

Retirement living –
What happens between
retirement and aged care?

Stuart McMullen



30th October 2019

Why retirement living advice?



Clients

- Biggest decision to make in retirement / needs will change throughout retirement
- Impact on Centrelink / DVA
- Investment, cashflow and estate planning decisions
- Planning ahead for aged care costs

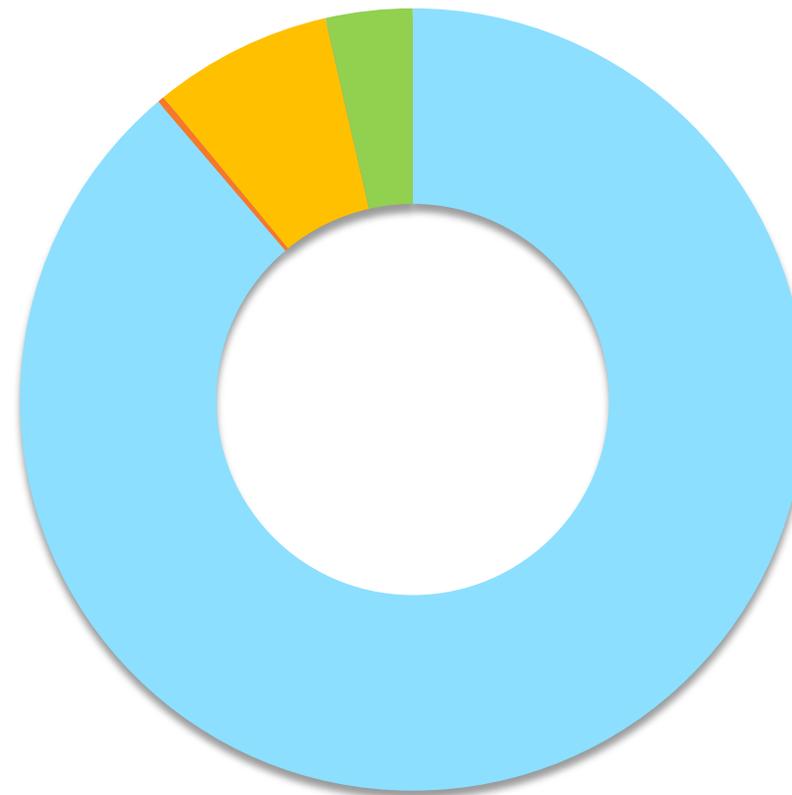
Advisers

- Natural fit for ageing client base and goals based financial planning
- Estate planning referral opportunities
- Intergenerational advice opportunities
- Potential to retain wealth within practice



Where do older Australians live?

Private Dwelling	1,338,192	89%
Hospital	4,106	0%
Aged Care Nursing	111,245	7%
Non-private Dwelling (Retirement Village, Lifestyle Village, etc)	53,803	4%



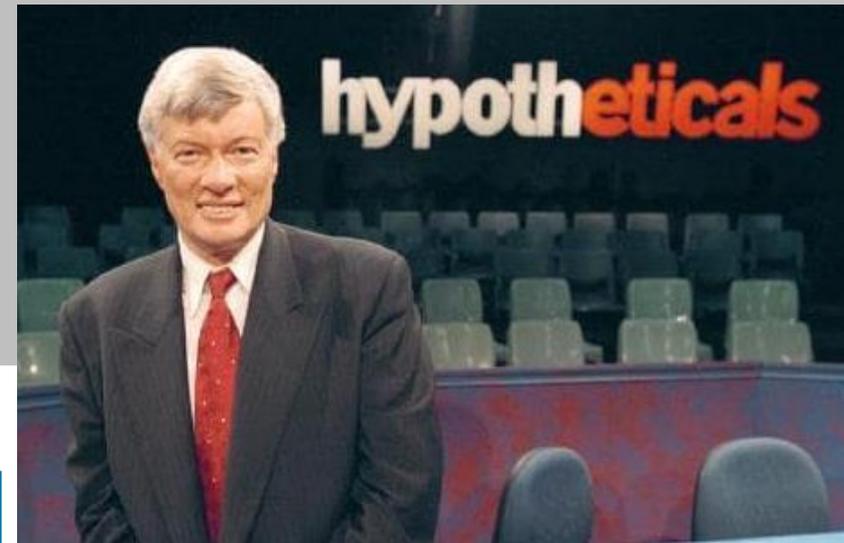
Age 75 and above

Source – 2016 Census, Older people, Dwelling type of Usual Residence by age 75 and above

Hypotheticals

Geoffrey Robertson QC

Who remembers?



