

ADVISER USE ONLY

Aged care guide

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Welcome to the aged care guide

Starting the aged care conversation early can help clients and their family make an informed decision during a very emotional and stressful time.

There are a number of areas where you can help clients who are looking to receive Government subsidised aged care. You can help establish a sustainable cash flow, increase their Age Pension entitlement, reduce their ongoing care costs and help them prepare for any intergenerational transfer of assets.

If you're interested in providing advice in this growing area, then this guide can be a very useful tool. It is a reference guide of aged care rules and important considerations, and provides worked examples to illustrate the benefits of receiving advice.

Challenger Tech

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The Challenger Tech team provides specialist technical resources, support and training to financial advisers on retirement, including aged care.

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Residential aged care

There is a process to follow when providing residential aged care advice to ensure that your client is appropriately assessed and approved, finds an aged care provider and organises their finances to suit their circumstances.

Advising your clients about residential aged care

It is important to carefully consider each of the following steps. Some decisions may be irreversible, and when moving to the next step could have negative consequences. This is why it's important to become involved as early as possible.

Figure 1: Process to follow when advising on aged care

Step 1: Approval

Aged Care Assessment Team (ACAT) assessment. This team is known as Aged Care Assessment Service (ACAS) in Victoria.ⁱ

Before entering residential aged care, your client's health must be assessed to determine their eligibility for subsidised aged care. The assessment can be performed by any doctor, nurse or social worker who is a member of an ACAT.

Step 2: Find an aged care provider

Consider what is important to your client in an aged care provider.

To make sure your client finds an aged care provider that suits their needs, they may like to visit a few places. They can apply to as many providers as they like. The accommodation costs for all aged care providers are published on myagedcare.gov.au. This website also provides a description of the rooms and services available.

Step 3: Organise finances

Your client may be required to pay some or all of their accommodation costs and contribute to their ongoing care costs.

On entry, your client may be required to pay an accommodation contribution or accommodation payment. Some people will have their accommodation costs met in full or in part by the Australian Government, while others will need to pay the accommodation price agreed with the aged care provider. Services Australia or the Department of Veterans' Affairs (DVA) will advise which applies, which is determined by your client's level of assessable assets and income at entry.

There will also be a basic daily fee to pay and there may be a means-tested care fee which is determined by your client's level of assessable assets and income reassessed quarterly. Some providers offer a higher level of service or a higher standard of accommodation or food for an extra service or additional fee.

i. All references to ACAT in this document also includes ACAS.

Figure 2: Helping your clients with their residential aged care decisions

Your client's concern	What they need to do	How you can help
What upfront costs will they need to pay?	Understand if there is an accommodation payment and determine what assets they can use to meet the cost.	You can help your clients determine how to pay for their accommodation. This may involve a lump sum payment, periodic payments or a combination of both.
How much will they pay for ongoing care?	Determine which ongoing care costs apply to them. This could include the basic daily fee, a means-tested care fee and an extra service or additional fee.	There are strategies to reduce ongoing care costs. Keeping or selling their former home often forms part of the strategy, as does how they invest. A poorly executed plan can result in lower Age Pension entitlements and higher ongoing care costs.
Can they keep their home or is it better for them to sell it?	Understand the various options available to them regarding their former home.	You can help your clients understand what to consider if they are deciding to keep or sell their former home. If kept, you can discuss strategies to pay the agreed accommodation payment and explain how their home will be treated for Centrelink/DVA and aged care purposes. If sold, you can help identify the best way to invest the proceeds and get the balance right between generating an income, maximising Age Pension entitlements and reducing ongoing care costs.
How do they maximise their Centrelink/DVA benefits?	Determine how the Centrelink/DVA assets and income tests apply to them.	You can recommend investments to maximise Age Pension entitlements.
How can they afford to pay for ongoing care?	Determine if their capital can be invested to provide enough cash flow to meet ongoing care costs.	You can recommend investments to maximise their cash flow.
Will they have something to leave to their family?	Identify which assets they want to include in their estate and those they want to go directly to beneficiaries.	You can help your clients identify which assets can be left to their estate and ensure relevant beneficiary nominations are made.
How much tax will they need to pay?	Identify which tax offsets apply to them. They also need to be aware of any issues that may arise if they sell their former home or change their investments.	An overall review of your client's situation will identify the various tax offsets that may be available to them, including the low income and seniors and pensioners tax offsets. A tax adviser can also flag issues concerning land tax and capital gains tax that may affect your client.

Before entering residential aged care

ACAT assessment

For subsidised residential aged care, a person must be assessed and approved by a member of an ACAT. ACAT assessments are a free service provided by the Government to determine eligibility for Australian Government subsidised care services.

ACAT approvals remain valid indefinitely unless the approval was granted for a specific time period.

Means testing residents

Means-tested amount

A means-tested amount applies to residents who enter residential care from 1 July 2014. It uses the assessable assets and income of a resident to determine how much they pay for their accommodation (accommodation payments and contributions) and contribute towards the cost of their ongoing care (means-tested care fee).

$$\text{Means-tested amount} = (\text{income-tested amount} + \text{asset tested amount}) / 364$$

Income-tested amount

The income-tested amount is calculated as follows:

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

Assessable income includes Centrelink/DVA assessed income and the resident's income support payment (such as their Age Pension or Service Pension, but excluding the minimum Pension Supplement and Energy Supplement).

Where a person is a member of a couple, half of the combined assessable income of the couple plus their own income support payment is assessed.

