Smart strategies for reducing aged care costs
Get the care you need at a lower cost

Aged care costs can be very high and could increase as our population ages.

The accommodation bond alone averages just over $230,000\(^1\) nationally and is commonly between $450,000 to $550,000 in capital cities. At the top end, you could be asked to pay $1 million for a resort-style room in a prestige location.

On top of this are other charges, such as the basic daily fee and daily income tested fee that can add up to a substantial sum of money.

In this booklet we outline some strategies that could help you make cost savings. Many of these strategies could also assist you in qualifying for a higher age pension.

Aged care is, however, a complex area that requires a solid understanding of how the rules interact with the broader tax and social security system.

To find out which strategies could suit you, we suggest you talk to a financial adviser with expertise in this area. They can help you to:

- minimise costs
- maximise social security benefits
- minimise tax
- choose suitable investments, and
- plan for the distribution of your estate.

A financial adviser can help you maximise your financial position and take a lot of the stress out of what can be an emotional transition point in your life.

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Important information

The information and strategies provided are based on our interpretation of relevant aged care, social security and taxation laws as at 1 July 2012. Because these laws are complex and change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives before you decide to implement any of these strategies. The investment returns shown in the case studies are hypothetical examples only. They don’t reflect the historical or future returns of any specific financial products.
Contents

The five steps to entering aged care

Strategies at a glance

Strategy 1
Establish a granny flat right over your home

Strategy 2
Move into aged care separately

Strategy 3
Gift assets

Strategy 4
Plan for burial or funeral costs

Strategy 5
Establish a testamentary trust

Strategy 6
Establish a special disability trust

Strategy 7
Rent the family home

Strategy 8
Purchase an annuity

Frequently asked questions

Glossary
The five steps to entering aged care

There are generally five steps to follow if you think you may need aged care.

Step 1
Get your care needs assessed

Before you can enter an aged care facility, you will need to have your lifestyle and health needs assessed by an Aged Care Assessment Team (ACAT) member. These are usually doctors, nurses and social workers who specialise in aged care and they will determine the level of care you require.

There are two main types of residential aged care facilities. These are:

- **low level care** (known as a hostel) which generally provide accommodation and personal care, such as help with showering and dressing, together with occasional nursing care, and
- **high level care** (known as a nursing home) which provide care for people with a greater degree of frailty, who often need continuous nursing care.

Some low and high level care facilities provide higher standards of accommodation and broader food choices at a higher cost. These are called extra service facilities.

Step 2
Find an aged care home

ACAT can provide you with a list of aged care homes in your area. Alternatively, you could phone 1800 200 422 or go to www.agedcareaustralia.gov.au

Step 3
Work out the costs

While aged care costs are partly funded by the Government, you may need to pay a range of fees that depend on the type of facility and, in some cases, your income and assets. These are:

- A basic daily fee
- A daily income tested fee
- A contribution towards the cost of accommodation, which may comprise an accommodation bond or an accommodation charge. The table below summarises the fees that may be payable in different scenarios. More information is contained in the Frequently Asked Questions (FAQs) starting on page 18.

<table>
<thead>
<tr>
<th></th>
<th>Low level care Hostel</th>
<th>High level care Nursing home</th>
<th>Extra service facility Low or high level care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic daily fee</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Daily income tested fee</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Accommodation bond</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Accommodation charge</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Extra services fee</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Step 4
Apply for your place

To do this you will need to complete Part A of the Application for Respite Care or Permanent Entry to an Aged Care Home. This form can be obtained from ACAT, by ringing 1800 200 422 or from www.health.gov.au

Copies must be submitted with each application you lodge. You may need to appoint a Power of Attorney to complete this form on your behalf.

Step 5
Move in

When you have been offered and have accepted a place in an aged care facility, you will need to complete Part B of the Application for Respite Care or Permanent Entry to an Aged Care Home and sign the Resident Agreement. This is a legal document which sets out:

- the terms of your residency
- your rights and responsibilities, and
- the rights and responsibilities of the aged care home.

You should discuss this agreement with your family and consider seeking legal advice.
### Strategies at a glance

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Suitable for</th>
<th>Page</th>
</tr>
</thead>
</table>
| **3** Strategies for reducing the accommodation bond or charge | **1** Establish a granny flat right over your home  
People with a home who are in good health and want to plan ahead in case they eventually enter care | **4** |
|          | **2** Move into aged care separately  
A couple where both people need to move into aged care | **6** |
| **3** Strategies for reducing the accommodation bond or charge and daily income tested fee | **3** Gift assets  
People with significant assets that would be assessable for aged care purposes | **8** |
|          | **4** Plan for burial or funeral costs  
All people needing aged care | **9** |
|          | **5** Establish a testamentary trust  
People with high income and assets who are likely to be charged significant aged care costs | **10** |
|          | **6** Establish a special disability trust  
People who have family members with severe disabilities who are entering care | **12** |
| **3** Strategies for reducing the daily income tested fee | **7** Rent the family home  
People who want to retain the family home but need additional income to meet their fees and living expenses | **14** |
|          | **8** Purchase an annuity  
People with high assessable income who are likely to be charged a high daily income tested fee | **16** |

*Note: Many of the strategies could also help improve your social security entitlement.*
Strategy 1
Establish a granny flat right over your home

If you own a home and are in good health, you may want to establish a granny flat right before you need to move into aged care.

What are the benefits?
By using this strategy, you may reduce your accommodation bond or charge.

How does the strategy work?
To use this strategy, you need to transfer the title of your principal place of residence to another person (eg one or more of your children) in return you will receive a right to accommodation in that home or other home provided by that person. This is known as a ‘granny flat right’.

You also need to create this right while you are in good health and haven’t been assessed as needing low or high level care.

