Managing aged care costs

Smart strategies for 2014–2015

Aged care costs can be very high and could increase *as our population ages.*

Contents

Get the care you need at a lower cost

Aged care costs can be very high and could increase as our population ages.

The lump sum accommodation payment can be significant. Care facilities are permitted to charge a maximum refundable accommodation deposit of $550,000[1]. However it is possible that the amount can be lower. In addition, care facilities have the ability to charge a higher amount than the maximum if approved by the Aged Care Pricing Commissioner, which may relate to facilities in bigger cities and those of a resort-style room in a prestige location.

On top of this are other charges, such as the basic daily fee and the means-tested fee, which can add up to a substantial sum of money.

In this booklet we outline some strategies that could help you manage the costs of care. Many of these strategies could also assist you in qualifying for a higher age pension.

Aged care is, however, a complex area that requires a solid understanding of how the rules interact with the broader tax and social security system.

To find out which strategies could suit you, we suggest you talk to a financial adviser with expertise in this area. They can help you to:

- manage care costs
- review entitlement to social security benefits
- manage tax
- choose suitable investments, and
- plan for the distribution of your estate.

A financial adviser can help you maximise your financial position and take a lot of the stress out of what can be an emotional transition point in your life.

[1] Current as at 1 July 2014

The five steps to entering aged care

There are generally five steps to follow if you think you may need aged care.

Step 1 – Get your care needs assessed

Before you can enter an aged care facility, you will need to have your lifestyle and health needs assessed by an Aged Care Assessment Team (ACAT) member. These are usually doctors, nurses and social workers who specialise in aged care. They will determine whether or not you require care, and may assess your needs in respect of residential care, respite care, and home care.

Step 2 – Find an aged care home

ACAT can provide you with a list of aged care homes in your area. Local Government Departments or third party placement companies may also be able to provide assistance in locating an appropriate facility for you or your relative. Alternatively, you could phone **1800 200 422** for help, or visit the My Aged Care website (**www.myagedcare.gov.au**) where you can search for a facility in your preferred area.

All facilities are different, so you should visit a few to determine which are most appropriate to your personal and lifestyle needs. Not all facilities will have vacancies. You can lodge an application with as many facilities as you like. When a place becomes available, the facility will contact you or your nominated representative.

Step 3 – Work out the costs

While aged care costs are partly funded by the Australian Government, you may need to pay a number of fees, some of which are determined by your income and assets. These are:

- A **basic daily fee**, which is a contribution towards daily living costs, such as nursing, personal care and meals. It is determined on your date of entry and is currently up to $47.15 per day[1]. All aged care residents will need to pay this fee.
- A **means-tested fee** may be payable in addition to the basic daily fee, depending on your level of income and assets. Some people with limited means will not need to pay the means-tested fee. If you are not required to pay a means-tested fee, the cost of your care will be covered by the Australian Government.

  The means-tested fee is determined by a formula, taking into consideration your income and assets. The fee is currently capped at $25,349.21[2] per annum. A lifetime cap of $60,838.12[2] also applies. Once you reach the lifetime cap, you will not need to pay any further means-tested fees.
- An **accommodation payment** is a contribution towards the cost of accommodation. Depending on your assets and income levels, these costs may be met in part or in full by the Australian Government.

  You can choose to pay your accommodation payment as:

  – a **refundable accommodation deposit (RAD)** which is a lump sum payable to the facility. When your care at the facility ceases, the RAD (less any other amounts you have elected to have deducted from this amount) will be refunded, or

  – a **daily accommodation payment (DAP)** which is the daily equivalent of the RAD based upon the maximum permissible interest rate at the time of entry set by the Government. Any amounts you pay as a DAP will not be refunded at the end of your stay, or if you change facilities, or

  – A combination of RAD and DAP.

Residential care facilities must publish the RAD and DAP applicable to each room type, on the 'My Aged Care' website. You may negotiate a lower fee than the published rate, however, you cannot pay a RAD or DAP greater than what is published.

If you have limited means, you may be asked to make a contribution towards the cost of your accommodation, with the Australian Government meeting part of the cost. The contribution you are required to make will be determined by a formula, taking into consideration your income and assets, similar to the way the means-tested fee is calculated.

If your assessable assets are below $45,500[2], your accommodation payment will be fully subsidised by the Australian Government and you will not need to pay an accommodation payment[3].