Figure 3: The income-free areas as at 20 September 2022

Single	\$30,204 per annum
Couples (each)	\$29,632 per annum

Asset-tested amount

The asset-tested amount is calculated as a percentage of assessable assets at increasing thresholds. The asset thresholds as at 20 September 2022 are:

17.5% per annum of assets between \$55,000 and \$186,331

1% per annum of assets between \$186,331 and \$448,994

2% per annum of assets above \$448,994

Assessable assets include Centrelink/DVA assessed assets with the following included assets:

- the former home up to a cap of \$186,331 where it is not occupied by a protected person (see 'Aged care assessment of the former home' on page 5); and
- the refundable accommodation deposit (RAD)/ refundable accommodation contribution (RAC) balance (see 'What are the payment options?' on page 8).

Where a person is a member of a couple, half of the combined assessable assets of the couple are assessed. If the former home is assessed, the home cap is applied to 50% of the total net value of the home for each member of the couple.

On the date of entry to a facility, a resident's means-tested amount is compared to the maximum accommodation supplement to determine whether they are a 'low-means' or an 'accommodation payment' resident. The maximum accommodation supplement as at 20 September 2022 is \$63.14 per day.

Low-means resident

A low-means resident has a means-tested amount less than the maximum accommodation supplement at the time of entry.

A low-means resident will pay an accommodation contribution (see 'Accommodation costs' on page 7) and the cost of their accommodation will be partially subsidised by the Government, where they have a means-tested amount that is greater than zero but less than the maximum accommodation supplement.

A low-means resident will not pay an accommodation contribution and the cost of their accommodation will be fully subsidised by the Government, where they have a means-tested amount equal to zero.

A low-means resident will pay the basic daily fee and any extra service or additional service fees but no means-tested care fee where their means-tested amount remains less than the maximum accommodation supplement (see 'Ongoing residential aged care costs' on page 10).

Accommodation payment resident

An accommodation payment resident has a means-tested amount greater than or equal to the maximum accommodation supplement at the time of entry.

An accommodation payment resident will pay an accommodation payment (see 'Accommodation costs' on page 7) and the cost of their accommodation will not be subsidised by the Government. They will pay the basic daily fee, a means-tested care fee and any extra service or additional service fees (see 'Ongoing residential aged care costs' on page 10).

The assets and income assessment process

A person's assets and income will be assessed by Services Australia or the DVA when they complete a form appropriate to their situation.

If a person does not receive a means-tested income support payment from Centrelink or DVA, 'Residential Aged Care Calculation of your cost of care (SA457)' is the relevant form.

If a person receives a means-tested income support payment and owns their home, 'Residential Aged Care Property details for Centrelink and DVA customers (SA485)' is the relevant form.

For a person who receives a means-tested income support payment and is a non-homeowner, if Centrelink/DVA have been advised of their income and assets within the last two years and they have not changed since the last update, there is no requirement to complete any aged care means testing forms because Centrelink/DVA has all the required information to complete the assessment.

A dynamic digital version of the above forms 'Aged Care Calculation of your cost of care (SA486)' is available on myagedcare.gov.au which is required to be printed, signed and returned back to Centrelink/DVA.

It is not compulsory to have an assets and income assessment, however, a resident may pay higher accommodation and ongoing care costs if they don't have an assessment.

The assets and income assessment will determine:

- whether the resident is eligible for any Government subsidy towards the cost of their accommodation (see 'Accommodation costs' on page 7);
- the resident's means-tested care fee payable towards the cost of their ongoing care (see 'Means-tested care fee' on page 10).

If a person's means change before they enter an aged care facility, they may complete another assets and income assessment.

The former home

Keep or sell the former home

Many people about to enter residential aged care worry that they will be forced to sell the former home to fund the accommodation costs. This decision is often made by the family of the person entering aged care.

The following factors should be considered when deciding what to do with the former home:

- the amount of money required (if any) to bring the home up to rental standard;
- the commitment in time and funds for ongoing maintenance and repairs – family will most likely look after the home;
- possible capital gains tax consequences if the home is rented for more than six years;
- any land tax payable if the home is rented (determined by the state or territory); and
- income tax payable if the home is rented – there are various tax offsets that may be available, including the low income and seniors and pensioners tax offsets to reduce tax payable.

Aged care assessment of the former home

The former home will be exempt for the purposes of the asset-tested amount where it is occupied by a protected person.

A protected person includes a:

- spouse or dependent child (under 16 or a full-time student under 25);
- carer eligible for an income support payment who has been living in the home for the past two years; and
- close relative eligible for an income support payment who has been living in the home for the past five years.

TIP: An income support payment includes Carer Payment, however, does not include Carer Allowance.

Where the former home is not occupied by a protected person, the home will be assessed up to the home cap. The home cap is \$186,331 as at 20 September 2022.

Rental income from the former home will be assessed for the purposes of the income-tested amount.

For people who entered residential aged care before 1 January 2016, rental income will not be assessed where the indefinite exemption conditions are met (explained below).

Centrelink/DVA assessment of the former home

A person's former home is exempt for Centrelink/DVA purposes while they live in it. Where a person enters residential aged care and keeps the former home, they are considered a homeowner and the home is automatically exempt under the assets test for two years from the date they leave. After the two year period, the person is assessed as a non-homeowner and the value of the home is assessed as an asset.

For couples, the former home will be exempt for as long as one member of the couple continues to live in it. The former home will automatically be exempt under the assets test for two years from the date the last member of the couple leaves it.

Rental income from the former home will be assessed under the income test.

For people who entered residential aged care before 1 January 2017, rental income will not be assessed and the two-year assets test exemption will be extended to an indefinite exemption where the following conditions are met:

- the resident is accruing a liability to pay a daily accommodation payment (DAP) or daily accommodation contribution (DAC) (see 'What are the payment options?' on page 8); and
- the former home is rented out.

