IT'S ALL IN THE PLANNING

A GUIDE TO PLANNING FOR AGED CARE

CONSORTIUM
PRIVATE WEALTH

A GUIDE TO PLANNING FOR AGED CARE

A GUIDE TO PLANNING FOR AGED CARE

WELCOME

The latest Intergenerational Report tells us that Australians aged 65 years and over accounted for 16% of the population – and that figure is rising. Whether you're concerned about your future self or a loved one, aged care is an issue most of us will have to manage at some time in our lives.

At the time of Federation, Australians at birth had an average life expectancy of around 55 years. The most common causes of death were infectious and parasitic diseases resulting from unsanitary sewerage and water systems, poor quality food and limited health education.

Improvements in public sanitation, health and medicine have seen lower death rates and longer life expectancies. Enhanced living standards meant we began living longer with cancer and heart disease becoming our most common causes of death.

The latter part of the 20th century witnessed substantial advances in medical treatment, which reduced the impact of these diseases and further increased life expectancy.

Given mounting pressures on governments to assist an aging population, more Australian families are taking the support of elderly loved ones into their own hands – and this is where it pays to do early homework.

There are so many complexities involved in planning for aged care – be it your own or your parents' – but the one with the most impact is the emotional strain. It can be heart-breaking to see once vibrant loved ones begin to decline as they age. The majority of us want to do everything we can to make this stage of their lives as pleasant as possible, but that may not always be an option. What most of us can do though is to plan ahead for the financial impact.

ACQUIRE THE KNOWLEDGE

This e-book outlines some of the options available for care and how to manage the costs - the key here is to plan well in advance and seek professional guidance.

NOT ALL AGED CARE NEEDS ARE THE SAME

THE FIRST STEP - ASSESSMENT

Illness, disability or the passing of the years can make it difficult for you or your loved one to maintain an independent lifestyle. The ideal is to remain in one's own home for as long as is reasonable and safe, but knowing when independence is no longer feasible is the difficulty.

Your first step is a visit to your doctor to discuss your or your loved one's situation. The doctor will then usually refer you to an Aged Care Assessment Team (ACAT).

The ACAT consists of appropriately qualified people who can visit the elderly person in their home and, following a government-approved guideline, assess how much and what type of care may be required.

Following assessment many people make private arrangements for their aged care living. They may stay in their own homes, perhaps with help from family or other carers. Some will move into a retirement village and retain their independence. Others may need a higher level of care earlier than expected.

GOVERNMENT SUPPORT

The government provides substantial assistance with the costs of aged care, and eligibility for government support is determined by an Aged Care Assessment Team.

Aside from making an assessment of the need and level of care required, the ACAT may also be able to assist in finding an appropriate place. Most people prefer to make their own choice, and it is worthwhile visiting several facilities. Quite often available places are subject to existing vacancies, so it may be necessary to apply to a few establishments.

FEE STRUCTURE

In most cases a contribution towards the costs of aged care is required. Contributions vary and depend upon income, assets and pensioner status.

Fees may include a combination of means-tested accommodation and care fees, a basic daily care fee and fees for extra optional services. Fees are revised twice yearly in line with pension reviews.

Care recipients have the option of paying their accommodation fee as an upfront refundable deposit or a rent-style periodic payment.

NOT ALL NEEDS ARE THE SAME

Sometimes the need for aged care can arise at very short notice. For example, a stroke or a broken hip may be the trigger for an immediate move. The stress of entering aged care can be considerable and this isn't helped by the overwhelming range of facilities on offer and the complexity of funding arrangements.

More information: *Department of Social Services website www.myagedcare.gov.au What help can I get?*

WHAT IS YOUR AGED CARE FUNDING STRATEGY?

According to the Australian Bureau of Statistics, in 2019 almost 4.1 million Australians were aged 65 and over.

Consider for a moment: this figure shows those people contemplating aged care for elderly family members are fast approaching the age when they'll need it themselves.

Sobering thought.

What this means is that as aged care becomes increasingly important, the need for aged care facilities is growing proportionately. As demand out-grows supply, costs associated with residential care can only go one way.

FEES ARE REGULATED

There are strict regulations governing aged care fees and charges. Aimed at consumer protection, a degree of flexibility within the guidelines enables aged care facilities to adapt the fee structures to meet their own financial pressures.

So as we age, and as we begin to consider the future care of not only ourselves but our older loved ones, what can we expect to pay?

PLAN TO MAKE IT EASIER

The desire to provide loved ones with the best possible living conditions sometimes forces older people to sell their homes to afford care for an aging partner. Not only can this affect the age pension they receive, but can see the partner not in care seeking accommodation with relatives or alternative housing – a heartbreaking situation for someone wishing to leave an inheritance behind.

The focus on self-funded retirement doesn't always consider increasing life-expectancy and what happens beyond pension-funding projections.

Indicative of our times, strategies for wealth creation with extended pension horizons are increasingly relevant. Planning ahead will help to support appropriate income levels so you are less likely to need a lump sum withdrawal from your investment portfolio.

