Sean Howard, Challenger

Howard has 10 years' experience in technical services. He started his career in the BT Technical team and worked there for five years. He then contracted to the AMP Technical team for 18 months and for the last three and a half years he has been a technical services manager at Challenger in the Advice Services team. He has a Bachelor of Commerce and an Advanced Diploma in Financial Services.

THE AGED CARE REFORMS

Sean Howard

From 1 July 2014 the aged care reforms will introduce significant changes to the current aged care system which comprises home care and residential aged care.

The reforms to residential aged care are designed to encourage greater investment in facilities by revising the financing arrangements to reflect the true cost of providing aged care and strengthen the sustainability of the system. Residents will have more choice about how they pay for their accommodation and those with lower means will continue to have this met in full or in part by the government.

The reforms to home care will assist individuals to remain living at home for as long as possible. The number of home care packages will be increased and recipients will be given more choice and flexibility in the way care and support is provided.

Individuals with greater means in both residential aged care and home care will have to pay more for their ongoing care. Caps will be put in place to protect those who receive care over a longer period.

Individuals who have already entered residential aged care or are receiving home care before 1 July 2014 will have the current fee structure grandfathered.

Residential aged care

Summary of changes to residential aged care from 1 July 2014

- The distinction between low level and high level (Aged Care Assessment Team) ACAT approvals will be removed
- Accommodation payments will replace the current accommodation bond and accommodation charge and will be determined by a resident's assessable income and assets
- Facilities will be required to publish accommodation prices and cannot charge more than the published amount
- A means-tested care fee will replace the income-tested fee and will be determined by a resident's assessable income and assets
- The means-tested care fee will be subject to annual and lifetime caps

Aged Care Assessment Team (ACAT) approvals

Under the current rules, an ACAT approval for low level or high level is required for an individual to enter residential aged care. The distinction between low level and high level will be removed from 1 July 2014 and the ACAT approval will be for residential aged care without distinction.

Under the current rules, low level approvals automatically lapse after 12 months if care is not provided within 12 months. ACAT approvals from 1 July 2014 will not lapse unless there is a specific time limit on the approval.

Means-tested amount

Under the current rules, a resident's assets are used to determine how much they pay for their accommodation (accommodation bond and accommodation charge) and their income is used to determine how much they pay for their ongoing care (income-tested fee).

A key change under the reforms is the introduction of a "means-tested amount" from 1 July 2014 which will use both a resident's assets and income to determine how much they pay for their accommodation (accommodation payment) and their ongoing care (means-tested care fee).

Means-tested amount = income-tested amount + asset-tested amount

Income-tested amount

The income-tested amount will be calculated in a similar way to the current income-tested fee.

Income-tested amount = (assessable income – assessable income free area) x 50%

Assessable income includes income as assessed under Centrelink/DVA rules and Age/Service Pension income (excluding minimum Pension Supplement and Clean Energy Supplement) as is currently the case for the income-tested fee. Assessable income free area is the same as for the current income-tested fee. The assessable income free area as at 20 September 2013 is $24,346 for singles and $23,878 each for couples.

Asset-tested amount

The asset-tested amount will be calculated as a percentage of assessable assets at increasing thresholds. The asset test thresholds as at 20 March 2012 were:

17.5% of assets between $40,500 and $144,500
1% of assets between $144,501 and $353,500
2% of assets above $353,500

While assessable assets will include assets as assessed under Centrelink/DVA rules, the following will also be assessed:

- The former home up to a cap of $144,500[1] where it is not occupied by a protected person. A protected person has the same meaning as under the current rules
- The RAD balance (see "Accommodation Payments" below)

Note: When the means-tested amount is calculated, it will be compared to the maximum accommodation supplement to determine the resident's aged care fees. The maximum accommodation supplement as at 20 March 2012 was $50 per day.

Accommodation Payments

Accommodation payments will replace the accommodation bond and accommodation charge from 1 July 2014 which are currently determined by a resident's assessable assets.

Accommodation payments will be determined by the means-tested amount which will be calculated using a resident's assessable income and assets as discussed above.

