

Why aren't ostriches successful?



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Aged Care Steps
August 2020

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- The information contained in this presentation is current as at 1 Aug 2020.
- It is based on our understanding of the present laws and Government announcements and the assumption that they will continue.
- These are general statements and should be relied upon as a guide only, as an individual's circumstances can be quite different. You should seek advice about how the relevant laws impact on your particular circumstances.
- The rates of return and inflation used in the projections are estimates only and are intended to be only a guide to future performance. No guarantee of investment performance is given or implied through the use of these projections and actual returns will differ from those indicated. Past performance should not be taken as a guide to future performance.
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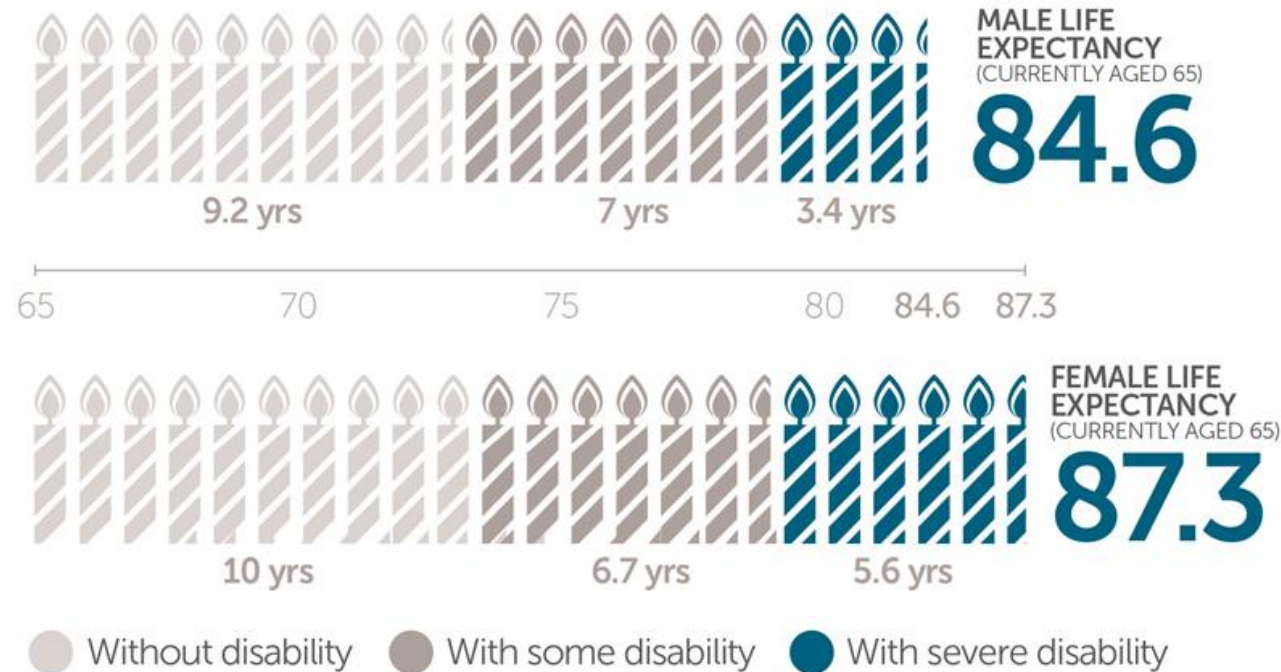
The forgotten risk pillar



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The real risk of frailty

Exposing the client risk



Source: Australian Institute of Health and Welfare – selected health expectations by age 65, by sex, 2015.

On average the “frailty years” represent 17-25% of retirement

Can you leave clients this exposed?

