THE AUSTRALIAN

Five ways to keep residential aged care costs down

Aveo Group chief executive Geoff Grady and Queensland Premier Annastacia Palaszczuk at the sod turning for Aveo Springfield fully-integrated retirement village.

RODNEY HORIN
The Australian | 8:26PM June 26, 2017

The professional standards and pricing structures of retirement communities are back in the news once again for the wrong reasons.

It is certainly the case most Australians pay way too much for residential aged care.

In fact, some pay hundreds of thousands of dollars too much, particularly if they rush into signing a contract without looking at the options available.

The major sharemarket-listed companies are the biggest offenders because of the pressures they have from shareholders: The latest listed group to hit the headlines is Aveo (AOG), the ASX listed retirement group was sold off sharply today after media investigation into poor practice at the company.

People often feel they have to make quick decisions about very large sums of money: This is often the case when a parent, for example, has a fall, ends up in hospital and the doctor advises the children that the parent can no longer live at home but must move into residential aged care.

All of a sudden, the adult children find themselves in a maze of Refundable Accommodation Deposits, daily fees, extra-services fees and means-tested fees.

Worse still, there is the dreaded Centrelink form — which must be downloaded and filled in in order to determine the means-tested fee — it is 28 pages long and includes 145 questions.

If the wrong decisions are made at this time, families will pay

more than they need to, particularly if the person — generally a parent — lives in aged care for several years.

Here are five ways to dramatically reduce the cost of residential aged care:

* Negotiate on the Refundable Accommodation Deposit (RAD). The RAD (formerly known as the bond) to secure a room at an aged-care facility can be as high as $2 million. In many cases these RADs are negotiable, and at times can be as much as halved.

The willingness of an aged-care facility to negotiate on RADs depends very much on the demand and supply of rooms at their facility. It is possible to negotiate to pay some or all of the daily fees from the RAD to minimise the impact on a person's cashflow. This means of course that less of the RAD will be returned at the end of the care period.

* Look at potentially part-paying the RAD. Although aged-care facilities prefer people to pay a RAD in full at the time of entry into aged-care, it is possible to choose to pay interest payments only or pay with a combination of lump sum and interest payments. This frees up capital for other expenses.

* Structure finances so that a parent can keep the full pension. The full pension, currently $888.30 per fortnight (or $23,095.80 per annum), can be lost if the family home is sold and the cash from the sale is added to the person's assessable assets. Sometimes it is better to keep the family home and pay aged-care fees from the rental income generated.

* Lower the daily means-tested fee. The means-tested fee is based upon the income and assets of the aged-care resident, so it increases as the resident's assessable assets and income increase. A resident on a part age pension with assets totalling $200,000 and deemed to be earning $28,109 per year will pay $2.07 per day ($756 per year), while a resident with assets totalling $1.2 million and deemed to be earning $38,262 per year will pay $67.48 per day ($24,629 per year).

One option to reduce the means-tested fee is to buy an aged-care annuity, if appropriate. Other options include making gifts to children ($10,000 per year allowable, maximum $30,000 over rolling five-year period) or prepaying a funeral ($12,500 maximum).

* Look closely at the extra-services fee. Premium extra-services fee packages can cost as much as $120 a day and provide for additional services like a choice of meals, alcohol at meals, expanded activities program, cable television etc. Look closely at the extra-services fee and ask what services are being delivered and assess whether they represent value for money.

As Australians live longer, more and more will end up in residential aged-care. The number of people in permanent aged care in Australia is expected to triple in the next 35 years, from 225,000 today to 700,000 in 2050. Adult children may consider a parent to be many years away from aged-care, but circumstances can change very quickly.

Rodney Horin is a partner at aged-care specialists Joseph Palmer & Sons