

# Challenger Tech



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## Current home care means testing and advice considerations

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Australia's aged care system has experienced several changes over the past few years. Through these changes, the Government is seeking a system that is fair, sustainable and affordable as well as providing flexibility and choice to allow older Australians to access the support they need.

In our February 2018 article titled 'The current advice landscape for aged care' we explored the current environment of the three main subsidised aged care programs in Australia – Commonwealth Home Support Program (CHSP), home care packages, and permanent residential aged care.

Expanding on that article, this month we examine the current home care package means test and discuss some of the practicalities and advice considerations when assisting retirees access aged care support in their home.

### Home care package value and the recipient's contribution

A home care package provides funding that can be used by the recipient on services that support them in their home. There are four levels of home care packages available that are based on a person's care needs. The greater the level of care a person needs, the higher the package level and amount of funding available (Chart 1 below summarises available funds under each home care package). Eligibility for a home care package is determined by the national Aged Care Assessment Team/Service (ACAT/ACAS) assessment.

Once a home care package has been assigned to an aged care recipient and a home care agreement has been entered into with a service provider, the provider will receive and administer the funds on the individual's behalf.

Home care package recipients may be asked to contribute a basic daily fee and, depending on their means, an income tested care fee towards their package.

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Chart 1: Summary of home care package values and recipient contribution

| Home care recipient contribution |   | Government contribution    | Total home care package value p.a. |  |   |                |          |
|----------------------------------|---|----------------------------|------------------------------------|--|---|----------------|----------|
| <b>Basic daily fee</b>           | + | <b>Income tested fee</b>   | +                                  | <b>Government subsidies</b>                          | → | <b>Level 1</b> | \$12,038 |
| \$10.32/day<br>(\$3,767 p.a.)    |   | Based on assessable income |                                    | Based on package level and income tested fee payable |   | <b>Level 2</b> | \$18,812 |
|                                  |   |                            |                                    |  |   | <b>Level 3</b> | \$36,843 |
|                                  |   |                            |                                    |  |   | <b>Level 4</b> | \$54,053 |

**Note:** Package values includes the basic daily fee and can be higher for those with special needs who receive additional Government supplements. A list of aged care subsidies and supplements can be found on the Department of Health's website.

### Basic daily fees

The basic daily fee is \$10.32/day as at 1 July 2018 and equates to 17.5% of the maximum basic rate of Age Pension for a single person. Members of a couple who are both receiving a home care package can each be asked to pay this fee.

Although this fee applies to all home care package recipients, some providers may waive or charge less than this amount.

Importantly, amounts paid as a basic daily fee are added to the home care package funds which recipients can use on services.

Those who have basic care needs and require support and services that cost less than the home care package program's basic fee of \$3,767 p.a. or \$7,534 p.a. for couples who both require care, can consider accessing the Commonwealth Home Support Program (CHSP) instead.

### Commonwealth Home Support Program costs

Clients whose needs are not complex can access subsidised home support services via the entry level CHSP.

Unlike home care packages and permanent residential aged care, there is no Centrelink/DVA means test. Instead, the Government has established guidelines within the Client Contribution Framework to assist service providers with determining suitable amounts to charge, as well as how these amounts are collected, based on their business and the services provided.

Individuals will therefore need to discuss and agree to any fees with the service provider before they start receiving these services. The service provider's client contribution policy will also need to include arrangements for those who are unable to afford fees due to financial hardship.

## Income tested fees

Unlike the basic fee the income tested fee is based on the person's assessable income for aged care purposes. The higher a person's assessable income, the higher their income tested fee.

Income tested fees do not affect the total funds available under the package unlike the case with the basic daily fee. This ensures those on the same package have access to the same amount of funds as those on higher means contributing more towards their package value.

The income tested fee is determined by Centrelink/DVA and is payable by a home care package recipient if their assessable income exceeds the income free area.