1 Applies from 20 September 2014 and may be indexed in the future. Care residents in certain remote areas may pay an additional amount. As at 20 September 2014 the additional payment was $1.06 per day.

2 Current from 20 September 2014 and may be indexed in the future.

3 You will still be required to pay the basic daily fee.

The five steps to entering aged care

After entry, you have 28 days to decide how you will pay your accommodation payment. If you decide to pay any amount as a RAD, you have a further 6 months to pay this amount to the facility. While the RAD is unpaid, you will be required to pay the equivalent DAP.

- An **extra services fee**, which may be payable if the room you select is an extra services room. Typically, these extra services include a higher standard of accommodation or other services, such as food and beverages. The additional services vary from care facility to care facility. This fee is determined by the individual care facility based on the higher standards of accommodation or additional services provided. The full amount is payable by you and not subsidised by the Australian Government.

Step 4 – Apply for your place

An application form will need to be completed for the care facility you have chosen. Many facilities have their own forms so it is best to contact individual care facilities to understand their requirements. There may also be a waiting list if a room is not immediately available. If you anticipate moving into care, you may be able to fill out the application form in advance, and the facility may contact you when a room becomes available. This could potentially help to reduce wait times. You should contact the facility directly to discuss whether this option is available.

A care facility will provide a form to allow you to disclose your financial information.

If you choose to provide your financial information, you will need to complete the **Residential aged care combined income and assets** form. This information will be used by Centrelink to determine the fees payable. The form is available from Centrelink or the My Aged Care website.

It is not a requirement to provide your financial information however you will be charged the maximum fees permitted under the legislation.

Step 5 – Move in

Just before you move in you will be provided with a **Resident Agreement**. This is a legal document which sets out:

- the terms of your residency
- your rights and responsibilities, and
- the rights and responsibilities of the aged care home.

You should discuss this agreement with your family and consider seeking legal advice. You will be required to sign the agreement within the appropriate time frame[4].

Whilst this Guide provides strategies which may reduce assessable assets and/or income for aged care purposes, care should be taken to reducing assets to very low levels as it may limit your choice of care facility. For some individuals, having the flexibility and choice of aged care facility for with the peace of mind of being able to pay for the fees is of greater value.

4 Generally the timeframe is within 28 days of entering care but may be extended in certain circumstances.

Strategies at a glance

	Strategy		Suitable for	Page
Strategies for reducing the accommodation payment (RAD or DAP)	1	**Establish a granny flat right over your home**	People with a home who are in good health and want to plan ahead in case they eventually enter care	8
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Note: Many of these strategies could also help you to improve your social security entitlement. You should seek professional legal, tax and financial advice in relation to your personal circumstances before implementing any of these strategies.

Strategy 1
Establish a granny flat right over your home

If you own your home and are in good health, you may want to establish a granny flat right before you need to move into aged care.

What are the benefits?

By using this strategy, you could:

- reduce your accommodation payment and means-tested fee, and
- retain your home in the family.

How does the strategy work?

To use this strategy, you need to transfer the title of your principal place of residence to another person (eg one or more of your children) in return for a right to live in your home or use and benefit from it as you wish. This is known as establishing a 'granny flat right'.

You also need to create this right while you are in good health and haven't been assessed as needing residential care.

If you then need to move into aged care because of an accident or unanticipated illness, the 'gifting rules' will not apply and your home will be exempt for aged care purposes. As a result, you will only need to pay an accommodation payment and means-tested fee based on your other assessable assets, less the minimum amount that must be retained by you, which is currently $45,500[1] .

Creating a granny flat right before any significant health issues and care needs arise could therefore enable you to reduce the accommodation payment and avoid having to sell your home.

Social security implications

Normally, when you go into aged care, your home is exempt from the social security assets test for up to two years unless your spouse, a dependant child or another eligible person is living there. Creating a granny flat right can, however, ensure your home is not assessed under the assets test, as ownership has been transferred to another person.

1 Applies as at 20 September 2014 and may be indexed in the future.

For more information

To find out whether this strategy suits your needs and circumstances and how you should go about it, please speak to a financial adviser.

