Aged care guide

April 2018
Adviser use only

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Welcome to the Aged care guide

Starting the aged care conversation early can help clients and their family make an informed decision during a very emotional and stressful time.

There are a number of areas where you can help clients who are looking to receive Government subsidised aged care. You can help establish a sustainable cash flow, increase their Age Pension entitlement, reduce their ongoing aged care fees and help them prepare for any intergenerational transfer of assets.

If you're interested in providing advice in this important and growing area, then this guide can help. It is a reference guide of aged care rules and other information, and provides hypothetical worked examples to illustrate how these principles can be applied.

Residential aged care

(entry from 1 July 2014)

There is a process to follow when providing residential aged care advice to see that your client is appropriately assessed and approved, finds an aged care provider and organises their finances to suit their circumstances.

Advising your clients about residential aged care

It is important to carefully consider each of the following steps. Some decisions may be irreversible, and when moving to the next step could have negative consequences. This is why it's important to become involved as early as possible.

Figure 1: There is a process to follow when advising on aged care

Step 1: Approval	
Aged Care Assessment Team (ACAT) assessment. This team is known as Aged Care Assessment Service (ACAS) in Victoria.[i]	Before they enter residential aged care, your client's health must be assessed to determine their eligibility for care. The assessment can be performed by any doctor, nurse or social worker who is a member of an ACAT.
Step 2: Find an aged care provider	
Consider what is important to your client in an aged care provider.	To make sure your client finds an aged care provider that suits their needs, they may like to visit a few places. They can apply to as many providers as they like. The accommodation costs for all aged care providers are published on the Government's aged care website myagedcare.gov.au. This website also provides a description of the rooms and services available.
Step 3: Organise finances	
Your client may be required to pay some or all of the cost of their accommodation and contribute to the cost of their ongoing care.	On entry, your client may be required to pay an accommodation contribution or accommodation payment. Some people will have their accommodation costs met in full or in part by the Australian Government, while others will need to pay the accommodation price agreed with the aged care provider. The Department of Human Services (DHS) or the Department of Veterans' Affairs (DVA) will advise which applies to your client based on an assessment of their assets and income. There will also be a basic daily fee to pay and there may be a means-tested care fee which is determined by your client's level of assets and income. Some providers offer a higher level of service or a higher standard of accommodation or food for an additional fee.

i. All references to ACAT in this document also includes ACAS.

Your role as a trusted adviser will be to find a balance between your client's objectives and concerns, and to highlight any trade-offs needed to achieve the required result.

Figure 2: You can help your clients with their decisions

Your client's concern	What they need to do	How you can help
What upfront costs will they need to pay?	Understand whether there is an accommodation payment payable and determine what assets they can use to meet the cost.	You can help your clients determine how to pay for their accommodation. This may involve a lump sum payment, periodic payments or a combination of both.
How much will they pay for ongoing care?	Determine which ongoing fees apply to them. This could include the basic daily fee, a means-tested care fee and an extra service or additional fee.	There are strategies to reduce the fees they pay. Keeping or selling their home often forms part of the strategy, as does how they invest. A poorly executed plan can result in a lower Age Pension entitlement and higher aged care fees.
Can they keep their home or is it better for them to sell it?	Understand the various options available to them regarding their family home.	You can help your clients understand what to consider when deciding if they want to keep or to sell the family home. If kept, you can discuss strategies to pay the agreed accommodation costs and explain how the family home will be treated for Centrelink/DVA and aged care purposes. If sold, you can help identify the best way to invest the proceeds and get the balance right between generating an income, maximising the Age Pension and minimising aged care fees.
How do they maximise their Centrelink/DVA benefits?	Determine how the Centrelink/DVA Assets and Income Tests apply to them.	Your client's choice of investments may help them to access or retain benefits, including the Commonwealth Seniors Health Card.
How can they afford to pay for ongoing care?	Determine whether their capital can be invested to provide enough cash flow to meet ongoing care costs.	You can assess your client's investment options and help them maximise their income.
Will they have something to leave to their family?	Identify which of their assets can be included in their estate and the best way to do so.	You can help your clients identify which assets can be left to their estate.
How much tax will they need to pay?	Identify which tax offsets apply to them. They also need to be aware of any issues that may arise if they sell their family home or change their investments.	An overall review of your client's situation will identify the various tax offsets that may be available to them, including the low income, seniors and pensioners and net medical expenses tax offsets. A tax adviser can also flag issues concerning land tax and capital gains tax that may affect your client.

Before entering residential aged care

ACAT assessment

Before entering subsidised residential aged care, a person must be assessed and approved by a member of an ACAT. ACAT assessments are a free service provided by the Government to determine eligibility for Australian Government subsidised care services.

ACAT approvals remain valid indefinitely unless the approval was granted for a specific time period.

Means testing residents

Means-tested amount

A means-tested amount applies to residents who enter residential care from 1 July 2014. It uses both the assets and the income of a resident to determine how much they pay for their accommodation (accommodation payments and contributions) and contribute towards the cost of their ongoing care (means-tested care fee).

Means-tested amount = (income-tested amount + asset tested amount) / 364

Income-tested amount

The income-tested amount is calculated as follows:

Income-tested amount = (assessable income – income-free area) x 50%

Assessable income includes Centrelink/DVA assessed income and the resident's income support payment (such as their Age Pension or Service Pension but excluding the minimum Pension Supplement and Energy Supplement).

Where a person is a member of a couple, half of the combined assessable income of the couple plus their own income support payment is assessed.

Figure 3: The income-free areas as at 20 March 2018

Single	$26,660 per annum
Couples (each)	$26,192 per annum

Asset-tested amount

The asset-tested amount is calculated as a percentage of assessable assets at increasing thresholds. The asset thresholds as at 20 March 2018 are:

17.5% per annum of assets between $48,500 and $165,271

1% per annum of assets between $165,271 and $398,814

2% per annum of assets above $398,814

Assessable assets include Centrelink/DVA assessed assets with the following included assets:

- the family home up to a cap of $165,271 where it is not occupied by a protected person (see 'Aged care assessment of the family home' on page 7)
- the refundable accommodation deposit (RAD)/refundable accommodation contribution (RAC) balance (see 'What are the payment options?' on page 11).