## Calculating the income tested fee

The income tested fee is determined by Centrelink/DVA and is payable by a home care package recipient if their assessable income exceeds the income free area. However, they cannot be asked to pay an income tested fee that exceeds the total amount of Government subsidies and supplements.

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

A person's assessable income for age care purposes include:

- Centrelink/DVA assessed income, and
- their income support payment (such as their Age Pension or Service Pension but excluding the minimum Pension Supplement and Energy Supplement<sup>1</sup>).

If the income tested fee is less than \$1 per day, it is rounded down to nil. For a member of a couple, half of the combined assessable income of the couple plus their own income support payment is assessed.

## Income tested fee annual cap

A home care package recipient's income tested fee is subject to one of two annual caps. The annual cap that applies depends on whether the recipient's assessable income exceeds the applicable income threshold.

$$\text{Annual cap if assessable income} < \text{income threshold} = \$5,392.91$$

$$\text{Annual cap if assessable income} \geq \text{income threshold} = \$10,785.85$$

The income free area and income thresholds as at 1 July 2018 are:

| Family situation                | Income free area p.a. | Income threshold p.a. |
|---------------------------------|-----------------------|-----------------------|
| Single                          | \$26,764.40           | \$51,667.20           |
| Couple (each)                   | \$20,755.80           | \$39,525.20           |
| Illness separated couple (each) | \$26,244.40           | \$51,147.20           |

<sup>1</sup> As at 1 July 2018 the minimum pension supplement is \$36.10/fn for singles and members of a couple who are illness separated, and \$27.20/fn each for couples. The Energy supplement is \$14.10/fn for singles and members of a couple who are illness separated, and \$10.60/fn each for couples. The Energy supplement for War Widow pensioners is \$14.20/fn.

## Example

Based on Centrelink/DVA and aged care rates and thresholds as at 1 July 2018, a homeowner Age Pensioner under the single rate who has \$300,000 in financial assets and a defined benefit income stream of \$20,000 per annum (no deductible amount) will be entitled to an annualised Age Pension of \$11,343 including the pension and energy supplements.

Their total assessable income would be \$39,019 calculated as the sum of:

- \$8,982 deemed income
- \$20,000 defined benefit income
- \$10,037 assessable Age Pension income

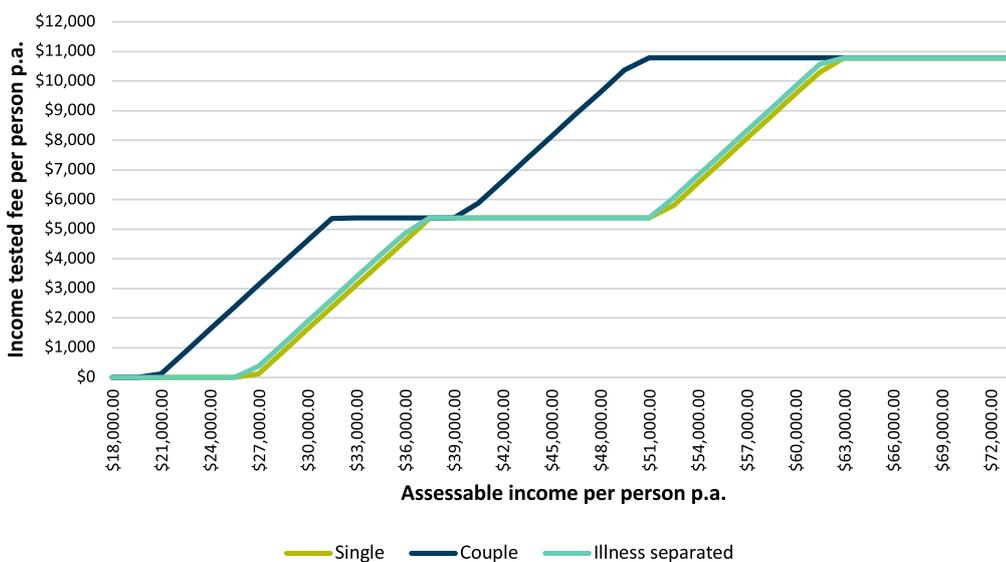
Their income tested fee is calculated as:  $(\$39,019 - \$26,764.40) \times 50\% = \$6,127.30$  p.a.

