

# Aged Care – the costs, considerations, concerns and what you can do...

**Choosing how you age is not just about accommodation for you or your family. There are also a range of financial and emotional issues to plan for.**

The quality of today's health care means we are enjoying longer lives, with current life expectancy levels far exceeding those of previous generations. Accordingly, many Australians ought to make well thought out plans for their living and care arrangements in their later years a top priority. But, some research alarmingly tells another story.

## The insights

# A 2011 survey on housing in later life revealed that one quarter of the 5000 baby boomer respondents hadn't considered the issue of their financial futures with respect to aged care at all.<sup>1</sup>

# Over 31% of respondents said they expected to rely on the government for their future housing and financial needs as they age, highlighting a gap in overall awareness of the social security system.

# Prior to 1 July 2014 most aged care facilities utilised an accommodation bond for residential aged care\* – only one in three respondents understood how bonds worked, highlighting a gap in financial literacy. (\*Since July 2014 this has been replaced with refundable accommodation deposits/contributions.)

# Importantly, the same study also highlighted that over 64% of people would prefer to age in their current homes, rather than downsizing or moving into aged care.

# More than 353,800 people in Australia have dementia and by 2030 the number will grow to more than 500,000 according to peak body Alzheimer's Australia, underscoring the importance of planning for aged care early.<sup>2</sup>

## The demographic shift

Currently, there are 400,000 Australians over the age of 85; approximately 1.2% of the population.<sup>2</sup> However, the overall proportion of the population is expected to almost double to 5% by 2050 according to the Australian Bureau of Statistics.<sup>3</sup> Recent research from Calibre Consulting Engineers, tips that this seismic shift will stretch infrastructure considerably. The group predicts \$22.5 billion worth of new aged care facilities will be required before 2031 to house this ageing population, especially as more baby boomers enter retirement.<sup>3</sup> Also, for every 1000 people over the age of 70, 88 will need government assistance to afford aged care.<sup>4</sup>

## The private vs public sector

Some pundits expect the private sector to step up to accommodate the gap in demand and supply. The ASX-listed aged care provider Estia, which has recently been the subject of media attention, has for example publicly slated plans to expand its number of beds from 4639 to 10,000 by 2020 as reported in The Weekend Australian recently.<sup>5</sup>

<sup>1</sup> Bridge, Davy, Judd, Flatau, Morris, Phibbs. (2011, September) 'Age-specific housing and care for low to moderate income older people' Report No. 174 for the Australian Housing and Urban Research Institute, UNSW-UWS Research Centre.

<sup>2</sup> 'Greens Funding for Better Dementia Care Welcomed', (2016, 22 June) Alzheimer's Australia, Press Release, sourced at: <https://fightdementia.org.au/media-releases/greens-funding-for-dementia-care>

<sup>3</sup> Watkins, J. (2016, June 16). We need to speak up for our parents. *The Sydney Morning Herald*. Retrieved from <http://www.smh.com.au/comment/we-need-to-speak-up-for-the-aged-20160615-gpifag.html>

<sup>4</sup> Australian Bureau of Statistics, 2015

<sup>5</sup> Cranston, M. (2016, June 1). \$22.5 billion in Aged Care homes needed but will it be achieved? *The Australian Financial Review*. Retrieved from <http://www.afr.com/real-estate/225-billion-in-aged-care-homes-needed-but-will-it-be-achieved-20160530-gp7qhr>

However, private sector growth on this magnitude could potentially be affected by recent cuts in government funding, which included a proposed \$1.2 billion cut to the aged-care sector in the Liberal Party's Federal Budget released in May.

Calibre's Civil and Urban sector leader Brent Thomas is concerned that signs of further cutbacks and lack of political support will mean "prices will rise for available sites, and many seniors will be unable to afford the type of care they need in areas they want to live".<sup>6</sup>

## Aged care fees – have you factored them in?

Based on the current trend of cutbacks to this sector, the costs of aged care may well increase in the future. If that occurs it could also place significant stress on all of us as and when we age, as well as our families. It's important to therefore understand some of the main costs involved. For those considering residential aged care solutions there are two predominant costs.