While the former home is exempt, the person or couple will be considered a homeowner under the assets test.

TRAP: If a resident entered aged care before 1 January 2017 and paid for their accommodation solely as a RAD/RAC (see 'What are the payment options' on page 8), any rental income from the former home will be assessed immediately under the income test and after two years the home will be assessed under the assets test.

Moving from a retirement village or a granny flat

There may be occasions where your client has moved to a retirement village or had a granny flat arrangement before moving to residential aged care.

Moving from a retirement village

Planning opportunities are more limited when a person moves from a retirement village to residential aged care, as they generally need to sell the unit. If a person has kept their home after moving to a retirement village, the exemption rules cannot apply to the home unless they live in the home right before moving to residential aged care. This means that the proceeds from the sale of the retirement village unit are counted as an asset when they are received and the resident will be considered a non-homeowner.

Moving from a granny flat

For Centrelink/DVA and aged care purposes, a granny flat right or interest is a formal or informal arrangement that provides a person with a life interest in accommodation, or a right to accommodation for life, upon the transfer of the legal title to their home. The granny flat rules enable a person to transfer assets without exceeding the gifting limits (currently \$10,000 per financial year and \$30,000 over a five-year period).

A key requirement of a granny flat arrangement is that the person with the life interest must not have any legal ownership over their home. This means that, if they eventually move to residential aged care, the value of the home generally is not included as an asset for aged care purposes.

An exception to this is if the person moves to residential aged care within five years of creating the interest, as Centrelink/DVA will apply the gifting rules if they believe the move could have been anticipated.

Managing the entry point to residential aged care

Your client will have a number of options to pay for their accommodation costs.

It is important to understand the different accommodation options, to find the solution which best suits the client's circumstances.

Accommodation costs

A person may have to pay an accommodation payment or contribution when they enter residential aged care. Accommodation payments and contributions are determined by a resident's assessable assets and income calculated by the means-tested amount (see 'Means-tested amount' on page 4).

Whether a resident pays an accommodation payment or a contribution will depend on whether their means-tested amount exceeds the maximum accommodation supplement at the time of entry.

The maximum accommodation supplement as at 20 September 2022 is \$63.14 per day.

Accommodation contribution

An accommodation contribution may be payable by a low-means resident who is eligible for a Government subsidy towards the cost of their accommodation.

A low-means resident has a means-tested amount less than the maximum accommodation supplement at the time of entry.

A resident's accommodation contribution will be the lesser of:

- their means-tested amount¹
- the accommodation supplement payable to the aged care provider.

The means-tested amount will be recalculated quarterly by Services Australia or the DVA and therefore, a resident's accommodation contribution may change over time depending on their means.

The maximum accommodation supplement of \$63.14¹ per day will apply to aged care facilities which were built or significantly refurbished on or after 20 April 2012. A lower accommodation supplement of \$41.17¹ per day will apply to non-refurbished facilities which meet building requirements.

Example

Peter enters residential aged care and has a means-tested amount of \$30 per day. As this is less than the maximum accommodation supplement, he is considered a low-means resident and will pay an accommodation contribution.

Peter's accommodation contribution will be the lesser of:

- \$30 per day
- \$41.17 per day if the facility is non-refurbished
- \$63.14 per day if the facility is refurbished.

If Peter's means-tested amount increases to \$50 per day, he will have to pay \$41.17 per day if the facility is non-refurbished or \$50 per day if the facility is refurbished. Peter's accommodation costs will always be capped by the accommodation supplement payable to the aged care provider even if his means-tested amount increases above the maximum accommodation supplement.

Accommodation payment

An accommodation payment will be payable by an accommodation payment resident or where a resident chooses not to disclose their assets and income. These residents will not be eligible for any Government subsidy towards the cost of their accommodation.

An accommodation payment resident has a means-tested amount greater than or equal to the maximum accommodation supplement at the time of entry.

A resident's accommodation payment will be determined by negotiation with the aged care provider and cannot exceed the amount published by the provider (see 'Published prices' on page 9).

¹ A different accommodation supplement amount can apply if the facility does not meet certain requirements. The applicable supplement can be obtained from the facility.

What are the payment options?

Residents have up to 28 days after entry to decide how to pay for their accommodation. They have the option of paying their accommodation payment or contribution as:

- a fully refundable lump sum referred to as a refundable accommodation deposit (RAD) or refundable accommodation contribution (RAC);
- periodic payments referred to as a daily accommodation payment (DAP) or daily accommodation contribution (DAC); or
- a combination of lump sum and periodic payment.

Any outstanding lump sum will be converted to the equivalent periodic payment using the maximum permissible interest rate (MPIR). The MPIR as at 1 October 2022 is 6.31% per annum. The interest rate for the resident is set at the date of entry and will not change unless they subsequently changes rooms.

Outstanding lump sum x MPIR/365 = periodic payment

Where a resident decides to pay for their accommodation as a RAD/RAC within 28 days after entry, they will have six months to make the payment. While the RAD/RAC remains unpaid, the resident must pay for their accommodation as a DAP/DAC.

Where the resident decides to pay for their accommodation as a combination of RAD/RAC and DAP/DAC, the DAP/DAC can be deducted from the RAD/RAC. In this case, the provider can increase the DAP/DAC to compensate for the reduction in the RAD/RAC balance.

Example

John enters residential aged care on 1 October 2022 with an accommodation payment of \$400,000. He decides to pay \$200,000 as a RAD and \$200,000 as a DAP deducted from the RAD every month. John's DAP will be \$34.58 per day ($\$200,000 \times 6.31\% / 365$) in the first month.

