



Shadforth Financial Group



Aged Care Solutions

Client testimonial

"When my widowed mother-in-law entered an aged care hostel, my wife and I had to go on a steep learning curve to tackle the complexities of aged care, of which we had no previous experience.

As a low level care resident, she was obliged to pay the Basic Daily Fee plus an Income Tested Fee. When I mentioned our concern about the situation to our SFG financial adviser they quickly told me how a strategy would greatly reduce the Income Tested Fee.

There is quite a lot of work. However, the effort was well worthwhile because my mother-in-law's Income Tested Fee was reduced, generating an annual saving of almost \$13,000.

The final result is that my mother-in-law's pension now covers her accommodation costs, her basic necessities, and leaves her capital intact. This is a satisfactory outcome for all concerned and is largely due to the excellent advice and assistance received from our SFG financial adviser.

I recommend aged care planning to others who find their elderly relatives in a similar situation."

M. Toop

SFG Client, Melbourne
March 2010

INTRODUCTION

Most of us will be faced with difficult decisions on aged care either personally or for a family member. Entry into a Residential Aged Care Facility can have a very significant impact on our emotional state and financial position.

The various types of aged care available include community aged care packages (providing support to those still able to live in the family home), independent living accommodation (such as retirement villages) and Residential Aged Care.

The costs of Residential Aged Care can vary significantly between facilities and from resident to resident. With good advice these costs can be managed to ensure that the financial impact on the aged care resident and their family is reduced.

TYPES OF RESIDENTIAL AGED CARE FACILITIES

Two types of Residential Aged Care Facilities are available – Low Level Care, commonly referred to as Hostels, and High Level Care, commonly referred to as Nursing Homes. The main difference between the two lies in the level of care provided. Individuals requiring a high level of care generally require Nursing Home accommodation. In contrast, those who require low level care are more suited to Hostel accommodation.

ENTERING A RESIDENTIAL AGED CARE FACILITY

Entry into a Residential Aged Care Facility is not automatic and is subject to a medical assessment by the Aged Care Assessment Service (ACAS). ACAS also conducts a financial assessment, based on social security means testing to allow the entry and ongoing costs to be determined.

As can be appreciated, the emotional pressures on the family at this time are significant. When this is coupled with the financial implications, the period from initial assessment to entry into the aged care residence can be very stressful.

While we will deal with the financial implications in more detail below, the benefits of obtaining appropriate financial advice are not limited to managing the financial aspects of the individual's situation. Getting the right advice will result in increased peace of mind for both the resident and their family.

On many occasions, it is the family of a resident that has to deal with the new and complicated aged care related issues and factor the time involved into their own busy lifestyle.

This is where the value of proper financial advice becomes evident. Not only will the aged care resident's personal situation be enhanced, but there is generally an associated reduction in stress and anxiety for the individual and their family.

Did you know?

- One third of all men and half of all women who reach age 65 will enter aged care.
- 13% of Australians are currently over 65 (3 million).
- By 2056 this figure will be 25% (9 million).

Source: Department of Health & Ageing and ABS

Table 1: Summary of Fees

	Low Level Care – Hostel	High Level Care – Nursing Home
Asset Tested Entry Fee	Accommodation Bond: ■ Lump sum or interest on lump sum ■ Resident must be left with \$40,500	Accommodation Charge: ■ Daily Fee: \$32.38 ■ Daily fee reduces if assets less than \$107,850.40
Retention Amount	\$318.00 per month (maximum five years)	n/a
Basic Daily Fee	Up to \$46.99 per day	
Income Tested Fee	Up to \$66.43 per day	
Extra Services	Set by Aged Care Facility	

UPFRONT AND ONGOING FEES FOR AGED CARE FACILITIES

Hostels levy an upfront bond (which is eventually returned after the retention amount is deducted). Nursing Homes do not generally require an accommodation bond and will instead charge a Daily Fee (Accommodation Charge). In addition, both will apply a Basic Daily Fee and based on income, an Income Tested Fee (see *Table 1*).

Centrelink Income Test and Deeming Rates

It is important to note that Centrelink's income test partly determines the ongoing fee that needs to be paid. Consequently, the deeming rates (i.e. the returns Centrelink assume on financial assets) influence the ongoing fee a resident needs to pay. Any increase to deeming rates needs to be kept in mind as the ongoing fees paid by an aged care resident are sensitive to changes in the deeming rates.

FINANCIAL PLANNING IS THE KEY

As has been noted, obtaining financial advice can assist to manage the financial implications of entering an aged care facility. There are a multitude of issues that need to be reviewed and considered some of which, at first glance may not appear relevant. These issues include:

- To retain or sell the family home;
- Reducing aged care costs;
- Optimising social security benefits;
- Invest capital tax-efficiently; and
- Estate Planning.

For example, entry into an aged care residence is often predicated on the need to sell the family home in order to fund the accommodation bond. If the family home is to be retained, there may be significant benefits in paying the bond partly as a lump sum with the balance by periodic instalments.

Did you know?

The average accommodation bond is \$188,798 (2007/2008) and increased over the prior year by 13%. Note that the average accommodation bond is currently closer to around \$250,000.

Only 6% of residents entering Hostels elected to pay the Accommodation Bond by a combination of lump sum & periodic payment. The majority (91%) pay a lump sum only & 3% pay by periodic payment only.

Source: Department of Health & Ageing (2007/08)

The benefits of proper planning from a Shadforth Financial Group aged care specialist not only extend to the day-to-day costs of aged care, but also optimising, where appropriate, the resident's social security entitlement.