Where aged care meets FASEA

Aged care advice is now mainstream



Best interest

- BID – Standard 2
- Broad effects – Standard 6

Active enquiries

Can't just rely on what client tells – Standard 2

Competent

Knowledge, skills & experience – Standard 10

Efficiency

Cost-effective & efficient advice delivery

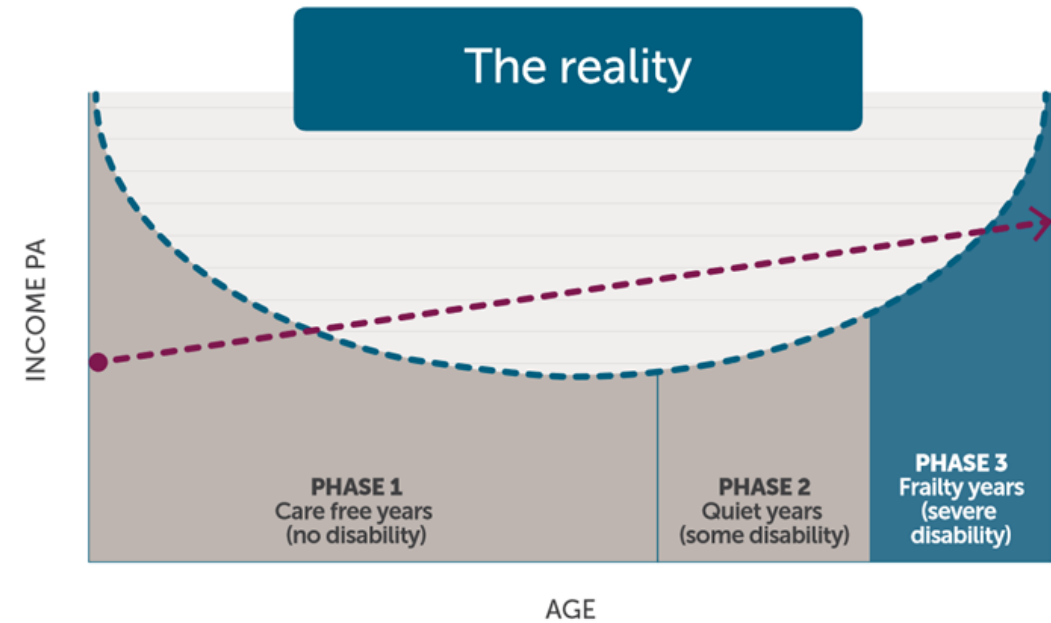
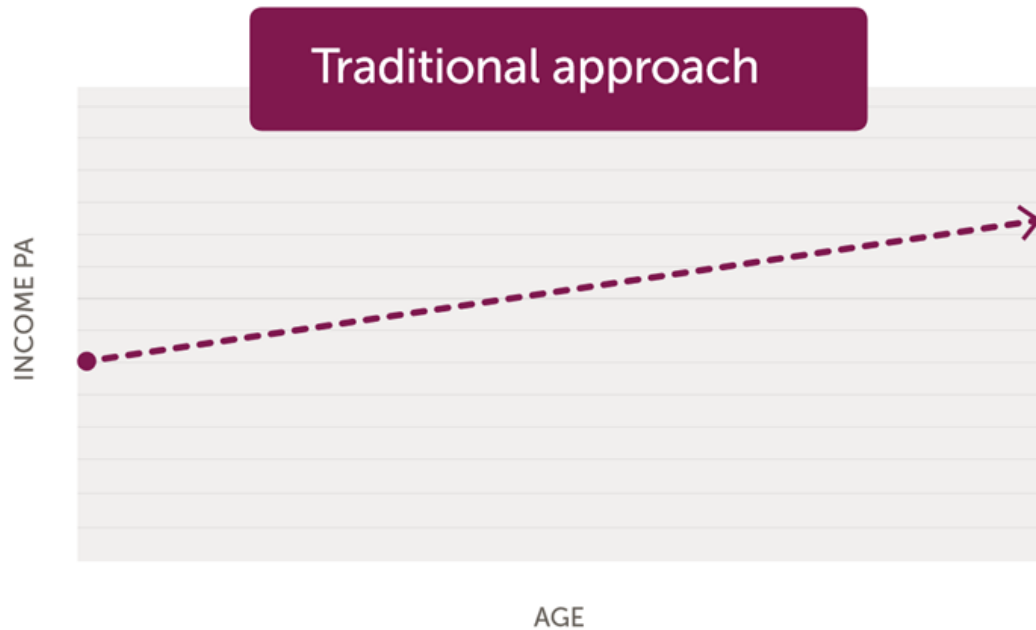
Appropriate advice

- Clear explanation
- Ensure understand
- Customised
- Standard 6

You must take into account the broad effects arising from the client acting on your advice and actively consider the clients broader, long-term interests and likely circumstances (standards 2 & 6).