At the start of the second month, John's RAD balance has reduced by \$1,072 ($\34.58×31) to \$198,928. The amount he will now pay as a DAP is \$201,072 ($\$400,000 - \$198,928$). John's DAP will increase to \$34.76 per day ($\$201,072 \times 6.31\% / 365$) in the second month.

Facilities cannot accept a RAD/RAC within 28 days after entry, that will leave the resident with less than the minimum permissible asset amount. The minimum permissible asset amount as at 20 September 2022 is \$55,000.

Facilities must refund the RAD/RAC balance:

- if the resident dies, within 14 days after the facility is shown the grant of probate or letters of administration;
- if the resident leaves the facility, within 14 days after they leave; or
- if the resident moves to another aged care facility:
 - on the day the resident leaves the facility where they have provided more than 14 days' notice
 - within 14 days of providing notice where the resident leaves the facility within this period
 - within 14 days after the resident leaves the facility where no notice is provided.

Facilities are required to pay interest on the RAD/RAC balance at the base interest rate from the date the resident leaves the facility to the date RAD/RAC is refunded. The base interest rate as at 20 September 2022 is 2.25%. If the facility is late in refunding the RAD/RAC, it is required to pay interest on the RAD/RAC balance at the MPIR after the last day of the refund period.

The RAD/RAC balance will not be assessed for Centrelink/DVA purposes under the assets test and not deemed under the income test. However, the RAD/RAC balance will be assessed as an asset for aged care purposes, but not deemed, to determine the means-tested care fee (see 'Means-tested care fee' on page 10).

TRAP: If a family member pays a RAD/RAC on behalf of a resident, this will increase assets assessed for aged care purposes and therefore may increase a resident's means-tested care fee (see 'Means-tested care fee' on page 10).

The Government guarantees the repayment of the RAD/RAC if the aged care facility becomes bankrupt or insolvent.

Published prices

Facilities are required to publish maximum accommodation prices for available rooms showing the RAD and the equivalent DAP and at least one example of a combination of RAD and DAP.

Published prices must be available on the Government's website myagedcare.gov.au, the provider's own website and in any written documents provided to prospective residents.

Facilities cannot charge an accommodation payment that exceeds the published price.

Where a provider wishes to charge a RAD or equivalent DAP greater than \$550,000, the provider will need to apply and obtain approval from the Aged Care Pricing Commissioner.

Accommodation agreements

If a resident has to pay an accommodation payment or contribution, they will need to make an accommodation agreement with the aged care provider. This can be included as part of the resident agreement, or it may be separate.

The accommodation agreement should include:

- the agreed accommodation price;
- details on the three payment options available to the resident (see 'What are the payment options?' on page 8);
- other conditions of the accommodation payment or contribution;
- the refund amount if the resident leaves or dies
- any extra service fees;
- the specific accommodation provided;
- any services that the accommodation payment entitles the resident to receive;
- conditions relating to changing rooms.

The resident must enter into an accommodation agreement within 28 days after entry and can choose to agree without signing the agreement.

Ongoing residential aged care costs

As well as considering accommodation costs, your client will need to know their ongoing care costs and how they will be met.

Basic daily fee

The basic daily fee is payable by all residents for the cost of daily living such as meals, power and laundry.

The basic daily fee is indexed on 20 March and 20 September each year in line with the indexation increases to the Age Pension. The basic daily fee as at 20 September 2022 is \$56.87 per day (85% of the basic single Age Pension rate).

Means-tested care fee

Residents may be asked to pay a means-tested care fee as a contribution towards the cost of their ongoing care. The means-tested care fee is determined by a resident's assessable assets and income calculated by the means-tested amount (see 'Means-tested amount' on page 4).

A means-tested care fee is generally payable where a resident's means-tested amount is greater than the maximum accommodation supplement or where a resident chooses not to disclose their assets and income.

A resident's means-tested care fee is calculated by deducting the maximum accommodation supplement from their means-tested amount. The maximum accommodation supplement as at 20 September 2022 is \$63.14 per day.

The means-tested care fee will be recalculated quarterly by Services Australia or the DVA and may change over time depending on the resident's means.

**Means-tested care fee = means-tested amount
– maximum accommodation supplement**

A resident's means-tested care fee cannot exceed their cost of care, which is the sum of the basic subsidy amount and all primary supplements paid by the Government for the resident. Where a resident chooses not to disclose their assets and income, their means-tested care fee will equal their cost of care. A resident's cost of care will be determined by Services Australia when the aged care provider submits a claim for payment.

The means-tested care fee has an annual indexed cap. When a resident reaches the annual cap, they will stop paying the means-tested care fee until the next anniversary date. The annual cap as at 20 September 2022 is \$30,574.

In addition to the annual cap, the means-tested care fee has a lifetime indexed cap. When a resident reaches the lifetime cap, they will no longer pay the means-tested care fee. The lifetime cap as at 20 September 2022 is \$73,378.

Where a resident was previously paying an income-tested fee for home care, the amount paid will also count towards the annual and lifetime caps.

TIP: The lifetime cap is indexed and therefore a resident will continue to pay the means-tested care fee until they reach the cap at that time.

Extra service or additional fees

Residents will pay extra service or additional service fees where they choose a higher standard of accommodation or additional services. Facilities may offer rooms with dedicated extra services or rooms where additional services can be purchased separately.

A resident's extra service or additional service fees will be determined by the aged care provider. Providers are required to publish extra service fees for available rooms with dedicated extra services.

