ACS Finance Forum

The new aged care maze
Accommodation payments

June 2014

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Important information

- The information contained in this presentation is intended to provide a brief outline of legislation from 1 July 2014 (as at 1 April 2014). Rates are those applying to 30 June 2014 or as estimated.
- It is based on our understanding of the present laws and Government announcements and the assumption that they will continue.
- These are general statements and should be relied upon as a guide only, as an individual’s circumstances can be quite different. You should seek advice about how the relevant laws impact on your particular circumstances.
- The rates of return and inflation used in the projections are estimates only and are intended to be only a guide to future performance. No guarantee of investment performance is given or implied through the use of these projections and actual returns will differ from those indicated. Past performance should not be taken as a guide to future performance.
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Spotlight on changes

- New language
- One level of residential care
- Increased resident contributions – means-testing
- More home care
- Entry payment – fully refundable lump sum or daily conversion
- Fee caps

Residents in care before 1 July 2014 stay under old rules, unless move facilities and agree to apply new rules or leave care for 28 days.
Accommodation payments

Advertise $

$ based on value

RADs / DAPs & MPIR

Payment options

100% refundable

Government guaranteed

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Setting accommodation payment

Over $550,000 (DAP $99.90\(^\ast\) per day) – facility decides amount but needs approval from pricing commission before publishing

$550,000 or under – facility determines amount and publishes with description of rooms

\[
\text{DAP} = \text{RAD} \times \text{MPIR} / 365
\]

\[
\text{RAD} = \text{DAP} \times 365 / \text{MPIR}
\]

\(^\ast\) Based on current interest rate of 6.63\% pa

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Accommodation payment options

- DAP (daily fee)
- RAD (lump sum)
- Combination

28 days to decide after move in

- If RAD unpaid consider it an “interest-only” loan to facility and DAP is the interest payable
- Pay DAP until RAD is paid
- If choose to pay RAD have 6+ months to pay
- DAP can be deducted from RAD to help cashflow (but leads to increasing DAP)
- If low-means pay DAC / RAC

IF RAD / RAC PAID

Must be left with $45,000 assets so if low assets (if disclosed) may need to choose a combination
Steplist™ for residents
Accommodation payment

1. Check published fee
   • On website as RAD & equivalent DAP

2. Are they a "low-means" resident?
   • Yes, if MTA < max accommodation supplement ($52.49) – then MTA is DAC
   • If yes, will facility offer a place on this basis? (needs Centrelink/DVA assessment)

3. Agree amount and decide how to pay
   • Agree on accommodation payment with facility
   • Choose mix of RAD and/or DAP within 28 days of moving in
### Low-means residents

**Calculate means-tested amount**

**Facility receives subsidy from govt if fully or partially supported**

<table>
<thead>
<tr>
<th>If means-tested amount (MTA) is ...</th>
<th>Accommodation payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>= 0</td>
<td>No payment</td>
</tr>
<tr>
<td>(full low means)</td>
<td></td>
</tr>
<tr>
<td>&gt; 0 but &lt; max accommodation supplement ($52.49 per day)</td>
<td>Resident pays accommodation contribution DAC which is equal to their MTA but capped at $34.20 if facility non-refurbished otherwise $52.49 (partial low means)</td>
</tr>
<tr>
<td>≥ max accommodation supplement</td>
<td>Published and agreed accommodation payment (not low-means)</td>
</tr>
</tbody>
</table>
Low-means residents

- MTA > 0 but < $52.49
- Partial low means
- MTA = DAC

- MTA > $52.49
- Not low means
- Pay full accom payment

- Between $45,000 and $154,179 assets AND/OR > $24,731 pa income

Govt pays accom subsidies to facility for low-means residents – quotas may need to be met.
Means-tested amount (MTA)

Accommodation payment
- Amounts published on facility & govt websites
  - Lump sum (RAD) or daily fee equivalent (DAP) or mixed
  - Pays for accommodation

Standard resident contribution
- Everyone pays
  - $46.50 day (indexed)
  - Pays for living expenses and care

Means-tested care fee
- Based on income + assets
  - Annual and lifetime caps

Additional service fee
- Packaged (ESF) or optional (ASF)
  - Daily fee set by facility
  - Pays for ‘luxuries’
Means-tested amount (MTA)

- Measures resident’s capacity to pay for accommodation and care (and hence the level of government support)
- Based on income plus assets

