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Children Paying the RAD

Can someone other than the resident, for example a child, choose to pay the RAD on behalf of the resident? For example, if a resident has \$190,000 of assets but needs to meet a market price of \$350,000 can the child lend them the additional funds? The simple answer is Yes.

The Aged Care Act 1997 does not preclude a family member of a resident making a contribution towards the resident's accommodation payment. However, an aged care provider must not accept a lump sum payment which would leave the person with less than the minimum permissible asset level if the person commits to paying the amount within 28 days of entry and the provider has sufficient information to know the person's means.

52J-5 Person must be left with minimum assets

(1) An approved provider must not accept payment of an amount of refundable deposit from a person if:

- (a) The person provides sufficient information to allow the person's means tested amount to be worked out; and
- (b) The person pays, or commits to paying, the amount within 28 days after entering the service; and
- (c) Payment of the amount would leave the value of the person's remaining assets at less than the minimum permissible asset value.

The resident has 28 days after entering residential aged care to decide how they wish to pay for their accommodation. In this case where the resident has agreed a price of \$350,000, the resident could choose to pay a refundable deposit of \$144,500 (lump sum), and meet the remainder through daily payments of \$38 per day.

A resident is able to 'top-up' their Refundable Accommodation Deposit

with additional lump sum payments at any time.

An additional payment made after the original choice was made is not subject to the minimum permissible asset rule. The value of family members contributing towards the RAD can be viewed as part of a longer term strategy to maximize the assets of the future estate.

Of course it's not that simple. The additional money in the RAD increases the residents Means Tested Care Fee and there can be significant legal issues that stem from family members gifting or loaning money. In addition if the children are borrowing the money to fund the RAD, the difference in interest rates also needs to be considered.

Getting the children to contribute to the RAD can be a simple solution that saves a lot of money but specialist advice is needed.

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- Children can pay the RAD on behalf of their parents.
- The additional money in RAD increases means tested fee.
- Specialist advice is needed before pursuing this strategy.

Taking the DAP from the RAD

One of the most common questions our clients ask is *“How are we going to pay the RAD?”*

Since the aged care reforms clients can choose to pay for their cost of accommodation by RAD, DAP or a combination.

Combination payments include the ability to choose to have their DAP deducted from their RAD.

The client's chosen payment method can have wide ranging implications from their pension entitlement to the money left to their estate and their cost of care. When determining how to fund the accommodation payment, consideration needs to be given to all of the potential impacts. For client's little income having the DAP deducted from the RAD can be a simple solution,

“Understanding the choices available and the impacts of those choices comes from Fred receiving quality financial advice”

but attention needs to be given to the reduction of assets over time.

When looking at the longer term impact children often consider loaning some of the money for the RAD.

Let's look at an example of the choices clients can make in funding their cost of accommodation.

Fred is an 81 year old widower who lives with his daughter, Claire. Fred and his other children wish to enable Claire to continue living in the home after Fred moves into care. Claire meets the criteria to exempt Fred's home from his asset assessment.

Fred's Assets

House \$700,000 (exempt)
Investments \$230,000
Home Contents \$10,000

Fred has found an Aged Care Facility he would like to move to, keeping him close to his family and friends. The bed in the facility Fred likes is \$450,000.

The maximum amount Fred can pay towards his RAD is \$194,500, with a DAP of \$47.25p.d. Paying the DAP would create a negative cash flow for Fred of around \$12,000p.a and reduce his investments to zero in around 3 years. Let's look at what happens if Fred:

(1) Pays \$194,500 towards his RAD, with the remainder by DAP. Having the DAP deducted from the RAD.

(2) Pays \$194,500 towards his RAD, pays \$10,000 by DAP and allows the Family to loan him \$245,500 to top up his RAD.

1. Paying \$194,500 and deducting the DAP from the RAD enables care to be affordable for Fred and gives him a small surplus income of around \$5,200p.a.

However, Fred's DAP increases each month, accelerating the reduction of his RAD – giving less back to his estate. Fred's RAD reduces to **\$92,271 after 5**

years and will be zero in around 8.5 years.

2. Fred's son has offered to pay \$245,500 towards the RAD as an interest free loan.

While the RAD is exempt from the calculation of Fred's pension entitlement it is assessable for the calculation of his Means Tested Care Fee, and increases his MTCF by around \$10p.d.

Leaving a DAP payment of \$1.85p.d enables Fred to keep his former home (and rent received) exempt beyond the 2 year general exemption.

Fred has a positive cash flow of around \$1,500p.a. When Fred leaves the facility and repays the loan to his son the balance of his RAD refund will be **\$194,500**.

Understanding the choices available and the impacts of those choices comes from Fred receiving quality financial advice.

The Affinity Solution

Affinity Wealth Services is an independently owned boutique wealth management business specialising in servicing the needs of senior professionals, corporate leaders and business proprietors. It also has a specialist aged care advice division, Affinity Aged Care.

The firm has its own Australian Financial Services Licence and is not owned by or aligned with any financial institution. Affinity Wealth Services has been assisting clients to achieve their financial goals for over 20 years. The business has offices in both the Sydney CBD and Norwest Business Park and employs over 20 staff across four divisions: Financial planning, accounting, asset management and aged care financial advice.

WHY CHOOSE AFFINITY AGED CARE?

Entry into aged care can be a challenging time for both the person and their family. The finances are notoriously complex with possible implications for:

- Keeping or selling the family home
- Aged care facility fees
- Centrelink Age Pension/DVA Pension entitlements
- Cash flow requirements
- Potential tax implications
- Intergenerational wealth transfer

Most financial planners have only a limited understanding of aged care financial advice. Even most advisers find it overwhelming! It is very much a 'niche' that demands specialist attention and hands on experience. Affinity Aged Care Financial Advisers are your aged care financial specialists. Your loved one's aged care needs are the sole focus of our advice process.

Affinity Aged Care Sydney Pty Ltd ABN 19 169 625 218 **Trading as Affinity Aged Care** is a corporate authorised representative of Affinity Wealth Services Pty Ltd ABN 59 133 479 115 holder of AFSL No 402370

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