



Strategies to fund accommodation payments in residential aged care

By Sean Howard, Technical Services Manger

Accommodation is usually the largest cost associated with residential aged care, often requiring the sale of assets. A person may have to pay an accommodation contribution or payment when they enter residential aged care depending on their means.

There are a number of options to pay for accommodation and it is important to understand the implications of each option. In this month's article, we will look at accommodation payment options and funding strategies. Unless stated otherwise, the rates and thresholds quoted in this article are current as at 1 April 2022.

Means testing for accommodation

When a person enters residential aged care, they will be classified as a 'low means' resident or an 'accommodation payment' resident depending on their means. A person's means is determined by comparing their means-tested amount to the maximum accommodation supplement at the time of entry. The maximum accommodation supplement is currently \$60.74 per day.

A person will be classified as 'low means' if their means-tested amount is less than the maximum accommodation supplement at the time of entry. A person who is classified as a 'low means' resident may have to pay an accommodation contribution determined quarterly by their means.

A person will be classified as an 'accommodation payment' resident if their means-tested amount is equal to or greater than the maximum accommodation supplement at the time of entry. A person who is classified as an 'accommodation payment' resident will have to pay an accommodation payment based on the advertised price and what is agreed with the aged care facility.

For further information on means testing, see TechNews article '[Means testing of assets and income for aged care residents](#)'.

A person will be classified as 'low means' if their means-tested amount is less than the maximum accommodation supplement at the time of entry.

A person will be classified as an 'accommodation payment' resident if their means-tested amount is equal to or greater than the maximum accommodation supplement at the time of entry.

Accommodation payment options

Aged care residents have 28 days after entry to decide how to pay for their accommodation.

A 'low means' resident has the option of paying for their accommodation as:

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

An 'accommodation payment' resident has the option of paying for their accommodation as:

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

The outstanding lump sum is converted to the equivalent periodic payment using the maximum permissible interest rate (MPIR). The interest rate is set at the date of entry and will remain the same unless the resident subsequently changes room within the aged care facility. The MPIR is currently 4.07% per annum.

$$(\text{Outstanding lump sum} \times \text{MPIR}) / 365 = \text{Equivalent periodic payment}$$

An aged care facility cannot accept a lump sum within 28 days of entry that will leave the resident with less than the minimum permissible asset amount. The minimum permissible asset amount is currently \$52,500.

Example

Fred is entering residential aged care and his wife Helen will remain in their former home. They have combined assets excluding the home of \$400,000. Fred has been assessed as an 'accommodation payment' resident. What is the maximum he can pay as a RAD within the first 28 days of entry?

$$\$400,000 / 2 - \$52,500 = \$147,500$$

The maximum Fred can pay as a RAD within the first 28 days of entry is \$147,500.

'Low means' resident

A 'low means' resident can be asked to pay an accommodation contribution towards the cost of their accommodation; however, they cannot be asked to pay the advertised price.

A 'low means' resident's daily accommodation contribution (DAC) will be the lesser of:

- their means-tested amount; and
- the accommodation supplement payable to the aged care facility.

The means-tested amount will be recalculated quarterly by Centrelink/DVA. Therefore, the resident's accommodation contribution may change over time depending on their means. An accommodation contribution will not be payable where the resident's means-tested amount is equal to zero.

A 'low means' resident can be asked to pay an accommodation contribution towards the cost of their accommodation; however, they cannot be asked to pay the advertised price.

The accommodation supplement payable to the aged care facility will depend on when the facility was built or significantly refurbished and whether the facility meets the supported resident ratio. Residents can check with the aged care facility as to the accommodation supplement payable.

A 'low means' resident has the option to pay for their accommodation as a DAC or as a refundable accommodation contribution (RAC) or as a combination of DAC and RAC (see above). The DAC is converted to the equivalent RAC using the MPIR.

$$(DAC \times 365) / MPIR = \text{Equivalent RAC}$$

Example

Mary entered residential aged care on 1 April 2022 and has been assessed as a 'low means' resident. Her DAC is calculated as \$50 per day. The aged care facility receives the maximum accommodation supplement of \$60.74 per day. How much would she have to pay as a RAC so as not to pay a DAC?

$$\$50 \times 365 / 4.07\% = \$448,403$$

Mary would have to pay \$448,403 as a RAC so as not to pay a DAC.

Note, the DAC is recalculated quarterly by Centrelink/DVA. Therefore, if there is a change in the resident's means-tested amount there will also be a change in the equivalent RAC. The aged care facility may have to refund part of the RAC if there is a reduction or the resident may have to start paying a DAC if there is an increase.