WEALTH CREATION STRATEGIES WITH EXTENDED PENSION HORIZONS ARE INCREASINGLY RELEVANT

CARE OPTIONS INCLUDE IN-HOME CARE AND RESIDENTIAL CARE

LEVELS OF CARE!

Care options include in-home care and residential care providing standard accommodation and personal services. Residents pay for optional additional services.

IN-HOME CARE

Four levels of care:

1. Basic
2. Low level
3. Intermediate
4. High

Best Suited For

Elderly person/s capable of living safely and independently in their own home.

What It Includes

Actual services included depend on the level of care required, but include some or a combination of the following:

- Personal care – showering, dressing, grooming, etc.
- Errands – grocery shopping, bill paying, visiting friends, laundry, washing and ironing, etc.
- Meal preparation
- Companionship – outdoor activities, reading, letter writing, assisted exercise, etc.
- Nursing, allied health and other clinical services – these services are included under Levels 3 and 4 as more complex clinical needs.

Fee Structure

The cost depends on the means tested income of the client as well as the level of care delivered. The government provides subsidies for home care, but basic fees apply in line with the age pension.

Those on incomes in excess of the age pension may be required to pay more.

Maximum fees payable are determined by the level of care required and other living expenses: rent, utilities, pharmaceutical, etc.

RESIDENTIAL CARE

Best Suited For

Elderly person/s not able to live safely in their own home or who, due to illness, disability and/or frailty needs continuous care.

What It Includes

- Accommodation services – including bedding, laundry, meals, cleaning and toiletries, building maintenance and daily activities.

- Personal care assistance – including bathing, eating, dressing, moving, communicating, administering medicines and arranging health care appointments.

Fee Structure

Fees apply to all residents of care facilities, depending on level of care and ability to pay.

Type of fee	Included
Daily basic	Living costs such as meals, power, laundry.
Means-tested	An additional contribution towards cost of care determined by Department of Human Services (DHS) and based on means-tested income and assets.
Accommodation	The government may cover part or all of this as determined by DHS income and assets means test.
Extras/additional options	Applies where higher accommodation standards or additional services are required. Variable depending on the residence and available facilities.

Watch Out For "Extras"

Although the government has capped annual and lifetime means-tested fees, additional charges to cover extras like hairdressing, internet access, excursions, etc, can apply.

It's important to check with the facility first to find out how these extra services are offered and their associated costs. They can sometimes be disproportionate to the services supplied and add up to a substantial amount.

Aged care providers must give itemised accounts to the resident breaking down each of these services and the associated charge. Legislation also states that these fees cannot be charged more than one month in advance.

CARE REQUIRED ON A SHORT-TERM BASIS

Respite Care

Is for those who need some time out from being at home, and who feel they would benefit from a short-term stay in a care facility. After assessment, the charges will depend on the level and frequency of services accessed.

Transition Care Program

Provide personal and allied health care (eg. Physiotherapy) in the person's home or live-in setting for a period of up to 12 weeks. An assessment is required. A fee may be charged to contribute to the cost of care depending on the circumstances.

More information: *My Aged Care website www.myagedcare.gov.au "About home care packages"; "Aged care homes"; "Respite Care"; www.agedcare.health.gov.au Transition Care Programme. Ageing and Aged Care website www.agedcare.health.gov.au "Charging fees for additional care and services in residential aged care, including 'capital refurbishment' type fees"*

ALTHOUGH THE GOVERNMENT HAS CAPPED FEES, ADDITIONAL CHARGES CAN APPLY

FINDING THE RIGHT LEVEL OF CARE IS CRUCIAL

HOW WILL AGED CARE AFFECT YOUR FAMILY?

Naturally, when investigating options for an elderly person, finding the right level of care is crucial, as is anticipating future care requirements and planning for them.

Given a choice, most people would prefer to remain in their own homes and the government has committed to ensuring that home care resources will be gradually increased over the coming years and widening the levels of home care.

Costs associated with care are calculated on the single basic age pension and perhaps an extra income tested fee determined by the care required.

The rationale is that those who can afford to pay for care should do so, while the government will subsidise those who don't have the capacity to pay. Fees are capped on an annual or lifetime basis and indexed annually.

When entering aged care accommodation residents have the choice of:

1. Paying a Refundable Accommodation Deposit (RAD), or
2. Making periodic Deposit Accommodation Payments (DAPs).

To safeguard against the care facility becoming insolvent and unable to repay bonds, the government undertakes to make the repayment to either the resident or their estate. Bond amounts are recovered by the government by it levying a regular fee against the care facility.

Other key aspects of the government's aged care strategy include:

- No difference between high and low care so that the level of care can be adjusted seamlessly as needed.
- Care facilities are able to offer a wide range of extra-service packages. These are available to all residents for an additional fee, and residents can choose to opt-in or opt-out.
- Additional funding is being allocated to caring for patients with dementia.
- Rental income from the resident's former home is included in the means test for those entering a residential facility.
- The family home remains exempt from income and asset testing.