An accommodation payment will be payable where a resident's means-tested amount is greater than zero

Means-tested amount < maximum accommodation supplement ($50)[1]
Accommodation payment = means-tested amount

Means-tested amount ≥ maximum accommodation supplement ($50)[1]
Accommodation payment = amount published by the facility

Residents will have the option of paying the accommodation payment as:

- A fully refundable lump sum referred to as a refundable accommodation deposit (RAD)
- Periodic payments referred to as a daily accommodation payment (DAP)
- A combination of RAD and DAP

Residents will have up to 28 days after entry to decide how to pay for their accommodation. The rationale for this change is to prevent facilities discriminating between individuals based on how they decide to pay for their accommodation.

The RAD will be converted to the equivalent DAP using the maximum permissible interest rate. The maximum permissible interest rate as at 1 January 2014 is 6.59% per annum.

(RAD x maximum permissible interest rate) / 365 = DAP

Where the resident is paying a combination of RAD and DAP, the DAP can be deducted from the RAD. In this case the facility can increase the DAP to compensate for the reduction in the RAD balance.

Facilities will be required to publish prices for available accommodation showing the RAD and the equivalent DAP and at least two examples of combination payments, which must include:

- DAP paid in addition to a RAD
- DAP drawn from a RAD

A RAD, or equivalent DAP, greater than $550,000 will need to be approved by the Aged Care Financing Authority.

Facilities cannot accept a RAD that will leave the resident with less than the minimum permissible asset amount. The minimum permissible asset amount as at 20 March 2012 was $40,500.

Note: The RAD balance will not be assessed for Centrelink/DVA purposes as is currently the case for the accommodation bond. However, the RAD balance will be assessed as an asset but not deemed to determine the means-tested care fee.

There will be no retention amounts deducted from the RAD. It is anticipated that accommodation payments will increase compared to current accommodation bonds to compensate for this. Importantly the Government will guarantee the repayment of the RAD if the facility becomes bankrupt or insolvent as is currently the case for the accommodation bond.

Means-tested care fee

The means-tested care fee will replace the income-tested fee from 1 July 2014. The income-tested fee is currently determined by a resident's assessable income.

The means-tested care fee will be determined by the means-tested amount which will be calculated using a resident's assessable income and assets as discussed above.

A means-tested care fee will be payable where a resident's means-tested amount is greater than the maximum accommodation supplement.

Means-tested care fee = means-tested amount – maximum accommodation supplement ($50)[2]

The means-tested care fee will have an annual indexed cap of $25,000[2] and a lifetime indexed cap of $60,000[2] and cannot exceed the resident's cost of care. The cost of care is the sum of the basic subsidy amount and all primary supplements for the resident.

The quote

Accommodation payments will replace the accommodation bond and accommodation charge from 1 July 2014.

Example:

Fred is 85, single, a homeowner and has been approved for residential aged care. His home is worth $500,000 and is not rented out. He has $300,000 in a bank account after paying a RAD of $300,000 and receives an Age Pension of $672.23 per fortnight.

What will be his income-tested/means-tested care fee if he moves in before or after 1 July 2014?

Assessable income:

$9,801 (deemed income) + $16,264 (assessable Age Pension)[3] = $26,065 p.a.

Assessable assets:

$300,000 (bank account) + $144,500 (former home)[4] + $300,000 (RAD) = $744,500

Income-tested fee (moves in before 1 July 2014)[5]	Means-tested care fee (moves in on or after 1 July 2014)
($26,065 - $24,346) x 5/12 = $716.25	Income-tested amount:[5]
$716.25 / 364 = $1.97 per day	($26,065 - $24,346) x 50% = $859.50
	Asset-tested amount:
	($144,500 - $40,500) x 17.5% = $18,200
	($353,500 - $144,500) x 1% = $2,090
	($744,500 - $353,500) x 2% = $7,820
	$18,200 + $2,090 + $7,820 = $28,110
	($859.50 + $28,110) / 364 = $79.59
	$79.59 - $50 = $29.59 per day

Fred will have an income-tested fee of $1.97 per day if he enters care before 1 July 2014 and will have a means-tested care fee of $29.59 per day if he enters care on or after 1 July 2014. This represents a significant increase of $27.62 per day ($10,053.68 per annum).