Entry costs: also known as 'accommodation payments' are means-tested and can be paid as a lump sum, daily amount or a combination of both.

Ongoing costs: may include a basic daily fee, capped at 85 per cent of the single person basic Age Pension, a means-tested care fee and additional services fees.<sup>6</sup> Costs for home care recipients include a basic daily fee that can be up to 17.5 per cent of the single person basic Age Pension.<sup>7</sup>

## What can a holistic financial plan include?

With changes in government funding, plus the possibility of rising costs of living and higher housing prices, a holistic financial plan for later life is vital. Such plans can include:

- Timing or advice on aged care: i.e. funding options before the need to rely on aged care.
- Power of Attorney/guardianship: i.e. to help enable lifestyle, financial and medical decisions in the event of reduced capacity.
- Choice of accommodation, understanding fees and accommodation payments/contributions for aged care facilities and the implications of selling or renting the family home
- Tax planning
- Estate Planning
- Social security entitlements
- Cash flow/Budgeting and debt planning
- Home improvements: i.e. modifications to your existing family home such as installing ramps; rails; single levels; electrical controls; bathroom and kitchen safety features and accessibility-planned homes.

## Emotional concerns and the importance of objective advice

Other facets of aged care strategies are the emotional concerns of both people facing this stage of life, as well as their families. It is vital that plans and conversations are documented and had well ahead of any declines in health and or mental cognisance. These often difficult conversations can be significantly aided by an independent and objective third party, such as a financial adviser. Underscoring the importance of this step is the rising number of people expected to suffer from dementia in Australia by 2030, from more than 353,800 people currently, to more than half a million by 2030 according to Dementia Australia.<sup>8</sup>

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<sup>6</sup> Ibid.

<sup>7</sup> White, A. Loussikian, K. (2016, June 11). Aged care and fast money an unhealthy mix. *The Australian*. Retrieved from <http://www.theaustralian.com.au/business/aged-care-and-fast-money-an-unhealthy-mix/news-story/e56d693e174eb8e935834aec50ff6c6b>

<sup>8</sup> Money Smart. *Aged Care*. Retrieved from <https://www.moneysmart.gov.au/life-events-and-you/over-55s/aged-care>

Acceptance of moving to aged care can be particularly difficult and emotionally fraught, highlighting the case for a documented plan. According to the AHURI survey, considerations including access to familiar areas, family and friends are cited as vital aspects to include in a plan, which may or may not involve selling the family home.<sup>9</sup>

The flood of information available can also be hard to navigate. This is where a trusted financial adviser can play an important part of planning for the future and providing objective advice to assist you and your family.

## COMMON QUESTIONS

### ***What is “the means test” for residential aged care?***

This examines your assessable income, including your Age Pension, as well as your assets, including your superannuation and in some circumstances, the value of your home.

### ***What impact can it have on my aged care fees?***

The result of this test will determine the costs you’ll be required to pay if and when you enter aged care accommodation and any ongoing means tested care fees.

### ***Can I get in-home care still?***

Yes, but when you are applying for home assistance an income test will determine how much you will pay; people with a higher income and or with a larger asset base will generally pay more.

## Where to from here?

It’s essential to act early and make sure you have a plan in place; whether that is to stay in your existing home and seek in-home care, or to enter an aged care facility. By planning ahead and saving early you can establish your preferences as to how you age and put in place steps to maintain your financial wellbeing.

#### **\*Authorised Representative of Millennium3 Financial Services Pty Ltd ABN 61 094 529 987 AFSL 244252**

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<sup>9</sup> ‘Greens Funding for Better Dementia Care Welcomed’, (2016, 22 June) Alzheimer’s Australia, Press Release, sourced at: <https://fightdementia.org.au/media-releases/greens-funding-for-dementia-care>

<sup>10</sup> *Ibid.*

<sup>11</sup> Bridge, Davy, Judd, Flatau, Morris, Phibbs. (2011, September) ‘Age-specific housing and care for low to moderate income older people’ Report No. 174 for the Australian Housing and Urban Research Institute, UNSW-UWS Research Centre.