Where a person is a member of a couple, half of the combined assessable assets of the couple are assessed. If the family home is assessed, the home cap is applied to 50% of the total value of the home for each member of the couple.

On the date of entry to a facility, a resident's means-tested amount is compared to the maximum accommodation supplement to determine whether they are a 'low-means' or an 'accommodation payment' resident. The maximum accommodation supplement as at 20 March 2018 is $56.14 per day.

Low-means resident

A low-means resident has a means-tested amount less than the maximum accommodation supplement at the time of entry.

A low-means resident will pay an accommodation contribution (see 'Accommodation costs' on page 10) and the cost of their accommodation will be partially subsidised by the Government, where they have a means-tested amount that is greater than zero but less than the maximum accommodation supplement.

A low-means resident will not pay an accommodation contribution and the cost of their accommodation will be fully subsidised by the Government, where they have a means-tested amount equal to zero.

A low-means resident will pay the basic daily fee and any extra service or additional fees but no means-tested care fee where their means-tested amount remains less than the maximum accommodation supplement (see 'Ongoing residential aged care costs' on page 14).

Accommodation payment resident

An accommodation payment resident has a means-tested amount greater than or equal to the maximum accommodation supplement at the time of entry.

An accommodation payment resident will pay an accommodation payment (see 'Accommodation costs' on page 10) and the cost of their accommodation will not be subsidised by the Government. They will pay the basic daily fee, a means-tested care fee and any extra service or additional fees (see 'Ongoing residential aged care costs' on page 14).

The assets and income assessment process

A person's assets and income will be assessed by the DHS or the DVA when they complete the residential aged care 'combined assets and income assessment' form.

It is not compulsory to have an assets and income assessment however, a resident may pay higher accommodation and ongoing care costs if they don't have an assessment.

The assets and income assessment will determine:

- whether the resident is eligible for any Government subsidy towards the cost of their accommodation (see 'Accommodation costs' on page 10)
- the resident's means-tested care fee payable towards the cost of their ongoing care (see 'Means-tested care fee' on page 14).

A person receiving Centrelink/DVA benefits will still need to complete the form to have an assets and income assessment however, only parts of the form will need to be completed.

If a person's means change before they enter an aged care facility, they may complete another assets and income assessment.

The family home

Keep or sell the family home

Many people about to enter residential aged care worry that they will be forced to sell the family home to fund the accommodation costs. This decision is often made by the family of the person entering aged care.

The following factors should be considered when deciding what to do with the family home:

- the amount of money required (if any) to bring the home up to rental standard
- the commitment in time and funds for ongoing maintenance and repairs – family will most likely look after the home
- possible capital gains tax consequences if the home is rented for more than six years
- any land tax payable if the home is rented (determined by the state)
- income tax payable if the home is rented – there are various tax offsets that may be available, including the low income, seniors and pensioners and net medical expenses tax offsets to reduce tax payable.

Aged care assessment of the family home

The family home will be exempt for the purposes of the asset-tested amount where it is occupied by a protected person.

A protected person includes a:

- spouse or dependent child
- carer eligible for an income support payment who has been living in the home for the past two years
- close relative eligible for an income support payment who has been living in the home for the past five years.

Where the family home is not occupied by a protected person, the home will be assessed up to the home cap. The home cap is $165,271 as at 20 March 2018.

Rental income from the family home will be assessed for the purposes of the income-tested amount.

For people who entered residential aged care before 1 January 2016, rental income will not be assessed where the indefinite exemption conditions are met (explained below).

Centrelink/DVA assessment of the family home

A person's family home is exempt for Centrelink/DVA purposes while they live in it. Where a person enters residential aged care and keeps the family home, it will automatically be exempt under the Assets Test for two years from the date they leave.

For couples, the family home will be exempt for as long as one member of the couple continues to live in it. The family home will automatically be exempt under the Assets Test for two years from the date the last member of the couple leaves it.

Rental income from the family home will be assessed under the Income Test.

For people who entered residential aged care before 1 January 2017, rental income will not be assessed and the two-year Assets Test exemption will be extended to an indefinite exemption where the following conditions are met:

- the resident is accruing a liability to pay a daily accommodation payment (DAP) or daily accommodation contribution (DAC) (see 'What are the payment options?' on page 11)
- the family home is rented out.

While the family home is exempt, the person or couple will be considered a homeowner under the Assets Test.

TRAP: If a resident entered aged care before 1 January 2017 and paid for their accommodation solely as a RAD/RAC (see 'What are the payment options' on page 11), any rental income from the family home will be assessed immediately under the Income Test and after two years the home will be assessed under the Assets Test.

Moving from a retirement village or a granny flat

There may be occasions where your client has moved to a retirement village or had a granny flat arrangement before moving to residential aged care.

Moving from a retirement village

Planning opportunities are more limited when a person moves from a retirement village to residential aged care, as they generally need to sell the unit. If a person has kept their home after moving to a retirement village, the exemption rules cannot apply to the home unless they live in the home right before moving to residential aged care. This means that the proceeds from the sale of the retirement village unit are counted as an asset when they are received and the resident will be considered a non-homeowner.

Moving from a granny flat

For Centrelink/DVA and aged care purposes, a granny flat right or interest is a formal or informal arrangement that provides a person with a life interest in accommodation, or a right to accommodation for life, upon the transfer of the legal title to their home. The granny flat rules enable a person to transfer assets without exceeding the gifting limits (currently $10,000 per financial year and $30,000 over a five-year period).

A key requirement of a granny flat arrangement is that the person with the life interest must not have any legal ownership over their home. This means that, if they eventually move to residential aged care, the value of the home will not be included as an asset for aged care purposes.

An exception to this is if the person moves to residential aged care within five years of creating the interest, as Centrelink/DVA will apply the gifting rules if they believe the move could have been anticipated.

Managing the entry point to residential aged care

Your client will have a number of options to pay for their accommodation costs.

It is important to understand the different accommodation options, to find the solution which best suits the client's circumstances.