What will be his income-tested/means-tested care fee if he sells his home, pays a RAD of $300,000 and leaves the remaining proceeds in a bank account?

Assessable income:

$27,301 (deemed income) + $2,321 (assessable Age Pension)[3] = $29,622 p.a.

Assessable assets:

$800,000 (bank account) + $300,000 (RAD) = $1,100,000

Income-tested care fee (moves in before 1 July 2014)[5]	Means-tested care fee (moves in on or after 1 July 2014)
($29,622 - $24,346) x 5/12 = $2,198.33	Income-tested amount:[5]
$2,198.33 / 364 = $6.04 per day	($29,622 - $24,346) x 50% = $2,638.00
	Asset-tested amount:[6]
	($144,500 - $40,500) x 17.5% = $18,200
	($353,500 - $144,500) x 1% = $2,090
	($1,100,000 - $353,500) x 2% = $14,930
	$18,200 + $2,090 + $14,930 = $35,220
	($2,638 + $35,220) / 364 = $104.01 per day
	$104.01 - $50 = $54.01 per day

If Fred sells his home he will have an income-tested fee of $6.04 per day if he enters care before 1 July 2014 and a means-tested care fee of $54.01 per day if he enters care on or after 1 July 2014. This represents an increase of $4.07 per day ($1,481.48 per annum) in the income-tested fee and a more significant increase of $24.42 per day ($8,888.88 per annum) in the means-tested care fee.

What do the reforms mean for residential aged care advice?

The reforms significantly impact the way residential aged care accommodation and ongoing care fees are calculated and will result in many new residents paying higher fees. The importance of receiving financial advice will be even greater under the new system as decisions regarding the family home and where funds are invested will likely have a greater impact on how much a resident pays.

Keep versus sell the family home

The decision of whether to keep or sell the family home is often an emotional as well as a financial one and can greatly impact on Centrelink/DVA benefits and ongoing care fees.

Under the reforms, the former home will continue to receive a Centrelink/DVA exemption as under the current rules. From 1 July 2014, as long as part of the accommodation payment is paid as a DAP and the home is rented, it will remain exempt for Centrelink/DVA purposes.

However, when calculating the means-tested care fee, only a portion of the former home ($144,500[7] if it is not occupied by a protected person) will count as an asset compared to the entire proceeds if the home is sold. This means for many residents, the means-tested care fee may be significantly lower if the home is kept.

The quote

For many residents, the means-tested care fee may be significantly lower if the home is kept.

Structuring accommodation payments

Whilst the RAD will continue to be exempt for Centrelink/DVA purposes, it will be counted as an asset for determining the means-tested care fee. More consideration may be given to keeping the family home with the asset value of the home capped compared to paying a RAD where the entire balance is assessable.

The publishing of accommodation prices will make it easier from a planning perspective as residents will know how much they will be asked to pay for their accommodation. However, residents will not be able to pay an amount exceeding the published price and the existing strategy of negotiating a higher accommodation bond will no longer be available.

Investment strategies

As the means-tested care fee will be determined by a resident's income and assets, there will be a greater focus on whether to keep or sell the family home, how to structure accommodation payments and where to invest remaining funds.

Investment strategies that reduce a resident's income and assets, such as a lifetime annuity[8], will continue to play an important role in reducing ongoing care fees.

Example continued

What will be Fred's means-tested care fee if he sells his home, pays a RAD of $300,000, purchases a lifetime annuity with $200,000 and leaves the remaining proceeds in a bank account?

Assessable income:

$20,301 (deemed income) + $2,321 (assessable Age Pension)[9] = $22,622 p.a.

