Aged care affected by the budget

After the major changes to aged care that started on 1 July 2014, we hoped aged care might have made it through this year’s Budget without any negative reforms but two means-testing changes are likely to make funding aged care more difficult for clients.

It should be remembered that the announcements made in the Budget are only proposals and legislation is required to be passed to make them effective.

Changes to asset testing for pensions

The change to the assets test assessment for pensions may have a flow-on effect to aged care.

Clients who lose eligibility for the age pension (due to assets test changes) may find that their means-tested amount (MTA) reduces due to the lower assessable income, resulting in a lower means-tested fee. However, they may also have less income to help cover their fees putting pressure on cashflow.

Example:

Agnes and Boris have been married for 46 years. Boris has recently moved into aged care, while Agnes is continuing to live in their home. They also have $900,000 in financial assets which are subject to deeming rules.

Under current rules, the move will trigger an age pension reassessment as an illness-separated couple and they receive $20,804 (combined) age pension per year. Boris’s ongoing care fees are $17,334 basic daily care fee and $3,648 means-tested care fee. This is a total of $20,982 per year plus accommodation costs.

If the proposed asset test changes are passed, under the new rules (effective from 1 January 2017) Agnes and Boris would exceed the assets test cut-off threshold and lose all entitlements to the age pension. This reduces their assessable income for MTA calculations but as Boris is under the income threshold there is no change in his daily care fees.

In some cases, the reduction in assessable income may reduce the means-tested fees but that is probably small consolation for the loss in age pension.

Agnes and Boris will need to restructure their finances to fully self-fund Boris’s fees and Agnes’s living expenses – so it may not take them much time to get below the assets test cut-off threshold again.

If Boris was paying for his accommodation as a Daily Accommodation Payment (DAP) this might create an incentive for him to pay a Refundable Accommodation Deposit (RAD) to reduce his assessable assets and requalify for some age pension.

Note: these calculations use current rates and thresholds to demonstrate the impact of the proposed change in assets test assessment.
One other trick to note though, is that if the age pension is lost, clients will lose any grandfathering that kept existing account-based pensions under deductible amount rules. If their account-based pensions move to deeming rules this may increase their assessable income and result in higher means-tested fees in aged care. Although clients have time to think about whether to pay a RAD or a DAP, timely advice may help to avoid losing the pension and triggering a change to deeming.

**Removal of rental income exemption**

A common strategy used in aged care is to rent the former home and ensure that some of the accommodation payment is paid as a daily accommodation payment (DAP).

The benefit of this strategy is an indefinite Centrelink/Veterans’ Affairs assessment as a homeowner and exemption for the home when determining pension eligibility. In addition, the rental income received is not assessable which reduces the means-tested fee and also helps to maximise pension entitlements.

It is proposed that the rental income exemption will not apply to residents who move into aged care from 1 January 2016. These residents will have the rental income included as assessable income when determining means-tested care fees, even if they are paying some DAP and the home will continue to have an asset value up to the capped amount.

Residents who move into residential care before 1 January 2016 will still qualify for the exemption on rental income (if a DAP is paid).

The income exemption will continue to apply for the Centrelink/Veterans’ Affairs income test for all residents.

**Example:**

**Sidney** is a widower who was living alone. He moves into residential aged care on **12 May 2015** and agrees to an accommodation payment of $300,000. In addition to his home, he also has $60,000 in financial assets.

Sidney and his family decide to keep his former home and rent it for $18,000 per year (after all expenses) to pay for his accommodation. He continues to be eligible for the full age pension of $22,365 per annum.

He chooses to pay for his accommodation fully as a DAP ($19,080 per year). The rental income he receives is exempt for both the pension income test and his aged care fees means-tested amount. He therefore pays daily care fees of $17,936 per year (includes $602 means-tested care fee) which is covered by his pension plus the DAP which is covered by the rent and some of his remaining pension.

**Sally** is a widow who was living alone. She moves into residential aged care on **2 January 2016** and agrees to an accommodation payment of $300,000.

She has the same assets as Sidney. She does not wish to sell her former home so Sally and her family also decide to rent her former home for $18,000 (after all expenses).
The rental income continues to be exempt for age pension income test and she qualifies for the full age pension. But, the rental income is no longer exempt when calculating care fees.

Sally will pay daily care fees of $25,491 per year (includes $8,157 means-tested care fee). This may be difficult to afford in addition to the DAP of $19,080 per year as her overall fees of $44,571 are more than her income of $40,365 per year.

Note: these calculations use current rates and thresholds to demonstrate the impacts

**Implications (if passed):**

1. Clients who need to move into residential care (and are planning to retain their former home) may benefit from moving into aged care before 1 January 2016. The lead-in time to obtain an ACAT assessment, find a suitable care service and receive an offer of a place could take some time to arrange so clients should not leave their decisions until the last minute.

2. Clients who move into care after 31 December 2015 may find it more difficult to fund their aged care needs if they do not want to sell their former homes and have limited other financial resources.

3. The incentive to pay RADs instead of DAPs may increase under the new rules to gain asset-test exemptions under the pension assets test.

4. Financial advice on aged care funding and cashflow management will become even more critical for client and their families. Aged Care Steps provides a Find A Professional service to locate an adviser who has completed the Accredited Aged Care Professional™ course and is supported by our services.

A full Budget analysis will be issued later today.

**Note:**

The measures outlined in this paper are all government proposals. The analysis and interpretation is based on information available in the Budget release which is sometimes quite limited. Further details may need to be released to clarify some aspects and legislation needs to be introduced to make the changes effective (unless otherwise indicated). These announcements could be subject to further change before being enacted or may not be implemented.
About Aged Care Steps

Aged Care Steps Pty Ltd specialises in the provision of strategy support and tools to enable professionals including advisers to build and develop a profitable aged care advice service.

The services enable advisers and other professionals to participate in one of the fastest growing segments due to the growing dominance of the over 85 year olds and the heightened implications for the demand for aged care.

Our services include:

- **Specialist training**: Training modules for advisers and other professionals based on their preferred level of participation and knowledge of aged care
- **Client marketing tools**: Marketing and client communication tools that can be customized by professionals to explain the value of advice and communicate with clients on key aged care issues.
- **Advice process guides**: Mapping key decisions and steps in the advice process
- **Technical and strategy library**: Comprehensive library on aged care information and strategies that provides practical application of the information
- **Calculators and guides**: Range of calculators and guides to help professionals deliver personal advice
- **Aged care paraplanning support**: Professionals can outsource the calculation of various strategies and options for clients and the preparation of compliant, tailored and quality aged care Statements of Advice

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