A guide to aged care

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Careful planning and the right advice can help you get the care you need without a lot of the stress.

Australia's aged care system is designed to support the elderly, either in their own home or a residential aged care facility.

Moving into residential aged care can be an uncertain and overwhelming experience for you and your family. On top of the personal and emotional challenges, there are a number of important considerations and decisions such as:

- which facility is suitable for you
- what fees will you need to pay and how should you fund them
- what should you do with your family home
- what impact will the move into care have on social security benefits.

In this guide, we outline the key steps to entering aged care, explain the fees that may apply and address some of the key issues you will need to consider.

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

A financial adviser with expertise in this area can help you to

- manage costs
- review entitlements to social security benefits
- choose suitable investments
- plan for the distribution of your estate.

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 move into a residential aged care facility, you need to have your lifestyle and health needs assessed by an Aged Care Assessment Team (ACAT or ACAS in Victoria) member. These are usually doctors, nurses and social workers who specialise in aged care.

This assessment is free and can be done at home, a health centre or hospital. The ACAT member will ask you a series of questions about your health, mobility and any help that you currently receive at home. This information helps ACAT to determine whether you require full time residential aged care or another type of care. This could include:

- home care, where you can continue to live in your own home and receive assistance with domestic duties, personal care or nursing care
- respite care, where you move into an aged care facility for a temporary time period.

ACAT approvals for permanent residential aged care are valid indefinitely, unless they are granted for a specific timeframe.

A new assessment will be required if any specified timeframe expires.

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 assist in locating an appropriate facility for you or your relative.

To find your nearest ACAT or to search for a care facility in your local area, you could phone 1800 200 422 or visit the Government's My Aged Care website at www.myagedcare.gov.au.

All facilities are different, so you should visit a few to determine which are most appropriate for your personal and lifestyle needs. Not all facilities will have vacancies but you could ask whether you can be placed on a waitlist.

If you anticipate moving into care, you may be able to fill out an application form in advance. The facility may then contact you when a room becomes available.

Step 3 – Work out the costs

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

- basic daily fee
- hotelling contribution
- non-clinical care contribution
- fees for higher everyday living
- accommodation fee.

Step 4 – Apply for your place

An application form needs 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.

You will also be asked if you want to provide details on your income and assets. You are not legally required to disclose this information to the facility. If required, you may provide this information to Services Australia directly to have your fees calculated. If you choose not to provide the information required, you won't be eligible for any Government subsidies and will need to pay your full cost of care.

If you do choose to provide your financial information, you need to complete an assessment form. The form you need to fill in will depend on your specific circumstances. For example, if you're already receiving a payment from Services Australia or the Department of Veterans' Affairs (DVA) and you own your own home, you may be able to complete a simplified form.

If you receive an income support payment and don't own your own home, you may not need to complete a form at all (however, in all cases, it is important to ensure your income and asset information is up to date with Services Australia/DVA). This information is used by Services Australia/DVA to determine the fees payable.

There is no requirement to disclose your financial information to the aged care facility and you can send this completed form directly back to Services Australia/DVA. After the assessment has been completed, the Department will notify you and your aged care facility of the outcome; and what fees they may collect from you. Your personal information will not be passed on to the facility.

Step 5 – Move in

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

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

Understanding different fees

1. The basic daily fee

This a contribution towards daily living costs, such as nursing, personal care and meals. Generally, all aged care residents are required to pay this amount.

It is set at 85% of the full basic single rate of Age Pension (regardless of whether you receive the full or part pension) and may be indexed periodically.

2. The hotelling contribution

This is an additional fee towards daily care costs. It's calculated based on a formula that takes into account income and assets. This fee contributes towards the costs associated with providing day to day care services.

An individual may be required to pay the hotelling contribution based on an assessment of their income and assets. This calculation is done by Services Australia/DVA. Based on the assessment, either a partial contribution to the hotelling contribution is payable and can be up to the maximum amount.

