

Affinity Aged Care News

Potential Changes to the Pension to hit downsizers hardest

It is easy to see why people have been calling for the inclusion of the family home in the pension assets test – why should someone who lives in a \$2 million home be able to receive the full pension? But the government appears to have backed down from such a measure and is now talking changes to the asset test taper. Such changes are likely to impact part-pensioners and ‘home downsizers’.

This is how the asset test works: currently a person or couple lose \$1.50 per fortnight of age pension for every \$1,000 of assets they have over the asset test limit. The proposal is to increase the threshold and increase the ‘taper rate’ so that for every \$1,000 of assets over the new threshold \$3.00 of age pension will be lost. This will effectively reduce the number of people receiving some pension, and for others will mean that the pension is lost entirely.

People who downsize their home to move into a retirement community or aged care facility often pay less than the value of their home. Under this change downsizers may be better off paying an amount that is equal to or greater than the value of their current home. In a retirement community this may be a lot simpler. In fact, in some retirement communities you

can negotiate with the operator to pay a higher amount going in to pay a lower amount as an exit fee. For people moving into aged care it is not so simple. The aged care reforms that were introduced on 1 July 2014 mean that residents cannot pay more than the facility’s market price. Adding to the complexity, downsizers who move to an Over 55’s community rather than a retirement village may find that it is more affordable due to the ability to access rent assistance and the fact that exit fees often don’t apply.

Let’s look at an example...

Shirley is a part pensioner who is considering moving from her family home to a retirement village. Her home is worth \$650,000 and the unit in the retirement village is \$400,000. Shirley has \$100,000 in the bank, \$150,000 in term deposits and \$10,000 worth of personal effects including her car. Shirley currently receives \$773pfn of age pension. The proposed change to the asset test threshold would increase Shirley’s current entitlement to \$830pfn.

If Shirley moves to a retirement village, paying \$400,000, the extra \$250,000 in assets will reduce her pension to only \$80pfn.

Put simply, she loses \$750pfn of pension. The effect is less, a reduction of \$180 pfn, if she pays \$400,000 to an aged care facility.

If Shirley purchased a unit in an Over 55’s community for the same amount, her pension would still be \$80pfn but she could receive rent assistance of up to \$128pfn to help her meet the ongoing fees. This is because in an over 55’s community you own the home but rent the land. Conversely, if Shirley chose a more expensive retirement unit or aged care facility, let’s say she pays \$700,000; her pension would increase to \$860pfn. If she purchased a unit in an over 55’s community her pension would be \$860pfn and she could receive up to \$128pfn of rent assistance.

Downsizers have more choices around the price they pay and when they move. People needing aged care are limited by the market price arrangements and the ability to access the care they need. Placing such a disincentive on downsizers and people who need care does not serve senior Australians or the young people who miss out on the opportunity to buy a home.

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- Potential Age Pension Changes likely to impact part pensioners and “home downsizers” most.
- People needing aged care are limited by the market price arrangements and the ability to access the care they need.

Not Disclosing your Financial Position

The request for a combined assets and income assessment is not compulsory. So what happens if someone doesn't complete it and are there situations where someone is better off not completing it?

Let's start with the last question first, in a nutshell "No". There is no financial gain for someone entering residential aged care and not completing the asset and income assessment. However, that also doesn't mean that there is.

The maximum means tested care fee someone can pay is the lesser of the calculated amount or their cost of care. If the calculated amount is greater than their cost of care then their means tested care fee was always going to be equal to their cost of care.

They could have saved themselves the headache of filling in the assessment. Likewise, if their calculated amount is lower than their cost of care, by disclosing their assets and income they can "save" the difference.

"Affinity Aged Care offer a service for keeping track of the means tested care fees to ensure you don't pay more than you need to."

Of course there are other factors that come into play, including how long the resident lives and the annual and lifetime caps.

Let's look at an example...

Betty is a self-funded retiree. She has sold her house to pay her RAD of \$700,000. She has \$550,000 in bank accounts, \$600,000 in shares and \$20,000 in personal effects.

Betty's calculated means tested care fee would be \$104p.d for 246 days at which point she reaches the annual cap.

If Betty's care needs are low in all domains, Betty's cost of care would be \$60p.d. She would pay \$60p.d as a means tested care fee for 365 days, no more and no less than if she didn't disclose her assets and income.

But let's look at what would happen if Betty's care needs were medium in all domains...

Betty's cost of care would be \$140p.d. If she doesn't disclose her assets and income, her means tested care fee would be \$140p.d for 182 days. If she does, it will be capped at her calculated amount of \$104p.d

Here's where the annual cap and how long Betty lives come into it. If Betty lives for a year, her means tested care fee whether she discloses or not will be equal to the cap, \$25,529 for the year.

But if Betty lives for between 1 and 182 days, she would save \$36 per day by disclosing her assets and income. If Betty lived for exactly 182 days, she would save \$6,552. For each day Betty lives beyond day 182 up to 246 days her "saving" reduces and by day 246, Betty has paid the same amount.

As you can see, the benefits of someone disclosing their assets and income will depend on a number of factors, including some that are almost impossible to predict – like how many days the resident will live.

Affinity Aged Care offer a service for keeping track of the means tested care fees to ensure you don't pay more than you need to.

Calculating the cost of care can be complex. People considering moving into aged care should seek expert financial planning 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.

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