Case studies

Decisions regarding the former home, paying for accommodation and where funds are invested can impact a resident's Age Pension entitlements and ongoing care costs.

Keep versus sell the former home

For Centrelink/DVA purposes, where the former home is kept, it will be automatically exempt under the assets test for two years. After the two year period, the person is assessed as a non-homeowner and the value of the home is assessed as an asset.

For the purpose of the means-tested care fee, the value of the former home will be capped at \$186,331 (if it is not occupied by a protected person) when calculating the asset-tested amount.

Where the former home is sold, the entire proceeds will be assessed for Centrelink/DVA and the means-tested care fee. For many residents, if the home is retained, their Centrelink/DVA benefits can be higher during the period the home is exempt from the assets test and their means-tested care fee can be lower.

Structuring accommodation payments

The RAD/RAC balance is exempt for Centrelink/DVA purposes under the assets and income test. Paying a higher RAD may increase Centrelink/DVA benefits, however, residents cannot pay a RAD which exceeds the published price.

For the purpose of the means-tested care fee, the RAD/RAC balance is assessed when calculating the asset-tested amount.

More consideration may be given to keeping the former home with the value of the home capped at \$186,331 (if it is not occupied by a protected person) compared to selling the home to pay a RAD/RAC where the entire balance is assessed for the purposes of the means-tested care fee.

Case study: Keep versus sell the former home

Evelyn is 85, single, a homeowner and was approved for residential aged care on 1 October 2022. Her home is worth \$1,000,000 and when she moves out, she expects to receive net rent of \$600 per week. Evelyn has \$100,000 in a bank account which she has been investing in term deposits earning interest of 3% per annum. Evelyn has other expenses of \$100 per week.

The aged care provider has an advertised accommodation price of \$450,000 as a RAD or \$77.79 per day as a DAP ($\$450,000 \times 6.31\%/365$).

Evelyn will be considered an accommodation payment resident and will pay the published accommodation payment and a means-tested care fee.

If Evelyn rents out her home and pays the \$450,000 advertised accommodation price as a DAP, and invests \$100,000 in term deposits, what will her cash flow position and estate value be?

Figure 4: Evelyn's outcome with \$450,000 DAP

Cash flow

Age Pension	\$12,998
Investment income ⁱ	\$3,000
Rental income	\$31,200
Expenses	(\$5,200)
Total	\$41,998

Care fees

Basic daily fee	\$20,758
Means-tested care fee	\$7,866
DAP	\$28,395
Total	\$57,019
Estimated tax payable	\$5,243
Net cash flowⁱⁱ	(\$20,264)
Estate valueⁱⁱⁱ	1,109,737

Results based on Challenger Aged Care Calculator as at 18 October 2022.
Assumptions:

- i. Term deposit earning 3% p.a.
- ii. After tax and Medicare Levy.
- iii. Estate value includes capital growth of 3% on the home.

If Evelyn rents out her home and pays \$450,000 as a DAP, she will have a cash flow deficit of \$20,264 in the first year and her estate will be worth \$1,109,737 at the end of the first year.

If Evelyn sells her home, pays the \$450,000 accommodation payment as a RAD and invests \$650,000 in term deposits, what will her cash flow position and estate value be?

Figure 5: Evelyn's outcome with \$450,000 RAD and \$650,000 term deposit

Cash flow	Keep home	Sell home
Age Pension	\$12,998	\$15,340
Investment income ⁱ	\$3,000	\$19,500
Rental income	\$31,200	N/A
Expenses	(\$5,200)	(\$5,200)
Total	\$41,998	\$29,640
Care fees		
Basic daily fee	\$20,758	\$20,758
Means-tested care fee	\$7,866	\$15,688
DAP	\$28,395	N/A
Total	\$57,019	\$36,446
Estimated tax payable	\$5,243	\$31
Net cash flowⁱⁱ	(\$20,264)	(\$6,837)
Estate valueⁱⁱⁱ	\$1,109,737	\$1,093,164

Results based on Challenger Aged Care calculator as at 18 October 2022..

Assumptions:

i. Term deposit earning 3% p.a.

ii. After tax and Medicare Levy.

iii. Estate value includes capital growth of 3% on the home.

If Evelyn sells her home and pays \$450,000 as a RAD, her Age Pension entitlement will increase to \$15,340 per annum as a result of the decrease in assessable income. Her means-tested care fee will increase to \$15,688 per annum as a result of the increase in assessable assets.

Evelyn will also have a cash flow deficit of \$6,837 in the first year and her estate will be worth \$1,093,164 at the end of the first year.

Investment strategies

The means-tested care fee is determined by Centrelink/DVA assessed assets and income, the former home and the RAD/RAC balance. Investment strategies that reduce Centrelink/DVA assessed assets and income play an important role to increase Centrelink/DVA benefits and reduce the means-tested care fee.

Financial investments

Financial investments include cash, shares, managed funds, deprived assets and short-term income streams (term of five years or less and not greater than life expectancy).

The market value of financial investments is assessed for Centrelink/DVA purposes under the assets test and is deemed under the income test.

The deeming rates as at 20 September 2022 are as follows:

Single	Couple (combined)	Deeming rate
Up to \$56,400	Up to \$93,600	0.25%
Above \$56,400	Above \$93,600	2.25%

Investment bond within a private trust

An investment bond owned by a person is assessed as a financial investment for Centrelink/DVA purposes.

Where an investment bond is owned by a private trust, only the taxable income of the trust is assessed for Centrelink/DVA purposes under the income test. If there are no withdrawals from the investment bond, there will be no taxable income and therefore no income assessed under the income test.