Assessable assets:

$600,000 (bank account) + $200,000 (lifetime annuity) + $300,000 (RAD) = $1,100,000

Means-tested care fee	Means-tested care fee (Care Annuity)
Income-tested amount: [10]	Income-tested amount:[10]
($29,622 - $24,346) x 50% = $2,638.00	($22,622 - $24,346) x 50% = $0
Asset-tested amount:[11]	Asset-tested amount:[11]
($144,500 - $40,500) x 17.5% = $18,200	($144,500 - $40,500) x 17.5% = $18,200
($353,500 - $144,500) x 1% = $2,090	($353,500 - $144,500) x 1% = $2,090
($1,100,000 - $353,500) x 2% = $14,930	($1,100,000 - $353,500) x 2% = $14,930
$18,200 + $2,090 + $14,930 = $35,220	$18,200 + $2,090 + $14,930 = $35,220
($2,638 + $35,220) / 364 = $104.01	$35,220 / 364 = $96.76
$104.01 - $50 = $54.01 per day	$96.76 - $50 = $46.76 per day

If Fred purchases a lifetime annuity, he will have a means-tested care fee of $46.76 per day. This represents a reduction of $7.25per day ($2,638.00 per annum).

The lifetime annuity is able to reduce the means-tested care fee by eliminating the income-tested amount. There is also the potential to further reduce the means-tested care fee over time as the reducing asset value of the annuity[12] reduces the asset-tested amount.

The quote

The lifetime annuity is able to reduce the means-tested care fee by eliminating the income-tested amount.

Home care

Summary of changes to home care from 1 August 2013

- The Home Care Packages Program has replaced Community Packaged Care Programs
- ACAT approvals have been broadbanded into two assessment bands
- An income-tested care fee will be introduced from 1 July 2014 and will be determined by a recipient's assessable income
- The income-tested care fee will be subject to annual and lifetime caps

Home Care Packages Program

Under the previous rules, home care was provided under Community Packaged Care Programs which comprised:

- Community Aged Care Package (CACP)
- Extended Aged Care at Home (EACH)
- Extended Aged Care at Home Dementia (EACHD)

The Home Care Packages Program has replaced Community Packaged Care Programs from 1 August 2013. Under the new program there are four levels of home care packages

Level	Support provided	Equivalent previous package
Home Care Level 1	Basic care needs	Nil
Home Care Level 2	Low level care needs	CACP
Home Care Level 3	Intermediate care needs	Nil
Home Care Level 4	High level care needs	EACH

Individuals who were receiving Community Packaged Care Programs have been changed to the Home Care Packages Program from 1 August 2013:

- CACP has become Home Care Level 2
- EACH package has become Home Care Level 4
- EACHD package has become Home Care Level 4

Aged Care Assessment Team (ACAT) approvals

Under the previous rules, a separate ACAT approval was required for each package. ACAT approvals have been broad banded into two assessment bands from 1 August 2013:

- Home Care Levels 1 and 2 – equivalent to current eligibility for low level residential aged care
- Home Care Levels 3 and 4 – equivalent to current eligibility for high level residential aged care

Individuals do not have to be reassessed by ACAT to move from one package level to another within the same approved assessment band or to access a package within a lower assessment band. Individuals will need to be reassessed and approved to access a package within a higher assessment band.

Under the previous rules, CACP approvals automatically lapsed after 12 months if care was not provided within 12 months. ACAT approvals from 1 August 2013 will not lapse across any of the package levels unless there is a specific time limit on the approval.

Income-tested care fee

Under the current rules, providers can charge a basic fee of up to 17.5% of the basic single Age Pension and a "care recipient fee" determined by a recipient's income after tax and Medicare levy. The care recipient fee is administered by the provider and does not reduce the subsidy the provider receives from the Government.

A key change under the reforms is the introduction of an income-tested care fee which will replace the care recipient fee. The income-tested care fee will be determined by a recipient's assessable income as it is calculated for the fees in residential aged care and administered by the Department of Human Services. As is currently the case for residential aged care, the income-tested care fee will reduce the subsidy the provider receives from the Government.

An income-tested care fee will be payable where the recipient's assessable income is greater than the assessable income free area.

Assessable income includes income as assessed under Centrelink/DVA rules and Age/Service Pension income (excluding minimum Pension Supplement and Clean Energy Supplement). The assessable income free area as at 20 September 2013 is $24,346 for singles[13].

The income-tested care fee will have annual indexed caps of $5,000 for a part pensioner and $10,000 for a self-funded care recipient and cannot exceed the recipient's cost of care. The cost of care is the sum of the basic subsidy amount and all primary supplements for the recipient.

