

# Understanding Aged Care Fees





Considering a move into aged care, for yourself or a loved one, can be an emotional, stressful and confusing time. Apart from the personal and family decisions that must be made, there is also a need to understand the aged care fees and payments, and how they will have an impact on your decision-making and personal finances.

This brochure explains the various aged care fees and payments, so that you are better informed when it comes time to meet with a McKenzie Aged Care Sales Manager to discuss your move.

Balancing your income, pension and assets can be a complex task. Your personal financial circumstances will change over time, as will the aged care fees. Therefore, as you embark on your move into aged care, we strongly advise that you seek assistance from a financial advisor who can help to develop the best strategy to maximise any benefits you are entitled to receive. If you do not have a financial advisor who understands the aged care environment, please contact us and we can recommend one for you.

At McKenzie, we aim to make your transition into aged care as easy and stress-free as possible.

## Assessing your eligibility

Before entering a McKenzie Aged Care home, you first need to find out if you are eligible for Australian Government support for residential aged care. The first step is to be assessed by the Aged Care Assessment Team (ACAT), or Aged Care Assessment Services (ACAS) as it is known in Victoria. For more detailed information about this stage in the process, please visit our "Guide to Aged Care" page on our website at [www.mckenzieacg.com/guide](http://www.mckenzieacg.com/guide).

# Types of Care Fees

Residential aged care fees are made up from a combination of the Basic Daily Care Fee, Means Tested Care Fee and Additional Services.

## **Basic Daily Care Fee**

Every resident in aged care, regardless of their level of assets and wealth is required to pay a mandatory flat fee towards their care. This is a fee set by the government and will never cost more than 85% of the Australian Age Pension. The fee amount is reviewed twice a year in line with increases in the Age Pension and changes in the cost of living.

Think of this fee as the same as paying for your utility charges at home. The Basic Daily Care Fee covers the cost of expenses such as meals, power, heating and air conditioning, water, laundry and room cleaning.

At the time of printing this brochure, the Basic Daily Care Fee for full pensioners, part pensioners and self-funded retirees is \$53.56 per day, or \$19,549.40 per year.

## **Means Tested Care Fee**

The Means Tested Care Fee is only paid by people who can afford to contribute more towards the cost of their personal and clinical care. This is an additional fee towards the cost of care that is based on an assets and income test determined by the Department of Health.

An annual and lifetime cap is applied to the Means Tested Care Fee to protect residents who receive care for longer than the average period of time. Once the fee has been paid to its capped annual amount, nothing more is required to be paid until the start of a new year. Means Tested Care Fees paid during previous home care or previous permanent residential care stays also count towards the annual and lifetime caps.

At the time of printing this brochure, the Maximum Means Tested Care Fee that a resident can be asked to pay per year is \$28,792.36, with a lifetime limit of \$69,101.75.

## **Additional Services**

Additional services are provided to enhance your stay in aged care by offering entertainment and lifestyle services such as wine and soft drinks with meals, WiFi, hairdressing and TV streaming services. The cost of additional services can range from \$1 to \$50 per day depending on the package of products or services being purchased.

While other aged care providers enforce mandatory additional service packages with a room booking, at McKenzie, our Choice+ Additional Services lets you purchase from a selection of itemised goods and services at any time. Choice+ Additional Services is entirely optional...It is your choice! No obligation. No packages. No hassles.



# Accommodation Payments

For McKenzie Aged Care Group to be able to manage and maintain our properties to the best standard, so that your stay is as comfortable, safe and secure as possible, an Accommodation Payment is necessary.

The Accommodation Payment is determined by the aged care home, which is why each provider will charge differently depending on the size of the property and quality of amenities.

## Types of Accommodation Funding

How much you ultimately contribute to the cost of your accommodation will depend on your financial situation and eligibility for government assistance. Your accommodation can be:

- fully supported
- partially supported, or
- fully self-funded

## Fully Supported

When your income and assets are below a certain amount, **all your accommodation costs are paid by the Australian Government**. Some rooms at each McKenzie home are available for residents with reduced financial means. Residents with assets under \$51,500 and income less than \$28,472.60 (including your age pension) may obtain funding from the Australian Government.

ASSETS	INCOME	OUTCOME	COST TO RESIDENT	SUBJECT TO CHANGE
Less than \$51,500	Less than \$28,472.60	Funded by Government	Basic Daily Fee \$53.56 per day; Additional Services (optional)	Yes

\* Income includes age pension and any other income streams.

\* Deeming rates are used to ascertain income generated from any financial investments or superannuation assets.

\* Assets include car, contents and financial assets, account-based pension.

\* A resident's supported position is subject to change if their asset position alters.

# Partially Supported – RAC/DAC



If you are eligible for some Australian Government assistance, you will be **required to pay a contribution** towards your accommodation costs. Your contribution can be made as a lump sum (RAC), daily amount (DAC), or a combination of both.

The lump sum payment you put towards your accommodation costs is called a **Refundable Accommodation Contribution (RAC)**, while the government covers the balance of the amount. The RAC amount is fully refundable when you leave the aged care home.

The **Daily Accommodation Contribution (DAC)**, unlike the RAC, is not refundable. The DAC is similar to paying rent whereby regular payments are made over time. While the DAC is also partially funded by the government, it requires less money up-front.

The table below summarises the requirement for partially supported accommodation eligibility.