Accommodation costs

A person may have to pay an accommodation payment or contribution when they enter residential aged care. Accommodation payments and contributions are determined by a resident's assessable assets and income calculated by the means-tested amount (see 'Means-tested amount' on page 5).

Whether a resident pays an accommodation payment or a contribution will depend on whether their means-tested amount exceeds the maximum accommodation supplement at the time of entry.

The maximum accommodation supplement as at 20 March 2018 is $56.14 per day.

Accommodation contribution

An accommodation contribution will be payable by a low-means resident who is eligible for a partial Government subsidy towards the cost of their accommodation.

A low-means resident has a means-tested amount less than the maximum accommodation supplement at the time of entry.

A resident's accommodation contribution will be the lesser of:

- their means-tested amount
- the accommodation supplement payable to the aged care provider.

The means-tested amount will be recalculated quarterly by the DHS or the DVA and therefore, a resident's accommodation contribution may change over time depending on their means.

The maximum accommodation supplement of $56.14[1] per day will apply to aged care facilities which were built or significantly refurbished on or after 20 April 2012. A lower accommodation supplement of $36.59[1] per day will apply to non-refurbished facilities which meet building requirements.

Example

Peter enters residential aged care and has a means-tested amount of $30 per day. As this is less than the maximum accommodation supplement, he is considered a low-means resident and will pay an accommodation contribution.

Peter's accommodation contribution will be the lesser of:

- $30 per day
- $36.59 per day if the facility is non-refurbished
- $56.14 per day if the facility is refurbished.

If Peter's means-tested amount increases to $40 per day, he will have to pay $36.59 per day if the facility is non-refurbished or $40 per day if the facility is refurbished. Peter's accommodation costs will always be capped by the accommodation supplement payable to the aged care provider even if his means-tested amount increases above the maximum accommodation supplement.

Accommodation payment

An accommodation payment will be payable by an accommodation payment resident or where a resident chooses not to disclose their assets and income. These residents will not be eligible for any Government subsidy towards the cost of their accommodation.

An accommodation payment resident has a means-tested amount greater than or equal to the maximum accommodation supplement at the time of entry.

A resident's accommodation payment will be determined by negotiation with the aged care provider and cannot exceed the amount published by the provider (see 'Published prices' on page 12).

1 A different accommodation supplement amount can apply if the facility does not meet certain requirements. The applicable supplement can be obtained from the facility.

What are the payment options?

Residents have up to 28 days after entry to decide how to pay for their accommodation. They have the option of paying their accommodation payment or contribution as:

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

Any outstanding lump sum will be converted to the equivalent periodic payment using the maximum permissible interest rate (MPIR). The MPIR as at 1 April 2018 is 5.77% per annum. The interest rate is set at the date of entry and will not change unless the resident subsequently changes rooms.

(Outstanding lump sum x MPIR)/365 = periodic payment

Where a resident decides to pay for their accommodation as a RAD/RAC within 28 days after entry, they will have six months to make the payment. While the RAD/RAC remains unpaid, the resident must pay for their accommodation as a DAP/DAC.

Where the resident decides to pay for their accommodation as a combination of RAD/RAC and DAP/DAC, the DAP/DAC can be deducted from the RAD/RAC. In this case the provider can increase the DAP/DAC to compensate for the reduction in the RAD/RAC balance.

Example
John enters residential aged care on 1 April 2018 with an accommodation payment of $400,000. He decides to pay $200,000 as a RAD and $200,000 as a DAP deducted from the RAD every month. John's DAP will be $31.62 per day ($200,000 x 5.77%/365) in the first month.

At the start of the second month, John's RAD balance has reduced by $980 ($31.62 x 31) to $199,020. The amount he will now pay as a DAP is $200,980 ($400,000 – 199,020). John's DAP will increase to $31.77 per day ($200,980 x 5.77%/365) in the second month.

Facilities cannot accept a RAD/RAC within 28 days after entry, that will leave the resident with less than the minimum permissible asset amount. The minimum permissible asset amount as at 20 March 2018 is $48,500.

Facilities must refund the RAD/RAC balance:

- if the resident dies, within 14 days after the facility is shown the grant of probate or letters of administration
- if the resident leaves the facility, within 14 days after they leave
- if the resident moves to another aged care facility:
  - on the day the resident leaves the facility where they have provided more than 14 days' notice
  - within 14 days of providing notice where the resident leaves the facility within this period
  - within 14 days after the resident leaves the facility where no notice is provided.

Facilities are required to pay interest on the RAD/RAC balance at the base interest rate from the date the resident leaves the facility to the date RAD/RAC is refunded. The base interest rate as at 20 March 2018 is 3.75%. If the facility is late in refunding the RAD/RAC, it is required to pay interest on the RAD/RAC balance at the MPIR after the last day of the refund period.

The RAD/RAC balance will not be assessed for Centrelink/DVA purposes under the Assets Test and not deemed under the Income Test. However, the RAD/RAC balance will be assessed as an asset for aged care purposes, but not deemed, to determine the means-tested care fee (see 'Means-tested care fee' on page 14).

TRAP: If a family member pays a RAD/RAC on behalf of a resident, this will increase assets assessed for aged care purposes and therefore may increase a resident's means-tested care fee (see 'Means-tested care fee' on page 14).

The Government guarantees the repayment of the RAD/RAC if the facility becomes bankrupt or insolvent.

Published prices

Facilities are required to publish maximum accommodation prices for available rooms showing the RAD and the equivalent DAP and at least one example of a combination of RAD and DAP.

Published prices must be available on the Government's website www.myagedcare.gov.au, the provider's own website and in any written documents provided to prospective residents.

Facilities cannot charge an accommodation payment that exceeds the published price.

Where a provider wishes to charge a RAD or equivalent DAP greater than $550,000, the provider will need to apply and obtain approval from the Aged Care Pricing Commissioner.

Accommodation agreements

If a resident has to pay an accommodation payment or contribution, they will need to make an accommodation agreement with the aged care provider. This can be included as part of the resident agreement, or it may be separate.

The accommodation agreement should include:

- the agreed accommodation price
- details on the three payment options available to the resident (see 'What are the payment options?' on page 11)
- other conditions of the accommodation payment or contribution
- the refund amount if the resident leaves or dies
- any extra service costs
- the specific accommodation provided
- any services that the accommodation payment entitles the resident to receive
- conditions relating to changing rooms.