If you then need to move into aged care because of an accident or unanticipated illness, the ‘gifting rules’ will not apply to the granny flat right for aged care purposes. As a result, you will only need to pay an accommodation bond based on your other assessable assets less the minimum amount that must be retained by you, which is $41,500.1

Creating a granny flat right before any significant health issues and care needs arise could therefore enable you to reduce or eliminate the accommodation bond and avoid having to sell your home to enter an aged care home.

Note: If you leave your home to enter an aged care facility less than five years after creating a granny flat right for a reason that would have been anticipated at the time the right was created, the ‘gifting’ rules will apply (see FAQs on page 20).

Social security implications
Normally, when you go into aged care, your home is exempt from the social security assets test for up to two years unless your spouse, a dependant child or another eligible person is living there. Creating a granny flat right can, however, ensure your home is not assessed under the assets test, as ownership has been transferred to another person.

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1 Applies as at 20 September 2012 and is indexed on 20 March and 20 September each year.
Case study

Angelina is a 75 year old single pensioner. She owns her home which is worth $500,000 and has $300,000 in a bank account. Her assessable assets for aged care purposes are therefore $800,000. She is in good health and wants to keep her home within the family.

Her only daughter, Jennifer, is worried that if Angelina eventually has to go into care the home might have to be sold to fund the accommodation bond and other fees. This is because the maximum bond that could be charged is $758,500 after taking into account the $41,500 in assets that must be retained.

After speaking to her financial adviser, Angelina transfers ownership of her home to Jennifer in exchange for a life interest in the home (ie establishing a granny flat right). This ensures that even though Jennifer now owns the home, Angelina has the right to live there until she is no longer able to do so and requires care. Angelina also ensures Centrelink is aware that she is in good health and does not need to go into aged care at the time of the transfer.

Let’s now assume that Angelina has an accident in two years and has to go into low level care, where an accommodation bond is payable. Because she created a granny flat right before the accident and her reason for departing the family home was not anticipated at the time the right was established:

- the home will not be assessed for aged care purposes (as Jennifer owns her former home)
- her assessable assets are $300,000 (being the bank account only), and
- the maximum accommodation bond Angelina could be asked to pay is $258,500 after taking into account the $41,500 in assets that must be retained.

As a result, Angelina will potentially pay a lower accommodation bond.

<table>
<thead>
<tr>
<th></th>
<th>If no granny flat interest</th>
<th>If granny flat interest established</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home</td>
<td>$500,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Bank account</td>
<td>$300,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Total assessable assets</td>
<td>$800,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Less minimum assets to be retained</td>
<td>($41,500)(^1)</td>
<td>($41,500)(^1)</td>
</tr>
<tr>
<td>Maximum accommodation bond payable</td>
<td>$758,500</td>
<td>$258,500</td>
</tr>
</tbody>
</table>

\(^1\) Applies as at 20 September 2012 and is indexed on 20 March and 20 September of each year.

Tips and traps

- There are other ways to establish a granny flat right. For example, you could:
  - provide funds to construct a granny flat on another person’s property
  - provide part or all of the purchase price for a property that is registered in another person’s name, or
  - provide funds for a life interest in a property owned by another person.

  In each of these scenarios, you will also need to receive a right to live in the property for life.

- Stamp duty may be payable on the transfer of the property title.

- Capital gains tax may be payable when the home is transferred, when the home is eventually sold or relating to the life interest. Specialist advice should be obtained from a registered tax agent.

- Legal advice should be obtained and an agreement drawn up outlining the rights and responsibilities of all parties involved in the arrangement.
Strategy 2
Move into aged care separately

If you and your spouse both need to go into aged care, you may want to move in separately.

What are the benefits?
By using this strategy, you could reduce the accommodation bond for the spouse who moves into care first.

How does the strategy work?
If you and your spouse move into aged care at the same time, 50% of your combined assets (including your family home) will be assessed against each of you when the facility determines your accommodation bonds.

However, if you move into care separately, your home value will not be assessed against the first person because one of you is still living there.

Moving in separately can therefore reduce the assessable assets of the spouse who moves into care first and the accommodation bond they are required to pay.

Furthermore, if the value of the first person’s assessable assets are reduced below the minimum amount that needs to be retained (which is $41,500) they will pay no accommodation bond at all.

Social security implications
When you and/or your spouse have moved permanently into low or high level care, Centrelink considers you an ‘illness separated’ couple. This means that even though you will be assessed under the couples means test, your age pension will be based on the single person’s rate. As a result, a higher pension may be payable when compared to your entitlement before moving into aged care.

Your family home will be exempt from the assets test for up to two years from the date the second person leaves the home. During this period, you will be assessed as homeowners. After that, you will be assessed as non-homeowners and the value of your home will be counted towards the assets test. This could impact your age pension entitlement.

If you rent out your home, it will be exempt from the assets test indefinitely if other conditions are met – see Strategy 7.

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1 Applies as at 20 September 2012 and is indexed on 20 March and 20 September of each year.
Case study

**Tom and Nicole** own a home valued at $500,000 and have $30,000 in a bank account. Their combined assessable assets for aged care purposes is therefore $530,000. Both are receiving the maximum age pension, have been assessed as needing low level care and would like to minimise their combined bond they pay.

If Tom and Nicole enter the aged care facility at the same time, they will have assessable assets of $265,000 each, which is 50% of the combined total of $530,000. They both could pay a maximum accommodation bond of $223,500 after taking into account the minimum assets of $41,500 they are each required to retain.

However, their financial adviser has informed them that if Nicole (for example) moves into the facility first and Tom stays in the home during her asset assessment period:

- then the home value will not be assessed against Nicole asset assessment as Tom would continue to live in the home.
- Nicole’s assessable assets will be reduced to $15,000, which is her 50% share of the bank account, and
- Nicole will not have to pay an accommodation bond because her assessable assets are less than $41,500.

