



**Achieving income
and estate
planning security
in aged care**

Dorothy

Client: Dorothy

Age: 83

Assets: After paying a RAD of \$400,000, Dorothy has \$400,000 in term deposits and \$25,000 in cash

Goals: To afford her ongoing aged care fees and living expenses after her husband passed away and keep their former home as an inheritance for her children.

Dorothy is widowed, 83 years old and is living in residential aged care. Her husband Donald was also living in aged care but recently passed away. Donald had a refundable accommodation deposit (RAD) which was paid to his estate and inherited by Dorothy. When Donald passed away, Dorothy lost her Age Pension entitlement.

Donald and Dorothy kept their former home worth \$900,000 when they entered aged care two years ago. The home was in joint names until Donald passed away and is now in Dorothy's name. The home has been rented out for \$600 per week.

Dorothy paid \$400,000 as a RAD when she entered aged care. She has \$400,000 invested in term deposit which was the inheritance from Donald's estate. She has \$25,000 in cash after paying for Donald's funeral and \$5,000 of personal contents. She spends \$2,500 per annum for ongoing living expenses in aged care. Dorothy would like to keep the home and leave it to her children when she passes away.

If Dorothy retains her investments in term deposits and cash, based on aged care rates and thresholds as at 20 March 2020, her total ongoing aged care costs in year one is \$39,299¹ (consisting of basic daily fees of \$19,071 and means-tested care fees of \$20,228).

¹ Aged care rates and thresholds as at 20 March 2020

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The financial adviser's recommendation

Dorothy meets with her financial adviser to determine whether she will be able to pay for her ongoing aged care costs and living expenses. The first strategy her financial adviser considers is to retain her existing investments in term deposits and cash.

Her financial adviser estimates, as illustrated in Figure 2, if the strategy was implemented, her total ongoing aged care cost over three years is projected to be \$118,414. After factoring in her total income less tax payable over the three year period, there is a total shortfall of \$18,175 that will need to be funded.

Her financial adviser considers an alternative strategy to improve her outcome – an investment in Challenger CarePlus (CarePlus). CarePlus is designed for those who are receiving, or planning to receive, Government-subsidised aged care services (including both home care and residential aged care). Her adviser explains that the most appropriate strategy will be one that helps meet her ongoing cash flow needs and estate planning wishes.

CarePlus will provide Dorothy with a guaranteed income stream for life to help cover ongoing aged care costs and living expenses. In the event she passes away, 100%² of the amount invested will be paid to her nominated beneficiaries or estate. CarePlus may also help reduce her ongoing aged care costs and tax payable because of the way it interacts with the means testing and taxation rules.

To help Dorothy achieve her objectives, her financial adviser recommends an investment of \$400,000 in CarePlus. The remaining \$25,000 will be retained in cash in case she needs access to funds.

Figure 1 compares the outcomes of the different strategies in year one. Figure 2 illustrates the outcome over three years. By investing in CarePlus, Dorothy can improve her cash flow and maximise the value of any benefit payable to her nominated beneficiaries or estate when she passes away.

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

Year one	Strategy 1	Strategy 2
	Retain \$425,000 in cash and term deposits	Invest \$400,000 in Challenger CarePlus, \$25,000 in cash
Cash flow		
Rental income	\$31,200	\$31,200
CarePlus payment ³	\$0	\$8,705
Investment income ⁴	\$5,950	\$350
Expenses	(\$2,500)	(\$2,500)
Total	\$34,650	\$37,755
Aged care fees		
Basic daily fee ¹	\$19,071	\$19,071
Means-tested care fee ¹	\$20,228	\$18,049
Total	\$39,299	\$37,120
Estimated Tax payable	\$1,463	\$0
Net cash flow	(\$6,112)	\$635
Estate value (at the end of year one)	\$1,740,187	\$1,746,935

Results from the Challenger Aged Care Calculator as at 17/04/2020. Assumes former home growth rate of 1.8%, bank account and term deposit earning rate of 1.4% p.a., Challenger CarePlus rates based on a female (date of birth 01/01/1937), residing in NSW, monthly payments and no adviser fees. The estate value includes the former home, RAD of \$400,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes sum insured from CarePlus.

² South Australia residents will have stamp duty (currently 1.5% of the insurance premium) deducted from the sum insured before it is paid to nominated beneficiaries or the estate

³ Challenger CarePlus quote with monthly payments and no adviser fees as at 17/04/2020

⁴ Term deposits interest rate assumed 1.4%

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

	Strategy 1	Strategy 2
First three years	Retain \$425,000 in cash and term deposits	Invest \$400,000 in Challenger CarePlus, \$25,000 in cash
Total cash flow (less estimated tax payable)	\$100,239	\$114,925
Total aged care fees	\$118,414	\$112,523
Net cash flow	(\$18,175)	\$2,402
Estate value (at the end of year three)	\$1,761,611	\$1,782,189

Results from the Challenger Aged Care Calculator as at 17/04/2020. Assumes former home growth rate of 1.8%, rent increase of 2% p.a., bank account and term deposit earning rate of 1.4% p.a., Challenger CarePlus rates based on a female (date of birth 01/01/1937), residing in NSW, monthly payments and no adviser fees. The estate value includes the former home, RAD of \$400,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes sum insured from CarePlus.

Strategy considerations

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

- a guaranteed income stream for life from CarePlus to help pay for ongoing aged care costs and living expenses;
- a reduction in her means-tested care fee of \$2,179 in year one;
- a reduction in her tax payable of \$1,463 in year one;
- improved net cash flow of \$6,747 in year one, increasing to \$20,577 over the three year period; and
- an increased benefit to her estate of \$6,748 at the end of year one, increasing to \$20,578 at the end of year three (under each strategy the RAD of \$400,000 will be refunded to her estate).

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

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.

We're always ready to support you

To find out more about aged care options, including whether Challenger CarePlus might be suitable:

-  Visit **challenger.com.au**
-  Talk to your financial adviser
-  Call the Challenger Investor Services team on **13 35 66**

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