Assessable income (single)[14]	Income-tested care fee
Less than $24,346	Nil
Between $24,346 and $47,065	Lesser of: Sum of basic subsidy amount and primary supplements 50% of assessable income exceeding $24,346 $5,000 (part pensioner cap)
Greater than $47,065	Lesser of: Sum of basic subsidy amount and primary supplements 50% of assessable income exceeding $47,065 plus $5,000 $10,000 (self-funded cap)

As with the reforms to residential aged care, the income-tested care fee will have a lifetime indexed cap of $60,000. Where an individual moves from home care to residential aged care, income-tested care fees paid in home care will be added to means-tested care fees paid in residential aged care and count towards the lifetime cap.

Example

George is 80, single, a homeowner and has been approved for home care levels 1 and 2. He has $300,000 in a bank account and receives an Age Pension of $672.23 per fortnight. The sum of his basic subsidy amount and primary supplements is $37.36 per day.

What will be his total home care fees?

Basic fee:

17.5% x $19,544[15] / 364 = $9.40 per day

Assessable income:

$9,801 (deemed income) + $16,264 (assessable Age Pension)[16] = $26,065 p.a.

Income-tested care fee will be the lesser of:

- $37.36 per day
- ($26,065 - $24,346) x 50% / 364 = $2.36 per day
- $5,000 / 364 = $13.74 per day

George's income-tested care fee will be $2.36 per day and his total home care fees will be $11.76 per day.

What do the reforms mean for home care advice?

Currently, there is limited opportunity to provide financial advice to individuals who are receiving home care. Many recipients do not pay a care recipient fee because there is little incentive for a provider to conduct an income assessment as it does not affect the subsidy they receive from the Government. In addition, the care recipient fee is determined by after tax income and consequently it cannot be reduced without also reducing cash flow for the recipient.

Under the reforms, the income-tested care fee, which will replace the care recipient fee, will be determined by Centrelink/DVA assessed income and will be administered by the Department of Human Services. This will create advice opportunities as many new recipients will pay more for their ongoing care and investment strategies that reduce Centrelink/DVA assessed income, such as a lifetime annuity[17], will begin to play a role.

Example continued

What will be George's total home care fees if he purchases a lifetime annuity with $50,000 and leaves $250,000 in a bank account?

Basic fee:

17.5% x $19,54415 / 364 = $9.40 per day

Assessable income:

$8,051 (deemed income) + $16,264 (assessable Age Pension)16 = $24,315 p.a.

Income-tested care fee will be the lesser of:

- $37.36 per day
- ($24,315 - $24,346) x 50% / 364 = $0
- $5,000 / 364 = $13.74 per day

If George purchases a lifetime annuity, he will not have an income-tested care fee and his total home care fees will be $9.40 per day. This represents a reduction of $2.36 per day ($861.40 per annum).

The lifetime annuity is able to eliminate the income-tested care fee and reduce the total care fees payable by a home care recipient. **FS**

The quote

The lifetime annuity is able to eliminate the income-tested care fee and reduce the total care fees payable by a home care recipient.

References:

1 As at 20 March 2012
2 As at 20 March 2012
3 Age Pension minus minimum Pension Supplement and Clean Energy Supplement
4 As at 20 March 2012
5 Thresholds as at 4 November 2013
6 Thresholds as at 20 March 2012
7 As at 20 March 2012
8 Income from a lifetime annuity is reduced by the deductible amount (purchase price/life expectancy)
9 Age Pension minus minimum Pension Supplement and Clean Energy Supplement
10 Thresholds as at 4 November 2013
11 Thresholds as at 20 March 2012
12 Asset value of a lifetime annuity reduces by the deductible amount (purchase price/life expectancy) every year
13 Couple thresholds not available as at 20 September 2013
14 Thresholds as at 20 September 2013
15 Basic single Age Pension as at 20 September 2013
16 Age Pension minus minimum Pension Supplement and Clean Energy Supplement
17 Income from a lifetime annuity is reduced by the deductible amount (purchase price/life expectancy)