While Tom may be asked pay a maximum bond of $223,500, using this strategy will enable them to significantly reduce their combined accommodation bond.

<table>
<thead>
<tr>
<th></th>
<th>If they both enter care at same time</th>
<th>If they both enter care separately</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nicole</strong></td>
<td>$265,000</td>
<td>$15,000</td>
</tr>
<tr>
<td><strong>Tom</strong></td>
<td>$265,000</td>
<td>$265,000</td>
</tr>
<tr>
<td><strong>Assessable assets for aged care purposes</strong></td>
<td>$265,000</td>
<td>$265,000</td>
</tr>
<tr>
<td>Less minimum assets to be retained</td>
<td>($41,500)</td>
<td>($41,500)</td>
</tr>
<tr>
<td><strong>Max accommodation bond payable</strong></td>
<td>$223,500</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>$223,500</td>
<td>$223,500</td>
</tr>
</tbody>
</table>

There are two ways they could pay Tom’s bond. One is to sell the family home after Nicole’s asset assessment period is complete. Alternatively, they could keep the house, rent it out and use some of the income to help pay the accommodation bond by periodic payments – see Strategy 7.

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**Tips and traps**

- Residents whose assessable assets are below $41,500 are considered to be concessional residents. All aged care facilities allow for a certain number of concessional residents only, so spaces are limited.
- If a couple believe they both may need to enter into an aged care facility but are likely to have staggered entry, they should investigate whether the chosen aged care facility is able to provide accommodation for both members of the couple.

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1 Applies as at 20 September 2012 and is indexed on 20 March and 20 September of each year.
Strategy 3
Gift assets

Prior to moving into aged care, you may want to gift assets to family members or other people.

What are the benefits?
By using this strategy, you could:
• reduce your accommodation bond or charge and daily income tested fee, and
• the gifted asset(s) may be retained in the family.

How does the strategy work?
If you gift assets up to a specified amount to another person such as a family member, the value:
• will not be assessed when the aged care facility assesses your accommodation bond, and
• will not be deemed to earn a specified income, which could reduce your daily income tested fee if done five years prior to entering an aged care facility.

The current gifting threshold is $10,000 per financial year up to a maximum of $30,000 over five continuous years. Assets gifted above this amount will be assessable in your name for five years from the date of the gift, even though you no longer own them.

These are known as the gifting (or deprivation) rules and are designed to prevent people from giving away substantial amounts of wealth in order to reduce their aged care costs.

Examples of assets that are commonly gifted are financial investments and personal assets. However, it’s also possible to gift interests in an entity, such as a private family trust or company, as well as the family home.

Given the gifting thresholds are quite low, it may be worthwhile gifting assets of significant value at least five years before you anticipate moving into an aged care facility. By doing this, the value of the gifted assets will not be counted for aged care purposes once the five years has passed, however sometimes it is too difficult to plan that far ahead.

Social security implications
The gifting (deprivation) rules outlined above also apply for social security purposes. Gifting assets could therefore help you to improve your age pension entitlement, however care should be taken if gifting above the threshold if already receiving age pension.

Tips and traps
• Control is lost once assets are gifted. You should ensure you retain sufficient assets to provide for your own needs.
• Gifting assets within the thresholds may have a small impact on age pension and aged care fees when used in isolation, however combined with other strategies, you could achieve a better outcome. Speak to your financial adviser on strategies that are appropriate for you.
Strategy 4
Plan for burial and funeral costs

Before moving into aged care, you may want to plan for certain aspects of your burial or funeral.

What are the benefits?
By using this strategy, you could reduce your accommodation bond or charge and daily income tested fee.

How does the strategy work?
There are three key ways you can plan and pay for certain aspects of your funeral. These include:

- **Purchasing a burial plot**, which is exempt for aged care purposes regardless of its value.
- **Pre-paying funeral expenses** to a funeral director or investing in a funeral bond (see below) that is assigned to a funeral director. With both these options, the full value is exempt provided there is a contract that sets out the services to be undertaken and no additional expenses need to be paid.
- **Investing in a funeral bond** that is not assigned to a funeral director. The value of these bonds are not assessed provided you don’t also prepay funeral expenses and the amount invested does not exceed $11,5001 per person or $11,5001 for jointly owned bonds. When using this strategy, it’s important to consider which bond(s) you elect to be exempt as this can have an impact on the outcome.

What is a funeral bond?
A funeral bond is type of investment which enables you to accumulate funds to meet future funeral expenses and the benefit is only payable on death.

Earnings are retained in the fund, where tax is deducted at a maximum rate of 30%. This tax is then refunded on death and the estate executor or funeral director will be responsible for the taxation of benefits received.

Social security implications
The aged care implications outlined above also apply to Centrelink benefits. These strategies could therefore help you to improve your age pension entitlement.

Tips and traps
- When planning for burial and funeral expenses, it’s important to ensure you have enough cashflow to pay for ongoing aged care fees and discretionary expenses.
- Funeral bonds that are not eligible for an exemption are counted as an asset and the subject to deeming under the income test – see FAQs on page 18.
- Using funeral bonds may have a small impact on age pension and aged care fees when used in isolation. However combined with other strategies and you could achieve a better outcome. Speak to your financial adviser on strategies that are appropriate for you.

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1 Applies as at 1 July 2012 and is indexed on 1 July of each year.
Strategy 5
Establish a testamentary trust

If your spouse is likely to need aged care in the future, you may want to shelter some of your assets in a testamentary trust if you pass away first.

What are the benefits?
By using this strategy, you may be able to reduce your spouse’s accommodation bond or charge and daily income tested fee.

