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Biti is a co-founder and director of Strategy Steps and Aged Care Steps, two independent businesses helping to demystify financial planning strategies. Her expertise covers a wide range of topics from superannuation to social security and includes a strong focus on the financial implications of accessing aged care, with over 17 years experience in this area. Biti has a prominent profile with regular contributions to media and industry forums. She is a director on the Self-managed Superannuation Professionals Board (SPAA) and was previously a director on the Financial Planning Association Board.

PROVIDING ADVICE ON RESIDENTIAL AGED CARE

Louise Biti

Ask clients where they want to live as they get older and most will probably respond that they want to remain in their own home. None of us want to think about getting old and becoming too frail to live independently.

Increasing life expectancies and improvements in medical technology mean we can expect to live longer and more productive retirements. But there is still a high chance that help will be needed with daily living activities and/or medical care, especially at older ages.

The government is responding to public demands by funding more at-home care packages but these are not always adequate solutions and a move to residential care may be more effective.

For clients and their families, the move into care is confusing and is a time filled with feelings of guilt and fear. Clients are usually underprepared which causes panic and a sense of urgency when the time comes.

Financial planners and other advice professionals have a responsibility to clients to help raise awareness by proactively raising issues and being business ready to provide advice when the need arises. Effective planning gives clients more choices and greater control. It also provides opportunities to grow advice businesses.

Providing quality advice to clients extends beyond just calculating the fees and strategies to reduce fees or increase age pension. However, this is where most training and technical articles stop. This article takes a step further to discuss how you can be business ready to help your clients through the maze that is aged care.

Providing advice on aged care

Advice and help with aged care is often sought by the client's family rather than the client themself. The principles of financial planning advice still apply but the specifics of aged care require a different approach and knowledge set.

Before providing advice you need to ensure you are business ready. This includes:

- Having sufficient knowledge on the rules and practicalities of how the aged care system operates
- A defined value proposition which is linked to your service offer and pricing structure
- Client engagement skills including an understanding of the psychology of grief and stress management for clients and families and how to position conversations
- Determining who is your client and how to address advice
- Financial modelling tools
- The format for structuring advice documents
- Client marketing and communication materials
- Practice management tools and outcomes.

In this preparation, the first step is to set up your business model to include aged care advice as a profitable service offering. This requires you to know explicitly what you are going to do, what you need to charge and how it will add value to your clients. Start with the fol-

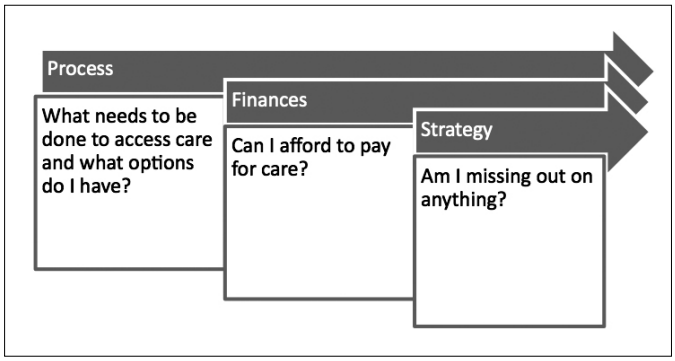
lowing three step process.

The pricing structure needs to fit into the ethos of your business but will include consideration for time spent, expertise involved and value added to the client. This basically means that what you can charge will depend on providing services that the client values.

What is really concerning clients?

Financial planners often start to solve aged care advice concerns by looking at ways to reduce fees or increase pension entitlements. Whilst important, these are not the initial concerns faced by clients or their families and should not be the driving factor for a client value proposition as this will limit how much clients are willing to pay. You are also unlikely to know what value you can create until after you have done the work.

Reflect on your experiences with clients and aged care to determine what were the main motivators leading to clients seeking advice. From our experience the concerns faced by clients seeking help with aged care generally fall into three main areas:



For clients (and their families) peace of mind and a clear roadmap can make all the difference. They are often time poor and need someone to help relieve the pressure and uncertainty. This should be the focal point for positioning the value of advice. Any savings in fees or additional government benefits should just be icing on the cake.

In developing your value proposition consider:

- Why clients are seeking help?
- What is most important to these clients?
- Where can you add value?

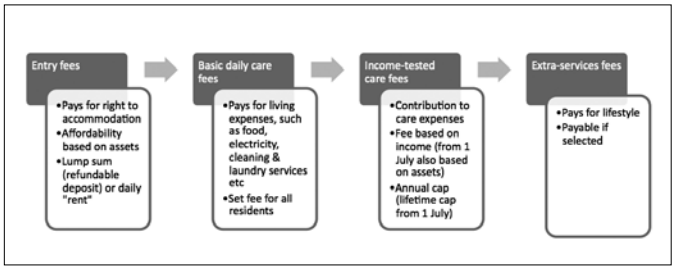
You need to be able to articulate this value proposition to clients and then deliver on it with an appropriate and defined service offering. This is the basis for setting pricing to ensure you can offer aged care advice as a viable and profitable part of your business.