Strategy 1
Establish a granny flat right over your home

Case study

Angelina is a 75 year old single pensioner. She owns her home which is worth $500,000 and has $300,000 in a bank account. Her assessable assets for aged care purposes are $800,000. She is in good health and wants to keep her home within the family.

Her only daughter, Jacquline, is worried that if Angelina eventually has to go into care the home might have to be sold to fund the RAD and other fees. This is because the maximum RAD that could be charged is $754,500[2] after taking into account the $45,500 in assets that must be retained.

After speaking to her financial adviser, Angelina transfers ownership of her home to Jacquline in exchange for a life interest in the home. This ensures that even though Jacquline now owns the home, Angelina has the right to live there while she is still alive.

Angelina also ensures Centrelink is aware that she is in good health and does not need to go into aged care[3] at the time of the transfer.

Let's now assume that Angelina has an accident in two years and has to move into residential care.

Because she created a granny flat right before the accident and her reason for departing the home was not anticipated at the time the right was established:

- the home will not be assessed for aged care purposes as it is now owned by Jacquline
- her assessable assets are $300,000 (being the bank account only)
- the maximum RAD Angelina will be required to pay is $254,500 after taking into account the $45,500 in assets that must be retained, and
- when calculating the means-tested fee, the home will not be assessed as an asset (again as it is owned by Jacquline).

As a result, Angelina will potentially pay a lower accommodation payment and the home may not need to be sold to meet this and other aged care expenses.

	If no granny flat interest	If granny flat interest established
Home	$500,000	Nil
Bank account	$300,000	$300,000
Total assessable assets	**$800,000**	**$300,000**
Less minimum assets to be retained	($45,500)	($45,000)
Maximum accommodation bond payable	**$754,000**	**$254,500**

2 This assumes the facility has approval from the Aged Care Pricing Commissioner to pay more than the maximum RAD ($550,000 as at 20 September 2014).

3 An ACAT assessment is recommended to demonstrate there is currently no need for aged care at the time the transfer is made.

Tips and traps

- There are other ways to establish a granny flat right. For example, you could:
  - provide funds to construct a granny flat on another person's property
  - provide part or all of the purchase price for a property that is registered in another person's name, or
  - provide funds for a life interest in a property owned by another person.

  In each of these scenarios, you will also need to receive a right to live in the property for life.
- Stamp duty may be payable on the transfer of the property title.
- Capital Gains Tax may be payable on the transfer of the property, the arrangement or future sale and should be discussed with a registered tax agent prior to implementing the agreement.
- Land tax may be payable and should be discussed with a registered tax agent prior to implementing the agreement.
- Legal advice should be sought before establishing to protect the rights and outline the responsibilities of all parties involved.

Strategy 2
Move into aged care separately

If you and your spouse both need to go into aged care, you may want to move in separately.

What are the benefits?

By using this strategy, you could manage the accommodation payment for the spouse who moves into care first.

How does the strategy work?

If you and your spouse move into aged care at the same time, 50% of your combined assets (including your family home) will be assessed against each of you when the facility determines your aged care fees.

However, if you move into care separately, your home value will not be assessed against the first person because one of you is still living there.

Moving in separately can therefore reduce the assessable assets of the spouse who moves into aged care first, and also the accommodation payment they are required to pay.

Furthermore, if the value of the first person's assessable assets are reduced below the minimum amount that needs to be retained (which is $45,500[1]) they will pay no accommodation payment at all (however the basic daily care fee will still be payable).

Social security implications

When you and/or your spouse have moved permanently into residential aged care, Centrelink considers you an 'illness separated' couple. This means that even though you will be assessed under the joint means test as a couple, your age pension will be based on the single person's rate. As a result, a higher pension may be payable when compared to your entitlement before moving into aged care.

Your family home will be exempt from the assets test for up to two years from the date the second person leaves the home. During this period, you will be assessed as homeowners. After that, you will be assessed as non-homeowners and the value of your home will be counted towards the assets test. This could impact your age pension entitlement.

If you rent out your home, it will be exempt from the assets test indefinitely if other conditions are met – see Strategy 5.

1 Applies as at 20 September 2014 and is indexed in the future.

For more information

To find out whether this strategy suits your needs and circumstances and how you should go about it, please speak to a financial adviser and a registered tax agent.

Strategy 2
Move into aged care separately

Case study

Tom and Nicole own a home valued at $500,000 and have $30,000 in a bank account. Their combined assessable assets for aged care purposes is $530,000.