How does the strategy work?
First you need to review your Will so that your assets are left to a testamentary trust. This is a type of trust that is created via a Will and only comes into effect in the event of death.

You also need to ensure your spouse is not a:
- beneficiary
- potential beneficiary or
- controller (directly or indirectly)

of the testamentary trust. This means other people will need to be appointed as trustees of the trust and will often be your children or other family members.

By taking these steps, the assets in the trust as well as the income it generates is not assessed for aged care purposes against your spouse.

So using this strategy could reduce the accommodation costs and daily income tested fee your spouse could have to pay if they move into care after you pass away.

Social security implications
As your spouse is not a beneficiary or controller of the testamentary trust, the trust’s income and assets are not assessed for social security purposes. This strategy may improve your spouse’s age pension entitlement.
Case study

Doug and Helen are married and currently receive the maximum age pension. They jointly own their home valued at $1 million and have $100,000 in a bank account.

Doug was recently diagnosed with terminal cancer and Helen has been assessed as needing low level care. They have found an extra service facility hostel that Helen would like to move into after Doug’s death. The minimum accommodation bond is $500,000 regardless of assessable assets.

To maximise Helen’s financial position, their financial adviser recommends the home is transferred into Doug’s name. His solicitor also makes provisions in his Will to ensure that when he dies and the home is sold:

- $500,000 paid to Helen to pay the accommodation bond, and
- $500,000 is placed in a testamentary trust, where Helen will not be a beneficiary or potential beneficiary and their two adult children will be trustees.

Helen’s total assessable assets are $600,000 providing $500,000 to pay the bond. This allows Helen to go to the facility she has chosen. Also, because Helen’s only assessable asset will be the $100,000 bank account, she will still qualify for the full age pension and not have to pay the daily income tested fee.

Tips and traps

- If your spouse is a beneficiary or a potential beneficiary of the testamentary trust, they will be assessed with the income and assets of the trust for both aged care and social security purposes.

- There are some benefits to establishing a testamentary trust with your spouse as the primary beneficiary. First, the money will be used for their own benefit. Secondly, as their health deteriorates, the testamentary trust could be converted to a special disability trust, where assets currently up to $596,500 and all income derived from the trust will be exempt for aged care and social security purposes – see Strategy 6.

- While capital gains tax will generally not be payable on transferring the principal home from joint ownership to one person’s name, transaction costs may be incurred.

- Other costs may be incurred when setting up and running the testamentary trust.

- Legal advice should be sought to ensure appropriate provisions are included in your will, especially if the spouse is a beneficiary and trust may be converted to a special disability trust at a later date to avoid unfavourable tax consequences.

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1 Applies as at 1 July 2012 and is indexed on 1 July of each year.
Strategy 6
Establish a special disability trust

If your spouse has a severe disability, a special disability trust could be established for them when you pass away.

What are the benefits?
By using this strategy, you could:

- provide for your spouse’s reasonable accommodation and care needs, and
- reduce their accommodation bond or charge and daily income tested fee.

How does the strategy work?

A special disability trust (SDT) is a type of trust that can be established for a person who meets the definition of “severely disabled” for social security purposes.

They are usually established by a representative of the disabled person using money the disabled person receives via a deceased person’s Will or a superannuation death benefit. The funds also need to be transferred into the SDT within three years of the date of death.

Provided these and other conditions are met:

- all assessable assets held in the SDT are exempt up to the concessional asset value limit (currently $596,5001), and
- all income from the SDT assets is not assessed for daily income tested fee purposes.

This strategy could therefore reduce the accommodation costs and daily income tested fee your disabled spouse would have to pay when they move into aged care.

Social security implications

The income and assets (up to the allowable threshold) of the SDT will not be assessed for social security purposes. This strategy could therefore improve your disabled spouse’s pension entitlement.

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1 Applies as at 1 July 2012 and is indexed on 1 July of each year.
Case study

**Tony and Julia are married** and currently receive the maximum age pension. They jointly own their home valued at $1 million and have $100,000 in a bank account. Tony is suffering from advanced dementia and Julia has been looking after him.

Julia was recently diagnosed with terminal cancer. When Julia dies, she wants Tony to have the best care available. She has found a place for Tony in an extra service facility nursing home that charges a minimum accommodation bond of $500,000, regardless of assessable assets.

Julia has also confirmed with Centrelink that Tony will meet the 'severely disabled' definition and therefore is eligible to be the principal beneficiary of an SDT.

To maximise Tony’s financial position, their financial adviser recommends the home is transferred into Julia’s name. Her solicitor also makes provisions in her Will to ensure that when she dies and the home is sold:

- $500,000 is made available to pay the accommodation bond, and
- $500,000 is placed in an SDT to pay for Tony’s reasonable care expenses.

This will ensure the sales proceeds of the $1 million home is not assessed for aged care purposes. Also, because Tony’s only assessable asset is the $100,000 bank account, he will still qualify for the full age pension and not have to pay the daily income tested fee.

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**Tips and traps**

- While capital gains tax will generally not be payable on transferring the home from joint ownership to one person’s name, transaction costs may be incurred.
- Other costs may be incurred when setting up and running a trust.
- The SDT concessions will not be available if the trust money is not used to provide for the reasonable accommodation and care needs of the principal beneficiary.
- Legal advice should be sought to ensure there are appropriate provisions in your will and for the establishment of the trust.
Strategy 7
Rent the family home

When you move into aged care, you may want to rent your former family home and arrange to pay the accommodation bond by periodic payments, or pay or accrue a liability for the accommodation charge.

What are the benefits?
By using this strategy, you could:
• reduce your daily income tested fee, and
• retain your home in the family.

How does the strategy work?
When you go into an aged care facility, you will need to decide whether you should keep your family home, rent it out or sell it and invest the proceeds.

