JOE PERRI & ASSOCIATES

infinite possibilities

New aged care reforms
– but who pays, how much, when & why

Monday April 23, 2012. Principal of specialist industry consultancy firm Aged Care Gurus, and co-author of "Aged care, who cares?" Rachel Lane welcomes the announcement of the Federal Government's aged care reforms but highlights that aged care choices are not as simple as stay in the family home, or move to an aged care facility, there are many different legal and financial structures that can apply.

It is not uncommon for people who are seeking care and companionship to enter into living arrangements to meet needs that are not formal aged care. Following the death of a partner a parent may move in with children or vice versa and in doing so, perhaps unknowingly, establish granny flat rights or a life interest in the property.

Similarly, the inability to maintain the family home and the social isolation that can come from the death of a spouse or reduced mobility often leads to decisions to move to an over 55's community or retirement village.

"So increases to home care packages aren't necessarily about keeping older Australians in the family home but in the accommodation of their choice other than residential aged care, and that's a good thing," said Rachel Lane.

The current cost of home care packages varies widely depending on location and service provider. One of the main reasons for the cost variations has been due to the informal nature of assessing a recipient's capacity to contribute to their cost of care and the fact that the care package is fully funded by the Government.

Rachel Lane added, "This is completely at odds with the residential aged care system where the ability for a resident to contribute is determined through a formal process shortly after entry and is used by the government to offset funding of that resident's cost of care on a dollar for dollar basis."

"In future home care contributions will be based on the recipient's income, calculated at 50c per dollar above certain thresholds, a formalised process that is estimated to save the government $183million over 5 years. Full pensioners and those with equivalent income will not make a care contribution and only pay the basic fee (equal to 17.5% of the full single pension)"

For part-pensioners and people with the equivalent level of income up to $43,186 (single) and $66,134 (couple) the care contribution will be capped at $5,000p.a. While people with income above these amounts will have their care contribution capped at $10,000p.a.

For all care recipients, a lifetime cap of $60,000 will apply, across home care and residential aged care.

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Residential aged care currently has three different types of care; low care, high care and extra services (low care or high care) each with its own cost structure. In low care and extra services the accommodation payment is by way of an accommodation bond, in high care an accommodation charge is substituted.

The inability for aged care providers to charge (and residents to choose to pay) an accommodation bond in high care has been a bone of contention. High care residents with assets above $108,266.40 currently pay $32.58p.d as an accommodation charge.

"The aged care reforms will remove the distinction between high care and low care and give residents the choice of paying their accommodation payment by way of a lump sum, daily charge or combination of the two," said Rachel Lane.

"The Federal Government's proposed establishment of the Aged Care Financing Authority should ensure the amount of accommodation payment (daily charge and lump sum equivalent) is reflective of the value of accommodation residents will receive."

The new accommodation charge will have an assets and income test to determine the amount paid resident's with assets above $153,905 or income above $63,905p.a will pay the maximum amount of $52.84 per day.

No retention fee will be deducted from accommodation bonds paid after July 1st 2014, currently the maximum retention fee is $318 per month for a maximum of 5 years.

In addition, aged care providers will need to insure their accommodation bond holdings. Currently bonds are guaranteed by the Government and a bond levy can be applied across providers in the event of default, details of how providers would insure their bond holdings were not tabled.

The asset test exemption for lump sum bonds will be retained.

Under the current arrangements residents of aged care contribute to their cost of care through a daily income tested fee.

The fee is not paid by full (means tested) pensioners and is calculated at 41.67 cents per dollar for income above the thresholds.

The care contribution that will be charged to residents who enter aged care after July 1st 2014 will be based on an asset and income test.

The care contribution will be calculated as 50 cents per dollar of income above $23,543 (2012) and on a sliding scale for assets.

Residents whose income is below $23,543 (2012) and assets are below $40,500 (2012) will not pay a care contribution.

The formula for determining the amount of care contribution will be:

- 50cents per dollar of income above the threshold +
- 17.5% of assets between $40,500 - $144,500 +
- 1% of assets between $144,500 - $353,500 +
- 2% of assets above $353,500

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"The goal of the comprehensive means testing is to prevent asset rich but income poor residents from not making a contribution towards their cost of care and income rich but asset poor residents from not making a contribution towards their cost of accommodation."

"Aged care decisions are complex and the need for specialist advice is, and will continue to be, crucial. These changes will mean that the average person living in aged care will pay more, in some cases pensioners will be paying almost double the full pension. How the cost of care will be met will need to be given serious consideration in light of the potential knock-on effects to pension and the cost of care itself."

"The *Living Longer Living Better* plan recognises this complexity and encourages consumers to access financial advice about their aged care costs from qualified advisers with expertise in aged care funding," concluded Rachel Lane.

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PROFILE – RACHEL LANE

RACHEL LANE is the principal and founder of Aged Care Gurus a specialist industry consultancy established to assist businesses and individuals with decisions relating to aged care.

Rachel's research paper "Aged Care – The struggle to provide quality, equity, efficiency, sustainability and choice" was also the title and basis of the submission to the Productivity Commission by one of Australia's largest financial institutions.

In 2011 Rachel Lane co authored the very successful book "Aged Care Who Cares?" with personal finance expert Noel Whittaker.

Considered within the aged care industry as a subject matter expert and together with an extensive financial services background, Rachel is often called upon to provide consultancy services to aged care operators and the financial services sector.

Rachel has a Masters of Financial Planning and provides financial industry focussed training, technical programs, presentations and workshops on the provision of financial strategies and development of financial products for Australian consumers.

In addition, Rachel is often called upon by key industry, Government and media to provide specialist commentary, advice and interviews.