




## AGEING CLIENTS, ADVICE AND ETHICS

Louise Biti, Director, Aged Care Steps

#NC2020

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### Louise Biti

Director, Aged Care Steps



Louise is a co-founder and Director of Aged Care Steps, the leading business supporting professionals to give advice on aged care and other related matters.

With over 20 years' experience in aged care advice, Louise is Australia's pre-eminent expert and author of *Don't Panic: age the way you want where you want*.

Industry roles include previous Director of the SMSF Association and a current member of the Aged Care Financing Authority, a government statutory committee providing advice to the Minister on the funding and viability of aged care sector.

MTax, BEc, BA (AS), Dip FR, CFP, SSA, CTA

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## Overview of residential care fees

Four categories of fees

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      A[Accommodation payment] --> B[Basic daily fee]
      B --> C[Means-tested care fee]
      C --> D[Additional expenses]
  
```

**Accommodation payment**  
Private expense but govt subsidise if low means  
Published rates - lump sum (RAD) or daily fee (DAP) or mix  
Pays for accommodation

**Basic daily fee**  
Flat fee for everyone  
Index March & Sept  
Pays for living expenses and care

**Means-tested care fee**  
Reduces govt subsidy. Based on income + assets (caps apply)

**Additional expenses**  
• ASF (provider sets)  
• Personal  
• Home  
• Health  
Pays for 'luxuries'

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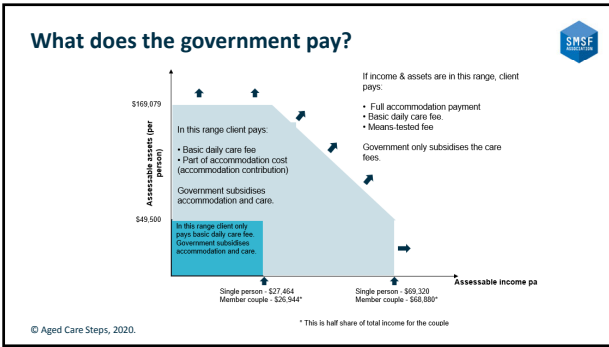
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### Case 1

Living arrangement choices

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### Who's who in the zoo?

Decision-makers v influencers

Needs care: ELIZABETH, CHARLES

EPoA holder: CHARLES

Lots of opinions: CAMILLA, WILLIAM, CATHERINE, MEGHAN, HARRY

Potential carers: CAMILLA, WILLIAM, CATHERINE, MEGHAN, HARRY

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### The key clues in FASEA code of ethics

Client best interest



**Standard 2**

You must act with integrity and in the best interests of each of your clients.

**Standard 4**

You may act for a client only with the client's free, prior and informed consent. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

**Standard 5**

All advice and financial product recommendations that you give to a client must be in the best interests of the client and appropriate to the client's individual circumstances.

**Standard 6**

You must take into account the broad effects arising from the client acting on your advice and actively consider the clients broader, long-term interests and likely circumstances.

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### If you want to know more

Some resources to access



- National Plan to Respond to the Abuse of Older Australians 2019-2023
  - [www.ag.gov.au](http://www.ag.gov.au)
- ELDERHelp
  - National telephone: 1800 353 374
  - Download the app
- National Aged Care Advocacy Program (administered by OPAN)
  - [www.health.gov.au](http://www.health.gov.au) (initiatives and programs)

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### When circumstances change ...

..... and you need to move to a new home



- Aged care is **living support**, not medical support (but lines are blurred)
- Map out pros & cons – looking into future needs as well

Where to live?

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Can I afford?

→

Is it value for money?

→

How to structure finances?

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## Is home care enough?

The cost to Elizabeth ... if Level 3



### Home care fees payable by client (per annum)

Basic fee	3,778
Income-tested care fee	0
<b>Total client fees</b>	<b>3,778</b>
Additional government subsidy (for a Level 3 package)*	33,638
LESS: provider's admin fees	0
<b>Total package value available</b>	<b>37,416</b>

\* This amount is the government subsidy of \$33,638 per annum LESS the income-tested care fee paid by the client

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## How the home is assessed

Aged care fees v age pension – not the same rules



### Age Pension – nil or market value

1. No spouse. If moves out of home to access care, remains homeowner with **home** exempt for 2 years
2. Care can be 'in the community' or residential care
3. Need to identify what is the **'home'** – only one property

### Aged Care Fees – nil or capped value

1. No protected person so 'former home' is assessed up to capped value
2. This applies to the **'home'** living in immediately before moving into care

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## How the home is assessed

Elizabeth's options