This can be a complex decision and you will need to consider a range of financial and non-financial issues (see Tips and traps on page 15).

One of the key benefits of renting out your home is the rental income will be disregarded for the purposes of the daily income tested fee if you are also:
• paying some (or all) of the accommodation bond by periodic payments, or
• paying or accruing a liability for the accommodation charge.

Social security implications
The rental income and home value will be exempt under the social security income and asset tests while your home is rented and you are either:
• paying the accommodation bond by periodic payments (all or part)
• paying an accommodation charge or
• accruing an accommodation charge.

This strategy may help to improve your age pension entitlement.
Case study

Marianne is a single pensioner and has been assessed as needing low level care. The hostel she is going into will charge her an accommodation bond of $300,000.

She has financial investments worth $200,000 and owns a home worth $550,000 that she would like to pass on to her family in the event of her death.

After speaking to her financial adviser, Marianne decides to rent out her home and grants her daughter a Power of Attorney so she can liaise with the real estate agent on her behalf. She will also use $180,000 of her financial investments to pay part of her accommodation bond and the rest as periodic payments.

The table below compares her surplus income after using this strategy with what she would have received if she sold her home, paid the full accommodation bond of $300,000 as a lump sum and invested a total of $450,000 in financial investments.

In this example, by renting her home, the property will be retained for her family and she will receive a higher age pension and surplus income.

<table>
<thead>
<tr>
<th></th>
<th>Option 1 – Rent home (pa)</th>
<th>Option 2 – Sell home (pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial investment income</td>
<td>$1,000</td>
<td>$22,500</td>
</tr>
<tr>
<td>Age pension¹</td>
<td>$20,088</td>
<td>$12,279</td>
</tr>
<tr>
<td>Net rental income</td>
<td>$22,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Total income</td>
<td>$43,088</td>
<td>$34,779</td>
</tr>
<tr>
<td>Basic daily fee² (Standard rates)</td>
<td>($15,775)</td>
<td>($15,775)</td>
</tr>
<tr>
<td>Daily income tested fee²</td>
<td>$0</td>
<td>($3,262)</td>
</tr>
<tr>
<td>Interest on bond</td>
<td>($9,144)</td>
<td>N/A</td>
</tr>
<tr>
<td>Surplus income</td>
<td>$18,169</td>
<td>$15,742</td>
</tr>
</tbody>
</table>

Assumptions: The net yield from the financial investment is 5% pa and the net yield from the rental property is 4% pa. Interest on the periodic accommodation bond is 7.62%². Ignores ongoing property maintenance costs, potential capital growth, property selling costs, tax issues and any capital gains tax implications if the property is rented for more than six years before being sold.

Tips and traps

- Before deciding what to do with your family home when entering aged care, you should consider:
  - are other assets available that could be used to meet your aged care costs and living expenses and how much income do these other assets provide?
  - do repairs need to be made to the home before it can be rented and what rental yield could be achieved?
  - are family members prepared and are capable of maintaining and/or renting the home on your behalf?
  - what costs would be incurred if the home is sold?
  - any taxation issues

- It’s also important to be aware that if your home is rented out, it will generally continue to be treated as your main residence for up to six years after moving out and will not be subject to capital gains tax (CGT) if sold during this period. However, if your home is rented and then sold after six years, there may be CGT implications.

¹ Rate current as at 20 September 2012 is indexed on 20 March and 20 September of each year.
² Current as at 1 October 2012 to 31 December 2012 and is reviewed each quarter.
Strategy 8
Purchase an annuity

When entering aged care, you may want to purchase an annuity.

What are the benefits?
By using this strategy, you could reduce your daily income tested fee.

How does the strategy work?
To use this strategy, you need to purchase an annuity that is invested for a certain amount of years in order to receive a concessional treatment.

A key benefit of doing this strategy is that any capital you receive as part of the income payments will not be counted towards your assessable income when your daily income tested fee is determined.

This concessional treatment is known as the deduction amount and is generally determined by dividing the amount invested by the term of the annuity or life expectancy factor.

This concessional treatment could enable you to reduce the daily income tested fee when compared to other financial investments, such as shares and term deposits, which are deemed to earn a specific rate of interest regardless of the amount actually earned.

Despite the potential aged care concessions, annuities will not suit everyone and there are other issues you need to consider – (see Tips and traps on page 17).

Social security implications
Income from an annuity may also be concessionally treated under the social security income test.

Speak to your financial adviser to see how this strategy may help you.
Case study

Jim is a 70 year old who has been assessed as needing high level care. He has sold his home and after paying the accommodation bond, has $1 million to invest. After speaking to his financial adviser, he is considering two options, which are investing:

1. the entire amount in cash and term deposits (which are called financial investments), or
2. $500,000 in cash and term deposits and $500,000 in an annuity with a term of 10 years where all the capital is paid out to him as income over this period.

Based on the assumptions outlined in the table below, in option 1:

- his assessable income will be $44,319, and
- he will have to pay a daily income tested fee of $24.18.

Conversely, with option 2:

- his assessable income will be $24,965, and
- he will only have to pay a daily income tested fee of $2.03.

By using this strategy he will therefore reduce his daily income tested fee by $8,086.