Why planning is important

Starting the client conversation



The story

Meet Cath* & her family



Photo by [Mosoianu Bogdan](#) on [Unsplash](#)

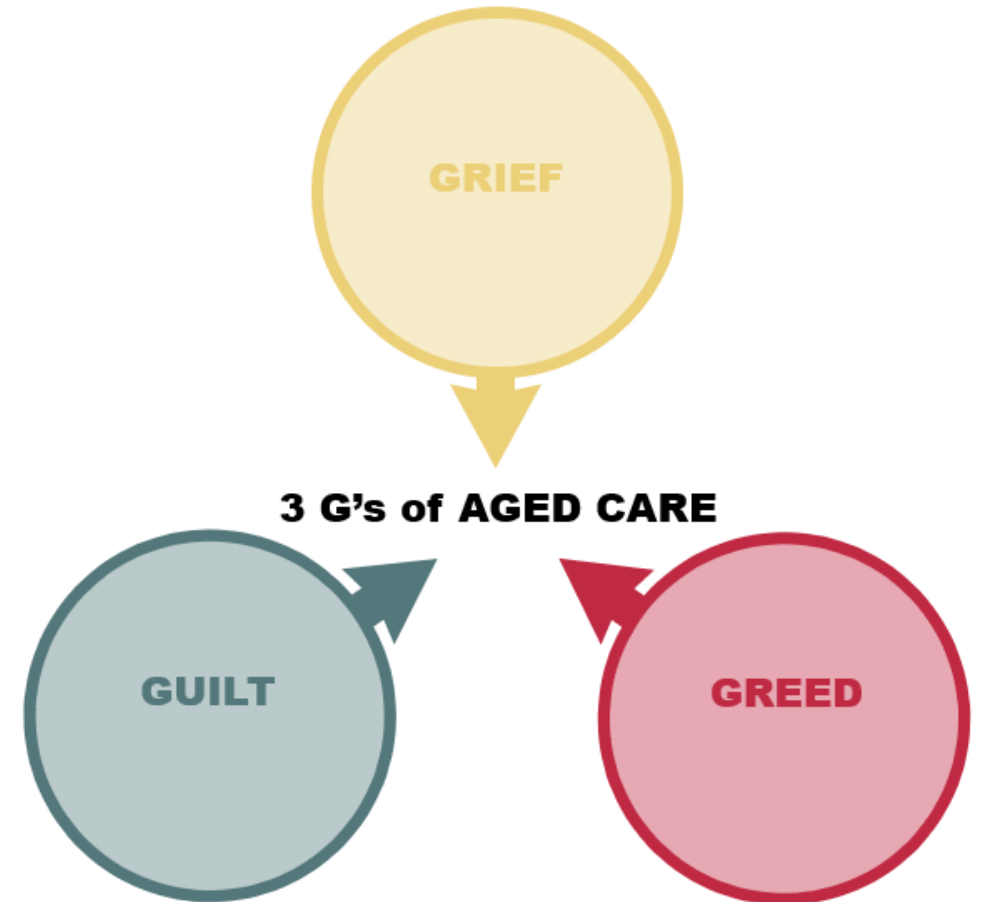
- April's mother Cath is age 86 and lived alone. April lives in Sydney while her mother lives in Wagga – 5 hours away
- Cath is starting to show signs of dementia. She recently had a fall and was very confused
- Cath receives a full age pension. She has a \$430,000 home and \$140,000 in cash and shares.
- Son Jackson is EPoA and lives in Melbourne
- April is planning retirement