CASE STUDY

In order to demonstrate the benefits that can be generated through proper financial planning, let's consider Shirley's situation. After selling her home and paying the required accommodation bond Shirley's asset and income position is illustrated in Table 2.

Currently Shirley is paying a Basic Daily Fee of \$39.86 (per day) and an Income Tested Fee of \$23.26 (per day) giving total annual fees of \$22,480.

Following our advice, Shirley established a family trust and via the trust, invested the \$490,000 into an Insurance Bond. This resulted in a reduction in Shirley's annual care fees of \$8,165 as highlighted

in Table 3. This benefit increases to \$11,099 when the increase to Shirley's age pension is taken into account.

In addition, Shirley obtained other benefits as a result of investing in the insurance bond including:

- Taxation arrangements are simplified as Shirley will likely not need to lodge a tax return. Where the insurance bond is the sole asset within the family trust, the trust does not need a Tax File Number and is not required to lodge tax returns unless a withdrawal is made from the bond in the first 10 years.

- With no further investments being made, there is no tax payable on withdrawals made after 10 years.
- Flexibility to access capital if required without legislated minimum withdrawals.
- No capital gains tax payable on switching investment options.
- Option to transfer ownership without capital gains tax implications
- Estate planning benefits including that a pay-out of the bond cannot be subject to a legal challenge unlike assets that pass through the Will and Superannuation.
- There is no Capital Gains Tax on the proceeds received by beneficiaries when Shirley passes away.

Continued over...

Table 2: Summary of Assets, Income and Centrelink Assessable Income

	Assets \$	Actual Income \$	Centrelink Assessable Income \$
Term Deposit & Bank Account	700,000	28,000	30,831
Personal Assets	20,000	n/a	n/a
Defined Benefit Pension	n/a	10,000	10,000
Total	\$720,000	\$38,000	\$40,831

Assumptions:

- Shirley's term deposit and bank account generate a return of 4% per annum.
- Centrelink assumes financial investments to generate a return of 3% on the first \$44,600 and 4.5% on amounts above this.

Table 3: Benefit of Strategic Advice – reduction in aged care fees

	Current \$	Insurance Bond within a Family Trust \$
Basic Daily Fee (per day)	39.86	39.86
Income Tested Fee (per day)	22.37	0.00
Total Daily Fee	62.23	39.86
Total Annual Fee	\$22,714	\$14,549
Age Pension (per annum)	\$1,003	\$3,937

CASE STUDY (CONTINUED)

The benefits of professional financial advice in reducing aged care fees can be seen via Graph 1. In this case study the benefits to Shirley have been improvements to her financial circumstances by:

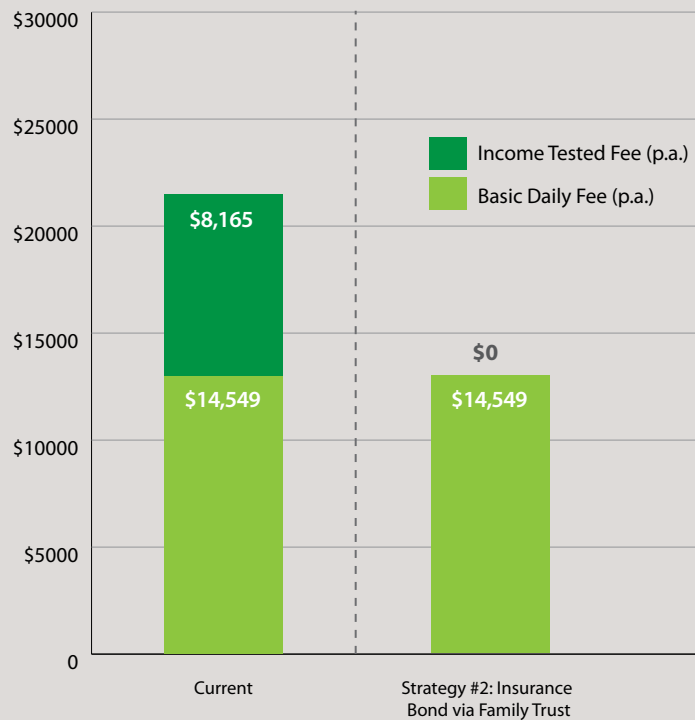
- Reducing the total aged care fees
 - In particular, eliminating the income-tested fee where monies are invested using an Insurance Bond via a Family Trust structure
- Increasing age pension entitlements and associated benefits thereby
- Maximising her cash flow.

What this means to Shirley and her family is the peace of mind knowing that her finances and her health are being attended to; rather than worrying about money and how they will be affected if circumstances change in future.

Importantly, Shirley is not currently entitled to an age pension. If she makes changes to her current financial circumstances she can obtain a part age pension with the benefit of professional advice.



Graph 1: The benefits of professional advice



Please note that the information and case study is simplified in order to illustrate the potential benefits and may omit detail that could be significant in a particular context, or to a particular person.

It is intended to provide general information only and has been prepared without taking into account any particular person's objectives, financial situation or needs. Investors should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs.

Although Shadforth Financial Group have taken all reasonable care in producing this information, as taxation legislation is complex, and subsequent changes in circumstances and rules for entry into a residential aged care facility may occur that could impact on the accuracy of the information, we recommend investors obtain appropriate financial and other advice specific to their situation before making any financial investment.



Shadforth Financial Group

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Please call 1300 308 440 or visit www.sfg.com.au.

Details of the services offered by Shadforth are available in its Financial Services Guide.
A copy of this document will be provided without charge upon request.
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