<table>
<thead>
<tr>
<th>In year one</th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from cash and term deposits</td>
<td>$50,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Income from annuity</td>
<td>N/A</td>
<td>$53,146</td>
</tr>
<tr>
<td>Total income</td>
<td>$50,000</td>
<td>$78,146</td>
</tr>
<tr>
<td>Less deduction amount</td>
<td>(N/A)</td>
<td>($50,000)</td>
</tr>
<tr>
<td>Total assessable income</td>
<td>$50,000</td>
<td>$28,146</td>
</tr>
<tr>
<td>Basic Daily Fee Standard rates</td>
<td>($15,775)</td>
<td>($15,775)</td>
</tr>
<tr>
<td>Daily income tested fee payable</td>
<td>($8,826)</td>
<td>($740)</td>
</tr>
<tr>
<td>Daily income tested fee savings</td>
<td>N/A</td>
<td>$8,086</td>
</tr>
</tbody>
</table>

Assumptions: The financial investment provides a net yield of 5% pa. The annuity pays out all of capital over a 10 year term. The gross annual payment is $53,146 (including $50,000 pa in capital). Jim is classified as a ‘standard resident’ (rates as at 20 September 2012) for the purpose of calculating the daily income tested fee.

Tips and traps

- If you purchase an annuity with a fixed term, the value in the event of your death may be impacted by movements in interest rates. As a result the capital paid on your death could be lower than the sum invested less the income payments received.
- If you purchase a lifetime annuity and die outside the guarantee period, no money will be payable to your estate or beneficiaries.

1 This figure represents the deemed income, plus the annuity income, after taking into account the deduction amount of $50,000 for his annuity income, which is calculated by dividing the amount invested in the annuity ($50,000) by the term of the annuity (10 years).
2 Figures do not include income tax.
Frequently asked questions

What does ACAT do?
The Aged Care Assessment Team (ACAT) will assess your lifestyle and health situation to determine whether low or high level care is appropriate.

This assessment is free and can be done at home, a health centre or hospital. You will need an ACAT referral to access a Government funded aged care facility. All ACAT approvals are valid for 12 months from the date they sign the form.

A new assessment will be required if you don’t move into an aged care facility within 12 months of your assessment, or if your care needs change significantly prior to moving into a facility.

Assessment teams help you obtain a range of Commonwealth funded care services. These services can assist you to continue living in your own home or enter residential aged care.

If you stay in your own home, you may qualify for a Community Aged Care Package, which can help with bathing or showering, social support, transport, laundry, meal preparation and gardening.

What is the basic daily fee?
The basic daily fee is an amount you may be asked to pay as a contribution towards your daily living costs, such as nursing, personal care and meals. It is determined on your date of entry and is currently up to $43.22 per day for a standard resident.

What is the daily income tested fee?
The daily income tested fee is an amount you may be asked to pay in addition to the basic daily fee that depends on your assessable income. This fee is usually determined by a formula and is currently capped at $68.65 per day.

There are some strategies that could be used to reduce your assessable income and the daily income tested fee payable. For a summary of these strategies see page 3.

What is the accommodation bond?
The accommodation bond is an amount you may be required to pay for the cost of your accommodation when entering low level care or an extra service facility. There is no set amount for the bond.

Each bond is negotiated with the management of the facility, taking into account your assets at the time of entry.

The bond may be paid as a lump sum, in periodic payments or a combination of a lump sum and periodic payments. If the periodic payment option is chosen, the facility will charge interest at a rate set by the Department of Health and Ageing, which is 7.62%.

Neither the accommodation bond (nor charge – see below) will be payable if your assessable assets are below a minimum level, which is currently $41,500. With both these costs, your assets are assessed in broadly the same way as pensions from Centrelink and the Department of Veterans’ Affairs.

What is the accommodation charge?
The accommodation charge is a daily charge that you may be required to pay for the cost of your accommodation in a standard high level care facility. The amount payable will depend on your assessable assets and is capped at $32.76 per day.

What impact will moving into aged care have on age pension payments?
If you are a member of a couple, your pension payments could increase when one or both of you move into aged care. This is because you will be considered an illness separated couple. As a result, while you will continue to be assessed on your combined income and assets, you will each be paid the single person’s pension rate.

If you were receiving rent assistance before you moved into care, this will most likely stop. Instead, different subsidies will be paid directly to the aged care facility by the Department of Health and Ageing.

If your home is occupied by your partner it will remain exempt from the assets test while they continue to live there and both of you will be treated as homeowners during this period.

1 Applies as at 20 September 2012 and is indexed on 20 September and 20 March of each year.
2 Under the legislation, the maximum accommodation bond a facility is permitted to charge is the total of your assessable assets less $41,500.
3 Applies between 1 October to 31 December 2012 and is reviewed every quarter. The interest rate payable is set at the time of entering the facility and once established, will not change.

You will find the latest aged care fees and charges on the Department of Health and Ageing website at www.health.gov.au
If you are single and your home is not rented, it will remain exempt from the assets test for up to two years after you enter the aged care home and you will be treated as a homeowner during the exempt period. Once the exempt period has expired, you will be treated as a non-homeowner and the house becomes an assessable asset.

If you rent your former family home and pay an accommodation bond entirely as a lump sum:
- your home remains exempt from the assets test for up to two years
- the net rental income is assessable for the income test and the aged care daily income tested fee, and
- you will be treated as a homeowner (while the home is assets test exempt) and non-homeowner (while the home is not exempt).

If you rent your home and pay at least part of their accommodation bond via periodic payments, or you pay or accrue an accommodation charge:
- the home will be exempt from the assets test indefinitely (i.e., the general two-year exemption won’t apply)
- the net rental income will be exempt indefinitely for the income test and the aged care daily income tested fee, and
- you will be treated as a homeowner.