The accommodation agreement must be signed within 28 days after entry when the resident has decided how to pay for their accommodation.

Ongoing residential aged care costs

As well as considering accommodation costs, your client will need to know their ongoing care costs and how they will be met.

Basic daily fee

The basic daily fee is payable by all residents for the cost of daily living such as meals, power and laundry.

The basic daily fee is indexed on 20 March and 20 September each year in line with the indexation increases to the Age Pension. The basic daily fee as at 20 March 2018 is $50.16 per day (85% of the basic single Age Pension rate).

Means-tested care fee

Residents may be asked to pay a means-tested care fee as a contribution towards the cost of their ongoing care. The means-tested care fee is determined by a resident's assessable assets and income calculated by the means-tested amount (see 'Means-tested amount' on page 5).

A means-tested care fee will be payable where a resident's means-tested amount is greater than the maximum accommodation supplement or where a resident chooses not to disclose their assets and income.

A resident's means-tested care fee is calculated by deducting the maximum accommodation supplement from their means-tested amount. The maximum accommodation supplement as at 20 March 2018 is $56.14 per day.

The means-tested care fee will be recalculated quarterly by the DHS or the DVA and may change over time depending on the resident's means.

Means-tested care fee = means-tested amount – maximum accommodation supplement

A resident's means-tested care fee cannot exceed their cost of care, which is the sum of the basic subsidy amount and all primary supplements paid by the Government for the resident. Where a resident chooses not to disclose their assets and income, their means-tested care fee will equal their cost of care. A resident's cost of care will be determined by the DHS when the aged care provider submits a claim for payment.

The means-tested care fee has an annual indexed cap. When a resident reaches the annual cap, they will stop paying the means-tested care fee until the next anniversary date. The annual cap as at 20 March 2018 is $26,965.

In addition to the annual cap, the means-tested care fee has a lifetime indexed cap. When a resident reaches the lifetime cap, they will no longer pay the means-tested care fee. Where a resident was previously paying an income-tested fee for home care, the amount paid will also count towards the lifetime cap. The lifetime cap as at 20 March 2018 is $64,715.

TIP: The lifetime cap is indexed and therefore a resident will continue to pay the means-tested care fee until they reach the cap at that time.

Extra service or additional fees

Residents will pay extra service or additional fees where they choose a higher standard of accommodation or additional services. Facilities may offer rooms with dedicated extra services or rooms where additional services can be purchased separately.

A resident's extra service or additional fees will be determined by the aged care provider. Providers are required to publish extra service fees for available rooms with dedicated extra services.

Case studies

Decisions regarding the family home, paying for accommodation and where funds are invested can impact a resident's accommodation and ongoing care fees.

Keep versus sell the family home

For Centrelink/DVA purposes, where the home is kept, it will be automatically exempt under the Assets Test for two years.

For the purpose of the means-tested care fee, the value of the family home will be capped at $165,271 (if it is not occupied by a protected person) when calculating the asset-tested amount.

Where the family home is sold, the entire proceeds will be assessed for Centrelink/DVA and the means-tested care fee. For many residents, their Centrelink/DVA benefits will be higher and their means-tested care fee will be lower if the home is kept.

Structuring accommodation payments

The RAD/RAC balance is exempt for Centrelink/DVA purposes under the assets and income test. Paying a higher RAD may increase Centrelink/DVA benefits however residents cannot pay a RAD which exceeds the published price.

For the purpose of the means-tested care fee, the RAD/RAC balance is assessed when calculating the asset-tested amount.

More consideration may be given to keeping the family home with the value of the home capped at $165,271 (if it is not occupied by a protected person) compared to selling the home to pay a RAD/RAC where the entire balance is assessed for the purposes of the means-tested care fee.

Case study

Irene is 86, single, a homeowner and was approved for residential aged care on 1 April 2018. Her home is worth $750,000 and when she moves out, she expects to receive net rent of $25,000 per annum. Irene has $300,000 in a bank account which she has been investing in term deposits earning interest of 3.0% per annum and $5,000 in personal effects. Irene has other expenses of $50 per week.

The aged care provider has an advertised accommodation price of $450,000 as a RAD or $71.14 per day as a DAP ($450,000 x 5.77%/365).

Irene will be considered an accommodation payment resident and will pay the published accommodation payment and a means-tested care fee.

If Irene pays $150,000 as a RAD and the $300,000 balance of the advertised accommodation price as a DAP, and invests $150,000 in term deposits, what will her cash flow position and estate value be?

Figure 4: Irene's outcome with $150,000 RAD and $300,000 DAP

Cash flow	
Age Pension	$11,221
Investment income[i]	$4,500
Rental income	$25,000
Expenses	($2,600)
Total	**$38,121**
Care fees	
Basic daily fee	$18,308
Means-tested care fee	$9,979
DAP	$17,310
Total	**$45,597**
Net cash flow[ii]	**($7,973)**
Estate value[iii]	**$1,065,651**

Results based on Challenger Aged Care calculator as at 20 March 2018.
Assumptions:

i. Term deposit earning 3.0% p.a.

ii. After tax and Medicare Levy.

iii. Estate value includes capital growth of 2.50% on the home.

If Irene pays $150,000 as a RAD and $300,000 as a DAP, she will have a cash flow deficit of $7,973 in the first year and her estate will be worth $1,065,651 at the end of the first year.

If Irene sells her home, pays the $450,000 accommodation payment as a RAD and invests $600,000 in term deposits, what will her cash flow position and estate value be?

Figure 5: Irene's outcome with $450,000 RAD and $600,000 term deposit

Cash flow	Keep home	Sell home
Age Pension	$11,221	$12,034
Investment income[i]	$4,500	$18,000
Rental income	$25,000	N/A
Expenses	($2,600)	($2,600)
Total	**$38,121**	**$27,434**
Care fees		
Basic daily fee	$18,308	$18,308
Means-tested care fee	$9,979	$16,914
DAP	$17,310	N/A
Total	**$45,597**	**$35,222**
Net cash flow[ii]	**($7,973)**	**($7,788)**
Estate value[iii]	**$1,065,651**	**$1,047,087**

Results based on Challenger Aged Care calculator as at 20 March 2018.
Assumptions:
i. Term deposit earning 3.0% p.a.
ii. After tax and Medicare Levy.
iii. Estate value includes capital growth of 2.50% on the home.