The maximum hotelling contribution is payable if financial information has not been disclosed and a fee assessment has not been completed.

Residents who aren't liable to pay an accommodation fee because they are fully subsidised by the Government don't pay the hotelling contribution (but may do so if financial circumstances change in the future).

3. A non-clinical care contribution

This may be payable in addition to the basic daily fee. This fee is determined by a formula that takes into account your income and assets. It's only payable by residents who are liable for the maximum hotelling contribution – that is, with higher levels of income and/or assets relative to others.

In effect, this means that people with greater capacity to contribute to the costs of care have higher ongoing care fees than others.

The non-clinical care contribution[1] is determined at the time you enter care and is generally reassessed monthly by Services Australia throughout your stay. It is possible this fee may increase or decrease over time. Residents who have elected not to disclose their financial position will be liable for the maximum contribution.

A lifetime cap applies to the non-clinical care contribution. This fee stops being charged once either the lifetime cap is reached or the person has been in residential care for a total of four years.

After this point, the Government covers the full cost of the non-clinical care contribution for the rest of that person's life. However, other fees, such as the basic daily fee, hotelling contribution and any additional service fees, continue to apply[1].

4. Fees for higher everyday living

This may be charged by the facility for any additional services provided or a higher standard of accommodation. Examples include pay TV, a larger room, additional leisure activities and extra therapies (e.g. massages).

The fee is determined by the facility and is included in the accommodation agreement. They are not subsidised by the Government and may be indexed each year in care.

Accommodation fees

This is a contribution towards the cost of accommodation. This cost may be met in part or in full by the Government, depending on your income and assets and can be paid as:

- a 'refundable accommodation deposit' (RAD[2])
- a 'daily accommodation payment' (DAP[2]), or
- a combination of a RAD and DAP.

Note, if the person is eligible for Government support under the aged care rules, these fees are referred to as a Refundable Accommodation Contribution (RAC) or Daily Accommodation Contribution (DAC).

Refundable Accommodation Deposit

Although your accommodation agreement will provide you with examples of how you can pay this fee and different options for a combination approach, you can choose to pay any combination of a lump sum RAD or DAP that you wish.

The only requirement is that after payment of an initial RAD, you must be left with a minimum level of assets. Any shortfall that you're unable to pay as a lump sum needs to be paid as an equivalent daily payment, which is calculated based on a formula (see 'Daily accommodation payment').

The RAD is a lump sum payment that is refunded when you leave the facility, after allowing for the deduction of any agreed amounts.

1. The non-clinical care contribution is the only residential aged care fee which is subject to the lifetime cap. Certain fees paid for home care services, such as Support at Home, may count towards this lifetime limit.

2. If the Government contributes towards your accommodation payment, these amounts are referred to as a 'refundable accommodation contribution' (RAC) or 'daily accommodation contribution' (DAC).

Daily Accommodation Payment

The DAP is a daily payment you will be required to pay if you have not paid the RAD in full. It is effectively 'interest' on any 'unpaid' RAD and is calculated using an interest rate called the 'maximum permissible interest rate', which is generally revised quarterly. Any DAP that you pay is not refunded at the end of your stay.

Each facility must publish the RAD and DAP for each room. You cannot pay a RAD or DAP greater than what is published for a given room. These amounts can be found on the Government's 'My Aged Care' website at www.myagedcare.gov.au.

If you have limited financial means, you may still be asked to make a contribution towards the cost of your accommodation and the Government will cover part of the cost. The contribution you are required to make is determined by a formula that takes into account your income and assets.

If your assessable income and assets are below the Government set thresholds[3], your accommodation payment will be fully subsidised by the Government.

3. Visit https://www.health.gov.au/resources/publications/schedule-of-fees-and-charges-for-residential-and-home-care for the latest schedule of fees.