Note: Where the accommodation bond is paid in periodic payments, the facility will charge interest at a rate set by the Department of Health and Ageing, which is currently 7.62%.1

---

Summary of social security implications

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Income test</th>
<th>Assets test</th>
<th>Homeownership status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home occupied by partner</td>
<td>Not applicable as no income</td>
<td>Not assessed while partner occupies home</td>
<td>Homeowner</td>
</tr>
<tr>
<td>Home not rented</td>
<td>Not applicable as no income</td>
<td>Assessed after two years</td>
<td>Homeowner (while home is exempt) Non-homeowner (while home is not exempt)</td>
</tr>
<tr>
<td>Home rented and paid lump sum accommodation bond</td>
<td>Rental income less allowable deductions is assessed immediately</td>
<td>Assessed after two years</td>
<td>Homeowner (while home is exempt) Non-homeowner (while home is not exempt)</td>
</tr>
<tr>
<td>Home rented and paying periodic accommodation bond or charge</td>
<td>Not assessed²</td>
<td>Not assessed²</td>
<td>Homeowner</td>
</tr>
<tr>
<td>Home sold and balance used to purchase financial investments (e.g., a bank account, managed fund or shares)</td>
<td>Deemed immediately</td>
<td>Assessed immediately</td>
<td>Non-homeowner</td>
</tr>
</tbody>
</table>

---

1 Current as at 1 October 2012 to 31 December 2012 and is reviewed each quarter.
2 There is no income or assets test assessment while the accommodation bond is paid via periodical payments or paying the accommodation charge. The rental income is also not assessed for the daily income tested fee.
Frequently asked questions

What are the tax implications when entering aged care?

Capital Gains Tax (CGT) implications

If the family home is sold, there is generally a full CGT exemption. After vacating the home, if it’s retained and not rented, it may be treated as the main residence for an unlimited period. If the home is rented, it may be treated as the main residence for up to six years after moving out. If the home is rented and sold outside the six-year period, there may be CGT implications.

There may also be CGT implications when selling other types of assets (e.g., an investment property, managed funds or shares) to fund the cost of care, please speak to a financial advisor or registered tax agent.

Net Medical Expenses Tax Offset

For the 2012/13 financial year, a tax offset of 20% is available to taxpayers who have adjusted taxable income of $84,000 or below ($168,000 for couples) and have net medical expenses over $2,120 (2012/13). This threshold is indexed annually in line with CPI and there is no upper limit of how much can be claimed.

Net medical expenses are the medical expenses paid less any refund that the individual can get from Medicare or a private health insurer.

Aged care costs that qualify for the NMETO include:
- basic daily fees
- daily income tested fees
- extra service fees
- accommodation charges
- periodic payments of accommodation bonds, and
- amounts drawn from accommodation bonds as a lump sum.

NMETO is only useful if the resident has a tax liability (given any unused offset isn’t refundable). Also, this offset can only be claimed by the person paying the expense if it is paid on behalf of themselves, their spouse, child under age 21 or another person for whom they are eligible to claim a dependant rebate. It is therefore unlikely that a person can pay aged care related (or other eligible) expenses for a parent and claim the offset.

What are the gifting rules?

If you give away assets worth more than $10,000 per financial year or $30,000 over five years, the excess gift(s) will be assessed in your name for social security and aged care purposes even though legally the money is no longer yours. The gifting rules were introduced to ensure people don’t give away assets to increase their social security benefits or reduce the aged care costs payable.

What are the deeming rates?

Under the rules applied by Centrelink, certain investments (like term deposits, directly owned shares and managed funds) are deemed to earn 3% on the first $45,400 for singles (or $75,600 for couples) and 4.5% on the balance. This deemed income counts towards the Income Test.

---

1 In the 2012/13 Federal Budget the Government proposed to increase the threshold to $5,000 and reduce the offset from 20% to 10% for individuals with income above these amounts, to apply from 1 July 2012.

2 Financial year is 1 July to 30 June.

3 Current as at 1 July 2012. The deeming thresholds are indexed on 1 July of each year.
What are the social security thresholds?

The following figures are updated quarterly by the Department of Family and Community Services and are current as at 1 July 2012.

<table>
<thead>
<tr>
<th></th>
<th>Singles</th>
<th>Max for part-pension</th>
<th>Couples</th>
<th>Max for part-pension</th>
<th>Illness separated couples</th>
<th>Max for part-pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deeming thresholds (pa)</td>
<td>$45,400</td>
<td>–</td>
<td>$75,600</td>
<td>–</td>
<td>$75,600</td>
<td>–</td>
</tr>
<tr>
<td>Income Test thresholds (pa)^4</td>
<td>$3,952</td>
<td>&lt; $44,127</td>
<td>$6,968</td>
<td>&lt; $67,538</td>
<td>$6,968</td>
<td>&lt; $87,318</td>
</tr>
</tbody>
</table>

**Assets Test thresholds:**

<table>
<thead>
<tr>
<th></th>
<th>Homeowners</th>
<th>Max for part-pension</th>
<th>Couples</th>
<th>Max for part-pension</th>
<th>Illness separated couples</th>
<th>Max for part-pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$192,500</td>
<td>&lt; $707,750</td>
<td>$273,000</td>
<td>&lt; $1,050,000</td>
<td>$273,000</td>
<td>$1,303,500</td>
</tr>
<tr>
<td>Couple</td>
<td>$332,000</td>
<td>&lt; $847,250</td>
<td>$412,500</td>
<td>&lt; $1,189,500</td>
<td>$412,500</td>
<td>$1,443,000</td>
</tr>
<tr>
<td>Age pension (max pa)^5</td>
<td>$20,088</td>
<td>–</td>
<td>$30,285</td>
<td>–</td>
<td>$40,175</td>
<td>–</td>
</tr>
</tbody>
</table>

At what age may you be eligible for Age Pension benefits?

The qualifying ages to be eligible to claim an Age Pension will depend on your date of birth as follows:

<table>
<thead>
<tr>
<th>Date of birth</th>
<th>Qualifying age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/7/1947 – 31/12/1948</td>
<td>65</td>
</tr>
<tr>
<td>1/1/1949 – 30/6/1952</td>
<td>65</td>
</tr>
<tr>
<td>1/7/1952 – 31/12/1953</td>
<td>65.5</td>
</tr>
<tr>
<td>1/1/1954 – 30/6/1955</td>
<td>66</td>
</tr>
<tr>
<td>1/7/1955 – 31/12/1956</td>
<td>66.5</td>
</tr>
<tr>
<td>1/1/1957 onwards</td>
<td>67</td>
</tr>
</tbody>
</table>

Note: Women born prior to 1 January 1947 have already reached the qualifying age for age pension.

