Achieving income and estate planning security in aged care

Gwen & George

Client: Gwen and George

Age: 85

Assets: After paying $350,000 RAC for Gwen and $500,000 RAD for George, they have $500,000 in term deposits and $50,000 in cash.

Goals: To afford their ongoing aged care fees and living expenses now that they are both living in aged care and provide an inheritance for their children if either of them pass away.

Gwen and George are a couple, both 85 years old and are living in residential aged care. Gwen entered aged care one year ago and was assessed as a low-means resident. George has recently entered aged care but was assessed as an accommodation payment resident.

Their aged care facility has an advertised accommodation payment of $500,000 and receives the maximum accommodation supplement of $58.19 per day. Gwen and George sold their former home and used the proceeds to pay $350,000 as a refundable accommodation contribution (RAC) for Gwen and $500,000 as a refundable accommodation deposit (RAD) for George.

Gwen and George have $500,000 invested in term deposits which was the remaining proceeds from the sale of their home. They have $50,000 in cash and $10,000 of personal contents. They spend $5,000 per annum for ongoing living expenses in aged care.

If they retain their investments in term deposits and cash, based on Centrelink and aged care rates and thresholds as at 20 March 2020, their estimated Age Pension entitlement in year one is $47,782[1]. Their total ongoing aged care costs are $55,727 (consisting of an accommodation contribution of $379[2], basic daily fees of $38,142[3] and means-tested care fees of $17,206[3]).

1 Centrelink rates and thresholds as at 20 March 2020. Deeming rates as at 1 May 2020.

2 Maximum permissible interest rate as at 1 April 2019 (5.96%).

3 Aged care rates and thresholds as at 20 March 2020.

The financial adviser's recommendation

Gwen and George meet with their financial adviser to determine whether they will be able to pay for their ongoing aged care costs and living expenses. The first strategy their financial adviser considers is to retain their existing investments in term deposits and cash.

Their financial adviser estimates, as illustrated in Figure 2, if the strategy was implemented, their total ongoing aged care cost over three years is projected to be $169,520. After factoring in their total income over the three year period, including their Age Pension entitlement, there is a total shortfall of $15,159 that will need to be funded.

Their financial adviser considers an alternative strategy to improve their 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). Their adviser explains that the most appropriate strategy will be one that helps meet their ongoing cash flow needs and estate planning wishes.

CarePlus will provide Gwen and George with a guaranteed income stream for life to help cover ongoing aged care costs and living expenses. In the event they pass away, 100%[4] of the amount invested will be paid to their nominated beneficiaries or estate. CarePlus may also help reduce their ongoing aged care costs and increase their Age Pension entitlement because of the way it interacts with the means testing rules.

To help Gwen and George achieve their objectives, their financial adviser recommends an investment of $250,000 each in CarePlus. The remaining $50,000 will be retained in cash in case they need 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, Gwen and George can improve their cash flow and maximise the value of any benefit payable to their nominated beneficiaries or estate when they pass away.

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

	Strategy 1	Strategy 2
Year one	**Retain $550,000 in cash and term deposits**	**Invest $250,000 each in Challenger CarePlus, $50,000 in cash**
Cash flow		
Age Pension[1]	$47,782	$49,104
CarePlus payment[5]	$0	$10,407
Investment income[6]	$7,700	$700
Expenses	($5,000)	($5,000)
Total	**$50,482**	**$55,211**
Aged care fees		
Daily accommodation contribution[2]	$379	$379
Basic daily fee[3]	$38,142	$38,142
Means-tested care fee[3]	$17,206	$15,994
Total	**$55,727**	**$54,515**
Net cash flow	**($5,245)**	**$696**
Estate value (at the end of year one)	**$1,404,954**	**$1,410,895**

Results from the Challenger Aged Care Calculator as at 17/04/2020. Assumes bank account and term deposit earning rate of 1.4% p.a., Challenger CarePlus rates based on a female and male (date of birth 01/01/1935), residing in NSW, monthly payments and no adviser fees. The estate value includes the RAC of $350,000 and RAD of $500,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes sum insured from CarePlus.

4 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.

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

6 Term deposits interest rate assumed 1.4%.

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

First three years	Strategy 1 Retain $550,000 in cash and term deposits	Strategy 2 Invest $250,000 each in Challenger CarePlus, $50,000 in cash
Total cash flow	$154,361	$168,323
Total aged care fees	$169,520	$166,482
Net cash flow	($15,159)	$1,841
Estate value (at the end of year three)	**$1,395,456**	**$1,412,454**

Results from the Challenger Aged Care Calculator as at 17/04/2020. Assumes bank account and term deposit earning rate of 1.4% p.a., Challenger CarePlus rates based on a female and male (date of birth 01/01/1935), residing in NSW, monthly payments and no adviser fees. The estate value includes the RAC of $350,000 and RAD of $500,000, 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, Gwen and George have been able to achieve:

- a guaranteed income stream for life from CarePlus to help pay for ongoing aged care costs and living expenses;
- an increase in their Age Pension entitlement of $1,322 and a reduction in their means-tested care fee of $1,212 in year one;
- improved net cash flow of $5,941 in year one, increasing to $17,000 over the three year period; and
- an increased benefit to their estate of $5,941 at the end of year one, increasing to $16,998 at the end of year three (under each strategy the RAC of $350,000 and RAD of $500,000 will be refunded to their estate).

The cash flow and estate planning benefits of the CarePlus strategy can continue past the three year period while Gwen and George remain 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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