



Aged Care Gurus News

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How the financially disadvantaged just got worse off!

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Significant reforms are planned for people who receive aged care from 1 July this year, these changes are designed to create more of a “user pays” system. While on the surface of it getting people to contribute based on their assets and income, and introducing a “market price” for accommodation payments sounds fair and reasonable, the reality is a quite different!

Firstly, let's look at the group of people the government already classify as financially disadvantaged – supported residents. Under the current system, supported residents are assessed purely based on their assets. People with assets below \$45,000 are fully supported and cannot be asked to pay an accommodation bond or charge. People with assets above \$45,000 but less than \$116,136 are partially supported and make a contribution towards the cost of their accommodation, with the government providing a “top up” to the facility through the accommodation supplement. For example, Alan is 87 and a Full Pensioner, his assets consist of \$80,000 in bank accounts and \$15,000 of personal effects. Under the current system the maximum amount Alan can contribute towards the cost of his accommodation is \$50,000 as a bond in Low Care or \$24.04 as a daily charge in High Care.

Under the new system Alan will be assessed based on his assets and his income as follows:

50c per dollar above \$24,731 plus

17.5% of his assets \$45,000 - \$154,179

In Alan's case, the daily charge would be almost the same pre or post 1 July. The issue for Alan in paying the daily charge is that when it is added to his basic daily care fee and an allowance is made for personal expenses his cost of care exceeds his income by \$4,682 p.a.

Post 1 July Alan will have the option of paying by daily charge, lump sum or a combination. Calculating the lump sum for Alan involves taking the daily charge and converting it using the government set interest rate (currently 6.63%) which gives us \$132,347. This is a big difference from the \$50,000 he could currently be asked to pay and something that would be impossible for him to fund.

The solution the government proposes – allow Alan to pay a lump sum of \$50,000 and have the balance of the daily charge deducted from the lump sum he has paid – with any amount left over paid to him or his estate when he leaves.

But Alan is not the only person who will be financially disadvantaged by the new system. A lot of people, concerned by stories of \$1m + accommodation bonds have seen the market pricing as a means of reducing the amount aged care facilities can charge them. While in some cases this will be true, most aged care facilities already have a market price arrangement, with residents who choose to pay extra receiving a discount. The only people paying \$1m bonds are those that have more than \$1m in assets. Facilities located in the inner suburbs of Melbourne and Sydney are still going to have prices in the \$1m price range. The biggest misnomer about the market price arrangements is that it relies on a bed being available, delivering the type of care you need at the price you want to pay on the day you need it. The reality is that you will need to pay the price attached to the bed where your care needs can be met.

Let's look at an example...

Shirley is a pensioner, she currently lives in a retirement village, the sale proceeds of her unit are going to be \$200,000. She also has \$40,000 in the bank and \$5,000 in personal effects. The market price at the aged care facility she wants to move to is \$400,000 RAD or \$72.66 DAP.

Under the current rules Shirley could be asked to pay a maximum accommodation bond of \$200,000 or an accommodation charge of \$34.20p.d. Under the current system the aged care facility can charge Shirley \$200,000 but still get the average of \$400,000 by charging the person with higher assets \$600,000.

Under the new rules the person with higher assets can only pay \$400,000, so Shirley needs to pay \$400,000 (or the equivalent thereof). If Shirley chooses to pay by lump sum her maximum bond (RAD) will still be \$200,000 and she will need to pay the remainder (\$200,000) by a daily accommodation payment of \$36.33p.d. If Shirley cannot afford to pay the daily charge she can choose to have it deducted from the lump sum bond she has paid.

If the objective was to protect the person with higher assets, this has been achieved, they cannot be charged more than the market price. But because no-one can pay more, no-one can pay less so those who are less well-off will simply need to pay more.

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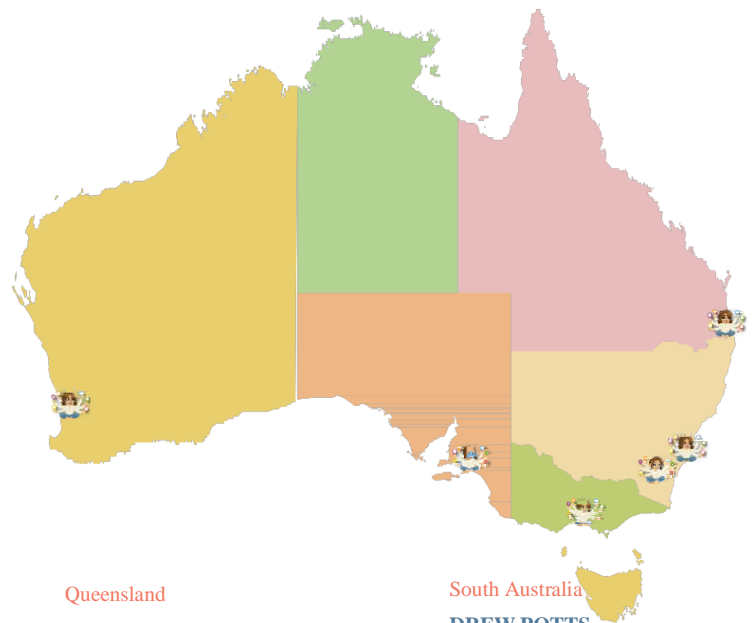
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