What are the life expectancy factors?

The table below outlines the life expectancies for males and females based on a range of ages.

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>31.43</td>
<td>35.17</td>
</tr>
<tr>
<td>51</td>
<td>30.53</td>
<td>34.24</td>
</tr>
<tr>
<td>52</td>
<td>29.63</td>
<td>33.31</td>
</tr>
<tr>
<td>53</td>
<td>28.73</td>
<td>32.38</td>
</tr>
<tr>
<td>54</td>
<td>27.84</td>
<td>31.45</td>
</tr>
<tr>
<td>55</td>
<td>26.95</td>
<td>30.53</td>
</tr>
<tr>
<td>56</td>
<td>26.08</td>
<td>29.61</td>
</tr>
<tr>
<td>57</td>
<td>25.20</td>
<td>28.70</td>
</tr>
<tr>
<td>58</td>
<td>24.34</td>
<td>27.79</td>
</tr>
<tr>
<td>59</td>
<td>23.48</td>
<td>26.89</td>
</tr>
<tr>
<td>60</td>
<td>22.63</td>
<td>26.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>72</td>
<td>13.33</td>
<td>15.82</td>
</tr>
<tr>
<td>73</td>
<td>12.64</td>
<td>15.03</td>
</tr>
<tr>
<td>74</td>
<td>11.96</td>
<td>14.27</td>
</tr>
<tr>
<td>75</td>
<td>11.31</td>
<td>13.51</td>
</tr>
<tr>
<td>76</td>
<td>10.68</td>
<td>12.78</td>
</tr>
<tr>
<td>77</td>
<td>10.07</td>
<td>12.05</td>
</tr>
<tr>
<td>78</td>
<td>9.48</td>
<td>11.35</td>
</tr>
<tr>
<td>79</td>
<td>8.92</td>
<td>10.67</td>
</tr>
<tr>
<td>80</td>
<td>8.38</td>
<td>10.01</td>
</tr>
<tr>
<td>81</td>
<td>7.86</td>
<td>9.37</td>
</tr>
</tbody>
</table>


---

^4 Current as at 20 September to 31 December 2012 and is updated each quarter.

^5 These amounts include the maximum pension supplement of $60.60 for singles and $45.70 (each) for couples per fortnight.
**Glossary**

**A**

_Accommodation bond or charge_ – Amounts you may be required to pay to cover the cost of accommodation in an aged care facility – see FAQs on page 18.

_Account based pension_ – An account in which you can invest your super savings in exchange for a regular and tax-effective income.

_Annuity_ – An investment where you provide superannuation or non-superannuation money and receive a regular guaranteed income for a fixed term or for life.

_Assets test_ – A test on your assets to determine your social security entitlements. Under this test you can have a certain amount of assets before your full entitlement to social security is reduced or cuts out. The level at which your pension begins to reduce varies depending on whether you’re single or married and whether you own your home.

**B**

_Basic daily fee_ – An amount you may be asked to pay as a contribution towards your daily living costs – see FAQs on page 18.

**C**

_Capital Gains Tax (CGT)_ – A tax on the growth in the value of assets, payable when the gain is realised. If the assets have been held by an individual, trust or super fund for more than 12 months, the capital gain generally receives concessional treatment.

**D**

_Daily income tested fee_ – An amount you may be asked to pay in addition to your basic daily fee that depends on your assessable income – see FAQs on page 18.

_Deduction amount (for social security purposes)_ – The portion of the payments received from a super income stream or certain annuities that are not assessed as income for daily income tested fee and social security purposes each year.

_Deeming_ – A method of assessing income from certain investments for social security purposes. Deeming assumes that certain financial investments earn a specified rate of interest, regardless of what they actually earn. The income is then counted under the income test to determine your social security entitlement. As 1 July 2012, the deeming rates are 3% on the first $45,400 for singles ($75,600 for couples) of financial investments plus 4.5% on the balance.

**E**

_EXTRA service facility_ – A low or high level care facility that provides higher standards of accommodation and broader food choices at a higher cost.

**F**

_Funeral bond_ – A type of investment which enables you to accumulate funds to meet future funeral expenses and the benefit is only payable on death. Earnings are retained in the fund, where tax is paid by the fund at a maximum rate of 30%. This tax is then refunded on death and the estate executor or funeral director will be responsible for the taxation of benefits received.

**G**

_Granny flat right_ – A formal or informal arrangement that provides a person with a right to accommodation for life, or a life interest in accommodation.

**H**

_High level care_ – An aged care facility that provides care for people with a greater degree of frailty, who often need continuous nursing care.

**I**

_Income stream_ – An investment that provides a regular income, such as an annuity.

_Income test_ – A test on your total income to determine your entitlement to social security benefits. As with the assets test, the amount of income allowed before your benefits are reduced depends on factors such as your marital status.

**L**

_Low level care_ – An aged care facility that generally provides accommodation and personal care, such as help with showering and dressing, together with occasional nursing care.

**M**

_Marginal tax rate_ – The stepped rate of tax you pay on your taxable income.
S

**Special Disability Trust** – A type of trust that can be established for a person who meets the definition of ‘severely disabled’ for social security purposes to pay for their reasonable accommodation and care costs.

T

**Testamentary trust** – A type of trust that is created via a Will and only comes into effect in the event of the Willmaker’s death. They may help to reduce aged care costs – see Strategy 5.
Important information

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