Whether the investment bond is owned by a person or a private trust, the balance of the investment bond is assessed for Centrelink/DVA purposes under the assets test.

Challenger CarePlus

Challenger CarePlus (CarePlus) is designed for people receiving or planning to receive Government subsidised aged care services.

CarePlus is comprised of two components:

- **CarePlus Annuity**
- **CarePlus Insurance**

The Centrelink/DVA assessment of CarePlus under the assets and income tests is the sum of the asset and income assessments for both CarePlus Annuity and CarePlus Insurance.

CarePlus Annuity

Assets test assessment: 60% of CarePlus Annuity purchase price until age 84 (with a minimum of 5 years), then 30% of the purchase price thereafter.

Income test assessment: 60% of the annual payment

CarePlus Insurance

Assets test assessment: Greater of the surrender/termination value and premium paid².

Income test assessment: Nil

Please refer to the CarePlus Technical Guide for more information on the Centrelink/DVA as well as tax treatment of CarePlus.

Case study: Investment strategies

Evelyn is 85, single and was approved for residential aged care on 1 October 2022. She sold her home and has \$1,100,000 in a bank account which she has been investing in term deposits earning interest of 3% per annum. Evelyn has other expenses of \$100 per week.

The aged care provider has an advertised accommodation price of \$450,000 as a RAD or \$77.79 per day as a DAP ($\$450,000 \times 6.31\%/365$).

Evelyn will be considered an accommodation payment resident and will pay the published accommodation payment and a means-tested care fee.

If Evelyn pays the \$450,000 accommodation payment as a RAD and invests \$650,000 in term deposits, what will her cash flow position and estate value be?

Figure 6: Evelyn's outcome with \$650,000 term deposit

Cash flow

Age Pension	\$15,340
Investment income ⁱ	\$19,500
Expenses	(\$5,200)
Total	\$29,640
Care fees	
Basic daily fee	\$20,758
Means-tested care fee	\$15,688
Total	\$36,446
Estimated tax payable	\$31
Net cash flowⁱⁱ	(\$6,837)
Estate value	\$1,093,164

Based on Challenger Aged Care Calculator as at 18 October 2022.

Assumptions:

i. Term deposit earning 3% p.a.

ii. After tax and Medicare Levy.

2 Where the person is under Age Pension age when they invest in Challenger CarePlus, the surrender/termination value is assessed.

If Evelyn invests entirely in term deposits, she will have a cash flow deficit of \$6,837 in the first year and her estate will be worth \$1,093,164 at the end of the first year.

If Evelyn invests \$550,000 in CarePlus and \$100,000 in term deposits, what will her cash flow position and estate value be?

Figure 7: Evelyn's outcome with \$550,000 CarePlus and \$100,000 term deposit

Cash flow	Term deposit	CarePlus and term deposit
Age Pension	\$15,340	\$20,488
CarePlus payment ⁱ	N/A	\$25,774
Investment income ⁱⁱ	\$19,500	\$3,000
Expenses	(\$5,200)	(\$5,200)
Total	\$29,640	\$44,062
Care fees		
Basic daily fee	\$20,758	\$20,758
Means-tested care fee	\$15,688	\$17,097
Total	\$36,446	\$37,855
Estimated tax payable	\$31	\$0
Net cash flowⁱⁱⁱ	(\$6,837)	\$6,207
Estate value	\$1,093,164	\$1,106,208

Results based on Challenger Aged Care Calculator as at 18 October 2022.

i. Based on a female (date of birth 01/07/1937), residing in NSW and no adviser fees.

ii. Term deposit earning 3% p.a.

iii. After tax and Medicare Levy.

By investing \$550,000 in CarePlus, Evelyn's Age Pension entitlement will increase to \$20,488 per annum as a result of the decrease in assessable assets from the concessional asset assessment of CarePlus. Her means-tested care fee will increase to \$17,097 per annum also as result of the increase in assessable income from a higher Age Pension entitlement and higher cash flow provided by CarePlus.

Evelyn will also have a cash flow surplus of \$6,207 in the first year and will be \$13,044 better off.

Evelyn's estate will be worth \$1,106,208 at the end of the first year, and compared to investing entirely in term deposits she will be better off by \$13,044. Evelyn could also nominate beneficiary(ies) to receive the death benefit directly from CarePlus.

Other things to consider

There are other important things to consider when it comes to aged care.

DVA pensions

The rules regarding residential aged care and DVA payments are complex, as the various payments available are treated differently.

Figure 8: A summary of the income-tested amount treatment of DVA pensions

DVA payment	Assessment for the income-tested amount
Service Pension	Assessed as income (minus minimum Pension Supplement and Energy Supplement).
War Widow(er) Pension	Assessed as income (minus 4% Goods and Services Tax (GST) component and Energy Supplement) unless the widow has qualifying service.
Income Support Supplement	Assessed as income (minus minimum Pension Supplement).
Disability Pension	Assessed as income (minus 4% GST component and Energy Supplement) unless the recipient has qualifying service.

For people who receive only a Service Pension, the rules work the same way as outlined previously in regard to the Age Pension. For those receiving a War Widow(er)'s Pension or a Disability Pension, they are not means-tested and will continue to be payable regardless of whether the resident keeps or sells the former home or how funds are invested.

The Income Support Supplement is payable to those receiving a War Widow(er)'s Pension and is subject to a means test. The thresholds can be found on the DVA website dva.gov.au.

Illness separated rate

A couple separated by illness will be eligible for a higher rate of Age Pension. A couple is 'separated by illness' when one or both members of the couple enter residential aged care.