Is care affordable?

Clients hear a lot about the high cost of care but are not sure what this means or whether they can afford the fees.

The cost to care for someone in a residential facility can be as high as $230 per day ($83,950 per year). The government asks clients to pay what they can afford and then picks up the bill for the gap.

Residential care fees are divided into four categories as they each serve a different purpose:



The same fee structure will largely apply for residents moving into care from 1 July 2014 with the main changes being no distinction for fees in low or high care and a means-tested assessment of the additional care fees. Clients are likely to pay higher fees under new rules than clients who have the current rules applied, but they gain long-term protection with a lifetime cap on the means-tested portion of the daily care fee.

Bond negotiations

Under current rules, bond negotiation (in low care and high care extra-service) possibly causes the most angst for clients and families. For many clients this angst is derived from misinformation and a lack of understanding on how the bond system operates.

A bond is largely a refundable deposit with repayment guaranteed by the government. A bond effectively quarantines part of the estate to provide for accommodation for the remainder of the person's lifetime rather than be an expense.

Our view is that too much energy is expended on how to avoid or reduce the bond. Securing a low bond may allow the opportunity to negotiate a more effective fee structure but the most important aspect of aged care should be to secure a place in the facility of choice when needed. Strategies that reduce assets or undervalue assets reported may only result in losing the place, or never receiving an offer from the facility of choice.

Most facilities set a target bond range for new residents. This can be influenced by a range of factors, one of which may be how much the client has in assessable assets. It can be difficult to obtain an estimate of the bond from the facility without first providing asset details for the client.

The steps for keeping bond negotiations in perspective are:

Step 1 - What will it take to be offered a place?
Step 2 - Can the person afford this bond?
Step 3 - Does the fee represent value for money?

To see how these steps apply in practice, let's review the case study below for Faye.

Faye's dilemma – case study

Faye has become too frail to continue living in her home. She has an Aged Care Assessment Team (ACAT) approval to move into low care. Her daughter Caroline would like Faye to move to a residential facility near her home so it is easy to visit each day.

Caroline has spent time investigating options in her local area and

has decided on a facility five minutes from her home. It has a very good reputation and is quite new.

Now, comes the difficult part with negotiating the bond.

This is a new facility and is carrying significant levels of debt used to fund the purchase of land and the building construction. The accommodation bonds are set at a minimum of $500,000 but range up to $650,000 depending on circumstances such as the resident's level of assessable assets and the size of the room.

Faye's only assets are her home in a regional town which is valued around $360,000 and $40,000 in the bank. Her home contents are valued at $5,000 and she does not own a car. She completes the Centrelink form to have her assets assessed.

Faye lives alone so her home is counted as an assessable asset for the bond calculations. This puts her assessable assets at $405,000. She receives a letter from Centrelink stating the maximum bond she can pay is $361,000.

A week later, Caroline receives a phone call to say that a place has become available and an appointment is made to discuss the opportunity for her mother to move in. Caroline takes the Centrelink letter to help with her negotiations.

However, the result may not be what Caroline was hoping for. Unless the facility is willing to accept the lower bond Faye may not receive an offer of a place.

This outcome is not dissimilar to someone selling a house. If the seller wants a price of $500,000 and the potential buyer can only borrow enough to pay $361,000 the seller does not have to accept this price. They can choose to either drop the sale price to accept the offer or discontinue negotiations and look for a new buyer. The same can happen in this case.

Helping clients understand bonds

It should be remembered that bonds are not necessarily bad. Helping clients to understand the implications of bonds may help them to be comfortable with paying the bond.

- Bonds are government guaranteed
- Bonds are exempt under the Centrelink/Veterans' Affairs income and assets tests and can help to maximise age pension and minimise daily care fees
- The bond is not a true fee, but rather is largely a refundable deposit. Each month the facility can deduct $331 (up to a total of $19,860 over a five year period) and the rest of the bond is refundable when the resident leaves or passes away
- Bonds are held in trust by the facility which can help to protect the estate.

The new rules will not change the fundamentals of bonds but will ensure that bonds are more transparent as they will need to be published on the facility's and government websites. Facilities will not be able to accept bonds that are higher than the published rates for clients entering on or after 1 July 2014 and no retention amount can be deducted.

Getting your business ready

Advice on aged care is a complex area, but can be a profitable avenue for building your advice business.

Aged care advice can help you to deepen your existing relationships with clients and protect your client base. It can also provide opportunities for referrals and to obtain new clients.

In most cases the advice is given to the children of the older person – and these "children" are usually in their fifties or sixties. As well as a fee for service, helping the children navigate the process and financial aspects of aged care is a good basis to build a relationship to provide them with their own personal advice.

The diagram below outlines the advice stages and ideas for tools and support that you may wish to access to be business ready. FS