If Irene sells her home, her Age Pension entitlement will increase to $12,034 per annum as rent income is no longer assessed. Her means-tested care fee will increase to $16,914 per annum a result of the increase in assessable assets.

Irene will also have a cash flow deficit of $7,788 in the first year and her estate will be worth $1,047,087 at the end of the first year.

Investment strategies

The means-tested care fee is determined by Centrelink/DVA assessed assets and income, the family home and the RAD/RAC balance. Investment strategies that reduce Centrelink/DVA assessed assets and income play an important role to increase Centrelink/DVA benefits and reduce the means-tested care fee.

Financial investments

Financial investments include cash, shares, managed funds, deprived assets and short-term income streams (term of five years or less and not greater than life expectancy).

The market value of financial investments is assessed for Centrelink/DVA purposes under the Assets Test and is deemed under the Income Test.

The deeming rates as at 20 March 2018 are as follows:

Single	Couple (combined)	Deeming rate
Up to $50,200	Up to $83,400	1.75%
Above $50,200	Above $83,400	3.25%

Investment bond within a private trust

An investment bond owned by a person is assessed as a financial investment for Centrelink/DVA purposes.

Where an investment bond is owned by a private trust, only the taxable income of the trust is assessed for Centrelink/DVA purposes under the Income Test. If there are no withdrawals from the investment bond, there will be no taxable income and therefore no income assessed under the Income Test.

Whether the investment bond is owned by a person or a private trust, the balance of the investment bond is assessed for Centrelink/DVA purposes under the Assets Test.

Challenger CarePlus

Challenger CarePlus (CarePlus) is designed for people who have been assessed as being eligible to receive Government aged care services.

CarePlus is comprised of two components:

CarePlus Annuity provides regular payments for the lifetime of the care recipient to help cover the costs of aged care and living expenses.

CarePlus Insurance pays the full amount invested (the sum insured) to the care recipients estate and/or nominated beneficiary(ies)[2].

The Centrelink/DVA assessment of CarePlus under the Assets and Income Tests is the sum of the asset and income assessments for both CarePlus Annuity and CarePlus Insurance.

CarePlus Annuity is assessed using the deduction method for Centrelink/DVA purposes as outlined in the table below.

CarePlus Annuity:

Deduction amount = purchase price / life expectancy

Assessable income = annual payment – annual deduction amount

Assessed asset value = purchase price – deduction amount x term elapsed

CarePlus Insurance is assessed as a life insurance policy for Centrelink/DVA purposes.

There are no regular payments from CarePlus Insurance and therefore no income is assessed under the Income Test. The surrender value of CarePlus Insurance is assessed under the Assets Test.

CarePlus Insurance:

Assessable income = Nil

Assessed asset vale = surrender value

Please refer to the CarePlus Technical Guide for more information on the Centrelink/DVA as well as tax treatment of CarePlus.

Case study

Irene is 86, single and was approved for residential aged care on 1 April 2018. She sold her home and has $1,050,000 in a bank account which she has been investing in term deposits earning interest of 3.0% per annum. Irene has other expenses of $50 per week.

The aged care provider has an advertised accommodation price of $450,000 as a RAD or $71.14 per day as a DAP ($450,000 x 5.77%/365).

Irene will be considered an accommodation payment resident and will pay the published accommodation payment and a means tested care fee.

If Irene pays the $450,000 accommodation payment as a RAD and invests $600,000 in term deposits, what will her cash flow position and estate value be?

Figure 6: Irene's outcome with $600,000 term deposit

Cash flow	
Age Pension	$12,034
Investment income[i]	$18,000
Expenses	($2,600)
Total	**$27,434**
Care fees	
Basic daily fee	$18,308
Means-tested care fee	$16,914
Total	**$35,222**
Net cash flow	**($7,788)**
Estate value	**$1,047,087**

Based on Challenger Aged Care calculator as at 20 March 2018.
Assumptions:
i. Term deposit earning 3.0% p.a.

2 For South Australian residents the amount paid to the estate is reduced by any stamp duty payable.

If Irene invests entirely in term deposits, she will have a cash flow deficit of $7,788 in the first year and her estate will be worth $1,047,087 at the end of the first year.

If Irene purchases Challenger CarePlus with $550,000 and invests $50,000 in term deposits, what will her cash flow position and estate value be?

Figure 7: Irene's outcome with $550,000 CarePlus and $50,000 term deposit

Cash flow	Term deposit	CarePlus and term deposit
Age Pension	$12,034	$17,845
CarePlus payment[i]	N/A	$16,992
Investment income[ii]	$18,000	$1,500
Expenses	($2,600)	($2,600)
Total	**$27,434**	**$33,737**
Care fees		
Basic daily fee	$18,308	$18,308
Means-tested care fee	$16,914	$14,012
Total	**$35,222**	**$32,320**
Net cash flow	**($7,788)**	**$1,417**
Estate value	**1,047,087**	**$1,056,292**

Results based on Challenger Aged Care calculator as at 20 March 2018.

i. Based on a female (date of birth 01/01/1932), residing in NSW, with monthly payments and no adviser fees.

ii. Term deposit earning 3.0% p.a.

If Irene purchases Challenger CarePlus, her Age Pension entitlement will increase to $17,845 per annum as a result of the decrease in assessable assets. Her means-tested care fee will decrease to $14,012 per annum as result of the decrease in deemed income from financial investments, and the decrease in assessable assets.

Irene will also have a cash flow surplus of $1,417 in the first year and will be $9,205 better off.

Irene's estate will be worth $1,056,292 at the end of the first year, and compared to investing entirely in term deposits she will be better off by $9,205. Irene could also nominate beneficiary(ies) to receive the sum insured directly from Challenger CarePlus.

Other things to consider

There are other important things to consider when it comes to aged care.