Both are receiving the maximum age pension, have been assessed as needing residential care and would like to minimise the combined refundable accommodation deposit (RAD) or equivalent daily accommodation payment (DAP) they pay.

If Tom and Nicole enter the aged care facility at the same time, they will have assessable assets (for the purpose of calculating the aged care accommodation payment) of $265,000 each, which is 50% of the combined total of $530,000.

They will both therefore have to pay a maximum RAD of $219,500 (or equivalent DAP) after taking into account the minimum assets of $45,500 they are each required to retain.

However, their financial adviser has informed them that if Nicole (for example) moves into the facility first and Tom stays in the home during the asset assessment:

- none of the home value will be assessed against Nicole
- Nicole's assessable assets will be reduced to $15,000, which is her 50% share of the bank account, and
- Nicole will not have to pay a RAD or DAP because her assessable assets are less than $45,500.

While Tom will still need to pay a maximum RAD of $219,500, using this strategy will enable them to potentially reduce their combined RAD significantly.

	If they move in together		If they move in separately	
	Nicole	**Tom**	**Nicole**	**Tom**
Assessable assets for aged care purposes	$265,000	$265,000	$15,000	$265,000
Less minimum assets to be retained	($45,500)	($45,500)	($45,500)	($45,500)
Max RAD payable	**$219,500**	**$219,500**	**Nil[2]**	**$219,500**

There are two ways they could pay Tom's accommodation payment. One is to sell the family home after Nicole's asset assessment has been done and to pay the accommodation payment as a RAD. Alternatively, they could keep the house, rent it out and use some of the income to help pay accomodation costs as a daily accommodation payment[3] – see Strategy 5.

2 When Tom moves in to care, an accommodation contribution may be payable (see Tips and Traps).

3 The daily accommodation payment is the daily equivalent of the RAD based upon the maximum permissible interest rate determined at the time of entry.

4 Current as at 20 September 2014. Means tested fee and accommodation supplement are reviewed regularly and may change in the future.

Tips and traps

- Staggering entry into aged care may mean the second member of the couple cannot find a place in the same facility. You may therefore want to negotiate with the facility to hold a place for the second person.
- Upon entry of the second person into care, the first person's situation may be reassessed. This may result in an increase in the means tested fee as a portion of the value of the home is included as an assessable asset for aged care purposes.
- The Australian Government requires that subsidised facilities must provide care for individuals with little or low financial assets. However these places are limited and may not be available in the facility of choice when care is provided.
- If the family home is sold when Tom enters care, and Tom pays an accommodation payment of $219,500 as a RAD, both Tom and Nicole's age pension benefits will change.
- As the level of assessable assets has increased, Nicole and Tom will both become liable to pay a means-tested fee. Based on current rates from 20 September 2014, the means tested fee is approximately $3.00 per day[4] each.
- As the level of assessable assets for Nicole has now increased, she will be liable to pay an amount towards the cost of her accommodation. This is equal to the maximum accommodation supplement[4] of $53.04 per day.

Strategy 3
Gift assets

Prior to moving into aged care, you may want to gift assets to family members or other people.

What are the benefits?

By using this strategy, you could:

- reduce your accommodation payment and means tested fee, and
- the gifted asset(s) can be retained in the family.

How does the strategy work?

If you gift assets up to a specified amount to another person such as a family member, the value:

- will not be assessed when the aged care facility assesses your RAD, and
- will not be an assessable asset or be subject to an income assessment, which could reduce your means tested fee.

The current gifting threshold is $10,000[1] per financial year up to a maximum of $30,000[1] over any five year rolling period. Assets gifted above this amount will be assessable in your name even though you no longer own them.

These are known as the gifting (or deprivation) rules and are designed to prevent people from giving away substantial amounts of wealth so they can reduce their aged care costs or increase Centrelink entitlements (such as the age pension).

Examples of assets that are commonly gifted are financial investments (eg cash) and personal assets. However, it's also possible to gift interests in an entity, such as a private family trust or company, as well as the family home.

Deprived assets continue to be counted for five years from the date of the gift. Therefore gifting assets of significant value must be done at least five years before you anticipate moving into an aged care facility to allow you to benefit from the strategy.

By doing this, the value of the gifted assets will not be counted for aged care purposes once the five years has passed.