More information: *My Aged Care website www.myagedcare.gov.au "Types of care and services"*

HOW THE FAMILY HOME CAN AFFECT AGED CARE FEES

One of the key tasks for anyone assisting an elderly relative with the move into aged care is to investigate the various fees and charges, some of which are subject to both assets and income means tests. As the family home is often the largest asset and can be a source of income if rented out, it's particularly important to understand how it is treated in relation to these tests.[1]

ASSETS TEST

For individuals entering aged care the value of the family home is not counted as an asset if it is occupied by:

- A partner or dependent children,
- A carer who is eligible for government income support and who has been living there for at least two years, or
- A close relative who is eligible for income support and has been living there for at least five years.

However, even if that is not the case, the value of the family home that is counted as an asset is capped at $178,839.20[2]. If the actual value is less than the cap then market value applies.

For a couple where neither partner is living in the family home, half of the net market value of the home will be included as an asset for each of them, up to the cap.

INCOME TEST

For people who entered aged care between 1 July 2014 and 31 December 2015, rent on the family home is exempt from the income test only if they are paying some level of daily accommodation payment.

Where aged care commenced after 1 January 2016, net rental income is assessable.

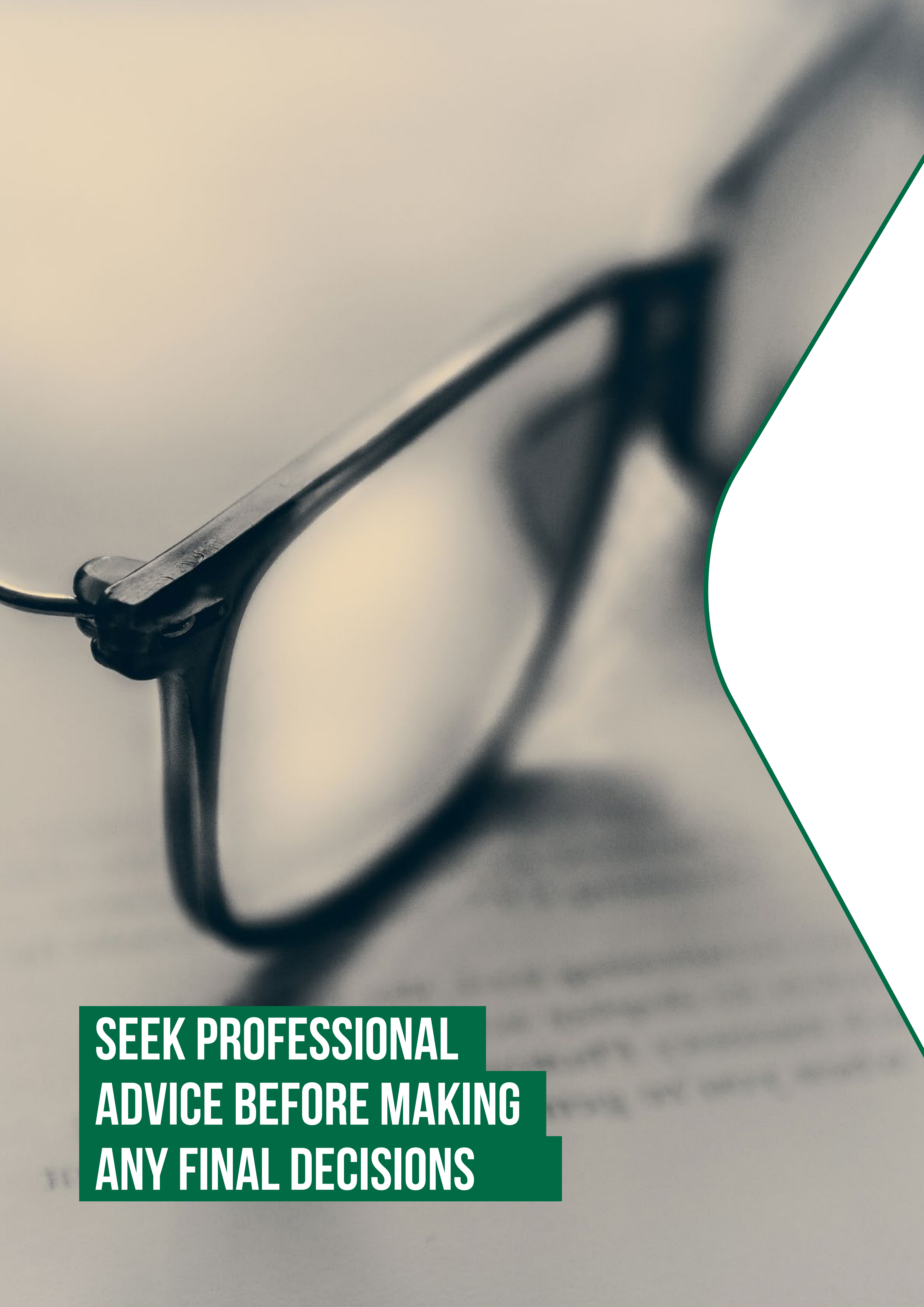
Split by health

Eric, 85, and Wendy, 87, own a home valued at $650,000. In January 2019 poor health made it necessary for Eric to move into aged care. Wendy remained in the family home so the house was exempt from the assets test, and as there was no rental income, there was

1 Note that there are some important differences in the way the family home is assessed by Centrelink and the Department of Veterans' Affairs (DVA) for aged pension or DVA pension purposes. This article only covers the rules that apply to aged care.