However, as their assessable income is less than the income threshold of \$51,667.20 for a single, their income tested fee will be capped at \$5,392.91 p.a.

A summary of a home care package recipient's income tested fee across various assessable income levels is contained in Chart 2 below.

Income tested fees paid count towards the annual and lifetime caps of residential aged care means tested care fees

**Chart 2: Homecare income tested fee (per person) for different assessable income levels**



## Annual cap unlikely to be reached

Income tested fees of home care package recipients are unlikely to reach the annual cap under the current social security deeming and Age Pension rates as illustrated in Table 1.

**Table 1: Homecare income tested fee (per person) for different financial asset levels**

| Financial assets | Homeowner |        |                   | Non-homeowner |         |                   |
|------------------|-----------|--------|-------------------|---------------|---------|-------------------|
|                  | Single    | Couple | Illness separated | Single        | Couple  | Illness separated |
| \$100,000        | \$0       | \$0    | \$0               | \$0           | \$0     | \$0               |
| \$200,000        | \$0       | \$0    | \$0               | \$0           | \$0     | \$0               |
| \$300,000        | \$0       | \$0    | \$0               | \$1,131       | \$0     | \$0               |
| \$400,000        | \$0       | \$479  | \$479             | \$1,945       | \$479   | \$479             |
| \$500,000        | \$0       | \$0    | \$0               | \$2,760       | \$886   | \$886             |
| \$600,000        | \$0       | \$0    | \$0               | \$1,499       | \$1,294 | \$1,294           |
| \$700,000        | \$0       | \$0    | \$0               | \$0           | \$1,144 | \$1,144           |
| \$800,000        | \$0       | \$0    | \$0               | \$0           | \$0     | \$0               |
| \$900,000        | \$861     | \$0    | \$0               | \$861         | \$0     | \$0               |
| \$1,000,000      | \$2,491   | \$0    | \$0               | \$2,491       | \$0     | \$0               |

**Note:** Assumes \$10,000 personal assets, no other assessable income and each person is eligible for the Age Pension (not legally blind).

At lower levels of financial assets, a home care recipient's assessable income comprises mostly of their Age Pension. As the income free area is higher than the maximum Age Pension rate, full pensioners will not incur an income tested fee. At higher asset levels, the increase in deemed income is offset by a reduction in assessable income due to a lower Age Pension entitlement.

Income tested fees for non-homeowners are broadly higher due to the higher assets test thresholds providing higher Age Pension entitlements.

For clients who are currently accessing the CHSP and are likely to pay a low or nil income tested fee, consideration should be given to whether a low level home care package could provide them and their family with greater flexibility and support. In some cases, home care packages may provide additional support at home without significantly impacting cashflow.

Service providers can charge case management/administration fees to cover the costs of developing home care plans and delivering home care services.

## Additional care and other costs

Service providers can charge case management/administration fees to cover the costs of developing home care plans and delivering home care services.

While these costs are funded from the home care package and are not an additional direct cost for the home care recipient, it does reduce the amount the recipient can spend on services. This means where they want additional services not covered by their home care package, they will need to meet these costs using their own funds.

There can also be exit fees when the home care recipient changes providers or moves to a residential aged care home. These fees allow the service provider to recover costs associated with calculating and making payment of unspent funds. These costs (if any) will be detailed in the home care agreement with the service provider.

Advice opportunities exist to help provide clients with the cash flow they need to access the services they desire.