Accommodation payments
- Determines resident’s eligibility for accommodation supplement / low means resident (needs assessment at entry to determine)
- Reassessed quarterly

Means-tested care fee
- Determines resident’s contribution towards care (reduces care subsidy)
- Reassessed quarterly
- Formula uses maximum accommodation supplement (MAS) regardless of which supplement applies to the service
Means-tested amount (MTA)

\[
\text{(Income amount + Asset amount)} / 364 = \text{Daily MTA}
\]

Determine assessable income then:

\[
(\text{Assessable income LESS threshold}) \times 50\%
\]

Determine assessable assets then:

\[
\begin{align*}
17.5\% \text{ of assets between } & \$45,000 \text{ & } \$154,179^* \\
+ & \\
1.0\% \text{ of assets between } & \$154,179 \text{ & } \$372,537^* \\
+ & \\
2.0\% \text{ of assets over } & \$372,537^*
\end{align*}
\]

* Estimated thresholds on 1 July 2014
# Means-tested amount (MTA)

<table>
<thead>
<tr>
<th>Income amount</th>
<th>(Centrelink / DVA assessable income + assessable pension payments – income-free area) x 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset amount</td>
<td>Centrelink / DVA assessable assets +</td>
</tr>
<tr>
<td></td>
<td>Home capped at $154,179* (unless protected person living there)</td>
</tr>
<tr>
<td></td>
<td>Amount paid towards RAD</td>
</tr>
</tbody>
</table>

* Estimated indexed amount as actual amount not yet published
## Low-means residents example

<table>
<thead>
<tr>
<th></th>
<th>John</th>
<th>Mary</th>
<th>Jenny</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessable assets</td>
<td>$20,000</td>
<td>$100,000</td>
<td>$130,000</td>
</tr>
<tr>
<td>Age pension</td>
<td>$21,913</td>
<td>$21,913</td>
<td>$21,913</td>
</tr>
<tr>
<td>Deemed income</td>
<td>$400</td>
<td>$2,801</td>
<td>$3,851</td>
</tr>
<tr>
<td>Assessable income*</td>
<td>$21,075</td>
<td>$23,476</td>
<td>$24,526</td>
</tr>
</tbody>
</table>
| Means-tested amount          | $0         | $9,625 / 364  
|                              |            | $26.44 per day | $14,875 / 364  
|                              |            | $40.87 per day |            |
| Accommodation contribution / DAC | no            | $26.44 per day | $34.20 or $40.87 per day** |
| RAC                          | no         | $145,560   | $188,280 or $225,000 |
| Max RAC payable***           | n/a        | $55,000    | $85,000    |

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* Pension LESS min pen supplement and clean energy supplement PLUS deemed income  
** Cannot be more than the accommodation supplement that applies to the facility  
*** Must be left with $45,000 in assets after RAC paid
Low-means .. what happens after?

- Low-means reassessed on quarterly basis – can increase but not decrease
- John is a low-means resident (fully supported) when moves in as wife Betty lives in home. What if Betty dies or moves in?

<table>
<thead>
<tr>
<th></th>
<th>Before</th>
<th>Betty dies</th>
<th>Betty moves in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age pension</td>
<td>$21,913</td>
<td>$21,913</td>
<td>$21,913</td>
</tr>
<tr>
<td>Deemed income*</td>
<td>$400</td>
<td>$800</td>
<td>$400</td>
</tr>
<tr>
<td>Assessable income</td>
<td>$21,075</td>
<td>$21,475</td>
<td>$21,075</td>
</tr>
<tr>
<td>Assessable assets*</td>
<td>$20,000</td>
<td>$194,179</td>
<td>$97,089</td>
</tr>
<tr>
<td>MTA</td>
<td>$0</td>
<td>$53.58**</td>
<td>$27.45</td>
</tr>
<tr>
<td>Accommodation contribution / DAC</td>
<td>Nil</td>
<td>$34.20 or $52.49</td>
<td>$27.45</td>
</tr>
</tbody>
</table>

Note: As a couple they had $40,000 cash and a home worth $580,000.
** Will also need to pay means-tested fee
Case study - Tom

Accommodation payment

Questions to consider for Tom:

1. Does he qualify as low-means resident?
2. If yes, MTA caps his accommodation payment
3. If no, negotiate accommodation payment (up to published maximum)