'Accommodation payment' resident

An 'accommodation payment' resident can be asked to pay an accommodation payment for the cost of their accommodation. The accommodation payment will be determined by agreement with the aged care facility and cannot exceed the advertised price. Aged care facilities are required to advertise maximum accommodation prices on their website and on the My Aged Care website.

An 'accommodation payment' resident has the option to pay for their accommodation as a refundable accommodation deposit (RAD) or as a daily accommodation payment (DAP) or as a combination of RAD and DAP (see above).

Where an 'accommodation payment' resident decides to pay for their accommodation as a combination of RAD and DAP, they can deduct the DAP from the RAD. However, as the DAP is deducted, the outstanding lump sum will increase which will subsequently increase the DAP.

Example

John entered residential aged care on 1 April 2022 and has been assessed as an 'accommodation payment' resident. The aged care facility has an advertised price of \$500,000 for the room he wants.

John decided to pay \$300,000 as a RAD and \$200,000 as a DAP and deduct the DAP from the RAD every month. How much will be deducted from his RAD in the first 6 months?

An 'accommodation payment' resident has the option to pay for their accommodation as a refundable accommodation deposit (RAD) or as a daily accommodation payment (DAP) or as a combination of RAD and DAP.

Month	Outstanding RAD	DAP
1	\$200,000	$\$200,000 \times 4.07\% / 365 = \22.30
2	$\$200,000 + (\$22.30 \times 30) = \$200,669$	$\$200,669 \times 4.07\% / 365 = \22.38
3	$\$200,669 + (\$22.38 \times 31) = \$201,363$	$\$201,363 \times 4.07\% / 365 = \22.45
4	$\$201,363 + (\$22.45 \times 30) = \$202,037$	$\$202,037 \times 4.07\% / 365 = \22.53
5	$\$202,037 + (\$22.53 \times 31) = \$202,735$	$\$202,735 \times 4.07\% / 365 = \22.61
6	$\$202,735 + (\$22.61 \times 31) = \$203,436$	$\$203,436 \times 4.07\% / 365 = \22.68

Note, if the aged care facility has an advertised price lower than the equivalent RAC for a 'low means' resident, they may be better off to be classified as an 'accommodation payment' resident and pay the advertised price. This is typically the case where the resident is borderline low means¹, however, it will depend on the accommodation supplement payable to the aged care facility as this limits the DAC payment residents, see TechNews article '[The importance of the \\$173,075 number – under or over](#)'.

Accommodation funding strategies

There are a number of strategies to fund lump sum and periodic accommodation payments depending on the resident's circumstances.

Selling existing assets and using the proceeds to fund lump sum accommodation payments is often considered. Lump sum payments effectively reduce periodic payments by a rate equal to the MPIR. This can be beneficial for cash flow where the return on the assets is lower than the MPIR.

Lump sum accommodation payments are also exempt under the Centrelink/DVA means tests which means paying a lump sum will effectively convert assessable assets into an exempt asset. This could potentially increase Centrelink/DVA entitlements.

Keeping and renting the former home can help fund periodic accommodation payments particularly where the resident wants to retain the home. The value of the home will be exempt under the Centrelink/DVA assets test for two years after the resident leaves the home².

Note, after two years the former home will become assessed and the resident will be considered a non-homeowner. This could potentially reduce Centrelink/DVA entitlements.

Family members may want to provide financial assistance to help fund lump sum and/or periodic accommodation payments. This can provide time for the resident to sell the former home particularly where markets are unfavourable or the home was in a retirement village.

Note, if a lump sum accommodation payment is made by family members, the amount will be assessed under the aged care means test. This could potentially increase the means-tested care fee.

For further information on family members providing financial assistance, see TechNews article '[Children paying their parent's RAD – issues and considerations](#)'.

Selling existing assets and using the proceeds to fund lump sum accommodation payments is often considered. Lump sum payments effectively reduce periodic payments by a rate equal to the MPIR. This can be beneficial for cash flow where the return on the assets is lower than the MPIR.

¹ For example, a single resident with assessable assets under the aged care means test just below \$178,839.

² For couples, the former home will be exempt for two years after the last member leaves the home to enter residential aged care.

Keeping the former home and using an equity access loan to fund lump sum and/or periodic accommodation payments is not often considered. This can be beneficial for cash flow where the interest rate on the loan is lower than the MPIR.

Note, if a lump sum accommodation payment is made from an equity access loan, the lump sum will be assessed under the aged care means test. The reduction in periodic payments should be weighed against the interest rate on the loan and the potential increase in the means-tested care fee.

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