*Not a real client

The issues

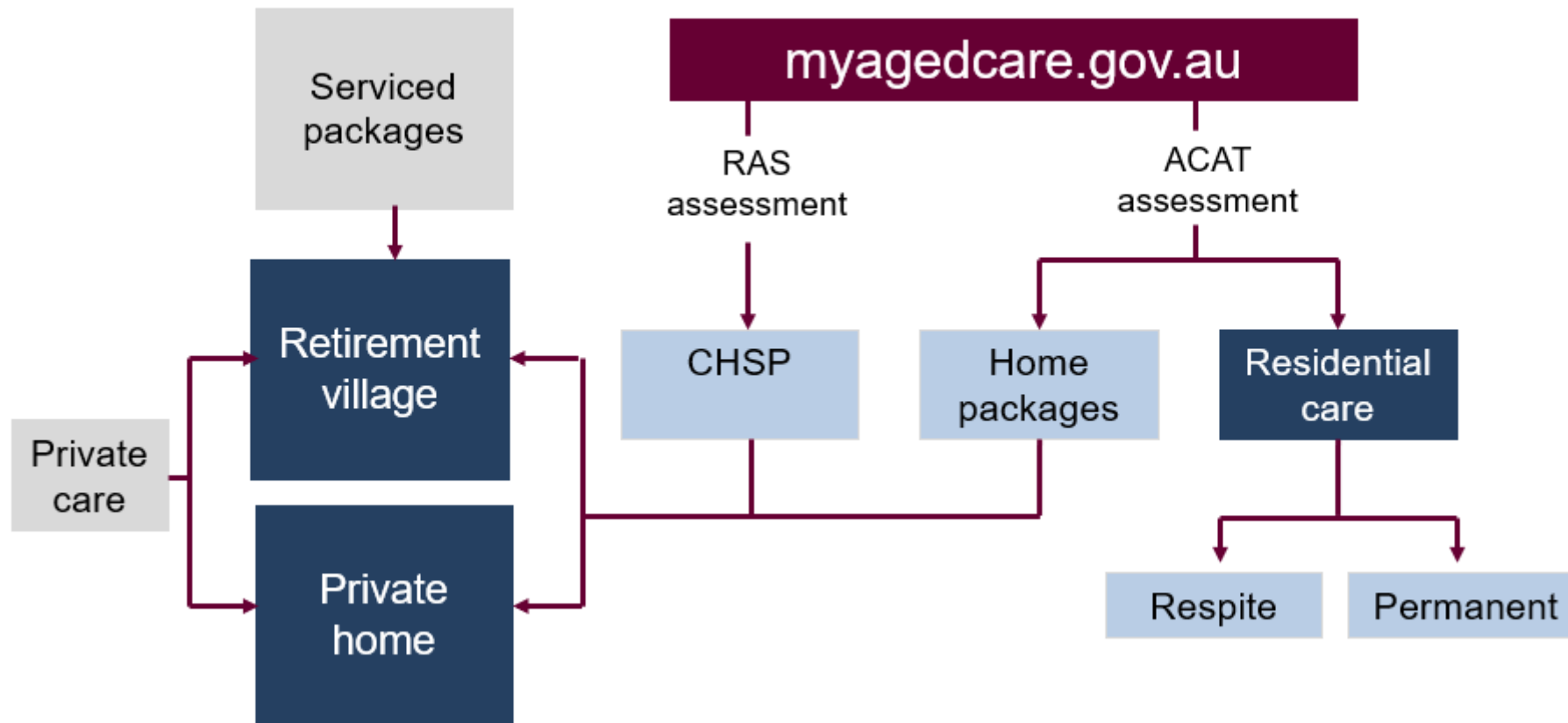
Uncovering the drivers

- A family in crisis with an urgent need – unknown territory
- Complicated by the 3 G's
- Authority to act and make decisions
- The options for care and questions of affordability
- Estate planning outcomes



The aged care landscape

Choice & control comes with pre-planning



Home care – the reality check

How far does it go?



Deemed income	2,090
Income streams under deductible rules (assessable portion only)	0
Lifetime annuities purchased on or after 1 July 2019 (assessable portion only)	0
Age or DVA Service pension / War widow / ISS / DFISA	24,552
DVA disability pension	0
Net rental income from investment properties	0
Other income (including taxable income from trusts / private companies)	0
Total income	26,642
Home care fees payable by client (per annum)	Per annum
Basic fee	3,719
Income-tested care fee	0
Total client fees	3,719

- Level 3 package provides total funding of \$38,000 pa
- Assume administration and case management fees use 30% of package
- Leaves \$26,600 per annum for care
- If service provider charges \$60 per hour plus \$100 per week for travel
- Package will cover 8.5 hours a week of care services
- Is this enough? What other resources of networks? Or better use of package?
- What is impact for April and her retirement?

Polling question

What do you think?