If your assets exceed \$51,500 and your income exceeds \$28,472.60 (including your age pension), the Australian Government will fund some of the cost of your accommodation while you pay for the rest in the form of a Daily Accommodation Contribution (DAC). Refer to page 9 to see how the DAC is calculated.

ASSETS		INCOME	OUTCOME	COST TO RESIDENT	SUBJECT TO CHANGE
Between \$51,500 and \$175,239.20	<b>PLUS</b>	Between \$28,472.60 and \$71,781.32	Partially funded by you and Government	Basic Daily Fee \$53.56 + DAC or RAC or combination of DAC & RAC; Additional Services (optional)	Yes

\* Income includes age pension and any other income streams and deeming.

\* Deeming rates are used to ascertain income generated from any financial investments or superannuation assets.

\* Assets include car, contents and financial assets, account based pensions.

# Fully Self-Funded

If your assets exceed \$175,239.20 and your income exceeds \$71,781.32, you will not be eligible for government funding and you will be **required to cover the entire cost** of your accommodation.

ASSETS		INCOME	OUTCOME	COST TO RESIDENT	SUBJECT TO CHANGE
Over \$175,239.20	<b>PLUS</b>	Over \$71,781.32	Required to fund your cost of accommodation based on room price	Basic Daily Fee \$53.56 + RAD or DAP + Means Tested Care Fee; Additional Services (optional)	Yes

*\* Income includes age pension and any other income streams and deeming.*

*\* Deeming rates are used to ascertain income generated from any financial investments or superannuation assets.*

*\* Assets include car, contents and financial assets, account-based pensions.*

Similar to being partially supported, you can choose to pay for your accommodation as a lump sum (RAD), daily amount (DAP), or a combination of both.

The **Refundable Accommodation Deposit (RAD)** is a lump sum payment for the entire cost of your accommodation. Different types of rooms in an aged care home can command different RAD amounts. As the name suggests, the RAD is fully refundable to you, or your estate, when you leave the aged care home. The Australian Government guarantees the repayment of the RAD. RADs are also an exempt asset for pension purposes and it offsets the interest cost of the DAP.

While it is more money upfront, the full lump sum RAD is cheaper overall than the DAP, since the full lump sum RAD is not subject to any interest rates.

Instead of paying for your room up front in lump sum, you can choose to pay the **Daily Accommodation Payment (DAP)**. This payment is the interest payable on any unpaid RAD and calculated as a daily payment. This method is effectively like paying rent to a property owner where no payments are refundable upon leaving the residence.



# How to calculate the DAP/DAC

The government sets the **Maximum Permissible Interest Rate (MPIR)** and the DAP is simply the interest applied to any unpaid RAD. The MPIR applicable for the resident during their stay is the MPIR that is applied at the date of permanent entry into care. The MPIR is subject to change on the 1st of January, April, July and October each year. As at 1 January 2022 the MPIR is 4.04%.

As an example, if the RAD for a single room with en suite is \$500,000 and you are able to contribute \$200,000, then the DAP would be calculated as:

$$\text{DAP} = (\text{RAD} - \text{Deposit}) \times \text{MPIR } 4.04\% / 365 \text{ days}$$

$$\text{DAP} = (500,000 - 200,000) \times 4.04\% / 365 \text{ days}$$

$$\text{DAP} = (300,000 \times 4.04\%) / 365 \text{ days}$$

$$\text{DAP} = 12,120 / 365 \text{ days}$$

$$\text{DAP} = \$33.21 \text{ a day}$$

## Combination of RAD and DAP Payments

You may not have the means to pay the RAD in full or you do not want to sell your home. In that case, you can make a combination of RAD and DAP payments. The higher the contribution made toward the RAD payment, the lower your daily fee will be.

## When do I pay the RAD and DAP?

As a new resident, you will have up to 28 days from entering the home to decide what combination of payments you would like to make. If you choose to pay a RAD, you then have up to six months to pay.

# What About My Family Home?

A major discussion amongst families when deciding the move into aged care is whether to keep the family home or sell it to pay for the RAD. It is a difficult decision to make; not only from a financial perspective but also from the emotional stress it often places on a family.

There is a common belief that everyone is forced to sell their home to afford entry into aged care. **This simply is not true.** How your aged care accommodation is paid for is entirely your choice. Whether you keep or sell your family home is up to you.

The important point to note is that the value of your family home is exempt as an asset if:

- your partner or dependent children still live in the home, or
- if a carer or close relative eligible for an Australian Government income support payment has lived in your home for at least two years

In addition, the value of your family home is excluded from the Age Pension assets test for two years from the date you or your partner moves into aged care, and the value of the home is capped at \$175,239.20 for aged care means testing. If you are a member of a couple, the two years starts when the last spouse leaves the home.

Be aware that if you are deriving any rent from your home, this income is assessable for tax purposes. The future sale of the house may be assessed for Capital Gains Tax.

If the decision is made to sell the family home, then money in the RAD, and any surplus funds, will count for aged care means testing. The surplus funds will be assessable for the pension.

The table below summarises four possible scenarios:

SCENARIO	HOMEOWNER STATUS	INCOME	ASSETS
Family home is sold and proceeds held in cash	Non-homeowner	Deemed immediately	Assessable immediately
Family home is retained with partner residing	Homeowner	Not assessable	Not assessable
Family home is retained but vacant	Homeowner for two years and thereafter non-homeowner	Not applicable	Assessable after two years





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