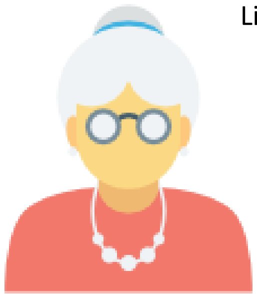
An Example: How RADs can Overstate the cost of moving into Aged Residential Care



Lillian has just turned 85. After having spent the last ten years happily living in a retirement home she is finding it very difficult to remain mobile and a recent ACAT assessment has supported a move into aged care residential accommodation. She would like to move into a single room with ensuite at an aged care home co-located with her current retirement village.

The unit's advertised price in terms of a Refundable Accommodation Deposit (RAD) is currently $380,000 and she has been worried for some time about her ability to live in this accommodation and remain in the same geographical area – given that the capital available to her is considerably less than the advertised RAD. Her current finances are summarised in the following two tables:

Assets	
Retirement Village Deposit	$85,000
Term Deposits	$180,000
Shares	$10,000

Income	
Age Pension	$21,694
Investment Income	$5,407

Based on these figures the cost of Lillian entering aged residential care is as follows:

- **Basic Daily Fee** = $709.24 per fortnight (85% of single age pension: $834.40) = $18,440.24 per annum, **plus**
- **Means Tested Care Fee** = $3.40 per day = $47.60 per fortnight = $1,237.60 per annum, **plus**
- **Accommodation Payment** =
  1) RAD only, or 2) Combined RAD and DAP (Daily Accommodation Payment) DAP or 3) DAP only

Let's look at Lillian's options in terms of the accommodation payment in more detail below:

1. Pay a Full (100%) RAD

Lillian does not have the capital to pay a full RAD of $380,000; also bear in mind that it is also a requirement that after the payment of a RAD an individual <u>must</u> be left with at least $49,000 of assets (called the "minimum permissible asset level"). Even if she had sufficient capital, we are not sure that the full payment of a RAD would necessarily be in Lillian's favour, and would very much encourage prior financial advice.

2. 50% RAD and 50% DAP

Paying a 50% RAD, equating to an amount of $190,000 is achievable for Lillian, leaving her with $85,000 of financial assets, which is above the $49,000 minimum asset ceiling. This would leave her with a DAP of $31.02 per day or $11,322.30 per annum.

However, assuming current term deposit rates of return (2.5% p.a.) on her remaining capital ($85,000) we expect that after about 8 years she would have little capacity to continue paying the DAP, and closer to 5 years if we also provide Lillian with additional access to $500 a month for incidentals (clothing, toiletries, medical costs). We believe the 15% of the age pension left over after payment of the Basic Daily Fee (equivalent currently to $125 per month) is inadequate.

In that case, she would then either have to accept lesser accommodation or the DAP would need to be deducted from her RAD payment ($190,000). The provider must deduct DAPs from a RAD when requested by a resident, but it will mean that DAPs will increase as the remaining RAD gradually reduces.

We expect that this arrangement would result in stress to Lillian as her cash funds diminish and she would be unnecessarily limited in terms of access to income and capital during her time at the aged care home.

3. 100% DAP

A 100% DAP equates to a daily payment of $62.05, or $22,648.25 per annum. Taken together with the means tested care fee (MTCF), the total payment per annum would be $23,885.85; although this would in all likelihood decrease slightly over time given that the MTCF reduces in line with Lillian's assets. This disregards the Basic Daily Fee, which at 85% of the single aged pension, is payable by all residents.

Lillian's total financial assets equate to $275,000, and assuming current term deposit rates of return, should be sufficient to pay the DAP for about 13.5 years, until she is 98 and, if we provide Lillian with additional access to $500 a month for incidentals, it is sufficient for about 10.5 years, or until age 95.5.

Of course, this approach does not provide a guarantee of any funds available for inheritance; but bear in mind that government statistics suggest that individuals only spend, on average, about 3.5 years in age care accommodation and the funds appear even more able to support a good quality of life within the home.

We believe the focus should always be upon ensuring, wherever possible, that this time is spent as comfortably as possible ion aged care, rather than on maximising any inheritance.

In Summary

The aged care accommodation cost advertised within the myagedcare.gov.au that attracts the most attention are the RAD figures, largely because of their daunting size for many retirees - the average RAD now exceeds $300,000 in all state capital cities except Tasmania (Stewart-Brown, March 2018).

The intention of this example is to illustrate that it is not generally necessary to have capital funds equivalent to a RAD to enjoy quality accommodation. Indeed, opting to pay a RAD rather than DAP can be seen as an approach that favours inheritors over the individuals in aged care, unless surplus capital is available.

It should be appreciated, however, that there will be (statistically rare) situations where individuals enjoy unusual longevity in aged care accommodation and in that situation, and in circumstances similar to the example provided, that anything other than the payment of a RAD could see funding run out, and potentially require a move to lesser quality accommodation.

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