

FactFile

Residential aged care:

what you need to know

If you or a family member can no longer manage to live independently at home, you may need to consider moving into residential aged care. Before you do, there are many factors to consider, including your eligibility, the costs involved and the effect on your finances and lifestyle.

What is residential aged care?

Residential aged care is designed for older people who can no longer manage on their own. This could be due to a range of factors, including loss of mobility, illness or disability. You can enter residential aged care on either a permanent or short-term basis.

There are two types of permanent aged care homes:

- Low level residential care (or hostels): provide accommodation and personal care, such as help with dressing and showering, as well as occasional nursing care.
- High level residential care (or nursing homes): provide care for people with a greater degree of frailty, who often need continuous (24-hour) nursing care.

What care and services are provided?

All aged care homes must provide a specified range of care and services to residents, according to their individual needs. These services include:

- appropriate staffing to meet the nursing and personal needs of residents
- assistance with daily living activities such as bathing, showering and dressing
- assistance with medications
- meals
- basic furnishings
- laundry and cleaning services
- maintenance of buildings and grounds
- social activities.

For residents with high level care needs, the services will also include the provision of special medical equipment, such as wheelchairs, basic medical and pharmaceutical supplies, and nursing and therapy services. While some aged care homes specialise in either low level or high level care, many offer both so that residents can stay in one location even if their care needs increase.

Entering residential aged care

Before a person enters residential aged care, they must be assessed and approved by an Aged Care Assessment Team

(ACAT). ACAT helps older people and those who care for them work out what kind of care will best meet their needs when they can no longer manage on their own. ACAT is made up of a range of health care professionals, including doctors, nurses and social workers. ACAT thoroughly assesses a person's situation and care needs, provides information on suitable care options and can help arrange access or referrals to residential or community care in the local area.

How much does residential aged care cost?

While the Australian Government provides funding to residential aged care homes to assist with the costs associated with providing care, most residents will also have to pay certain fees and charges. The amount you will need to pay depends on your income and assets. Hardship provisions exist for residents who find it difficult to pay for their care.

If you have already had your assets and income assessed by Centrelink and the Department of Veterans' Affairs to receive the Age Pension or Service Pension, this same information will be used to determine your ability to pay for the cost of residential aged care.

There are two types of costs associated with residential aged care:

- entry fees, which include:
 - accommodation bonds (mainly for low level care)
 - accommodation charges (mainly for high level care)
- ongoing fees, which include:
 - basic daily care fees (for both low and high level care)
 - income tested fees (for both low and high level care).

Accommodation bonds

An accommodation bond is the entry fee for low level care.

The amount you will be asked to pay will depend on your assets at the time of entry, but may be negotiated between the resident and the care home.

An accommodation bond is like an interest-free loan to the aged care home. You can pay it as a lump sum, regular periodic payments (eg monthly or fortnightly) or as a combination of both. A portion of the bond must be refunded to you on your

departure. Low level care facilities may only use a portion of the accommodation bond for certain restricted purposes. Periodic payments will not be refunded and will incorporate a rate of interest which is capped by the government.

Accommodation charges

The accommodation charge is the entry fee payable to enter high level care. It is calculated based on your assets at the time you enter the care home and is charged on a daily basis.

Basic daily care fees

Care fees are a contribution towards your daily living costs – for example, the costs of nursing and personal care, meals, cleaning, and recreation. The basic daily care fee is negotiated between the resident and the aged care provider, subject to legislated maximums.

Income tested fees

The income tested fee is another ongoing daily fee, charged in addition to the basic daily care fee. The amount you will pay is calculated based on your income at the time you enter the aged care facility. The assessment is conducted on a quarterly basis and the income tested fee will be adjusted accordingly.

Assessment of assets for aged care

The value of your assets will be used to work out the maximum amount of accommodation bond payable to enter low level care or the amount of the daily accommodation charge payable to enter high level care. For aged care assessment purposes, the value of your assets is the net value of your property.¹ Assets are assessed shortly before or at the time a person enters residential aged care.

Generally, your principal home will be counted as an asset for aged care assessment purposes, unless certain circumstances apply. For example, your house would be exempt if your spouse or de facto partner continued to live in the principal house after you moved into an aged care home.

Assessment of income for aged care

The income test for aged care purposes uses total assessable income measures. Total assessable income includes ordinary income plus:

- service pensions
- income support supplements
- income support payments
- any other assessable income, such as certain compensation payments, gifts and foreign pensions.

What effect will paying aged care fees have on my pension?

Most pensioners will continue to receive the same amount of pension when they enter an aged care home. Married pensioners may each receive a higher rate of pension, under the government's 'separated due to ill health' provision, if one or both members of the couple are in aged care. If you were receiving rent assistance, this will most likely stop after you move into an aged care home. Instead, a pensioner supplement amount will be paid directly to the aged care home from the Department of Health and Ageing.

If you are renting your home to tenants, and paying an accommodation charge for high level care, or making periodic payments for the whole or part of an accommodation bond for low level care, the value of your home and any income derived from renting it will not affect your rate of pension.

Are any tax offsets available?

Special tax offsets may be claimed by the resident or even the person who financially supports the resident in aged care. For example, under the net medical expense tax offset you may be able to claim a tax offset for payment of ongoing aged care fees, the accommodation charge, periodic payment of an accommodation bond or extra service fees. The dependant tax offset may also be claimed by a person supporting an aged care resident.

How financial advice can help

Residential aged care is a complex area. Professional financial advice can make all the difference in ensuring your assets and income are structured effectively, minimising any changes to your pension payments and ensuring you have sufficient income to support your lifestyle and care needs. Your financial planner can provide valuable guidance in this area.

¹ 'Net value' is the gross value of the property, less debts, charges and encumbrances on the property.

Speak to us for more information

If you would like to know more about residential aged care, talk to your financial adviser. They can give you more detailed information on the best approach for your situation.

Important information

This general advice has been prepared without taking into account your particular financial needs, circumstances or objectives. This advice is based on Financial Wisdom Limited's understanding of current law as at 5 June 2009, and is based on its continuance unless stated otherwise. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. All investments are subject to risk, including loss of income and capital invested. You should obtain professional advice before acting on the information contained in this publication.

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