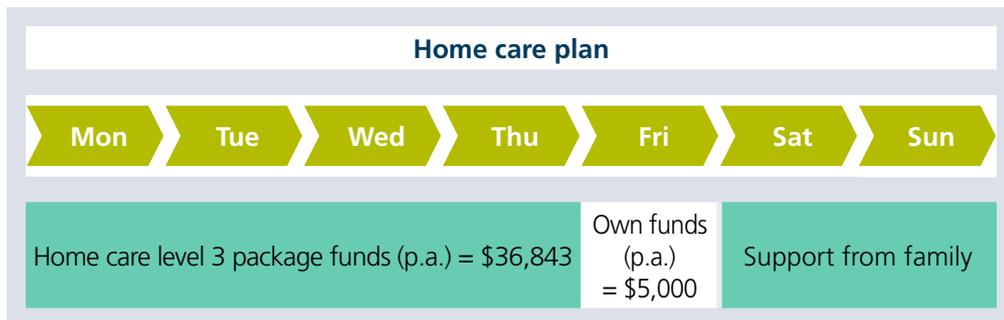
## Case study – Tim

Tim, 78, is widowed and lives in his home (worth \$800,000). His son and daughter in-law visit him twice a week and take him out for meals. While Tim can manage certain tasks on his own, his mobility is limited.

His current home care plan includes support from his son and daughter in-law and support and services funded from his Level 3 home care package.

In addition, Tim spends \$5,000 per annum for an extra 2.5 hours per week of privately funded care that ensures he has someone visit him each day of the week. Although he doesn't anticipate needing the additional support each week, it does give him and the family the peace of mind and comfort they desire. Chart 3 on page 7 summaries Tim's current home care plan.

**Chart 3: Summary of Tim's home care plan**



**Note:** Home care package funds includes basic daily fee.

Tim's other assets include \$330,000 in cash and term deposits and \$10,000 personal assets and currently has a cash flow shortfall of \$2,626 p.a. (on page 7) that he funds from drawing down capital from his cash account.

Strategies that can help Tim increase his cash flow can help reduce his shortfall.

For example, if Tim invests \$180,000 from his cash and term deposits into Challenger CarePlus (CarePlus), he is able to increase his cash flow by \$2,925 in the first year.

CarePlus can interact efficiently with the Centrelink and aged care means tests. In this case, for age pension purposes it helped improve Tim's Age Pension by \$2,847.

Table 2 (on page 7) provides a cash flow comparison between Tim's current cash and term deposit strategy and a strategy that invests \$180,000 into CarePlus.

CarePlus also provides estate planning certainty for Tim and his beneficiaries. In the event of Tim's death, his estate and/or nominated beneficiary will receive 100%<sup>2</sup> of the invested.

For further information on Challenger CarePlus, please contact your Business Development Manager.

CarePlus can interact efficiently with the Centrelink and aged care means tests.

<sup>2</sup> For residents of South Australia, stamp duty of 1.5% of the premium paid is deducted from the death benefit before it is paid to beneficiaries/estate.

Table 2: Cash flow comparison

| Cash flow summary                            | \$330,000 Cash/TDs | \$180,000 CarePlus<br>\$150,000 Cash/TDs |
|--|--------------------|--|
| Age Pension                                  | \$17,241           | \$20,088                                 |
| Interest                                     | \$9,900            | \$4,500                                  |
| CarePlus                                     | \$0                | \$5,478                                  |
| Living expenses                              | \$21,000           | \$21,000                                 |
| <b>Net cash flow after living expenses</b>   | <b>\$6,141</b>     | <b>\$9,066</b>                           |
| Basic daily fee                              | \$3,767            | \$3,767                                  |
| Income-tested fee                            | \$0                | \$0                                      |
| <b>Total home care package contributions</b> | <b>\$3,767</b>     | <b>\$3,767</b>                           |
| <b>Additional home care costs</b>            | <b>\$5,000</b>     | <b>\$5,000</b>                           |
| <b>Net cash flow after home care costs</b>   | <b>-\$2,626</b>    | <b>\$299</b>                             |

**Assumptions:** Centrelink and aged care rates and thresholds as at 1 July 2018, cash and term deposits earn 3% interest, CarePlus rates as at 2/07/2018.

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