Accommodation fee (choice of lump sum fee, daily payment or a combination)	
Lump sum accommodation fee	• 'Refundable Accommodation Deposit' or 'RAD' (Refundable Accommodation Contribution or 'RAC' if eligible for Government support with accommodation costs) • RAD is set by the care provider for each room • Refundable, less a retention amount of 2% each year, plus any other fees agreed to be deducted from balance of lump sum
Daily accommodation fee	• Daily Accommodation Payment or DAP (Daily Accommodation Contribution or 'DAC' if eligible for Government support with accommodation costs) • DAP is calculated based on amount of the RAD not paid as a lump sum (i.e. the unpaid RAD) and may be increased twice each year, to inflation • DAC is calculated by a formula based on income and assets • Daily fees are not refundable

Ongoing care fees	
Basic daily fee	• Generally payable by all residents for all days in care • 85% of full Basic Single Age Pension (regardless of your actual Age Pension entitlement)
Non-clinical care contribution	• Calculated based on income and assets • Paid until lifetime cap reached or after four years in residential care – whichever occurs first • Maximum payable if financial means not disclosed
Hotelling contribution	• Calculated based on income and assets • Maximum payable if financial details not disclosed
Fees for higher everyday living	• Fee for optional extras or enhanced services • Fee agreed with care provider • Fee subject to ongoing indexation

Your family home

When you move into aged care, some important decisions may need to be made regarding your family home.

Your home and the non-clinical care contribution fee

Your home will not be assessed as an asset when Services Australia/DVA determines any non-clinical care fee contribution or hotelling contribution if certain eligible people continue to live there. These include:

- your partner
- an immediate family member who has lived in your home for five continuous years immediately before you move into care and is receiving a Government income support payment[1]
- a carer who has lived in your home for two continuous years immediately before you move into care and is receiving a Government income support payment[1].

1. Examples of income support payments are Age Pension, Disability Support Pension, JobSeeker and Carers Payment but doesn't include Carer Allowance.

Visit https://www.health.gov.au/resources/publications/schedule-of-fees-and-charges-for-residential-and-home-care for the latest schedule of fees.

The table below summarises the assessment of the family home for the non-clinical care contribution and hotelling contribution.

Scenario	Non-clinical care contribution and hotelling contribution	
	Asset value assessed	Income assesed
Home occupied by partner or other eligible person	Exempt	Not applicable (if no rental income)
Home vacant	Assessed up to capped value	Not applicable
Home rented	Assessment up to capped value	Rental income (less allowable deductions)
Home sold and proceeds invested	Full proceeds are assessed based on the social security rules and how the sale proceeds are invested	Income is assessed, generally using social security rules

Do you have to sell your home?

A common misconception is that you have to sell the family home to pay the accommodation fee as a lump sum. An aged care facility cannot require you to sell your family home and must offer you the choice of paying the accommodation fee as a lump sum, daily payment or a combination of both. If your family home is your main asset and you haven't got sufficient funds available to either pay the lump sum or meet the ongoing daily fees, it is important to get advice to determine what options you have to fund the cost of your care. The sooner you can start planning for a potential future care need, the better.

Renting your home

Renting your home could provide an additional source of income to help you pay your aged care costs. However:

- significant costs may need to be incurred when preparing your home to be rented
- a family member or other trusted person may need to be available and willing to deal with real estate agents and tenants on your behalf.

Also, income tax may be payable on rental income, so advice should be sought from a registered tax agent.

Capital gains tax (CGT)

If your home is sold, there is generally a full CGT exemption, provided your home has always been your 'principal place of residence'[2].

After vacating your home, if it's retained and not rented, it may be treated as your 'principal place of residence' for an unlimited period[2].

If your home is rented, it may be treated as your 'principal place of residence' for up to six years after moving out[2].

If your home is rented and sold outside the six-year period, CGT may be payable.

Note: This tax information is general in nature and is intended as a guide only. The taxation treatment may vary according to your individual circumstances and may not apply in all cases. We recommend you seek professional advice from a registered tax agent.

Social security

Decisions you make regarding your family home could impact your current or potential social security entitlements.