DVA pensions

The rules regarding residential aged care and DVA payments are complex, as the various payments available are treated differently.

Figure 8: A summary of the income-tested amount treatment of DVA pensions

DVA payment	Assessment for the income-tested amount
Service Pension	Assessed as income (minus minimum Pension Supplement and Energy Supplement).
War Widow(er) Pension	Assessed as income (minus Energy Supplement and 4% Goods and Services Tax (GST) component) unless the war widow has qualifying service.
Income Support Supplement	Assessed as income (minus minimum Pension Supplement).
Disability Pension	Assessed as income (minus 4% GST component) unless the recipient: • has qualifying service • has a partner with qualifying service • is a war widow(er).

For people who receive only a Service Pension, the rules work the same way as outlined previously in regard to the Age Pension. For those receiving a War Widow(er)'s Pension or a Disability Pension, they are not means tested and will continue to be payable regardless of whether the resident keeps or sells the family home or how funds are invested.

The Income Support Supplement is payable to those receiving a War Widow(er)'s Pension and is subject to a means test. The thresholds can be found on the DVA website dva.gov.au.

Illness separated rate

A couple separated by illness will be eligible for a higher rate of Age Pension. A couple is 'separated by illness' when one or both members of the couple enter residential aged care.

Couples in this situation will be assessed jointly for Centrelink/DVA purposes under the Assets and Income Tests, but each member of the couple is eligible for the single Age Pension rate. The maximum combined rate for an illness separated couple as at 20 March 2018 is $47,195 per annum.

The cut-out thresholds under the Assets Test increases to $986,000 for homeowners and $1,189,000 for non-homeowners. The cut-out threshold under the Income Test increases to $102,190 per annum.

Net medical expenses tax offset

The net medical expenses tax offset (NMETO) has been phased out from 1 July 2013 with transitional rules for people who are in residential aged care. The NMETO will continue to be available for eligible out-of-pocket medical expenses relating to aged care until 1 July 2019.

A tax offset of 20% is available for taxpayers who have adjusted taxable income up to $90,000 ($180,000 for couples) and have net medical expenses above $2,299 (2016-17). Taxpayers who have adjusted taxable income above these thresholds can claim a tax offset of 10% for net medical expenses above $5,423 (2016-17). There is no upper limit on how much can be claimed.

Residential aged care fees which are considered medical expenses include:

- DAP/DAC
- basic daily fee
- means-tested care fee
- extra service or additional fees.

Estate planning

It is important to ensure that appropriate legal documents such as enduring powers of attorney and enduring powers of guardianship are in place for situations where residents lose mental capacity. Wills should be reviewed to ensure that ownership of assets is passed on to the intended beneficiaries.

Home care

(from 1 July 2014)

As with residential aged care, there is a process to follow when providing home care advice to see that your client is appropriately assessed and approved, finds a home care provider and organises their finances to suit their circumstances.

Advising your clients about home care

There are typically three steps to access home care.

Figure 9: The steps to advising on home care

Step 1: Approval	
ACAT assessment	Before they receive home care, your client's health must be assessed to determine their eligibility for a Home Care Package. The assessment can be performed by any doctor, nurse or social worker who is a member of an ACAT.
Step 2: Find a home care provider	
Identify the services your client needs and how often they require them.	If your client is eligible for a home care package, they will be placed in the national queue and will be contacted when their package becomes available. While waiting in the queue they should start researching home care providers. A list of providers can be found on the Government's aged care website www.myagedcare.gov.au. When your client reaches the top of the queue, they will receive a letter with details of their home care package. They will have 56 days to take up their package and enter into a home care agreement with their chosen provider.
Step 3: Organise finances	
Your client may be required to contribute to the cost of their ongoing care.	Upon entering into a home care agreement, your client may be charged a basic daily fee by the home care provider. There may also be an income-tested care fee determined by your client's level of income. The DHS or the DVA will work out the income-tested care fee.

Figure 10: You can help your clients with their home care decisions

Your client's concern	What they need to do	How you can help
How much will they pay for ongoing care?	Determine which ongoing fees apply to them. This could include the basic daily fee and an income-tested care fee.	There are strategies to reduce the fees they pay. A poorly executed plan can result in a lower Age Pension entitlements and higher aged care fees.
How do they maximise their Centrelink/DVA benefits?	Determine how the Centrelink/DVA Assets and Income Tests apply to them.	Your client's choice of investments may help them to access or retain benefits, including the Commonwealth Seniors Health Card.
How can they afford to pay for ongoing care?	Determine whether their capital can be invested to provide enough cash flow to meet ongoing care costs.	You can assess your client's investment options and help them maximise their income.
Will they have something to leave to their family?	Identify which of their assets can be included in their estate and the best way to do so.	You can help your clients identify what assets can be left to their estate.
How much tax will they need to pay?	Identify which tax offsets apply to them. They also need to be aware of any issues that may arise if they change their investments.	An overall review of your client's situation will identify the various tax offsets that may be available to them, including the low income, seniors and pensioners and net medical expenses tax offsets.

Home Care Packages Program

The Home Care Packages Program provides four levels of home care packages.

Figure 11: Different levels of home care packages

Level	Support provided	Package value[i]
Level 1	Basic care needs	$11,925
Level 2	Low level care needs	$18,604
Level 3	Intermediate care needs	$36,387
Level 4	High level care needs	$53,359

i. As at 20 March 2018 and includes the basic daily fee

From 1 August 2013, the Home Care Packages Program replaced the Community Packaged Care Programs, which comprised:

- Community Aged Care Package (CACP)
- Extended Aged Care at Home (EACH)
- Extended Aged Care at Home Dementia (EACHD).

ACAT assessment

Before receiving a home care package, a person must be assessed and approved by a member of an ACAT. ACAT assessments are a free service provided by the Government to determine eligibility for Australian Government Subsidised Care Services.

From 27 February 2017, there were changes to the ACAT assessment for home care packages. ACAT approvals on or after this date will be specific to each package level and a reassessment will be required to move to a higher level.

Before 27 February 2017, ACAT approvals were grouped into two assessment bands:

- Home Care Levels 1 and 2
- Home Care Levels 3 and 4

Existing approvals on 27 February 2017 will automatically be approved at the higher level within the assessment band.