2 As at June 2022.

IT'S CRUCIAL TO UNDESTAND HOW THE FAMILY HOME IS TREATED



SEEK PROFESSIONAL ADVICE BEFORE MAKING ANY FINAL DECISIONS

no impact on the income test.

Reunited

In June 2019 Wendy's increasing frailty also saw her entering residential care, fortunately in the same facility as Eric. Their former home was rented out and became assessable as an asset. As the value of the home is more than twice the current cap, they each have $178,839.20 included in their assessed assets.

Under the income test, half the net rental income is applied to each of their assessments.

EXPERT HELP

Everyone's story is different so it's crucial to seek professional advice before making any final decisions about selling a family home.

More information: *My Aged Care website www.myagedcare.gov.au – "Considering aged care home - Fees and charges"; "Income and assets assessment for aged care home costs"*

WHAT ABOUT A 'GRANNY FLAT'?

Aside from structured residential care, there are several choices of accommodation older Australians may consider when they can no longer live in their own home.

One option is living with a family member or friend. This arrangement – if formalised – is generally considered as a 'granny flat interest' and, as usual, Centrelink has set strict criteria that must be met if you are to retain some or all of your pension entitlements.

For age pensioners any change in living arrangements may affect Centrelink entitlements so it is important to consider what this means.

WHEN IS A GRANNY FLAT NOT A GRANNY FLAT?

The usage of the term 'granny flat' in this instance is not referred to as a dwelling. It is an agreement for accommodation for life. In fact, a granny flat interest can describe any type of dwelling – the only difference is that you are not permitted to have any legal ownership of that dwelling.

A 'granny flat interest' is created when you exchange payment (assets, cash or both) for a right to live in a dwelling on someone else's property for life. Any payment made for that interest is referred to as an Entry Contribution, which is assessed by Centrelink under the "Reasonableness Test".

HOW DOES CENTRELINK VALUE A 'GRANNY FLAT INTEREST'?

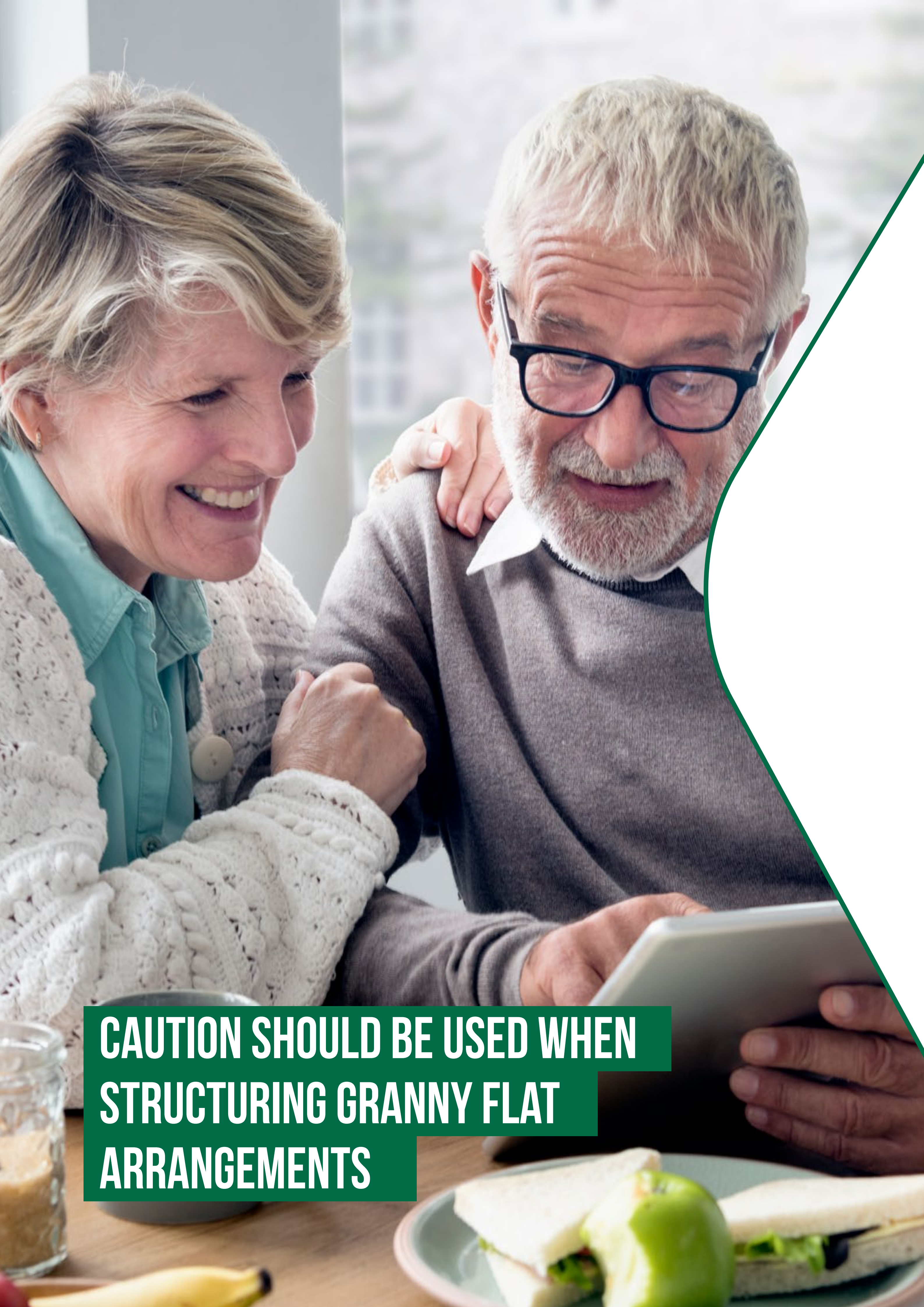
Centrelink generally values the granny flat interest as the same amount that is paid for the arrangement. For instance, when the amount paid is one of the following:

- Transfer of the title of your home to someone else whilst retaining the right to live in that home for the rest of your life. To qualify for this, your home must have been totally exempt from the asset test.
- Payment to have a granny flat built on someone else's property or to have their home converted for your accommodation needs and obtaining the right to live in that home for the rest of your life.
- Buying a property in someone else's name and establishing a right to reside there for the rest of your life.

CENTRELINK ASSESSMENT

You are assessed as a homeowner if your Entry Contribution is higher than the Extra Allowable Amount (the difference between the homeowner's and non-homeowner's assets under the assets test). In this case your Entry Contribution is not counted as an asset under the Assets Test.

WHEN IS A GRANNY FLAT NOT A GRANNY FLAT?



CAUTION SHOULD BE USED WHEN STRUCTURING GRANNY FLAT ARRANGEMENTS

If your Entry Contribution is less than the Extra Allowable Amount then you are not considered to be a homeowner, but the amount of your Entry Contribution will be assessed as an asset.

However, caution should be used when structuring the arrangement as there are some circumstances where the granny flat interest is valued differently by using the ‘Reasonableness Test’ amount rather than the paid amount.

Centrelink will assess any amount paid above the granny flat value as a gift and deprivation rules will apply, which will affect your pension payments.

IT’S COMPLICATED

There are many technicalities and points to consider when moving into a ‘granny flat’ and each individual’s circumstances are affected differently. We recommend those considering setting up a granny flat arrangement to seek relevant legal and financial advice beforehand.

More information: *Human Services website www.humanservices.gov.au “Granny flat right or interest”*

PUTTING AGED CARE COSTS INTO PERSPECTIVE – A STORY

A growing number of Australians are encountering the challenges of assisting elderly relatives with the move into aged care. One of them was a new client of ours, let's call him Rob. Recently, he had to help his formerly active 78-year-old mother, Mary, with the painful decision to move into care when she was struggling to fully recover from a broken hip. It meant leaving the family home she had lived in for decades, separation from most of her possessions, and moving into an unfamiliar environment surrounded by strangers. It was a time of great emotional stress for both of them, and adding to that stress was the discovery that Mary's care would cost many thousands of dollars each year.

SHARING THE COSTS

Australian aged care policy is based on the view that those who are financially able should contribute to the cost of their care. While people with little money will have their accommodation costs paid by the Australian government from their pension, a means test sees wealthier individuals paying for part or all of their aged care.

In Mary's case, once the proceeds from the sale of the family home were added to her savings she had total assets of $1.2 million. This left her facing the following fees:

- A basic daily fee of $54.69[1]. Everyone entering aged care can be asked to pay this fee. The maximum basic daily fee is 85% of the single person rate of the basic Age Pension.
- Accommodation fees. These are set by the aged care facility and can be paid as a daily fee, by a refundable accommodation deposit (RAD), or a combination of the two. Mary opted to pay a RAD of $600,000. This sounds enormous, but the RAD is effectively an interest-free loan to the aged care facility. The interest the facility earns on this deposit covers the cost of accommodation, and following Mary's death the RAD, less any deductions initially agreed with the care provider, will be repaid to her estate.
- A means-tested care fee of $49.16 per day.[2]
- Charges for optional services such as physiotherapy, hairdresser and internet access are in addition to these fees.