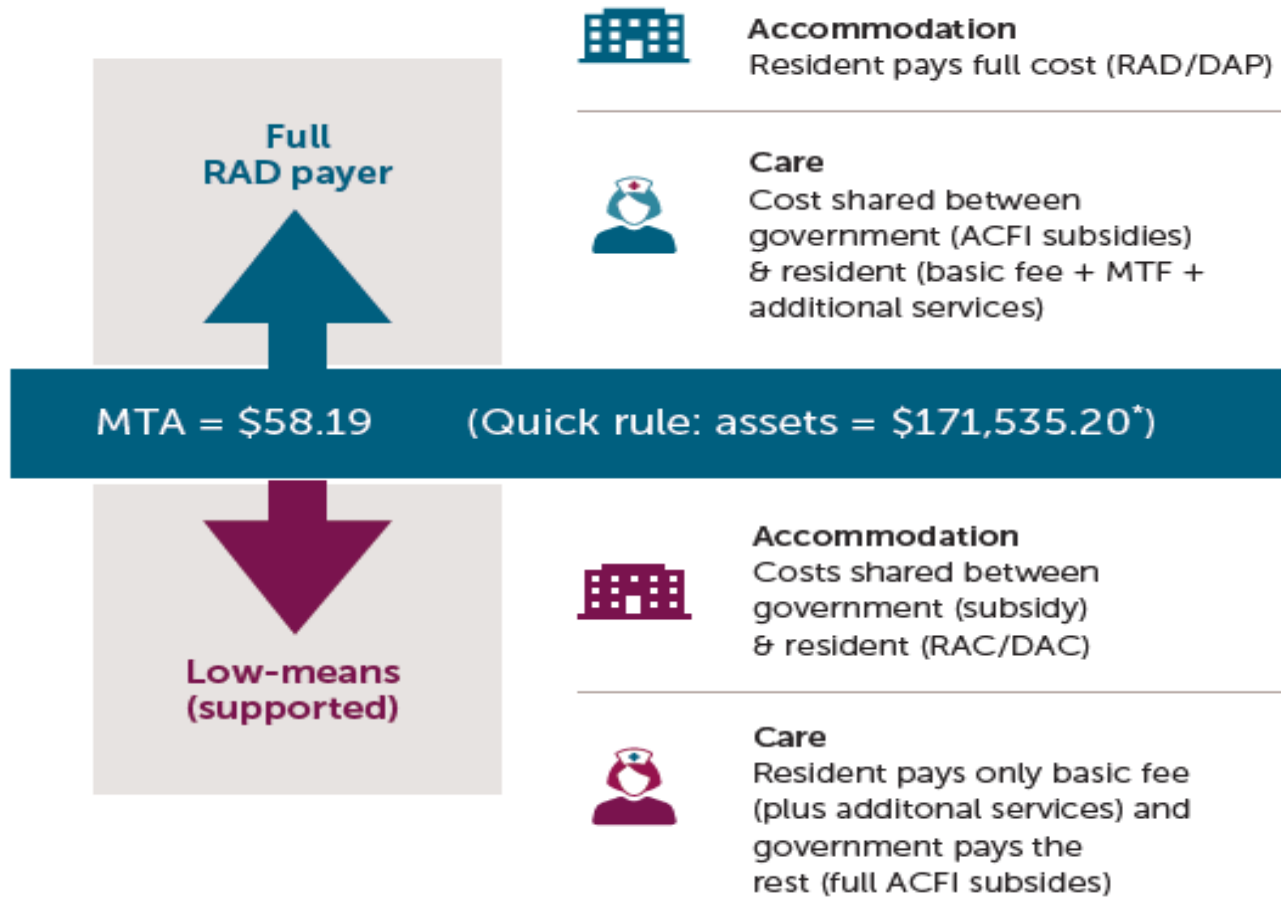


How much do you think a residential care provider could receive each year (in total) to look after Cath?

- a) Up to \$48,000 pa
- b) Up to \$68,000 pa
- c) Up to \$112,420 pa
- d) Way too much