Social security implications

The gifting (deprivation) rules outlined above also apply for social security purposes. Gifting assets could therefore help you to improve your future age pension entitlement.

1 These thresholds apply to singles and couples.

For more information

To find out whether this strategy suits your needs and circumstances and how you should go about it, please speak to a financial adviser.

Strategy 3
Gift assets

Case study

Shaun and Kimberly are the controllers of a private discretionary trust with assets worth $3.5 million. They are in their early 60's and ultimately want to pass control of their private trust to their children.

Given the value of their assets, they are concerned that the costs will be very high if they eventually need to move into aged care.

After seeking financial, legal and tax advice, they resign as controllers of the trust. They also transfer control and their interest in the trust to their children.

The assets gifted to their children (ie $3.5 million less $10,000) will be subject to the deprivation rules for the next five years. However, after that, these assets will not be assessed for aged care purposes.

By planning ahead, this strategy may enable them to pay a lower RAD and means tested fee.

Tips and traps

- A similar strategy to that outlined in the case study could be used if you are shareholders and directors of a private company.
- If your resignation as a controller of the entity is not considered genuine by Centrelink, you will still be regarded as controller of the entity. This means the income and assets of the entity will still be assessed against you.
- When gifting assets, you should take into account any Capital Gains Tax or other costs that may be payable after ownership is transferred.
- When gifting assets, you should make sure you have enough money to support yourself when entering and living in an aged care facility.
- Rather than gifting the family home, a better strategy may be to establish a granny flat right (see Strategy 1). This is because the gifting rules will not apply if certain conditions are met and the current owner will have a legal right to accommodation for life, or a life interest in the accommodation.
- It is important to seek professional legal, financial and tax advice before implementing this strategy.

Strategy 4
Plan for burial and funeral costs

Before moving into aged care, you may want to plan for certain aspects of your burial or funeral.

What are the benefits?

By using this strategy, you could reduce your accommodation payments and means tested fee.

How does the strategy work?

There are three key ways you can plan and pay for certain aspects of your funeral. These include:

- **Purchasing a burial plot**, which will be exempt for aged care purposes regardless of its value.
- **Pre-paying funeral expenses** to a funeral director or investing in a funeral bond (see below) that is assigned to a funeral director. With both these options, the full value will be exempt provided there is a contract that sets out the services to be undertaken and no additional expenses need to be paid.
- **Investing in a funeral bond** that is not assigned to a funeral director. The value of these bonds will not be assessed provided you don't also prepay funeral expenses and the amount invested does not exceed $12,000[1] per person or $12,000 for jointly owned bonds. When using this strategy, it's important to consider which bond(s) you elect to be exempt as this can have an impact on the outcome – see case study.

A funeral bond is type of investment which enables you to accumulate funds to meet future funeral expenses and the benefit is only payable on death. Earnings are retained in the fund, where tax is deducted at a maximum rate of 30%. This tax is then refunded on death and the estate executor or funeral director will be responsible for the taxation of benefits received.

Social security implications

The aged care implications outlined above also apply to Centrelink benefits. These strategies could therefore help you to increase your age pension entitlement.

1 Applies as at 1 July 2014 and is indexed on 1 July of each year.

For more information

To find out whether this strategy suits your needs and circumstances and how you should go about it, please speak to a financial adviser.

Strategy 4
Plan for burial and funeral costs

Case study

Betty has an interest in two funeral bonds, including

- an individually owned bond that cost her $5,000 and is now worth $7,000, and
- a jointly owned bond that cost $7,000 and is now worth $9,000.

The first bond has an assessable value of $7,000 and Betty's share of the second bond has an assessable value of $4,500 (as her 50% share is counted).

Betty's financial adviser reviews the funeral bonds and determines that both can be exempt from the income and assets tests as the original purchase price was less than the threshold at that time. This is regardless that the combined current value exceeds the threshold.

Tips and traps

- When planning for burial and funeral expenses, it's important to ensure you have enough cashflow to pay for ongoing aged care fees and discretionary expenses.
- Funeral bonds that are not elected for an exemption will be counted as an asset and the income will be subject to deeming (see FAQs).
- It is important to seek professional tax, legal and financial advice before implementing this strategy.