Our case study - Mavis



- Mavis is 79 years old and recently widowed.
- Her late husband Garry looked after the finances and bills.
- Previously the full couple aged pension of \$36,582 per annum met their lifestyle needs and any larger expenses came from their cash/term deposits which total \$280,000.
- Mavis lives in a compact 3 bedroom home in a capital city valued at \$800,000.

Some of Mavis goals / concerns are as follows:

- She would like to stay in her home if possible but would also like to know about and consider other options.
- She is reasonably independent but is starting to need some support.
- She is concerned at how quickly her \$280,000 in savings may run down now she is on a single age pension (\$22,848 per annum).



Content

01	Remaining in the home and care options when required
02	Retirement villages
03	Lifestyle villages
04	Moving in with family and granny flat interests
05	Aged care (overview)

01

Remaining in the home and care options when required

Remaining in the home



- Most people have a strong desire to stay in their home as long as possible.
- This is particularly the case if they have a good network of family, friends and services nearby.
- Some may consider modifications which can be potentially easier in a single level freestanding home.

**“Housing Decisions of Older Australians”
Productivity Commission research paper (Dec 2015)
gives great insights into housing choices.**

Mavis – 1st hypothetical scenario

Stay in the home?

Concerns

- Will need some support – Doesn't want to burden family
- Ensure her money lasts and she can afford the household bills on a single pension



Support in the home – Commonwealth Home Support Program (CHSP)



- The CHSP is designed as an 'entry level' home support package.
- Not means tested but does requires a health based assessment by the regional assessment service (RAS) – Organise though my aged care **1800 200 422**.

- Most common example is meals on wheels. Other services may include:
 - Home modifications
 - Assistance with shopping or community transport to help get to shops/appointments
 - Personal care/less complex care needs/managing medication
 - Exercise and activity assistance/Group activities.
- Services are subsidised and paid for on a user pays basis.



Support in the home – Home Care Packages



- Requires ACAT assessment
- From February 2017 packages are allocated to individuals rather than providers

- Broad range of services that may include;
 - Personal services (bathing, showering etc)
 - Nutrition and diet
 - Mobility and dexterity
 - Nursing services (eg occupational therapy)
 - Transport and personal assistance (shopping and doctors appointments)
- All clients can be asked to pay a basic daily fee (BDF) of between \$9.52 per day and \$10.63 per day and potentially an income tested fee.



Support in the home – Home Care Packages (Cont)

4 levels of home care packages – each has an attached budget which can be used to purchase eligible home care goods and services.

Level	Basic Daily Fee	Basic Government Subsidy	What could you expect from this budget?
1	\$9.52 per day	\$24.07 per day (\$8,785.55 per annum)	2 Hours per week (approximately)
2	\$10.07 per day	\$42.35 per day (\$15,457.75 per annum)	3 to 4 hours per week (approximately)
3	\$10.35 per day	\$92.16 per day (\$33,638.40 per annum)	7 to 9 hours per week (approximately)
4	\$10.63 per day	\$139.70 per day (\$50,990.50 per annum)	10 to 13 hours per week (approximately)

Clients have the BDF plus the subsidised amount to spend

- i.e., Level 2 would have \$52.42 per day (\$19,133.30 per annum)

Clients with income over certain levels contribute towards subsidy amount in the form of an income tested fee – No ITF for full age pensioners.

- If a level 2 client's income resulted in them being required to pay a \$20 a day income tested fee the overall subsidy will still be \$42.35 (\$20.00 from client and \$22.35 from government)

Support in the home – Home Care Packages (Cont)

Both Home Care packages and CHSP can be used in other forms of accommodation
e.g. retirement/lifestyle villages and granny flat arrangements

Waiting lists

Some clients use CHSP while waiting for a home care package or even in conjunction

Income tested fees paid come off the lifetime caps on aged care means tested care fees
(Currently \$66,610.90).