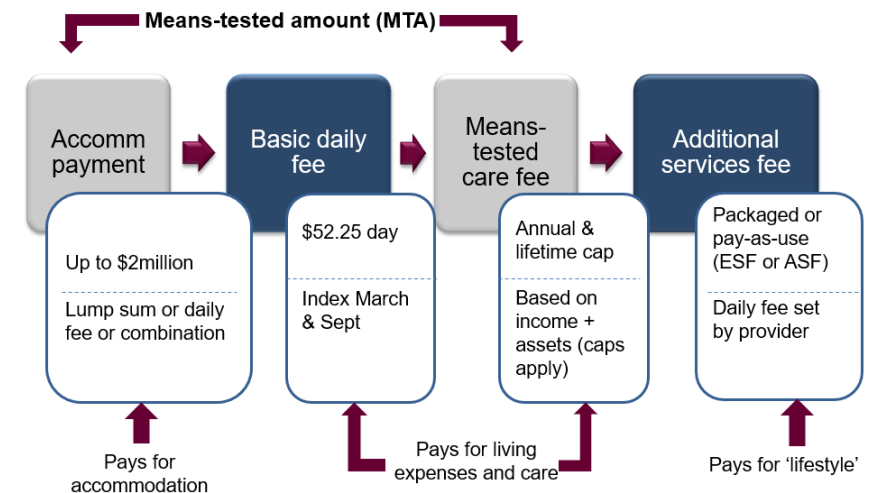
Residential care fees

Putting fees into perspective



Cath pays: up to \$2 million

Total cost: up to \$112k pa
Cath pays: \$19,071 - \$47,158 pa (lifetime caps apply to MTF)

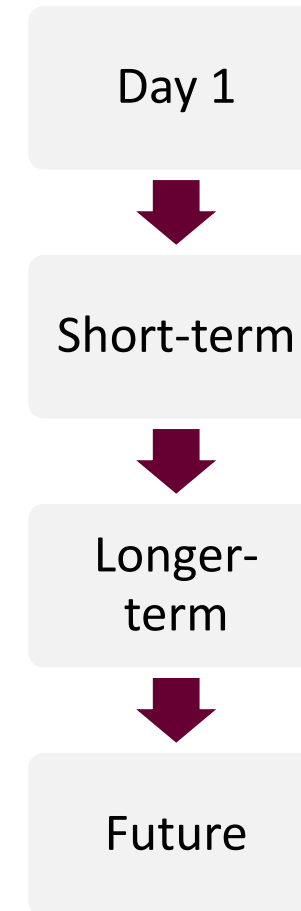


Creating a financial solution for Cath

Not just a point in time



1. Determine the costs of care
2. Manage the cashflow – aim to be self-sufficient to avoid issues for kids and estates
3. Opportunities to minimise fees to improve estate outcomes
4. Considerations for the home and investment of surplus
5. Strategy – actions and decisions



How Cath's home is assessed

Age pension and aged care are not the same



Age Pension – nil or market value

1. No spouse, if moves out of home to access care, remains homeowner with home exempt for 2 years
2. Care can be 'in the community' or residential
3. Need to identify what is the 'home' – only one property

Age Care Fees – nil or capped value

1. No protected person so 'former home' is assessed up to capped value
2. This applies to the 'home' living in immediately before moving into care

The cost for Cath

Residential care costs



- Assume a RAD of \$500,000 @ 4.1%
- Total income of \$26,192 (incl age pension) leaving a cash flow shortfall of \$14,632 pa plus personal expenses

Daily fees	Per day	Per annum
Basic daily fee	52.25	19,071
Means-tested care fee	3.43	1,253
Additional services fee	0.00	0
Accommodation fee (DAP / DAC)	56.16	20,500
Total daily fees	111.85	40,824

Analysis of options

Key numbers to consider



	Pay DAP	Home vacant	Home rented	Home sold
Assessable assets for age pension	145,000	45,000	45,000	67,000
Age pension	24,552	24,552	20,516	24,552
Daily care fees (BDF+MTF)	41,025	36,925	38,949	24,575
Cashflow position	(24,193)	(20,293)	(10,753)	(4,899)
Liquid assets	140,000	40,000	40,000	67,000
Projected assets (Year 1 end)	559,407	555,147	564,687	562,101

Assumes: home growth at 2% pa, home expenses \$3k, selling costs \$8k, gross rent \$15,600, personal expenses \$5k, contents \$5k.

Cashflow strategies

Some common options



- Increase income
 - Improve age pension entitlements
 - Higher investment returns
 - Use all assets productively
- Reduce expenses
 - Reduce means-tested fees
 - Review expenses
 - Minimise tax
- Liquidate assets
 - Sell assets
 - Home equity release (PLS, reverse mortgage, sale scheme)
 - Deduct fees from RAD
- Hardship & external sources
 - Apply for hardship exemptions
 - Kids pay expenses

Who has authority?