Strategy 5
Rent the family home

When you move into aged care, you may want to rent your former family home and arrange to pay the accommodation payment as a DAP.

What are the benefits?

By using this strategy, you could:

- reduce your means-tested fee, and
- retain your home in the family.

How does the strategy work?

When you go into an aged care facility, you will need to decide whether you should keep your family home, rent it out or sell it and invest the proceeds.

This can be a complex decision and you will need to consider a range of financial and non-financial issues.

One of the key benefits of renting out your home is the rental income will be disregarded for the purposes of the means tested fee if you are paying some (or all) of the accommodation payment as a DAP (ie daily payments).

However the value of the house up to the cap[1] will continue to be included when calculating your means tested fee.

Social security implications

The rental income and home value will be exempt indefinitely under the social security income and assets tests while your home is being rented and you are also paying all or part of your accommodation payment as a DAP. This strategy could therefore help you to increase your age pension entitlement.

1 Cap is $155,823.20 as at 20 September 2014 and may be indexed in the future.

For more information

To find out whether this strategy suits your needs and circumstances and how you should go about it, please speak to a financial adviser.

Frequently asked questions

What does ACAT do?

The Aged Care Assessment Team (ACAT) will assess your lifestyle and health situation to determine whether residential care is appropriate.

This assessment is free and can be done at home, a health centre or hospital. You can't enter a facility without an ACAT referral to allow the cost of your care to be subsidised by the Australian Government. ACAT approvals for permanent residential care are valid indefinitely, unless granted for a specific timeframe.

A new assessment will be required if the assessment is granted for a particular timeframe, and expires before a person moves in to aged care.

ACAT help you obtain a range of Australian Government funded care services. These services can assist you to continue living in your own home or enter residential aged care.

If you stay in your own home, you may qualify for Home Care, which can help with in a number of areas including bathing/showering, social support, transport, laundry, meal preparation and gardening.

What is the basic daily fee?

The basic daily fee is an amount you may be asked to pay as a contribution towards your daily living costs, such as nursing, personal care and meals. It is determined on your date of entry and is currently up to $47.15[2] per day for a standard resident in an aged care facility.

What is the means tested fee?

The means tested fee is a daily amount you may be asked to pay in addition to the basic daily fee that depends on your assessable income and assets. This fee is usually determined by a formula and capped at an annual amount of $25,349.21[1]. A lifetime cap of $60,838.12[1] also applies. Once you have reached your lifetime cap, no further means tested fees are payable.

There are some strategies that could be used to reduce your assessable income and the means tested fee payable. For a summary of these strategies, see page 7.

What is the accommodation payment?

The accommodation payment is an amount assessed at entry into the aged care facility to pay for the cost of your accommodation. The accommodation payment is paid as either a lump sum, daily payments or a combination of both. Your financial position will determine if you will be required to pay an accommodation payment.

The Refundable Accommodation Deposit (RAD) is an accommodation payment paid as a lump sum. The RAD is set by each respective facility, based upon each room type, however the maximum amount that can be charged is $550,000. RADs above this amount must be approved by the Aged Care Pricing Commissioner. The RADs for a particular facility must be available on their own websites as well as the My Aged Care website (**www.myagedcare.gov.au**).

When your care at the facility ceases, the RAD (less any amounts you have elected to deduct from this amount) will be refunded.

The daily accommodation payment (DAP) is the daily equivalent of the RAD based upon the maximum permissible interest rate at the time of entry. Any amounts you pay as a DAP will not be refunded at the duration of your stay, or if you change facilities.

If a DAP is chosen, the facility will charge interest at a rate set by the Australian Government, which is currently 6.63%[3].

Neither the RAD or equivalent DAP will be payable if your assessable assets are below a minimum level, which is $45,500[2]. With both these costs, your assets are assessed in broadly the same way as pensions from Centrelink and the Department of Veterans' Affairs.

You will find the latest aged care fees and charges on the Department of Social Services website at **www.dss.gov.au.**

1 This rate applies from 20 September 2014 and may be indexed in the future.

2 This rate is current as on 20 September 2014 and may be indexed in the future. Residents in certain remote areas may be asked to pay an additional amount. As at 20 September 2014 this was $1.06 per day.

3 This rate is current from 1 October to 31 December 2014 and may change in the future.

Frequently asked questions

What impact will moving into aged care have on age pension payments?