Couples in this situation will be assessed jointly for Centrelink/DVA purposes under the assets and income tests, but each member of the couple is eligible for the single Age Pension rate. The maximum combined rate for an illness separated couple as at 20 September 2022 is \$53,378 per annum.

The cut-out thresholds under the assets test increases to \$1,103,500 for homeowners and \$1,328,000 for non-homeowners. The cut-out threshold under the income test increases to \$115,492 per annum.

Estate planning

It is important to ensure that appropriate legal documents such as enduring powers of attorney and enduring powers of guardianship are in place for situations where residents lose mental capacity. Wills should be reviewed to ensure that ownership of assets are passed on to the intended beneficiaries.

Home care

As with residential aged care, there is a process to follow when providing home care advice to ensure that your client is appropriately assessed and approved, finds a home care provider and organises their finances to suit their circumstances.

Advising your clients about home care

There are typically three steps to access home care.

Figure 9: Home care advice process

Step 1: Approval

ACAT assessment.

Before they receive home care, your client's health must be assessed to determine their eligibility for a Home Care Package. The assessment can be performed by any doctor, nurse or social worker who is a member of an ACAT.

Step 2: Find a home care provider

Identify the services your client needs and how often they require them.

If your client is eligible for a home care package, they will be placed in the national queue and will be contacted when their package becomes available. While waiting in the queue they should start researching home care providers. A list of providers can be found on myagedcare.gov.au. When your client reaches the top of the queue, they will receive a letter with details of their home care package. They will have 56 days to take up their package and enter into a home care agreement with their chosen provider.

Step 3: Organise finances

Your client may be required to contribute to their ongoing care costs.

Upon entering into a home care agreement, your client may be charged a basic daily fee by the home care provider. There may also be an income-tested care fee which is determined by your client's level of assessable income reassessed quarterly. Services Australia or the DVA advise the income-tested care fee.

Figure 10: You can help your clients with their home care decisions

Your client's concern	What they need to do	How you can help
How much will they pay for ongoing care?	Determine which ongoing care costs apply to them. This could include the basic daily fee and an income-tested care fee.	There are strategies to reduce ongoing care costs. A poorly executed plan can result in lower Age Pension entitlements and higher ongoing care costs.
How do they maximise their Centrelink/DVA benefits?	Determine how the Centrelink/DVA assets and income tests apply to them.	You can recommend investments to maximise Age Pension entitlements.
How can they afford to pay for ongoing care?	Determine if their capital can be invested to provide enough cash flow to meet ongoing care costs.	You can recommend investments to maximise their cash flow.
Will they have something to leave to their family?	Identify which assets they want to include in their estate and those they want to go directly to beneficiaries.	You can help your clients identify which assets can be left to their estate and ensure relevant beneficiary nominations are made.
How much tax will they need to pay?	Identify which tax offsets apply to them. They also need to be aware of any issues that may arise if they change their investments.	An overall review of your client's situation will identify the various tax offsets that may be available to them, including the low income and seniors and pensioners tax offsets.

Home Care Packages Program

The Home Care Packages Program provides four levels of home care packages.

Figure 11: Levels of home care packages

Package level	Support provided	Package value ⁱ
Level 1	Basic care needs	\$9,180
Level 2	Low level care needs	\$16,148
Level 3	Intermediate care needs	\$35,139
Level 4	High level care needs	\$53,268

i. As at 20 September 2022 and excludes home care supplements and the basic daily fee.

ACAT assessment

Before receiving a home care package, a person must be assessed and approved by a member of an ACAT. ACAT assessments are a free service provided by the Government to determine eligibility for Australian Government subsidised care services.

ACAT approvals remain valid indefinitely unless the approval was granted for a specific time period.

Ongoing home care costs

Your client will need to know their ongoing care costs and how they will be met.

Basic daily fee

People receiving home care may pay a basic daily fee determined by their package level.

The basic daily fee is indexed on 20 March and 20 September each year in line with the indexation increases to the Age Pension.

Figure 12: The maximum basic daily fees as at 20 September 2022

Package level	Basic daily fee
Level 1	\$10.49 per day
Level 2	\$11.09 per day
Level 3	\$11.40 per day
Level 4	\$11.71 per day

Income-tested care fee

People receiving home care may also be asked to pay an income-tested care fee as a contribution towards the cost of their ongoing care. The income-tested care fee is determined by a recipient's assessable income.

An income-tested care fee will be payable where a recipient's assessable income is greater than the income-free area.

The income-tested care fee is calculated in a similar way to the income-tested amount in residential aged care.

$$\text{Income-tested care fee} = (\text{assessable income} - \text{income-free area}) \times 50\%$$

Assessable income includes Centrelink/DVA assessed income and the recipient's income support payment (such as their Age Pension or Service Pension, but excluding the minimum Pension Supplement and Energy Supplement) as is the case for the income-tested amount in residential aged care.

Where a person is a member of a couple, half of the combined assessable income of the couple plus their own income support payment is assessed.

Figure 13: The income-free areas as at 20 September 2022

Single	\$30,204 per annum
Couples ³ (each)	\$23,413 per annum

The income-tested care fee will be recalculated quarterly by Services Australia or the DVA and may change depending on the recipient's income.

A recipient's income-tested care fee cannot exceed their cost of care, which is the sum of the basic subsidy amount and all primary supplements paid by the Government for the recipient.

The income-tested care fee has separate annual indexed caps depending on whether the recipient's assessable income is greater than the income threshold.

Figure 14: Income thresholds as at 20 September 2022

Single	\$58,318 per annum
Couples ⁴ (each)	\$44,606 per annum

The annual caps as at 20 September 2022 are \$6,115 for a recipient who has not exceeded the income threshold and \$12,230 for a recipient who has.

