



Donald

Achieving income and estate planning security in aged care

Client Donald

Age 83

Assets After paying a RAD of \$550,000, Donald has \$700,000 in term deposits, \$50,000 in cash and \$5,000 in personal effects

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

Donald is 83 and widowed. He was living on his own for some time after his wife passed away, but has become frail with age.

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

Donald's chosen room in the residential aged care home has an advertised accommodation payment of \$550,000. He agrees to that amount and sells his home to pay the Refundable Accommodation Deposit (RAD) of \$550,000. He now has \$700,000 in term deposits and \$50,000 in cash and wants to explore other strategies for this money.

If Donald leaves his money in cash and term deposits, based on rates and thresholds as at 20 March 2018, his year one estimated Age Pension entitlement is \$1,305. Also, his total aged care fees are \$38,825 (consisting of a basic daily care fee of \$18,308 and a means-tested care fee of \$20,517).

Donald visits a financial adviser to find out what his aged care costs will be and how it will affect his cashflow which includes \$5,000 per annum of other ongoing living expenses.

Challenger

Achieving income and estate planning security

The financial adviser's recommendation

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

His financial adviser estimates, as illustrated in Figure 2, if the strategy was implemented, Donald's total ongoing aged care costs over the next three years are projected to be \$116,248. After factoring in his total income over three years, including the Age Pension, there is a total shortfall of \$54,814 that will need to be funded.

Donald'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).

His adviser explains that the most appropriate strategy will be one that helps meet his 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 Donald with a guaranteed regular income for the rest of his life to help cover the costs of aged care and living expenses.

When Donald passes away, 100%¹ of the amount he invested will be paid to his nominated beneficiaries, in this case his children, and/or his estate.

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

To help Donald achieve his objectives, his financial adviser recommends an investment of \$650,000 into CarePlus.

The remaining \$100,000 will stay in cash in case he needs access to additional funds. Figure 1 compares the outcomes of the different strategies in year one. Figure 2 illustrates the outcome for a period of three years.

By investing in CarePlus, Donald can improve his cash flow in year one. He can also maximise the value of any benefit payable to his children directly or via his estate when he passes away.

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

	Strategy 1	Strategy 2	Strategy 3
Year one	Retain \$750,000 in cash and term deposits	Invest \$650,000 in private trust/investment bond, \$100,000 in cash	Invest \$650,000 in Challenger CarePlus, \$100,000 in cash
Cash flow			
Investment income	\$22,500	\$3,000	\$3,000
CarePlus	\$0	\$0	\$19,853
Age Pension	\$1,305	\$1,305	\$8,349
Less personal expenses	\$5,000	\$5,000	\$5,000
Total	\$18,805	(\$695)	\$26,202
Aged care fees			
Basic daily fee	\$18,308	\$18,308	\$18,308
Means-tested care fee	\$20,517	\$20,582	\$18,458
Total	\$38,825	\$38,890	\$36,766
Net cash flow	(\$20,020)	(\$39,585)	(\$10,564)
Estate value (at end of year one)	\$734,855	\$728,940	\$744,311

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 male (date of birth 01/07/1934), residing in NSW, monthly payments and no adviser fees. The estate value excludes the RAD of \$550,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

¹ 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, Donald has been able to achieve:

- a guaranteed income stream for life from CarePlus to help pay for aged care fees
- a \$7,044 higher Age Pension entitlement and a reduction in his means-tested care fee of \$2,059 in year one
- improved net cash flow of \$9,456 in year one, increasing to \$28,473 over a three year period
- an increased benefit to the estate of \$9,456 at the end of year one, increasing to \$28,471 at the end of year three (under each strategy the RAD of \$550,000 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 Donald 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 might have, and your risk tolerance.

Some 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.

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

	Strategy 1	Strategy 2	Strategy 3
First three years	Retain \$750,000 in cash and term deposits	Invest \$650,000 in private trust/investment bond, \$100,000 in cash	Invest \$650,000 in Challenger CarePlus, \$100,000 in cash
Total cash flow	\$61,434	\$1,983	\$84,281
Total aged care fees	\$116,248	\$116,097	\$110,622
Net cash flow	(\$54,814)	(\$114,114)	(\$26,341)
Estate value (at end of year three)	\$699,821	\$682,336	\$728,292

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 male (date of birth 01/07/1934), residing in NSW, monthly payments and no adviser fees. The estate value excludes the RAD of \$550,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

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 or call the Challenger Investor Services team on 13 35 66.

Adviser contact details

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