumulation by providing advice to the member (where appropriate) to use income protection and death and disability insurance to provide needs-based protection.

The probability of outliving savings is real

The ABP minimum drawdown requirements for a 65-year-old starts at a higher point (5%) than much of the recent research on safe withdrawal rates suggests is appropriate to provide a sustainable, indexed income stream with a minimal chance of failure.

This research based on Australian data suggests there is an almost even chance that a typical conservative 25% growth/75% defensive portfolio would be exhausted over a retirement period of 20 years assuming a 6% pa drawdown rate, adjusted for inflation (see table below).

Asset Allocation 25% Equities, 70% Bonds, 5% Bills	Withdrawal rate as a percentage of initial portfolio value							
	3%	4%	5%	6%	7%	8%	9%	10%
10 Years	100%	100%	100%	100%	97%	89%	82%	76%
20 Years	100%	88%	67%	51%	36%	30%	27%	18%
30 Years	85%	56%	33%	28%	17%	10%	6%	2%
40 Years	63%	33%	24%	11%	6%	3%	1%	0%

Sources: *Portfolio Success Rates in Australia based on 25% growth/75% defensive portfolio (Drew and Walk 2014)*, and *How Safe are Safe Withdrawal Rates in Retirement? An Australian Perspective (Finsia)*.

As part of a retirement strategy review we looked carefully at the approach outlined above to determine if there was a better way of achieving our members’ goals.

Our new approach – income layering

Recent research from Investment Trends supports the idea that guarantees and protection (associated with income that lasts for life, guaranteed minimum income payments, protection against market falls and indexed against inflation) become stronger drivers than high returns when retirees are considering retirement income products.

We began looking at different ways we could help our members achieve their goals and meet our best interest duty. One way to deliver this was to develop an objectives-based approach that used an asset-liability matching framework to generate retirement income. Since a member having insufficient income to meet their essential expenses was an outcome to be avoided at all costs, it was perhaps better to not target a strategy that will perform best if we guessed correctly about future market returns, so we took a member’s worst-case scenario off the table. One way of doing this was by implementing an income-layering strategy, defined as:

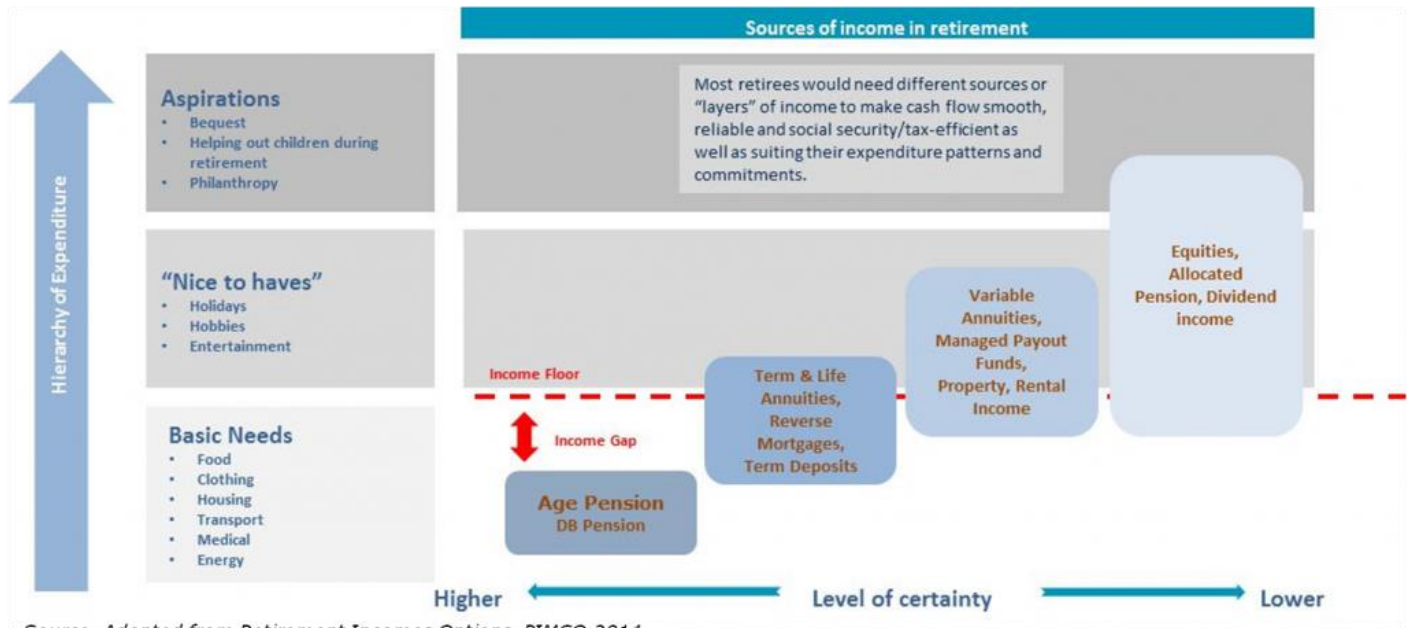
Income layering is a strategy that locks in a secure stream of retirement income before investing any remaining retirement savings in market-based products. It is based on the belief that securing income to meet the essential or basic needs should be of primary importance to the member.