Mary's base fee added up to $103.85 per day or $37,905.25 per year. That proved a bit of a shock for both Rob and Mary, but there was something they were forgetting which we

1 As at June 2022.

2 As calculated by the Residential Care Fee Estimator at http://www.myagedcare.gov.au/fee-estimator/residential-care/form using $600,000 of financial assets and $600,000 of other assets (the RAD) as at June 2022.

THOSE WHO ARE FINANCIALLY ABLE SHOULD CONTRIBUTE TO THE COST OF THEIR AGED CARE

LONGEVITY WILL MOST LIKELY BE THE BIGGEST DETERMINANT OF AGED CARE COSTS

were able to highlight.

THE COST OF INDEPENDENT LIVING

When presented with an annual aged care amount in one hit, it's easy to overlook the costs of independent living. In her own home, Mary's living expenses were spaced out over weeks and months, and she really wasn't aware of what they added up to.

In care, the fees cover most living costs. There would be no more council rates, insurance premiums, energy bills, food and related expenses to pay. Mary will still need to pay for personal items such as clothing, gifts and private health insurance, but the cost of her accommodation and care was not much more than what she was spending living at home.

A GRIM REALITY

Naturally, mother and son are concerned about how long Mary's remaining liquid funds will last, but the grim reality is that people who require high level aged care are frail. Only 20% of residents will survive more than five years, and one quarter will pass away within six months.

However, this may not be the case for Mary with both of her parents having lived to their early 90s. In other words, longevity will most likely be the biggest determinant of Mary's total aged care costs.

This was a difficult conversation to have with Mary and Rob, but after a few weeks Mary was happy making friends at her new residence and Rob could relax knowing that his Mum was in good hands.

More information: *My Aged Care website www.myagedcare.gov.au "Income and assets assessment for aged care home costs"; "Residential Care Fee Estimator"*

ESTIMATING THE COST OF AGED CARE SERVICES

The Australian Government has a services fee estimator on its My Aged Care website.

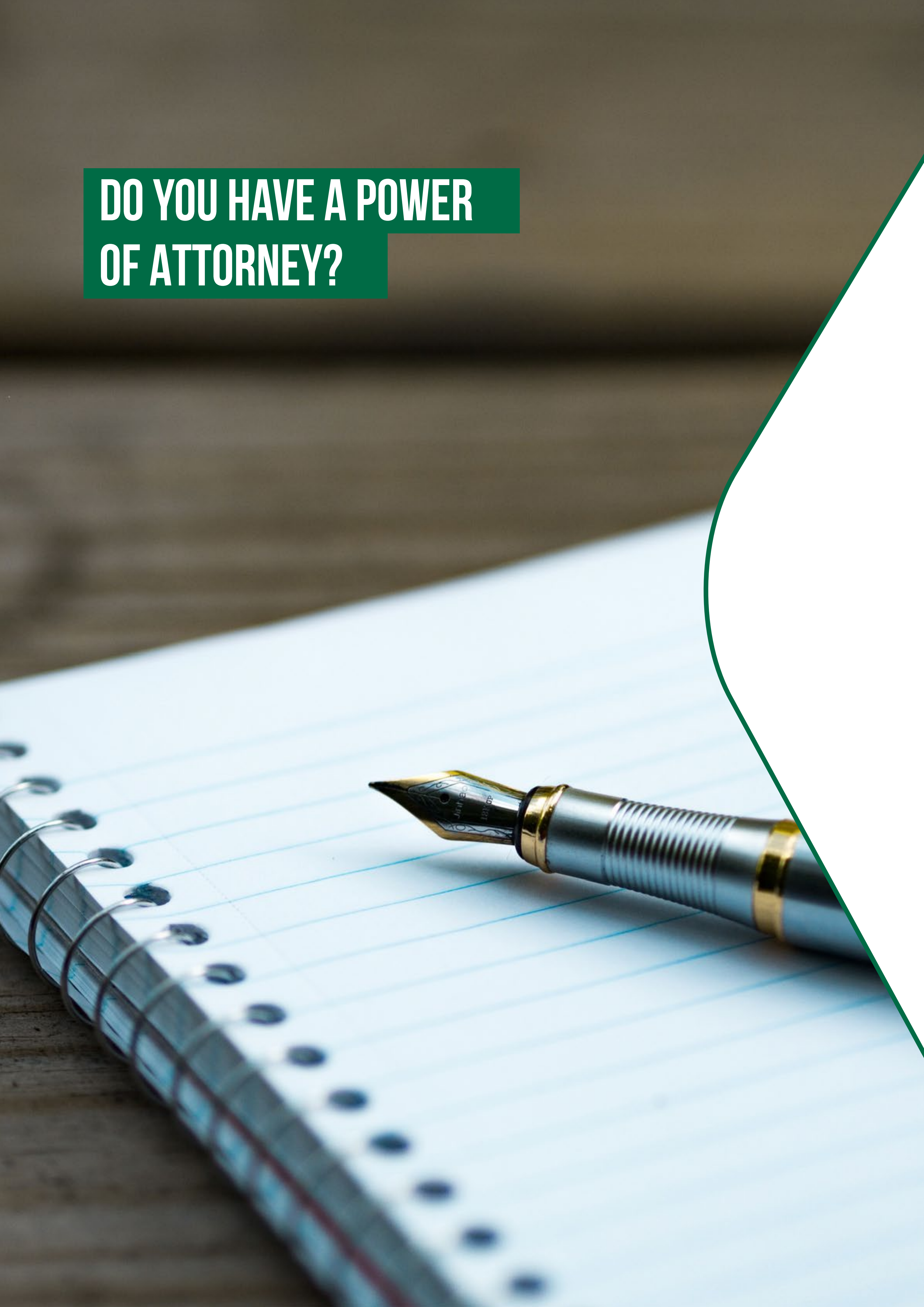
This tool will help to estimate the levels of fees and payments for Home Care and Residential Care for yourself or a family member.