ACAT approvals remain valid indefinitely unless the approval was granted for a specific time period.

Ongoing home care costs

Your client will need to know their ongoing care costs and how they can be met.

Basic daily fee

People receiving home care may pay a basic daily fee.

The basic daily fee is indexed on 20 March and 20 September each year in line with the indexation increases to the Age Pension. The basic daily fee as at 20 March 2018 is $10.32 per day (17.50% of the basic single Age Pension).

Income-tested care fee

People receiving home care may also be asked to pay an income-tested care fee as a contribution towards the cost of their ongoing care. The income-tested care fee is determined by a recipient's assessable income.

An income-tested care fee will be payable where a recipient's assessable income is greater than the income-free area.

The income-tested care fee is calculated in a similar way to the income-tested amount in residential aged care.

Income-tested care fee = (assessable income – income-free area) x 50%

Assessable income includes Centrelink/DVA assessed income and the recipient's income support payment (such as their Age Pension or Service Pension but excluding the minimum Pension Supplement and Energy Supplement) as is the case for the income-tested amount in residential aged care.

Where a person is a member of a couple, half of the combined assessable income of the couple plus their own income support payment is assessed.

Figure 12: The income-free areas as at 20 March 2018

Single	$26,660 per annum
Couples[3] (each)	$20,704 per annum

The income-tested care fee will be recalculated quarterly by the DHS or the DVA and may change depending on the recipient's income.

A recipient's income-tested care fee cannot exceed their cost of care, which is the sum of the basic subsidy amount and all primary supplements paid by the Government for the recipient.

The income-tested care fee has separate annual indexed caps depending on whether the recipient's assessable income is greater than the income threshold.

Figure 13: Income thresholds as at 20 March 2018

Single	$51,563 per annum
Couples[4] (each)	$39,473 per annum

The annual caps as at 20 March 2018 are $5,393 for a recipient who has not exceeded the income threshold and $10,786 for a recipient who has.

Unlike residential aged care, the annual caps are pro-rated to daily amounts. The equivalent daily amounts are $14.81 and $29.63 respectively.

Figure 14: Income-tested care fees for singles

Assessable income (single)	Income-tested care fee
Less than $26,660	Nil
Between $26,660 and $51,563	Lesser of: • (Assessable income – $26,660) x 50% • Basic subsidy amount + primary supplements • $5,393 (annual cap)
Above $51,563	Lesser of: • (Assessable income – $51,563) x 50% + $5,393 • Basic subsidy amount + primary supplements • $10,786 (annual cap)

3 For couples who are illness separated the income free area is $26,192 (each).

4 For couples who are illness separated the income thresold is $51,095 (each).

Figure 15: Income-tested care fees for couples

Assessable income (couple each)	Income-tested care fee
Less than $20,704	Nil
Between $20,704 and $39,473	Lesser of: • (Assessable income – $20,704) x 50% • Basic subsidy amount + primary supplements • $5,393 (annual cap)
Above $39,473	Lesser of: • (Assessable income – $39,473) x 50% + $5,393 • Basic subsidy amount + primary supplements • $10,786 (annual cap)

In addition to the annual cap, the income-tested care fee has a lifetime indexed cap. When a recipient reaches the lifetime cap, they will no longer pay the income-tested care fee. Where a recipient moves from home care to residential aged care, income-tested care fees paid for home care will be added to means-tested care fees paid in residential aged care and count towards the lifetime cap. The lifetime cap as at 20 March 2018 is $64,715.

TIP: The lifetime cap is indexed and therefore a recipient will continue to pay the income-tested care fee until they reach the cap at that time.

The income assessment process

A person's income will be assessed by the DHS or the DVA where they complete the aged care fees income assessment form.

It is not compulsory to have an income assessment however, a recipient may pay higher ongoing care costs if they don't have an assessment.

A person receiving Centrelink/DVA benefits will still need to complete the form to have an income assessment however, only parts of the form will need to be completed.

Case study

Decisions regarding where funds are invested can impact a recipient's Age Pension entitlement and ongoing care fees.

Investment strategies

The income-tested care fee is determined by Centrelink/DVA assessed income. Investment strategies that reduce Centrelink/DVA assessed income play an important role to increase Centrelink/DVA benefits and reduce the income-tested care fee.

Case study

Matt is 80, single, a homeowner and was approved for home care level 2 on 1 April 2018. His home is worth $500,000. Matt has $500,000 in a bank account which he has been investing in term deposits earning interest of 3.0% per annum. Matt has other expenses of $20,000 per annum.

If Matt continues to invest in term deposits, what will his cash flow and estate value be?

Figure 16: Matt's outcome with $500,000 term deposit

Cash flow	
Age Pension	$4,390
Investment income[i]	$15,000
Expenses	($20,000)
Total	**($610)**
Care fees	
Basic daily fee	$3,767
Income-tested care fee	$0
Total	**$3,767**
Net cash flow	**($4,377)**
Estate value[ii]	**$1,008,123**

Based on Challenger Aged Care calculator as at 20 March 2018.
i. Term deposit earning 3.0% p.a.
ii. Estate value includes capital growth of 2.50% on the home.

If Matt invests entirely in term deposits, he will have a cash flow deficit of $4,377 in the first year and his estate will be worth $1,008,123 at the end of the first year.

If Matt purchases CarePlus with $400,000 and invests $100,000 in term deposits, what will his cash flow position and estate value be?

Figure 17: Matt's outcome with $400,000 CarePlus and $100,000 term deposit

Cash flow	**Term deposit**	**CarePlus and term deposit**
Age Pension	$4,390	$8,661
CarePlus payment[i]	N/A	$12,187
Investment income[ii]	$15,000	$3,000
Expenses	($20,000)	($20,000)
Total	**($610)**	**$3,847**
Care fees		
Basic daily fee	$3,767	$3,767
Income-tested care fee	$0	$0
Total	**$3,767**	**$3,767**
Net cash flow	**($4,377)**	**$80**
Estate value[iii]	**$1,008,123**	**$1,012,581**

Based on Challenger Aged Care calculator as at 20 March 2018.
i. Based on a male (date of birth 01/07/1931), residing in NSW, monthly payments and no adviser fees.
ii. Term deposit earning 3.0% p.a.
iii. Estate value includes capital growth of 2.50% on the home.