Income-layering starts with detailed budgeting (as much as possible) for the amount of income a member requires each year in retirement, and splitting up this income into essential income and income that can be considered discretionary. ‘Essential’ income should cover the must-have basic expenses like food, clothing and shelter and also those items that define a member’s lifestyle. That is, those things that are non-negotiable because they represent the essence of the member’s life. The discretionary income covers lifestyle requirements that members would be willing to do without if their retirement savings take a turn for the worst.

We’ve now implemented a new advice process that takes into account a member’s health, expected longevity, liquidity needs and balances security with flexibility via internal business rules which guide an appropriate allocation between our various product solutions.

The income-layering approach has protection against longevity risk, and offers upside potential to improve a member’s standard of living. As a priority, essential income is then secured over an appropriate timeframe by a combination of the age pension, any defined benefit pension entitlements, and our VicSuper NABP products. Of critical importance, however, is that the floor income provides as much protection as possible against inflation, longevity and market risk.

Other superannuation money can be invested in the ABP, in a portfolio that aligns with a member’s risk profile. The capital allocated to meeting these two priorities is balanced against other factors, for example if a member has a particular liquidity need requiring significant capital to be available at short notice.



There's no single silver bullet solution

Whilst investing a member's entire super into an ABP may (or may not) result in a superior outcome, this depends on investment returns and the sequencing of those returns. The income-layering approach recognises that there is no one 'silver bullet' solution in that it uses both guaranteed income streams and an ABP to deliver an appropriate outcome for the member. It provides the member with peace of mind, flexibility, and the opportunity of a growing income in retirement if investment returns are good.

Michael Dundon is the Chief Executive Officer of [VicSuper](#).

Lessons from my Dad, in and out of aged care

by Alex Denham on October 25, 2017

It's been a difficult year for my 82-year-old widowed Dad. He had a strong heart, perfect blood pressure, complete mental capacity but a troublesome skeletal frame. In February this year, he collapsed out of bed and was unable to walk, even a little bit. He'd been wobbly for a while, then on a frame, then finally his legs just couldn't support him anymore.

The surgeon gave the prognosis: endure two *major* neck and back surgeries, followed by a year of hard work and physio, or end up in a wheelchair in a nursing home. Not much of a choice. He chose the surgeries, and a long and horrific few months followed.

By June it was clear that the hospital and rehab environment was not doing him good. He was despondent and his progress plateaued. Although still in a wheelchair, it was time to find alternative accommodation where he could be looked after and continue with the rehabilitation.

My sisters and I weren't in a position to take him in, nor did he want to live with us. He wanted to stay in Sydney near his friends and support network. An aged care facility (read: nursing home) was the only option available (we thought). Fortunately, he had the means to take his pick.

We found one that we thought would be ideal: Sydney harbour views, award-winning dining, luxury and style. Dad would love the company of others and a bit of nurturing that he hadn't had since Mum died a couple of years ago. They even have an in-house physio programme.

We did the negotiations, he was discharged from the hospital and he moved in. No doubt, it was a better environment for him than the rehab hospital, but for poor Dad, it was not a positive step. They *did* look after

him well, I emphasise that, but a nursing home is a nursing home, no matter how fancy it is. It is not filled with 65-year-olds discussing world issues. He felt he was the youngest there by years, and found no one on his intellectual level. He was lonely, sad and frustrated.