2. Assumes that you have not elected to treat any other place as your 'principal place of residence' for tax purposes.

Age Pension entitlements

Moving in to aged care could impact your entitlement to the Age Pension.

When you move into care, you will need to notify Services Australia/DVA of this change so they can recalculate any benefits you are entitled to. This is in addition to submitting the assessment form which Services Australia/DVA will use to determine your non-clinical care contribution fee.

Even if you are not currently receiving the Age Pension, you may wish to reconsider your entitlement once you have moved into the aged care facility. For example, if you use some of your available funds to pay a lump sum accommodation cost, this amount is exempt from the social security means testing, which may create an entitlement to an income support payment, concession card or other benefit.

General social security implications

If you are a member of a couple, your Age Pension payments may 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 continue to be assessed on your combined income and assets, however your entitlement will be calculated using a single person's pension rate for each of you.

If you pay a lump sum accommodation payment, the payment will be an exempt asset for Services Australia/DVA purposes. This means there is no asset value or income assessment when determining your entitlement to the Age Pension. This may entitle you to a higher rate of Age Pension or other benefit.

If you were receiving rent assistance before you moved into care, this will stop (however your partner may continue to be entitled to rent assistance). Instead different subsidies may be paid directly to the aged care facility by the Government.

You should also discuss your situation with a financial adviser or a Financial Information Services (FIS) officer at Services Australia/DVA to understand how your situation may change.

Summary of family home assessment for social security means testing

Scenario	Income test	Assets test	Home ownership status
Home occupied by partner[1]	Not applicable as no income	Not assessed while partner occupies home	Homeowner
Home vacant	Not applicable as no income	Exempt for two years from date of entry to care Assessed after two years	Homeowner (while home is exempt) Non-homeowner (once home is assessed)
Home rented	Rental income less allowable deductions is assessed immediately	Exempt for two years from date of entry to care Assessed after two years	Homeowner (while home is exempt) Non-homeowner (once home is assessed)
Home sold and balance used to purchase financial investments (e.g. bank account, term deposit, managed fund, shares)	Deemed immediately	Assessed immediately	Non-homeowner
Home sold and sale proceeds used to pay a lump sum accommodation payment[2]	A lump sum accommodation fee is not assessed under the income test. Any additional proceeds may be assessed depending on how the funds are invested	Lump sum accommodation fee is not assessed as an asset. Any additional proceeds may be assessed under the assets test depending on how funds are invested	Non-homeowner

1. For social security purposes, a full exemption only exists for the family home if it is occupied by the partner. Special rules apply if your partner subsequently leaves the family home. The assessment will depend on the reason your partner leaves the home and how long they leave for.

2. Different rules apply when calculating the non-clinical care fee and the hotelling contribution. A lump sum accommodation payment is assessed as an asset when calculating these fees but has no income assessment.

Next steps

There are a range of professionals and resources that can help when you move into aged care.

myagedcare.gov.au

My Aged Care is the Australia Government's website which contains general information on aged care rules and fees.

You can also contact My Aged Care on 1800 200 422 and ask to be put in touch with your local ACAT service, who can assist you in completing the ACAT assessment.

Placement agencies

A placement agency can assist you in identifying care facilities that can provide the care that is required in a particular area. Such services include providing a shortlist of possible care facilities based on a number of criteria you have set and may also include visiting those facilities with you. They may also be able to negotiate with the facility on your behalf.

Solicitor

It is important to ensure your Will, enduring power of attorney, guardianship and other documents are up to date. Your solicitor is able to help you. These documents ensure someone can act on your behalf if you are unable to, so that your wishes are fulfilled.

You should also speak to your solicitor if you have questions or concerns regarding the accommodation agreement as you will need to sign this document.

Financial planner

A financial planner can assist in explaining and estimating fees that will be charged by a care facility.

They are also able to assist in understanding how your cashflow can be managed to receive the care in your chosen care facility.

In some cases, a financial adviser can refer you to a placement agency or solicitor and coordinate the overall process.

Source: MLC

Get in touch with us, we're here to help.

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