### \$220K granny flat arrangement

- GF is the former home – value may cease when terminated (depends on contract) otherwise up to capped value
- Previous home if retained is investment property – market value
- Non-homeowner if no value
- CGT issues on GF

### Sold home and rented

- Non-homeowner from date of sale
- Loans to Wills & Harry are assessable assets & deemed
- No CGT

### Directly to residential care

- Home at capped value for aged care fees
- Homeowner for up to 2 years and exempt for age pension
- Main residence CGT exemption (up to 6 years if rented)

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## Case 2

Paying for residential care

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## RAD or DAP?

It's the client's choice .. in theory anyway

- Start with aim to pay as much RAD as possible
- **BUT** then check and consider:
  - Need for cash reserve
  - Upfront costs to prepare home for rent or sale
  - Other upfront costs, e.g. adviser fees
  - Ability to fund cashflow shortfall until longer term strategy can be implemented and over lifetime
  - Return on investments – may want to retain if earning more than MPIR (but consider overall outcome of payment & risk)
  - Capital gains tax (if cashing investments)
  - Estate planning issues

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## Analysis of options

Key numbers to consider

	Pay DAP	Home vacant	Home rented	Home sold
Assessable assets for age pension	970,000	220,000	220,000	1,050,000
Age pension	-	23,898 pa	11,398 pa	-
Daily care fees	72,876 pa (includes accommodation)	36,086 pa	42,353 pa	46,600 pa
Cashflow position	(42,399) pa	(13,838) pa	(7,374) pa	(34,950) pa
Liquid assets	970,000	210,000	210,000	1,040,000
Projected assets (Year 1 end)	1,800,852	1,810,662	1,817,126	1,768,800

Assumes home growth at 2.5% pa

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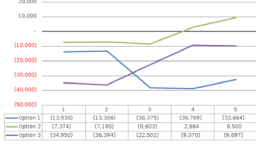
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## Analysis of options

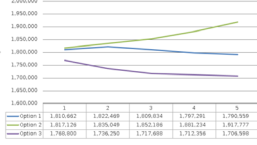
Five year projections



Projected cashflow



Projected net assets



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## Cashflow strategies

Some common options



- Increase income
  - Improve age pension entitlements
  - Higher investment returns
  - Use all assets productively
- Reduce expenses
  - Reduce means-tested fees
  - Review expenses
  - Minimise tax
- Liquidate assets
  - Sell assets
  - Home equity release (PLS, reverse mortgage, sale schemes)
  - Deduct fees from RAD
- Hardship & external sources
  - Apply for hardship exemptions
  - Kids fund expenses

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## Case 3

When money is tight



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### What has Philip done?!

Not as rich as they thought

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### Low-means assessment – a break for Liz?

Assets less than capped value of home

Accommodation contribution	
MPIR (edit if existing resident and entered care before 1 January 2020)	4.91%
DAC	\$21.87 per day
Equivalent RAC (lump sum)	\$162,577
Means-tested care fee	\$0.00 per day

- Age pension \$48,537 pa (combined) & daily fees \$18,845 pa plus ASF and personal expenses
- Significantly **REDUCES** cost for accommodation **BUT**
  - Cost changes if circumstances change (up to \$57.49 per day – indexed)
  - May find it harder to get an offer of a room

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### Analysis of options - low-means

Key numbers to consider

	Pay DAC	C&C pay RAC \$160k	Equity release Lump sum to pay \$160k RAC (5.5%)	Equity release \$907 pf to pay DAC (4.5%)
Assessable assets for MTA	95,000	175,000	175,000	95,000
Age pension (each)	24,269 pa	24,269 pa	24,269 pa	24,269 pa
Daily care fees	18,845 pa	18,845 pa	18,845 pa	18,845 pa
Accomm cost	7,986 pa	5,821 pa + 160k	5,821 pa + 160k	7,986 pa
Cashflow position	(11,494) pa	(9,329) pa	(9,329) pa	(3,494) pa

Assumes home growth at 2.5% pa

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## Other strategies to consider



Would any of these would help?

- Transfer home into Philip's name
- Set up a granny flat arrangement to transfer title to Charles
- Start a funeral bond
- Use an annuity
- Transfer assets to a family trust
- Apply for financial hardship
- Downsize the home

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## When both need to go into care



Minimising the cost of accommodation

### Both go into care same day

- No protected person
- Each assessed with home at capped value
- Both full RAD payer & MTF

### Stagger entry over different days

- Elizabeth goes into care as low-means – Philip living in home so protected person
- Philip full RAD payer & MTF
- Elizabeth's MTA recalculated next quarter but stays low-means. DAC up to \$57.49 per day (\$29,984 pa) and may start to pay MTF

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