Support in the home – Home Care Packages (Cont)

Pricing should be visible on My Aged Care website after November 2018 – Some examples

Personal care	
Per hour	
Type	Cost
Standard Hours	\$54.65
Non-Standard Hours	\$58.59
Saturday	\$76.51
Sunday	\$95.64
Public Holiday	\$136.16

Nursing	
Per hour	
Type	Cost
Standard Hours	\$88.67
Non-Standard Hours	\$95.35
Saturday	\$115.87
Sunday	\$129.59
Public Holiday	\$225.27

Cleaning and household tasks	
Per hour	
Type	Cost
Standard Hours	\$54.65
Non-Standard Hours	\$58.59
Saturday	\$76.51
Sunday	\$95.64
Public Holiday	\$136.16

Light gardening	
Per hour	
Type	Cost
Standard Hours	\$54.65
Non-Standard Hours	\$58.59
Saturday	\$76.51
Sunday	\$95.64
Public Holiday	\$136.16

Don't forget management/package fees

How we assisted – Advice opportunities



We have advised / assisted Mavis with;

- Applied for both the CHSP and a Home care package and calculated her income tested fee
- Assisted with application forms
- Aged Care Fees Income Assessment (SA456) not required anymore for Centrelink recipients
- A digital form (SA486) can be completed so Mavis can understand her income tested fee before committing to a package.
- Considered future aged care needs
- Restructured some investments to provide income to make up for lost age pension
- Modelled cashflow and provided capital longevity projections.

Outcomes for Mavis

- Meals on wheels
- Ramps and railings installed
- Level 2 HCP, 4 hours per week

Some common triggers to leave the home and move to age appropriate accommodation

1

Those who are single or widowed without nearby family support are more likely to relocate

2

Death of a partner or relocation of adult children can be a trigger

3

Hearing positive experiences from friends/relatives

4

The current home requires a large investment to make it age appropriate

5

Changing demographics or area – loss of community

Mavis – 2nd hypothetical scenario

Mavis would like to move to smaller more age appropriate accommodation.



Option 1 – Retirement village
\$500,000

Option 2 – Lifestyle village
\$500,000



02

Retirement Villages

Retirement villages – What are they?

Example:

Barry signs an agreement with EC of \$300,000 and an exit fee of 2.5% per annum capped at 25% (10 years).

After 15 years Barry sells his unit for \$500,000 to enter aged care.

Barry pays an exit cost of 25% of \$300,000 which is \$75,000.

He receives \$425,000 net.

- Essentially a community for seniors (over 55)
 - No medical assessment required.
 - Governed by state based retirement village legislation.
 - Not aged care although some may have aged care facilities attached/nearby.
 - Units range from self care independent living through to higher level care offerings.



- Most agreements are either loan licence or leasehold
 - Commonly there will be a lump sum entry contribution (EC) an ongoing levy and an exit fee.
 - Deferred management fees (DMF) are usually a set percentage of the purchase price per year (For example 2.5% per year capped at 25%).
 - Some include sharing a percentage of any capital growth.

Retirement villages – What are they? (Cont)

- The entry contribution has Centrelink implications.

Entry Contribution	Centrelink treatment
Equal to or less than \$210,500	Assessed as a non homeowner <ul style="list-style-type: none">- EC counts as an asset (not income tested)- May be eligible for rent assistance
More than \$210,500	Assessed as a homeowner <ul style="list-style-type: none">- EC not counted as an asset- Not be eligible for rent assistance

- Lifestyle decision not a financial one.
- Generally priced below comparable strata apartments in same area
- Its important to understand the contract and what you are buying?
 - Always recommend reading the contract closely and having a legal professional review it.
- Most reports on this industry indicate high levels of happiness (happier than before the move) and usage of village programs and facilities.

03

Lifestyle Villages

Lifestyle villages – What are they?



- Sometimes called Land Lease Communities or manufactured home estates.
- Covered by state based tenancy laws and are essentially an arrangement where the resident owns the building and rents the land.