If you are a member of a couple, your age pension payments could increase when one or both of you move into aged care. This is because you will be considered an illness separated couple. As a result, while you will continue to be assessed on your combined income and assets, you will each be paid the single person's pension rate.

If you were receiving rent assistance before you moved into care, this will most likely stop. Instead, different subsidies will be paid directly to the aged care facility by the Australian Government.

If your home is occupied by your partner it will remain exempt from the assets test while they continue to live there and both of you will be treated as homeowners during this period.

If you are single and your home is not rented, it will remain exempt from the assets test for up to two years after you enter the aged care home and you will be treated as a homeowner during the exempt period. Once the exempt period has expired, you will be treated as a non- homeowner and the house becomes an assessable asset.

If you rent your former family home and pay an accommodation payment entirely as a lump sum (ie RAD):

- your home remains exempt from the assets test for up to two years
- the net rental income is assessable for the income test and the aged care means tested fee, and
- you will be treated as a homeowner (while the home is assets test exempt) and non-homeowner (while the home is not exempt).

If you rent your home and pay at least part of the accommodation payment as a DAP (ie via daily payments):

- the home will be exempt from the assets test indefinitely (ie the general two year exemption won't apply as long as you continue to pay at least part of the accommodation payment as a DAP
- the net rental income will be exempt indefinitely for the social security income test and the aged care, means tested fee, and
- you will be treated as a homeowner.

Summary of social security implications

Scenario	Income test	Assets test	Homeownership status
Home occupied by partner	Not applicable as no income	Not assessed while partner occupies home	Homeowner
Home not rented	Not applicable as no income	Exempt for two years Assessed after two years	Homeowner (while home is exempt) Non-homeowner (once home is assessed)
Home rented and RAD paid	Rental income less allowable deductions is assessed immediately	Exempt for two years Assessed after two years	Homeowner (while home is exempt) Non-homeowner (once home is assessed)
Home rented and paying DAP	Not assessed Note: The rental income is also not assessed for the means tested fee	Exempt while paying the DAP	Homeowner
Home sold and balance used to purchase financial investments (eg a bank account, managed fund or shares)	Deemed immediately	Assessed immediately	Non-homeowner

Note: Where a DAP is paid, the facility will charge interest at a rate set by the Department of Social Services, which is currently 6.63%. This rate applies between 1 October and 31 December 2014 and may change in the future.

Frequently asked questions

What are the tax implications when entering aged care?

Capital Gains Tax (CGT) implications

If the family home is sold, there is generally a full CGT exemption (subject to certain limitations being met). After vacating the home, if it's retained and not rented, it may be treated as the main residence for an unlimited period. If the home is rented, it may be treated as the main residence for up to six years after moving out. If the home is rented and sold outside the six-year period, there may be CGT implications.

There may also be CGT implications when selling other types of assets (eg an investment property, managed funds or shares) to fund the cost of care.

You should discuss the tax implications with a registered tax agent and also discuss any steps you should take from a tax perspective prior to renting the property.

Net Medical Expenses Tax Offset

The Net Medical Expenses Tax Offset (NMETO) is a tax offset for eligible taxpayers based on adjusted taxable income with out of pocket expenses above relevant threshold. For 2014/15 the tax offset, ATI and thresholds are:

Tax offset and ATI

Family situation	ATI threshold	Tax offset
Single	< \$90,000 > \$90,000	20% of NME over \$2,162 10% of NME over \$5,100
Family	< \$180,000 > \$180,000	20% of NME over \$2,162 10% of NME over \$5,100

Note: NME means net medical expenses. Thresholds are subject to indexation and are generally available at the end of the relevant financial year.

Aged care costs that qualify for the NMETO and claimed in the previous financial year include:

- basic daily fees
- means tested fees
- extra service fees
- daily accommodation payments , and
- daily accommodation payments drawn from a RAD.

NMETO benefit is available if the eligible tax payer is an Australian resident for tax purposes. Also, this offset can only be claimed by the person paying the expense if it is paid on behalf of themselves, their spouse, their child under 21 years of age or another person for whom they are eligible to claim a dependant rebate.

This offset will be phased out by the end of 2018/19 and transitional arrangements took effect from 1 July 2013. You should speak to a registered tax agent to understand whether you are eligible for this offset under the transitional rules.