That, and the monthly bills, were enough to light a fire in his belly to work hard on his physio to get out of there. Eventually he moved from the wheelchair to a walking frame, and now after a 119 day stay, he's headed home.

I've worked as a technical specialist and adviser in aged care matters for many years, and have written countless articles on the fees, charges, effect on age pension, and strategies. However, I now have a further – much more personal – insight into this process to share.

Lessons learnt from personal experiences

1. No matter how pleasant the facilities, or how many awards it has won, it's still a nursing home. In many (but not all) cases, the residents are there out of need, not desire. The food is never going to be as good as home-cooked. They are running a business and working within budgetary restraints. Scotch fillet made to order and fresh fruit are a thing of the past unless the resident goes out for it, or a family member brings it in.

2. Speaking of meals, dinner is at 5:30, then it's back to the room by 6:30. Makes for a long, boring night for a person who has full mental capacity and wants someone to chat to. In summer daylight savings, they are having dinner at what is close to afternoon tea time.

3. Read everything in the Resident Agreement, read it closely and understand it. If you don't understand it, get someone to read it who does. I do understand most of these things better than the average person, and was still taken by surprise by some of the charges that popped up on the monthly statement.

4. Residential aged care can be breathtakingly expensive, and every little extra thing is charged. It's that feeling when you've spent a week at an expensive resort, charging everything to your room, then it's time to look at the bill. Only it goes on, month after month. The temptation is not to look at the statements, but please do. We found Dad had been overcharged a whopping 25 days due to an error in accounts.

5. Even for a high means person, it is worth completing the awful [Combined Assets and Income Assessment form \(SA457\)](#) from the Department of Human Services. We didn't for Dad, but in hindsight I wish we did, as I think we'd have had a clearer picture of where he stood.

6. The Means Tested Care fee is based on the actual daily cost of care as determined by the Government based on the [ACAT assessment](#). However, it is subject to an [annual cap of \\$26,566.54](#) or \$72.78 per day. As Dad was assessed for a high level of care, the facility charged this daily capped amount on the assumption that he would be staying for the full year. However, when he gave notice that he was leaving 119 days later, we got a nice little surprise ... his actual daily cost of care was \$214. His Means Tested Care fee was back-dated to the day of entry, and he was hit with an extra \$12,600, which kept him just below the \$26,566 for the 3½ month stay. My training and experience failed to see that one coming, even though I probably should have. It's a trap for when a person exits the Residential Aged Care system.

7. Dad's mobility has improved, but still has a way to go. The reason he can go home is because there are some excellent home care service providers that provide home help, personal care, companionship, transport, and specialist care (24-hour, dementia, palliative or respite). They can also manage the overall care and tap into nursing services, specialist doctors, GPs, equipment suppliers etc. If you live in an area where these services exist, it is possible to stay at home and miss the whole residential aged care step altogether. BUT, and it's a big BUT, if you need to rely on a 'Home Care Package' to help fund it, there's a long wait. Following the ACAT assessment, you're put on the waiting list. No one really knows (or reveals) how long the waiting list is but it's months if not a year or two. Dad will have to pay for his home care services privately until the package comes through (which is also subject to a means test). You can get more information about [home care here](#).

Summary

I've learnt that although aged care in Australia has vastly improved over the last few years, it's still not a happy time for some. It's expensive, impersonal and can be downright depressing, although to be fair there are many positive stories as well. Many years ago, my Grandpa – deep in dementia – loved it. He got his three square meals a day and familiar faces caring for him.

I think my Dad has learnt that he wants to be at home, he wants his independence, and he wants to stay connected with the world. Before all this, and since Mum died, he was feeling lonely and isolated at home, but this time around he will revel in being back in his own space. He's already in touch with friends and filling up his diary with social outings. More power to him.

This experience was a revelation to me as a long-term adviser in the aged care field. Even a person in a comfortable financial position who has the means to enter a facility with many extra services over and above the government-subsidised standards faces unexpected and disappointing experiences. In future when discussing aged care matters with my clients, I will urge them to investigate home care options as well as residential ones. It's horses for courses, and it's heartening to know that there are increasing options available for our ageing population.

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