It covers basic daily fees and income-tested fees for Home Care; and basic daily fees, means-tested fees and accommodation payments for Residential Care.

You can find it at www.myagedcare.gov.au/estimate-fees-for-aged-care-services or visit www.myagedcare.gov.au and search for “fee estimator”.

HAVE YOU VISITED THE 'MY AGED CARE' WEBSITE?

DO YOU HAVE A POWER OF ATTORNEY?



DON'T FORGET THESE IMPORTANT DOCUMENTS

What would happen if you were physically unable to sign important documents or became mentally incapable of making key decisions? This is when a Power of Attorney becomes a vital tool in managing your life - when you are unable to.

Put simply, a Power of Attorney is a legal document that allows another person to act on your behalf. There are three different types of Power of Attorney (POA) arrangements - a General POA, an Enduring POA and Medical POA. The differences are important to note for the purposes of managing your estate.

TYPES AND USES

Under a General Power of Attorney you appoint someone to act for a specific period of time or for a specific purpose. About the only things your attorney can't do is to make a will or enter into a contract of marriage on your behalf! A General POA ceases to be effective if you lose your mental capacity.

An Enduring Power of Attorney acts in the same way as a General POA but it has the advantage that if you lose the capacity to make decisions for yourself your attorney will be able to do so. Enduring Powers of Attorney can cover your financial affairs, or, with an Enduring Power of Guardianship, your nominee can also make decisions regarding lifestyle issues, such as where you live.

A Medical Power of Attorney may also be executed (depending on the state in which you live, this document can have a different name). This directive can help to ensure that your wishes in relation to medical treatment will be considered if you are unable to express those instructions yourself.

APPOINTING OR REVOKING AN ATTORNEY

Although the person you appoint as your attorney has a legal obligation to act in your best interests, it is obviously important that you trust your nominee and are confident that he or she understands and will respect your wishes. In many cases you can appoint joint attorneys, and even stipulate that they must agree on any decision.

Most people appoint a spouse, partner, adult child or other trusted family member as their attorney. In some cases, professionals such as an accountant or lawyer may fill the role.

ESTABLISHING A POWER OF ATTORNEY

Enduring Powers of Attorney will often be prepared by a lawyer when wills are made, although relevant forms can also be obtained from legal stationers or downloaded from the websites of relevant state government authorities.

A Power of Attorney may be revoked simply by telling your nominee that they are no longer your attorney and the original and all copies of the POA form destroyed.

The rules for Powers of Attorney vary from state to state, so it is always beneficial to seek professional advice when drawing up this important legal document.

More information: *www.moneysmart.gov.au Powers of Attorney*

A POWER OF ATTORNEY BECOMES A VITAL TOOL

FUTURE GENERATIONS MAY NOT HAVE ACCESS TO THE SAME GOVERNMENT SUBSIDIES

PLANNING AND PREPARATION

As we've discussed, statistics forecast an increasingly aging population – a challenge for any government. Consequently, future generations may not have access to current levels of government subsidies.

According to the Australian Bureau of Statistics, a man now aged 65 could live to be 85 years old – a woman could see 87. In the year to June 2016, there were 484,600 Australians over the age of 85, an increase of 15,600 from the previous year!

While Australians have embraced the concept of self-funded retirement, we evidently need to start considering those decades beyond 65.

Could your superannuation support you for twenty-plus years, including funding the level of aged care you might need – or more importantly, the level you want? Could you afford the additional expenses if your partner remained in the family home while you moved into aged care facilities?

The best time to start thinking about this is now.

Living long enough to receive a letter from the Queen is one thing – affording it is another!

It's all in the planning…

HOW CAN WE HELP?

We can assist you to prepare a strategy that helps you afford the care you or your loved ones might need, from help around the home to more substantial care.

Contact us to make a free, no-obligation appointment and let’s begin with a chat.