What are the gifting rules?

If you give away assets worth more than \$10,000[1] per financial year to a maximum of \$30,000[1] over a rolling five year period, the excess gift(s) will be assessed in your name for social security and aged care purposes even though legally the asset is no longer yours. The excess gift is a 'deprived' asset and counted for five years from the date of the gift. The gifting rules were introduced to ensure people don't give away assets to increase their social security benefits or reduce the aged care costs payable.

1 These thresholds apply to both singles and couples.

Glossary

A

Assets test – A test on your assets to determine your social security entitlements (eg age pension). Under this test you can have a certain amount of assets before your full entitlement to social security is reduced or cuts out. The level at which your entitlement begins to reduce varies depending on whether you're single or married and whether you own your home. The current thresholds are available on the Department of Human Services website (www.humanservices.gov.au).

B

Basic daily fee – An amount you may be asked to pay as a contribution towards your daily living costs when in an aged care facility – see FAQs.

C

Capital Gains Tax (CGT) – A tax on the growth in the value of assets, payable when the gain is realised. If the assets have been held by an individual, trust or super fund for more than 12 months, the capital gain generally receives concessional treatment.

D

Daily Accommodation Payment (DAP) – Amounts you may be required to pay to cover the cost of accommodation in an aged care facility which is paid as a daily amount – see FAQs.

Deeming – A method of assessing your entitlement to social security benefits under the Income Test. Deeming assumes that certain financial investments earn a specified rate of interest, regardless of what they actually earn. The deeming rates (as at 1 July 2014) are 2% on the first $48,000 ($79,600 for couples) of financial investments plus 3.5% on the balance.

E

Extra service facility – A care facility that provides higher standards of accommodation and broader food choices at a higher cost. This is an additional fee that is not regulated or subsidised by the Australian Government.

F

Funeral bond – A type of investment which enables you to accumulate funds to meet future funeral expenses and the benefit is only payable on death.

G

Granny flat right – A formal or informal arrangement that provides a person with a right to accommodation for life, or a life interest in accommodation.

I

Income test – A test on your total income to determine your entitlement to social security benefits. As with the assets test, the amount of income allowed before your benefits are reduced depends on factors such as your marital status. The current thresholds are available on the Department of Human Services website (www.humanservices.gov.au).

M

Marginal tax rate – The stepped rate of tax you pay on your taxable income.

Means tested fee – An amount you may be asked to pay in addition to the basic daily fee that depends on your assessable income and assets – see FAQs.

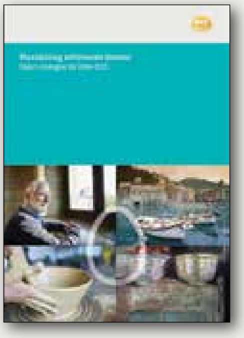
R

Refundable Accommodation Deposit (RAD) – Amounts you may be required to pay to cover the cost of accommodation in an aged care facility which is paid as a lump sum – see FAQs.

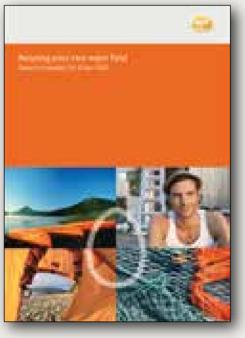
Your notes

MLC has a range of other smart strategy guides

Ask your financial adviser for more details.

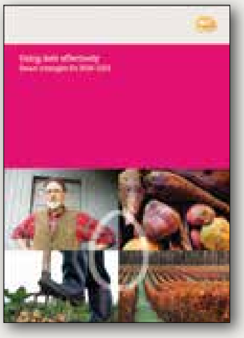


Maximising retirement income

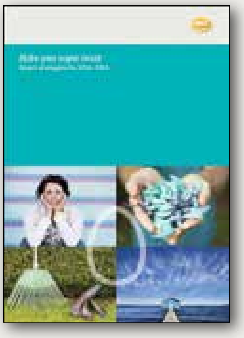


Running your own super fund

Protecting business owners



Using debt effectively



Making your super count

For more information call MLC from anywhere in Australia on 132 652 or contact your financial adviser.

Postal address
PO Box 200
North Sydney NSW 2059

Registered office
Ground Floor, MLC Building
105–153 Miller Street
North Sydney NSW 2060

mlc.com.au

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