If Matt purchases CarePlus, his Age Pension entitlement will increase to $8,661 per annum as a result of the decrease in assessable assets.

Matt will also have a cash flow surplus of $80 in the first year and will be $4,457 better off.

Matt's estate will be worth $1,012,581 at the end of the first year, and compared to investing entirely in term deposits he will be better off by $4,457.

Residential aged care

(entry prior to 1 July 2014)

People who entered residential aged care before 1 July 2014 will have the previous rules grandfathered. The new rules will apply to these people if they cease to be provided with care for more than 28 days or if they change facilities and decide to have the new rules apply to them.

Accommodation costs

Accommodation bonds and charges instead of accommodation payments and contributions were payable for those in care before 1 July 2014.

An accommodation bond was payable by a person entering either a low level care facility or a high level care facility with extra services.

An accommodation charge was payable by a person entering a high level care facility without extra services.

Accommodation bond

If a person chose to have an asset assessment, the maximum bond was determined by their assessable assets at the time of entry.

Facilities could not accept an accommodation bond that would leave the resident with less than the minimum permissible asset amount. The minimum permissible asset amount as at 20 March 2018 is $48,500.

The accommodation bond was negotiated with the aged care facility at the time of entry subject to the maximum bond.

Where a person chose not to have an asset assessment, the accommodation bond was determined by negotiation alone with no maximum amount.

What were the payment options?

The accommodation bond could be paid as a lump sum, periodic payments, or a combination of both.

Where a resident paid for their accommodation bond as a lump sum, the aged care facility could keep any income earned on the bond and deduct a retention amount for up to five years.

The maximum retention amount the facility could deduct was determined by the accommodation bond paid and the maximum retention amount allowable. There were two bond threshold amounts that impacted the maximum bond retention amount.

Figure 18: Maximum retention amounts as at 20 March 2018

Accommodation bond paid	Maximum annual retention
Bonds above $42,840	$4,284
Bonds up to $22,200	$2,220
Where the bond was between the two thresholds, the maximum retention amount was calculated as 10% of the bond.	

Where a resident moves to another aged care facility, they may be able to transfer the accommodation bond and should not be asked to pay a bond greater than the refund given by the previous facility. The balance of the five year retention amount period would carry over to the new facility.

Facilities must refund the accommodation bond balance:

- if the resident dies, within 14 days after the facility is shown the grant of probate or letters of administration
- if the resident leaves the facility, within 14 days after they leave
- if the resident moves to another aged care facility:
  - on the day the resident leaves the facility where they have provided more than 14 days' notice
  - within 14 days of providing notice where the resident leaves the facility within this period
  - within 14 days after the resident leaves facility where no notice is provided.

The accommodation bond balance is not assessed for Centrelink/DVA purposes under the Assets Test and is not deemed under the Income Test.

The Government guarantees the repayment of the accommodation bond (less retention amounts) if the facility becomes bankrupt or insolvent.

Where a resident paid for their accommodation bond as a periodic payment, the aged care facility would charge interest on the outstanding bond amount up to the MPIR. The MPIR as at 1 April 2018 is 5.77% per annum. The interest rate was set at the date of entry and would not change while the person was a resident.

Accommodation charge

As with the accommodation bond, if a person chose to have an asset assessment, the maximum accommodation charge was determined by their assessable assets at the time of entry.

Figure 19: Maximum accommodation charge as at 20 March 2018

Assessable assets	Maximum daily charge
Up to $48,500	Nil
Between $48,500 and $124,607	(Assessable assets – $48,500)/2,080
Above $124,607	$36.59

The accommodation charge was set at the date of entry and would not change while the person was a resident even if their assessable assets changed.

Ongoing care costs

Basic daily fee

The basic daily fee was payable by all residents for the cost of daily living such as meals, power and laundry. There were no changes to the basic daily fee under the aged care reforms, which remains at 85% of the basic single Age Pension.

The basic daily fee is indexed on 20 March and 20 September each year in line with the indexation increases to the Age Pension. The basic daily fee as at 20 March 2018 is $50.16 per day.

Income-tested fee

The income-tested fee instead of the means-tested care fee was payable by those in care before 1 July 2014.

Residents may have been asked to pay an income-tested fee as a contribution towards the cost of their ongoing care. The income-tested fee was determined by a resident's assessable income.

Income-tested fee = (assessable income – income-free area) x 5/12

Assessable income includes Centrelink/DVA assessed income and the resident's income support payment (such as their Age Pension or Service Pension but excluding the minimum Pension Supplement and Energy Supplement).

Where a person is a member of a couple, half of the combined assessable income of the couple plus their own income support payment is assessed.

Figure 20: The income-free areas as at 20 March 2018

Single	$26,660 per annum
Couples (each)	$26,192 per annum

The income-tested fee will be recalculated quarterly by the DHS or DVA and may change depending on the resident's income.

A resident's income-tested fee cannot exceed their cost of care which is the sum of the basic subsidy amount and all primary supplements paid by the Government for the resident.

The income-tested fee has a daily indexed cap. The daily indexed cap as at 20 March 2018 is $79.66.

Extra service fees

Residents would pay extra service fees where they chose a room with a higher standard of accommodation or dedicated additional services. There were minor changes to extra service fees under the aged care reforms with facilities able to offer rooms where additional services can be purchased separately from 1 July 2014.

A resident's extra service fees were determined by the aged care facility.

Learn more

Challenger has tools, calculators and marketing materials to help you handle the intricacies of aged care:

- Challenger Aged Care Calculator. You can use the tool to determine your client's aged care costs and Age Pension entitlements.
- 'Aged care – what you need to know', a flyer providing a step-by-step approach to planning and aged care with tips on where to find answers.
- Our Fast Facts tool helps you check rates, threshholds, taxes, life tables and more on the run. This includes The Association of Superannuation Funds of Australia (ASFA) retirement standard and social security assessment rules for income streams.

For more information, visit adviseronlineportal.com.au

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