eureka report

Funding your ‘lastaddress’

Theo Marinis explains the costs of moving into an aged care home and how to effectively plan for and fund it.

By Theo Marinis
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During my recent convalescence from hip replacement surgery it occurred to me (as I roamed on my zimmer frame) that at 57, I might just have two decades of independent living… but then what?

Fortunately, I anticipate being able to fund my stay in an aged care home, but I had no idea what costs are involved – and what the process of getting into one might be. To be honest, I’ve spent most of the last 40 years thinking about accumulating wealth, growing it, and then handing everything that’s left to my wife and our daughters, rather than spending it on myself during my inevitable decline.

My friend, professional colleague and founder of Senexus in Adelaide, David Coluccio (who specialises in providing aged care advice) gave me cause to reconsider the simplistic assumption that essentially, in an aged care setting ‘you get what you pay for’.

To quote David: “Aged care must be one of the most egalitarian systems in the country. Care standards are government-mandated and non-negotiable, meaning that quality of care all meets a standard, irrespective of your choice of homes. What can differ is the quality and aesthetics of the physical space, i.e size of rooms, appearance, décor, along with any other additional services a home might provide for its residents.”

I also learned a lot more from our chat.

The good news is that if you are in the position where you have no money or assets left you will still be able to get a place in an aged care facility in exchange for most of your age pension. This is determined by Centrelink's uncompromisingly complex assets and income tests, but there are some benefits to 'democratic socialism' if you are on the receiving end.

However, most readers of InvestSMART will have to pay. The maximum cost around Australia is about $550,000, which represents the cost of a refundable accommodation deposit (RAD). The good news is that the RAD is fully refundable and federal government guaranteed, however, the provider gets to keep any associated earnings – so the longer you live, it's so much the better for the institution. The other factor to note is that the RAD is exempt from the Centrelink assets test. This means that people who don't qualify for an age pension may become eligible for an age pension after their move into residential aged care.

Now, what about a situation where you have an account based pension – and let's say, you are down to your last $1,000,000 in super? (This question was actually raised by an InvestSMART reader following my August contribution on account based pensions).

You simply transfer $550,000 (tax free) to the RAD which is returned to your estate when you die. You will continue to receive the earnings on your remaining $450,000, and the usual age based drawdowns (designed to consume your capital by the time you reach 100) will continue.

The situation becomes more complex where a couple is involved, particularly if you are both at different life stages. For example, where a partner is 20 years younger, there is little chance that they will want to join you in an aged care facility – they are likely to be the person organising your move. In the event that you do move together, the RAD is usually charged just once.

David tells me the research shows that the vast majority of aged care residents report a significant increase in their health and happiness when they enter such a facility. He also said most people are surprised to learn that subject to competency, they are able to take ‘leave’ of up to 59 days per year (to go on holiday, stay with family etc, if that is an option) without affecting their residency.

In addition to the RAD, every resident will pay the basic daily fee which is set at 85 per cent of the full, single rate of age pension. This is currently $52.25 per day or $19,071 per annum. Other fees would be a care fee or an accommodation charge, but these are means-tested, so the amount is completely dependent upon the person’s assessable wealth.

Some providers may also charge an ‘additional services fee’ for hotel type services which must be approved by the Aged Care Pricing Commissioner, agreed with the resident and set out in an extra services agreement. Some facilities offer gourmet dining, premium wines, regular physiotherapy and stimulating outings for those who want them (and I will be looking into this for myself).

In general terms, therefore, when completing a ‘life budget’, the end of life component (or paying for your ‘final address’) should include at least half a million dollars for the refundable RAD and – if you are looking for a top of the range experience – a further half million (to generate $25,000 per annum) to pay for the extras.

David also tells me that the usual scenario for entering a care facility is as the result of a crisis. The number one crisis reason is a fall. Then a stroke. Another may be as the result of the death of a partner, or a debilitating diagnosis such as dementia or Parkinson’s disease. Dementia is the progressive cause for about two out of every three clients he sees.

Being a planner by nature, I asked what I can do to avoid having to make last-minute, rushed decisions for Julie and myself. David suggests beginning the process around aged 75, ideally when you and your life-partner are still in robust physical and mental health.

David's key points are these:

1. Establish a Power of Attorney
2. Apply for an ACAT assessment
3. Work out the costs of aged care
4. Complete the request for income and assets assessment form
5. Look for a suitable aged care home

An aged care home offers rooms to people based on their care needs. If you put your name down too early, your care needs will only be low and the home will never make you an offer. The best strategy is to get items one to three done and then do items four-five at the point of time you need it.

With higher care needs you should get quick access to a suitable aged care bed.

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