- In some cases these are manufactured demountable homes however sometimes can look very similar to retirement villages.
- Generally offer similar amenities to retirement villages
 - Pools/Gyms
 - Dining rooms
 - Games rooms/bowling greens etc.
- Generally wont have full range of care options that a retirement village would.



Lifestyle villages – What are they? (Cont)

- Traditionally don't have deferred management fees (DMFs).
- Residents can sell their physical home to a new resident upon departure.
- This type of arrangement is relatively new so not a lot of information available about resale value/ease of resale.

Anyone have any personal experiences to share on ease of resale?

- From a Centrelink point of view these are treated in the same way as caravans/mobile homes i.e always treated as a homeowner and the value of the physical home is an exempt asset (no under/over \$210,500 test).
- Centrelink recipients are also eligible for rent assistance on site fees
 - Singles up to \$138.00 per fortnight
 - Couples up to \$130.00 per fortnight combined.



How we assisted – Advice opportunities



Mavis decided the retirement village would suit her needs.

We advised / assisted Mavis with;

- She remains a homeowner for Centrelink purposes.
- Based on the approximate \$300,000 in net proceeds Mavis will either be over pension assets test slightly or just under
 - Centrelink Strategies may be considered if just over e.g Funeral bonds, gifting, holidays
 - If she does end up losing age pension can help with Commonwealth Seniors Health Card or Low income health card applications.
- Could still apply for CHSP or a home care package to provide extra assistance.

04

Moving in with family and granny flat interests

Mavis – 3rd hypothetical scenario

Consider a family living arrangement with son Leonard and his family.

- Mavis is considering selling her home and using the \$800,000 proceeds to pool with \$1,600,000 that Leonard and his wife Nancy have to purchase a large home with a self contained granny flat or separate living area.
- As well as the extra support the family can provide to Mavis there will be a benefit to the whole family as Mavis can look after her grandchildren from time to time.
- Mavis has considered being a joint owner in the property but has also heard about life interest/granny flat type arrangements.



What is not a granny flat interest?



Daughter moves into mums big house to provide care & support and mum transfers 50% of home to daughter.

Selling the home, buying a 1/3 interest in a new property and spending \$90,000 to construct a granny flat out the back.



Granny flat interest – life interest or right of accommodation

- Doesn't have to involve the traditional real estate definition of a granny flat
- Life interest, life tenancy, right to accommodation, right to reside – all can be granny flat arrangements.
- Apart from an alternative form of accommodation, these arrangements are useful from a social security view point. – *Why?*
 - They offer an exception to gifting / deprivation rules.
- Centrelink and DVA don't require formal legal documentation however will need statements from participants, transaction details and transfer documents.

Always get legal and tax advice.

What is a granny flat interest?

- Transfer of title of the current home to someone else and keeps the right to reside in that home or another home.
- Pay for construction or modification of a home on another persons property and then has the right to reside in the home.
- Provides some or all the purchase price of a home in another persons name and then has the right to reside in the home.

Example:

Mavis could transfer 100% of current home to Leonard and Nancy and they all live together in the home.

Deprivation does not apply regardless of the amount.

What is a granny flat interest? (Cont)

When might deprivation of assets apply to the creation of a granny flat interest?

- Transfer title of current home or purchases / constructs a home in another person's name **and** transfers additional assets.
- Giving money or assets to another person in exchange for a right to reside in a property they already own.
- Utilising the granny flat rules to gain a social security advantage.

Example:

Pays to build a granny flat on child's property and gives them \$100,000 in cash.

Reasonableness test applies.

What is the reasonableness test?

A test used for administrative purposes only to determine in some circumstances if the amount given to create a granny flat interest is reasonable

= Combined couple rate of annual age pension* x a conversion factor (based on age)

*currently \$36,582 per annum



Example:

Gladys is 66 and gives her son \$300,000 cash as granny flat arrangement to live at his property that has a granny flat already in the back yard.

Reasonableness test:

$\$36,582$ (couple rate) x 19.80 (conversion factor) = $\$724,324$.

The amount is reasonable. No deprivation applies. Will Gladys be a homeowner or non homeowner?

Home owner or non homeowner?

Homeownership status is very similar to retirement villages.