Consortium Private Wealth Pty Ltd
AFSL Number: 495401
Address: 24A Darlot Street, Horsham VIC 3400 PO Box 42, Horsham VIC 3402
Phone: 03 5382 3460 Fax: 03 5381 1347
Email: info@consortiumpw.com.au
Web: www.consortiumpw.com.au

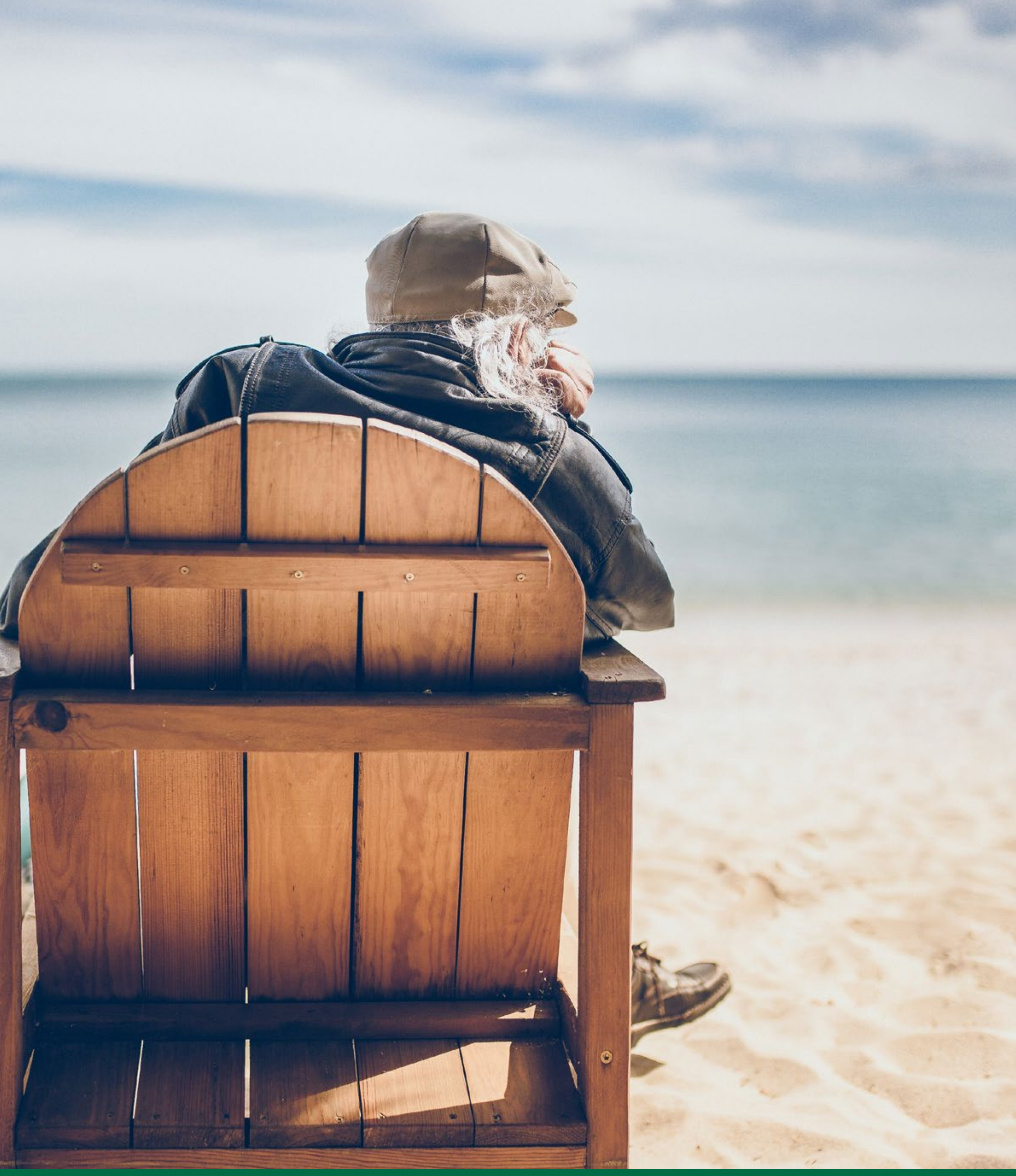
IMPORTANT

This publication consists of general and factual information only. Its contents cannot be substituted for professional financial advice.

Why? Because the information does not take into account your individual objectives, financial situation or needs. It is strongly recommended that you do not act on any information contained before seeking personalised advice from a licensed financial adviser.

We are suitably qualified to discuss everything covered in this publication and encourage you to contact us if you have further questions about this material.

MAKE A FREE, NO-OBLIGATION APPOINTMENT



Address: 24A Darlot Street Horsham Victoria Australia 3400
Toll Free: 1800 009 533
Telephone: 03 5382 3460
Fax: 03 5381 1347
E-mail: info@consortiumpw.com.au

WWW.CONSORTIUMPW.COM.AU