$500,000
Plans to keep & rent for $25k pa net

$180,000
(deemed income $5,601 pa)

► $300,000 RAD
► DAP of $54.49 per day
Example: Tom (accommodation payment)

Determining if low-means

- **Asset-tested amount:** (assets $334,179)  
  \[(154,179 - 45,000) \times 17.5\% = \$19,106.32\]  
  \[(334,179 - \$154,179) \times 1.0\% = \$1,800.00\]  
  **Total:** \$20,906.32

- **Income-tested amount:**  
  \[\$5,601 + (\$21,140.30 - \$1,237.60) = \$25,503.70\]  
  \[\(\$25,503.70 - \$24,731.20\) \times 50\% = \$386.25\]

- **Means-tested amount:**  
  \[\(\$20,906.32 + \$386.25\) / 364 = \$58.49 \text{ day}\]
Example: Tom (accommodation payment)

Determining if low-means

- What does a MTA of $58.49 mean for Tom?

- His MTA > max accommodation subsidy ($52.49)
  - Not a low-means resident
  - Needs to pay the quoted accommodation payment for facility of choice (unless lower is negotiated)
  - MTA does not limit choice (need to determine affordability)
  - Has 28 days after moving in to decide on RAD or DAP or combo
  - If pay part RAD can elect to have DAP deducted from RAD
  - The RAD component can’t be more than $635,000 (leaves him with $45,000 but only relevant if discloses assets) but can pay higher amount as DAP combination
  - Full value of home included when determining $45,000 unless protected person lives there

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## Accommodation payment options

<table>
<thead>
<tr>
<th></th>
<th>Keep home pay $100k RAD / deduct DAP</th>
<th>Rent home pay $100k RAD</th>
<th>Sell home pay full $300k RAD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age pension</strong></td>
<td>21,913</td>
<td>21,913</td>
<td>17,640</td>
</tr>
<tr>
<td><strong>Other income (3.5% + rent)</strong></td>
<td>2,800</td>
<td>27,800</td>
<td>13,300</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>24,713</td>
<td>49,713</td>
<td>30,940</td>
</tr>
<tr>
<td><strong>Assessable income (MTA)</strong></td>
<td>22,776</td>
<td>22,776</td>
<td>29,003</td>
</tr>
<tr>
<td><strong>Assessable assets (MTA)</strong></td>
<td>334,179</td>
<td>334,179</td>
<td>680,000</td>
</tr>
<tr>
<td><strong>Means-tested fee (day)</strong></td>
<td>4.94</td>
<td>4.94</td>
<td>28.76</td>
</tr>
<tr>
<td><strong>Basic daily fee (day)</strong></td>
<td>46.50</td>
<td>46.50</td>
<td>46.50</td>
</tr>
<tr>
<td><strong>DAP (on $200k unpaid)</strong></td>
<td>-</td>
<td>36.33</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total fees (year)</strong></td>
<td>18,776</td>
<td>32,036</td>
<td>27,470</td>
</tr>
<tr>
<td><strong>Surplus</strong></td>
<td>5,937</td>
<td>17,677</td>
<td>3,470</td>
</tr>
<tr>
<td><strong>Value of RAD year end</strong></td>
<td>86,740</td>
<td>100,000</td>
<td>300,000</td>
</tr>
</tbody>
</table>
Should residents get financial advice?

- Information on understanding aged care fees and charges
- Determine whether they can afford facility based on published prices.
- Income and asset assessment does not reduce cost of accommodation only amount that can be paid towards the RAD.
- Determine whether they can afford ongoing care fees based on accommodation choice as RAD assessed when determining means-tested care fees
- Clients likely to need help to decide mix of RAD/DAP
- Options for structuring assets to create cashflow and/or improve financial well-being
- Estate planning & intergenerational transfers
### 28 day rule
- Clients told to make a choice and may ask more questions
- Save staff time & avoid risk of errors

### DAP option
- Risk for cashflow mgt (particularly if high debt levels) and refunding estates
- Clients make more informed choices

### Published RAD/DAP
- Cannot charge higher bonds
- Advice on affordability so not just seeking lowest price
Further Support

Aged Care Steps can provide support to facilities in the following ways:

» Specialised training for your staff

» Assistance to set up an information service to help prospective residents and families (clients) to gain information and advice to navigate through the system

» Assistance in developing a preferred adviser panel to ensure residents receive quality of advice

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