

# Affinity Aged Care News



## Housing Decisions of Older Australians

By Rachel Lane, Principal, Aged Care Gurus

The Productivity Commission has just released their latest research report examining the housing decisions of older Australians. Aged Care Gurus was delighted to be consulted and to have a seat at the roundtable discussions held in Sydney in September.

The Housing Decisions of Older Australians research focuses on the accommodation options available to older Australians, the significant equity tied up in the home, products available to unlock equity and the tax and social security impacts associated with a change in accommodation.

Of course the housing decisions of older Australians have wider reaching implications than individual tax, pension entitlements and the provision of age appropriate housing. The ability of families (and let's face it developers) to buy family homes in established suburbs relies at least in part on older Australians choosing to downsize.

Older Australian's have a range of options when it comes to what is being referred to as "age appropriate housing" from granny flats and life interests with family members to community living in a retirement village or manufactured home park and for others an aged care facility.

There are currently a number of impediments to people choosing these accommodation alternatives.

### ***The top three as I see them are:***

*1) Granny flats and life interests have all of the issues of living with family combined with serious legal and financial implications (the house is likely the biggest asset of the future estate and in many cases it is being transferred to only one child). Added to this are the restrictions imposed by local government on what can be built, who can occupy the unit and in some cases what needs to be done when that person is no longer living there. In some states you can spend over a hundred thousand dollars and months obtaining permission to build a granny flat only to realise that when the older person leaves the unit cannot be rented out and there is a substantial bill to have it removed. Removing such restrictions would alleviate at least some of the disincentives for these arrangements and may serve to provide more rental accommodation in the future.*

*2) Retirement Communities often have financial arrangements where the resident pays a discounted amount upfront and an exit fee when they leave. The purchase price, often designed to give the resident some of the proceeds from their home to fund holidays and lifestyle expenses, frequently leads to a reduced pension entitlement and an increase in the cost of a home care package. The exit fee at the other end often encompasses a number of costs including refurbishment expenses and sales commissions in addition to a deferred management fee. In order for residents to accurately forecast their exit entitlement they need to project the value of their unit for the period of their stay – not an easy task. Greater transparency and choice in the financial arrangements would make moving to a retirement community a more attractive proposition.*

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## **Continued: Housing Decisions of Older Australians**

**Rachel Lane, Principal, Aged Care Gurus**

*3) While downsizing often releases some of the equity in the family home the fact is that the majority is likely to be spent on the new accommodation. Equity release products that can accept the security of a granny flat, a unit in a retirement community or a Refundable Accommodation Deposit while providing flexible payments will ensure that older Australians can unlock the equity in their new home. If financial products are unable to be created with such flexibility then a government backed scheme, similar the current Pension Loans Scheme without the limit being the full pension, where people can draw a regular income or lump sum (or both) would enable to people to draw on their equity to fund their lifestyle.*

*The Housing Decisions of Older Australians research expands upon the trends identified in the **An Ageing Australia: Preparing for the Future** report and together with the **Superannuation Policy for Post-Retirement** aims to inform policy decisions that surround Australia's ageing population. Policies that deliver greater choice and flexibility in funding retirement is what I would like to see.*

### **Granny Flat Rights ... and Wrongs**

For some families trying to support ageing parents a granny flat can seem like the perfect solution – parents living safely with children close by to provide help if needed. But what can seem like a simple solution can have significant legal and financial consequences.

Firstly it's important to understand that a granny flat right doesn't necessarily involve the construction of a separate dwelling. Where parents move in with children it could simply be a bedroom with an ensuite. And where children move in with the parents the granny flat right is often the existing home of the older person.

How much can someone pay for a granny flat right? As granny flat arrangements are normally private agreements between family members it can be difficult to apply a value. If a child moves in with a parent and the parent transfers the ownership of the property in exchange for their granny flat right then that is the value. However, when the older person is transferring more than the cost of construction (or modification) or more than the value of their home a reasonableness test is applied.

The reasonableness test uses a factor based on the person's age next birthday (if they are a member of a couple it is the youngest member's age next birthday) multiplied by the couple rate of pension. For example someone whose age next birthday is 74 would have a factor of 14.25, giving them a reasonableness test amount of \$484,243. Any amount transferred above this would be considered a gift.

The amount someone pays will determine if they are considered a homeowner or not for pension purposes and their eligibility for rent assistance. Where the amount paid is more than \$149,000 the person is considered a homeowner for pension purposes and cannot claim rent assistance, where the amount paid is less than \$149,000 the reverse is true.

When is a granny flat not a granny flat? A key element to having a living arrangement recognised as a granny flat right is that the older person has no legal ownership in the property. This is where these arrangements can get tricky because the house is normally the biggest asset of the future estate, and that estate has more than one beneficiary – transferring the house to only one child essentially “disinherits” the others. Sometimes, in an attempt to ensure that the will remains fair, the parents transfer part of the house and become tenants in common with the children they live with. While this may solve the estate planning issues they have created a situation where the amount they have transferred to their children may be considered a gift and if they subsequently move in to aged care the value of the asset may be included in the means test.

What should people do? There is no substitute for specialist legal and financial advice. While it may sound silly to have a legal contract for a family arrangement it provides everyone (children and parents) with certainty about future events, like what happens if the children want to go on holidays, if the house is sold or the parent/s need to access care? Specialist financial advice ensures that you understand the consequences on your pension entitlement, invest any monies coming from the sale of your house wisely and are aware of the impact on the cost of a home care package or residential aged care should you need it in the future.

## Why Choose Affinity Aged Care Financial Services?

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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**Address:** Level 9, 60 Carrington St, Sydney CBD **Telephone:** 02 8078 0888  
**Email:** [info@affinityagedcare.com.au](mailto:info@affinityagedcare.com.au) [www.affinityagedcare.com.au](http://www.affinityagedcare.com.au)



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