challenger

Jane

Achieving income and estate planning security in aged care

Client:	Jane
Age:	85, widowed
Assets:	After paying a RAD of $550,000, Jane has $900,000 in term deposits and $50,000 in cash.
Goals:	To afford her ongoing aged care fees and living expenses, provide an inheritance for her children and retain access to some funds.

challenger

Jane

- Jane
- The financial adviser's recommendations
- Strategy considerations

Jane is 85 and widowed. She was living on her own for some time after her husband passed away, but has become frail with age.

After researching her options with the help of her family, Jane was assessed by an Aged Care Assessment Team (ACAT) as eligible for residential care and found a suitable aged care home to move into.

Jane's residential aged care home has an advertised accommodation payment of $550,000. She agrees to that amount and sells her home to pay the Refundable Accommodation Deposit (RAD) of $550,000. She now has $900,000 in term deposits and $50,000 in cash and wants to explore other strategies for this money.

If Jane leaves her money in cash and term deposits, based on social security and aged care rates and thresholds as at 20 September 2023, she will not receive an Age Pension entitlement. Also, her total aged care fees are $45,636 (consisting of a basic daily care fee of $22,214 and a means-tested care fee of $23,422).

Jane visits a financial adviser to find out whether she will be able to pay for her aged care fees and $2,600 per year ($50 per week) of other ongoing living expenses.

Client:	**Jane**
Age:	**85, widowed**
Assets:	After paying a RAD of $550,000, Jane has $900,000 in term deposits and $50,000 in cash.
Goals:	To afford her ongoing aged care fees and living expenses, provide an inheritance for her children and retain access to some funds.

challenger

The financial adviser's recommendations

The first strategy Jane's financial adviser considers is to retain her existing portfolio of term deposits and cash.

Under this strategy her financial adviser estimates that Jane will have a cash flow shortfall of $11,808 in the first year (as illustrated in Figure 1) and a total shortfall of $35,368 over three years (as illustrated in Figure 2).

Jane's financial adviser explores an alternative strategy to help improve this outcome - an investment in Challenger CarePlus (CarePlus).

Her adviser explains that the most appropriate strategy will be one that helps meet her ongoing cash flow and estate planning wishes.

CarePlus is designed especially for those who are receiving, or planning to receive, Government-subsidised aged care services (including both home and residential care).

The financial adviser's recommendations

CarePlus will provide Jane with a guaranteed monthly income for the rest of her life to help cover the costs of aged care and living expenses.

In the event Jane passes away, 100%[1] of the amount she invested will be paid to her nominated beneficiaries, in this case her children.

CarePlus may also help reduce Jane's aged care fees and increase her Age Pension entitlements from the way it interacts with the means testing rules.

To help Jane achieve her objectives, her financial adviser recommends an investment of $900,000 into CarePlus.

The remaining $50,000 will stay in cash in case Jane needs access to funds. Figure 1 compares the outcomes of the different strategies in year one. Figure 2 compares the outcomes over three years.

By investing in CarePlus, Jane can improve her cash flow and maximise the value of any benefit payable to her children directly when she passes away.

1 CarePlus provides a death benefit of 100% of the total amount invested. However, if you reside in South Australia stamp duty (currently 1.5% of the insurance premium) will be deducted from the sum insured before it is distributed to beneficiaries and/or the estate.

challenger

The financial adviser's recommendations

Figure 1: Illustrating cash flow and estate planning outcomes for year one

Year one	STRATEGY 1 Retain $900,000 in term deposits, $50,000 in cash	STRATEGY 2 Invest $900,000 in Challenger CarePlus, $50,000 in cash
Cash flow		
Investment income	$38,000	$2,000
CarePlus	N/A	$50,237
Age Pension	$0	$6,050
Less personal expenses	$2,600	$2,600
Total	**$35,400**	**$55,687**
Aged care fees		
Basic daily fee	$22,214	$22,214
Means-tested care fee	$23,422	$22,203
Total	**$45,636**	**$44,417**
Total tax payable	**$1,572**	**$0**
Net cash flow	**($11,808)**	**$11,270**
Estate value (at the end of year one)	**$1,493,317**	**$1,516,396**

Results from the Challenger Aged Care Calculator as at 23/10/2023. Assumes bank account and term deposit earning rate of 4% p.a., Challenger CarePlus rates based on a female (date of birth 01/07/1938), residing in NSW, monthly payments and no adviser fees. The estate value includes the RAD of $550,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

challenger

The financial adviser's recommendations

Figure 2: Illustrating cash flow and estate planning outcomes over three years

First three years	STRATEGY 1 Retain $900,000 in term deposits, $50,000 in cash	STRATEGY 2 Invest $900,000 in Challenger CarePlus, $50,000 in cash
Total cash flow	$106,463	$170,458
Total aged care fees	$137,363	$135,203
Net cash flow	($35,368)	$35,255
Estate value (at the end of year 3)	**$1,470,015**	**$1,540,639**

Results from the Challenger Aged Care Calculator as at 23/10/2023. Assumes bank account and term deposit earning rate of 4% p.a., Challenger CarePlus rates based on a female (date of birth 01/07/1938), residing in NSW, monthly payments and no adviser fees. The estate value includes the RAD of $550,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

challenger

Strategy considerations

By implementing a CarePlus strategy, in comparison to the term deposit strategy for the illustrated periods, as described in Figure 1 and Figure 2, Jane has been able to achieve:

- a guaranteed income stream for life from CarePlus to help pay for aged care fees;
- a $6,050 increase in Age Pension entitlement and a reduction in her means-tested care fee of $1,219 in year one;
- a $1,572 reduction in tax payable in year one;
- improved net cash flow of $23,078 in year one, increasing to $70,623 over a three year period; and
- an increased benefit to the estate of $23,078 at the end of year one, increasing to $70,623 at the end of year three (under each strategy the RAD of $550,000 will be paid to the estate).

The cash flow and estate planning benefits of the CarePlus strategy can continue past the three year illustrated period while Jane remains in care.

The value of advice

Seeking advice from a financial planning professional can ensure you're following a strategy that will help achieve your goals. A financial adviser can:

- help you develop an income strategy tailored to you;
- help you achieve your income and estate planning goals;
- address concerns about the steps required to enter aged care;
- explain the different aged care fees;
- identify ways to reduce aged care costs; and
- manage Age Pension paperwork and assessment queries.

Strategy considerations

Each person's situation is different and all investments and investment strategies carry some risk. The appropriate level of risk for you will depend on factors such as your age, financial goals, investment timeframe, other investments you may have, and your risk tolerance.

Some of the matters you may wish to talk to your financial adviser about include the risk of locking up your money for an extended period of time, potentially receiving less back than the amount originally invested if you withdraw voluntarily, the risk of inflation, and the ability of the provider to meet the promised payments.

When you or your loved ones are entering aged care, you may wish to speak with a financial adviser about the investment strategy described in this case study to:

- find a secure source of income to pay for aged care and other costs;
- improve cash flow position by reducing aged care costs and increasing Age Pension; and
- achieve greater estate planning certainty.

For more information

Visit challenger.com.au

Speak to your financial adviser

Call 13 35 66

56203/0224