Residential Aged Care:

What you need to know FactFile

LifeTime Financial Group

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 are the different levels of residential aged care?

There are two levels 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 the Government's Aged Care Assessment Team (ACAT). ACAT helps older people and those who care for them decide 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.

You can arrange an appointment with the ACAT closest to you by calling the Commonwealth Carelink Centres on 1800 052 222. Alternatively your doctor can make an appointment with the ACAT in your 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 (DVA) 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 (for low level care and extra services)
- accommodation charges (for high level care)

ongoing fees for both low and high level care, which include:

- basic daily care fees
- income tested fees
- extra services fees (if applicable).

Accommodation bonds

An accommodation bond is the entry fee for low level care or extra services. 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 facility.

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. The majority 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, such as improving building standards and provision of aged care services. Periodic payments will not be refunded and will incorporate a rate of interest which is capped by the government.

Accommodation charges

An accommodation charge is a daily amount payable by residents in high care. The amount payable will depend on your level of assessable assets on the date of permanent entry.

Is a pre-retirement pension right for you?

Transition to retirement strategies aren't right for everyone. You should discuss the following factors with your financial adviser to ascertain whether a transition to retirement strategy is suited to your personal circumstances:

- whether you have sufficient super to support drawing a preretirement pension
- whether or not your employer will:
- allow you to work part time at a rate that suits you
- allow you to salary sacrifice
- agree to continue to pay your super guarantee contributions at the pre-salary sacrifice level
- your tax position
- your financial objectives and retirement needs
- the costs associated with this strategy.

Professional financial advice can make all the difference and will help ensure you are not disadvantaged from a tax or social security perspective if you decide to implement this type of strategy.

A word about contribution caps

While there are no limits on the amount you can contribute to super, the government has set contribution caps that determine how much you can contribute to super in any one year without penalty. There are caps on both concessional (pre-tax) and non-concessional (after-tax) contributions. If you exceed these caps, you could be penalised with hefty tax rates.

- Concessional cap. Concessional contributions include salary sacrifice, super guarantee and personal deductible contributions. If you are under age 50 on the last day of the financial year, the cap is $50,000 (2008–09), decreasing to $25,000 (indexed) in the 2009–10 financial year.
- Transitional concessional cap. If you are aged 50 or over on the last day of the financial year between 1 July 2007 and 30 June 2012, the transitional concessional contribution cap will apply. This cap is $100,000 for 2008–09, decreasing to $50,000 in 2009–10. This cap is not indexed. From 1 July 2012, the concessional cap will be $25,000 (indexed) for taxpayers of all ages.
- Non-concessional cap. The cap for non-concessional contributions is currently $150,000 per year, or $450,000 over three financial years (under the 'bring-forward rule') if you are under 65 in the financial year. The cap will remain for the 2009–10 financial year, but in future will be calculated as six times the level of the indexed concessional contributions cap. There has been no change to the 'bring-forward rule'.

It's important to keep your financial adviser informed about any contributions you make so they can ensure you don't exceed the contribution caps. This is especially important given the coming reductions in these caps. Contributions over the caps are taxed at 46.5% (ie 31.5% in addition to the standard 15% tax on concessional contributions).

of superannuation savings. Your financial adviser can provide more information.

Pre-retirement pensions at a glance

- Minimum and maximum drawdown limits apply to preretirement pensions.
- Pre-retirement pensions can be started with preserved
- and restricted non-preserved superannuation benefits.
- Lump sum withdrawals can only be made from a pre-retirement pension if:
  - *they are from unrestricted non-preserved benefits*
  - *you have reached preservation age,*
  - *have retired and do not intend to seek gainful employment for more than 10 hours per week*
  - *you have reached age 60 and ceased employment before that age and now do not intend to seek gainful employment for more than 10 hours per week*
  - *you are at least age 60 and have ceased gainful employment since turning 60*
  - *you reach age 65.*

- Once you are aged 60 or over you will pay no tax on the income payments you draw from your pre-retirement pension. If you are between your preservation age and age 60, the income that you receive will be assessable income in your hands and taxed at your marginal tax rate. However, part of each payment may be tax free and, if not, you may qualify for tax offsets which will mean you pay little or no tax on your income.

1 The minimum drawdown requirement for account-based pensions was reduced by 50% during the 2008–09 financial year. In the Federal Budget 2009, the government has proposed extending this reduction for 2009–10.

Speak to us for more information...

If you would like to know more about self managed super funds, contact our office and talk to us at LifeTime Financial Group. We can give you more detailed information on the best approach for your situation.