



# Jane

## Achieving income and estate planning security in aged care

**Client** Jane

**Age** 86

**Assets** After paying a RAD of \$350,000, Jane has \$300,000 in term deposits, \$50,000 in cash and \$5,000 in personal effects

**Goals** To afford her ongoing aged care fees and living expenses, provide an inheritance for her children and retain access to some funds.

Jane is 86 and widowed. She was living on her own for some time after her husband passed away, but has become frail with age.

After researching her options with the help of her family, Jane was assessed by an Aged Care Assessment Team as eligible for residential care and found a suitable aged care home to move into.

Jane's residential aged care home has an advertised accommodation payment of \$350,000. She agrees to that amount and sells her home to pay the Refundable Accommodation Deposit (RAD) of \$350,000. She now has \$300,000 in term deposits and \$50,000 in cash and wants to explore other strategies for this money.

If Jane leaves her money in cash and term deposits, based on rates and thresholds as at 20 March 2018, her year one estimated Age Pension entitlement is \$20,471. Also, her total aged care fees are \$28,356 (consisting of a basic daily care fee of \$18,308 and a means-tested care fee of \$10,048).

Jane visits a financial adviser to find out whether she will be able to pay for her aged care fees and \$5,000 per annum of other ongoing living expenses.

# Challenger

## Achieving income and estate planning security

### The financial adviser's recommendation

The first strategy Jane's financial adviser considers is to retain her existing portfolio of term deposits and cash.

Her financial adviser estimates, as illustrated in Figure 2, if the strategy was implemented, Jane's total ongoing aged care costs over the next three years are projected to be \$85,729.

After factoring in her total income over the three year period, including the Age Pension, there is a total shortfall of \$6,311 that will need to be funded.

Jane's financial adviser explores alternate strategies to help improve this outcome. These include an investment bond within a private trust and an investment in Challenger CarePlus (CarePlus).

Her adviser explains that the most appropriate strategy will be one that helps meet her ongoing cash flow and estate planning wishes.

CarePlus is designed especially for those who are eligible to receive Government-subsidised aged care services (including

both home and residential care) or who are living in an approved residential aged care facility.

CarePlus provides Jane with a guaranteed regular income for the rest of her life to help cover the costs of aged care and living expenses.

When Jane passes away, 100%<sup>1</sup> of the amount she invested will be paid to her nominated beneficiaries, in this case her children, and/or her estate.

CarePlus may also help reduce Jane's aged care fees as a result of the effective way CarePlus interacts with Centrelink and aged care rules.

To help Jane achieve her objectives, her financial adviser recommends an investment of \$300,000 into CarePlus.

The remaining \$50,000 will stay in cash in case Jane needs access to funds. Figure 1 compares the outcomes of the different strategies in year one. Figure 2 illustrates the outcome after three years.

By investing in CarePlus, Jane can improve her cash flow in year one. She can also maximise the value of any benefit payable to her children directly or via her estate when she passes away.

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

	Strategy 1	Strategy 2	Strategy 3
Year one	Retain \$350,000 in cash and term deposits	Invest \$300,000 in private trust/investment bond, \$50,000 in cash	Invest \$300,000 in Challenger CarePlus, \$50,000 in cash
<b>Cash flow</b>			
Investment income	\$10,500	\$1,500	\$1,500
CarePlus	\$0	\$0	\$9,269
Age Pension	\$20,471	\$23,598	\$23,286
Less personal expenses	\$5,000	\$5,000	\$5,000
<b>Total</b>	<b>\$25,971</b>	<b>\$20,098</b>	<b>\$29,055</b>
<b>Aged care fees</b>			
Basic daily fee	\$18,308	\$18,308	\$18,308
Means-tested care fee	\$10,048	\$8,515	\$7,826
<b>Total</b>	<b>\$28,356</b>	<b>\$26,823</b>	<b>\$26,134</b>
<b>Net cash flow</b>	<b>(\$2,385)</b>	<b>(\$6,725)</b>	<b>\$2,921</b>
<b>Estate value (at the end of year one)</b>	<b>\$352,489</b>	<b>\$354,449</b>	<b>\$357,796</b>

Results from the Challenger Aged Care Calculator as at 20 March 2018. Assumes bank account and term deposit earning rate of 3.0% p.a., no withdrawal from the investment bond earning 3.0% p.a. less tax of 30%, Challenger CarePlus based on a female (date of birth 01/07/1931), residing in NSW, monthly payments and no adviser fees. The estate value excludes the RAD of \$350,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

<sup>1</sup> CarePlus provides a death benefit of 100% of the total amount invested, however, if you reside in South Australia stamp duty (currently 1.5% of the insurance premium) will be deducted from the sum insured before it is distributed to beneficiaries and/or the estate.

## Strategy considerations

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

- a guaranteed income stream for life from CarePlus to help pay for aged care fees
- a \$2,815 increase in Age Pension entitlement and a reduction in her means-tested care fee of \$2,222 in year one
- improved net cash flow of \$5,306 in year one, increasing to \$15,800 over a three year period
- an increased benefit to the estate of \$5,307 at the end of year one, increasing to \$15,803 at the end of year three (under each strategy the RAD of \$350,000 will be paid to the estate).

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

## The value of advice

A financial adviser can:

- 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
- 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.

These matters are also covered in the product disclosure statement for CarePlus, which can be obtained from your financial adviser or at [challenger.com.au](http://challenger.com.au).

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

	Strategy 1	Strategy 2	Strategy 3
<b>First three years</b>	<b>Retain \$350,000 in cash and term deposits</b>	<b>Invest \$300,000 in private trust/investment bond, \$50,000 in cash</b>	<b>Invest \$300,000 in Challenger CarePlus, \$50,000 in cash</b>
<b>Total cash flow</b>	\$79,418	\$61,093	\$88,890
<b>Total aged care fees</b>	\$85,729	\$81,393	\$79,401
<b>Net cash flow</b>	(\$6,311)	(\$20,300)	\$9,489
<b>Estate value (at the end of year 3)</b>	<b>\$348,322</b>	<b>\$353,633</b>	<b>\$364,125</b>

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People in, or entering aged care may wish to speak with their 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 their cash flow position by reducing their aged care costs and increasing their Age Pension
- achieve greater estate planning certainty.

To find out more about aged care options, including whether Challenger CarePlus might be suitable, talk to your financial adviser, visit [challenger.com.au](http://challenger.com.au) or call the Challenger Investor Services team on 13 35 66.

Adviser contact details

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