

over
Fifty
group



Using new financial instruments to support aged care capital payments

1996 – National Aged Care Strategy

New sources of income

- Government subsidies and user co-payments

Debate over National Aged Care Strategy

- Accommodation bonds for high care
- Parliamentary Library research
- Revising the Case Study

New financial instruments

- Reverse mortgages
- Revisiting the revised Case Study

1996 – National Aged Care Strategy

Nursing homes and hostels amalgamated into single system of residential aged care

Eight-category Resident Classification Scale to determine level of payment to which the facilities were entitled for each resident (based on the resident's level of dependency)

New income- and asset-tested fees introduced

Pre-existing system of contributions to the capital costs (means testing) expanded to include *all* residential aged care facilities



New sources of income

Funding from Government at all levels

Major income source: Residential care subsidies

Subsidies adjusted in line with consumer prices and wages

Steady, but not growing source of income



User co-payments

Basic Daily Care fees

Income-tested fees

- mechanically linked to Age Pension rules
- indexed to pension changes

Steady, but not growing source of income

User accommodation payments

Accommodation charges

Accommodation bonds

Bonds have become an important source of income

- few rules limiting size of bond
- not mechanically linked to statistical indexes
- grow in line with future residents' assets?

Can represent a growing source of funding

Parliamentary Library research

Mrs Smith, widow

Assets

Home – average value

Market rent – average value

Few other assets

Care needs

Mrs Smith needs residential care

Asked to pay accommodation bond of \$26,000

Given option to pay via periodic payments



The Government response

“I can categorically say to anybody now who goes into a nursing home that under no circumstances will you have to sell your family home.”

The Hon John Howard
5 November 1997

Policy initiatives since 1997

Aged Care Amendment Act 1998

Aged Care Amendment (Omnibus) Act 1999

Family and Community Services and Veterans' Affairs Legislation Amendment (Further 2004 election commitments and other measures) Act 2005

The revised Case Study today

Mrs Smith, widow

Assets

Home worth \$391,600

Market rent \$300 per week

Few other assets, about \$15,000

Care needs

Mrs Smith needs low-level care

Asked to pay accommodation bond of \$125,500

Given option to pay via periodic payments (interest rate of 10.19%)

Mrs Smith's financial position

	Annual \$
Basic daily care fees	10,687
Income-tested fees	-
Retention amount	3,282
Periodic payment of bond	12,788
Out-of-pocket expenses	1,300
Total outgoings	28,058
Age Pension	13,315
Rent	15,600
Total income	28,915
Surplus income	857

Using new financial instruments

What is a reverse mortgage?

- Similar to traditional home mortgage
- No requirement to make repayments
- Loan balance increases over time
- Loan normally repaid when home is sold or passes to the estate

Revisiting the revised Case Study

Instead of selling the home or paying all of the outstanding bond @ 10.19%

Mrs Smith could consider:

- Borrowing \$16,410 via reverse mortgage @ 8.40%

(enough to cover five years of retention amounts)

Mrs Smith's new financial position

	Annual \$
Basic daily care fees	10,687
Income-tested fees	-
Retention amount	-
Periodic payment of bond	11,116
Out-of-pocket expenses	1,300
Total outgoings	23,103
Age Pension	13,315
Rent	15,600
Total income	28,915
Surplus income	5,811

The family home central to paying for care

Most people now have the option of retaining their homes

- Use home as an investment property
- Rent to cover some of the fees
- Reverse mortgage to cover capital payments



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