Unlike residential aged care, the annual caps are pro-rated to daily amounts. The equivalent daily amounts are \$16.79 and \$33.59 respectively.

Figure 15: Income-tested care fees for singles

Assessable income (single)	Income-tested care fee
Less than \$30,204	Nil
Between \$30,204 and \$58,318	Lesser of: <ul style="list-style-type: none">• (Assessable income – \$30,204) x 50%• Basic subsidy amount + primary supplements• \$6,115 (annual cap)
Above \$58,318	Lesser of: <ul style="list-style-type: none">• (Assessable income – \$58,318) x 50% + \$6,115• Basic subsidy amount + primary supplements• \$12,230 (annual cap)

³ For couples who are illness separated the income free area is \$29,632 (each).

⁴ For couples who are illness separated the income threshold is \$57,746 (each).

Figure 16: Income-tested care fees for couples

Assessable income (couple each)	Income-tested care fee
Less than \$23,413	Nil
Between \$23,413 and \$44,606	Lesser of: <ul style="list-style-type: none">• (Assessable income – \$23,413) x 50%• Basic subsidy amount + primary supplements• \$6,115 (annual cap)
Above \$44,606	Lesser of: <ul style="list-style-type: none">• (Assessable income – \$44,606) x 50% + \$6,115• Basic subsidy amount + primary supplements• \$12,230 (annual cap)

In addition to the annual cap, the income-tested care fee has a lifetime indexed cap. When a recipient reaches the lifetime cap, they will no longer pay the income-tested care fee. The lifetime cap as at 20 September 2022 is \$73,378.

Where a recipient moves from home care to residential aged care, income tested care fees paid for home care will be added to means tested care fees paid in residential aged care and count towards the annual and lifetime caps.

TIP: The lifetime cap is indexed and therefore a recipient will continue to pay the income-tested care fee until they reach the cap at that time.

The income assessment process

A person's income will be assessed by Services Australia or the DVA where they complete the 'Home care package calculation of your cost of care' form (SA456).

It is not compulsory to have an income assessment however, a recipient may pay higher ongoing care costs if they don't have an assessment.

For a person who receives a means-tested income support payment, if Centrelink/DVA have been advised of income and assets within the last two years and they have not changed since the last update, there is no requirement to complete any home care means testing forms because Centrelink/DVA has all the required information to complete the assessment.

Case study

Decisions regarding where funds are invested can impact a recipient's Age Pension entitlements and ongoing care costs.

Investment strategies

The income-tested care fee is determined by Centrelink/DVA assessed income. Investment strategies that reduce Centrelink/DVA assessed income play an important role to increase Centrelink/DVA benefits and reduce the income-tested care fee.

Case study: Investment strategies

George is 80, single, a homeowner and was approved for home care level 2 on 1 October 2022. His home is worth \$600,000. George has \$350,000 in a bank account which he has been investing in term deposits earning interest of 3% per annum and \$5,000 in personal effects. George has other expenses of \$600 per week.

If George continues to invest in term deposits, what will his cash flow and estate value be?

Figure 17: George's outcome with \$350,000 term deposit

Cash flow

Age Pension	\$20,839
Investment income ⁱ	\$10,500
Expenses	(\$31,200)
Total	\$139

Care fees

Basic daily fee	\$4,048
Income-tested care fee	\$0
Total	\$4,048
Net cash flow	(\$3,909)
Estate valueⁱⁱ	\$969,191

Based on Challenger Aged Care Calculator as at 18 October 2022.

i. Term deposit earning 3% p.a.

ii. Estate value includes capital growth of 3% on the home.

If George invests entirely in term deposits, he will have a cash flow deficit of \$3,909 in the first year and his estate will be worth \$969,191 at the end of the first year.

If George invests \$200,000 in CarePlus and \$150,000 in term deposits, what will his cash flow position and estate value be?

Figure 18: George's outcome with \$200,000 CarePlus and \$150,000 term deposit

Cash flow	Term deposit	CarePlus and term deposit
Age Pension	\$20,839	\$22,887
CarePlus payment ⁱ	N/A	\$9,289
Investment income ⁱⁱ	\$10,500	\$4,500
Expenses	(\$31,200)	(\$31,200)
Total	\$139	\$5,476
Care fees		
Basic daily fee	\$4,048	\$4,048
Income-tested care fee	\$0	\$0
Total	\$4,048	\$4,048
Net cash flow	(\$3,909)	\$1,428
Estate valueⁱⁱⁱ	\$969,191	\$974,528

Based on Challenger Aged Care Calculator as at 18 October 2022.

i. Based on a male (date of birth 01/07/1942), residing in NSW and no adviser fees.

ii. Term deposit earning 3% p.a.

iii. Estate value includes capital growth of 3% on the home.

By investing \$200,000 in CarePlus, George's Age Pension entitlement will increase to \$22,887 per annum as a result of the decrease in assessable assets from the concessional asset assessment of CarePlus.


George will also have a cash flow surplus of \$1,428 in the first year and will be \$5,337 better off.

George's estate will be worth \$974,528 at the end of the first year, and compared to investing entirely in term deposits he will be better off by \$5,337.

We're always here to support you and your clients

Challenger has a wide range of tools and resources to help you with aged care planning; including our Aged Care Calculator, webcasts, videos, case studies. To access these or find out more:

 Log in, or register for AdviserOnline at **adviseronlineportal.com.au**

 Speak to your **Challenger BDM**

 Call Adviser Services on **13 35 66** or Challenger Tech on **1800 176 486**

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