Value of the granny flat interest is the Entry Contribution (EC). This is compared to the Extra Allowable Amount (EAA).

Entry Contribution	Centrelink treatment
Equal to or less than \$210,500	Assessed as a non homeowner <ul style="list-style-type: none">- EC counts as an asset (not income tested)- May be eligible for rent assistance
More than \$210,500	Assessed as a homeowner <ul style="list-style-type: none">- EC not counted as an asset- Not be eligible for rent assistance

In many cases where the reasonableness test is not required the EC is the amount transferred / paid for construction.

Calculating EC and homeownership can be more complicated in reasonableness test scenarios.

What about vacating the granny flat interest?

Centrelink/DVA will review the cessation of a granny flat arrangement if within 5 years.

If the leaving could have been anticipated at time of creation, deprivation will apply from the date of leaving to the 5 year anniversary of the interest creation.

If could not be anticipated or exceeding 5 years, no deprivation applies.

Also at this point if no right to reside is retained on vacating the granny flat interest, it will have no value for aged care means testing.

Anticipated? Watch out for prior ACAT assessment.

Granny flat arrangements – Other considerations

Legal and tax advice should be sought when setting up the arrangement understand any CGT implications and to protect all parties involved.

Granny Flats/life interests can have potential CGT issues if not structured correctly.

- The board of taxation is proposing a review of this to remove this potential deterrent.
-

Estate planning should also be reviewed.

- A granny flat arrangement will generally benefit one party. Are estate equalisation strategies applicable.
-

Will family members be providing care?

Is there a plan B if things don't work out?



How we assisted – Advice opportunities



- After legal and tax advice Mavis decided to gift \$800,000 to contribute towards the purchase of a \$2.4 million property in Leonard and Nancy's name.
- Reasonableness test will not apply as she was contributing some / all of the funds towards the purchase of a new property.
- We advised / assisted with;
 - Completing Centrelink documentation to create granny flat interest
 - Advised her that CHSP and Home Care packages are still available should the family need some extra support
 - Her current single rate Centrelink payment level remained unchanged - \$800,000 home to \$800,000 life interest with no deprivation
 - Restructured investments for extra cashflow
 - Modelled cashflow and provided capital longevity projections
 - Considered future strategies such as aged care

05

Aged Care

Residential aged care



- Prices of rooms available (relevant to high means only).
- Important to note that residents are classified by their means to pay aged care costs.

- To enter the person must be assessed by the Aged Care Assessment Team as requiring residential aged care – **No actual age requirement.**
- Initial investigations of facilities can be conducted through myagedcare.gov.au.



Cost of residential aged care

Basic Daily Fee	<ul style="list-style-type: none">• Payable by all residents as a contribution for day to day living costs such as meals, cleaning, laundry, heating and cooling• Equivalent to 85% of the basic single person age pension• Currently \$51.63 per day
Accommodation payment / contribution	<ul style="list-style-type: none">• Cost of accommodation which may be payable depending on assets and income as well as choice of room. Can be paid as a lump sum or periodically – Current rate is 4.98% <p><u>High means residents</u></p> <ul style="list-style-type: none">• Accommodation payment – Payable by residents not eligible for government subsidy in respect of cost of accommodation <p><u>Low means residents</u></p> <ul style="list-style-type: none">• Accommodation contribution – Payable by residents eligible for partial government subsidy in respect of cost of accommodation – Can be zero

Accommodation costs for full fee paying residents advertised on: <https://www.myagedcare.gov.au/find-a-provider>

Cost of residential aged care (Cont)



Means-tested care fee

- Contribution towards cost of care which may be payable depending on assets and income
- Subject to annual and lifetime caps



Additional charges/extra services fees

- Any other amounts agreed between the resident and the residential care facility

In summary

- There are many different accommodation choices for older Australians each with their pros and cons.
- No one-size-fits-all solution and clients will need your help when considering financial and lifestyle factors.
- When thinking about retirement living and care needs its not all about residential aged care as many clients will want to stay in their home as long as possible and take advantage of home care.
- Aged care does require specialist knowledge however even Advisers who don't specialise in this area will still need a working knowledge of retirement living options.

Thank you

Questions?