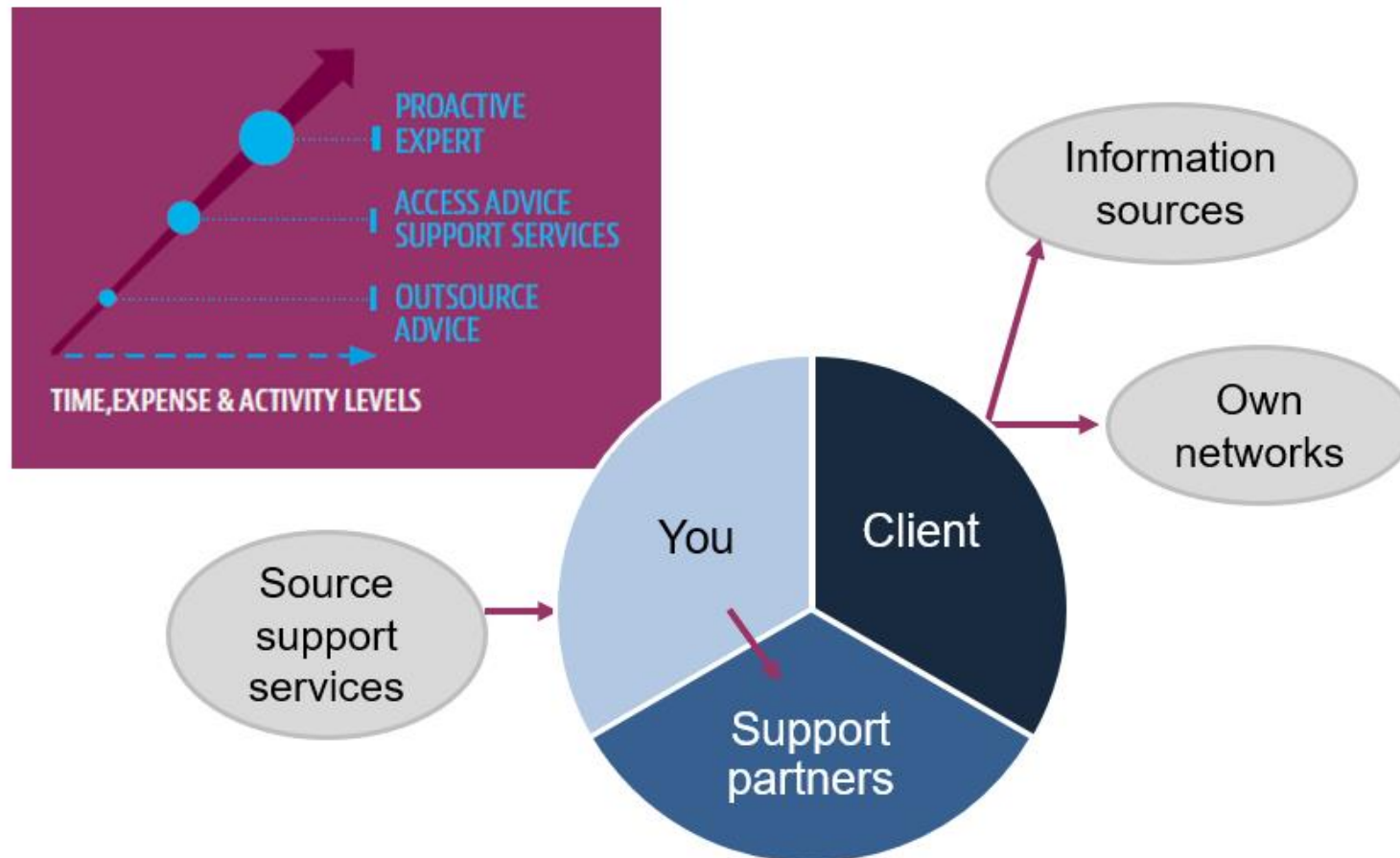
The real problems begin .. but can you head them off?



- Situation complicated as April is doing the legwork but brother (Jackson) signs off
- What if they have conflicting views?
- Could Cath make the changes?
- Need to consider what actions are authorised – state rules, specifics in EPoA
- Attorney has a fiduciary duty – every action must be in donor’s interest
- Take particular care with lending/Borrowing arrangements or gifting
- Providers increasingly asking for kids to provide a personal guarantee – what if Jackson won’t sign?
- What if Margot refuses to move into care?
- What if Jackson thinks Mum can stay in the home?
- What if someone else raises concerns about the arrangements?

Are you an ostrich?

Getting your head out of the sand



“Change will not come if we wait for some other person or some other time. We are the ones we’ve been waiting for. We are the change that we seek.” —Barack Obama

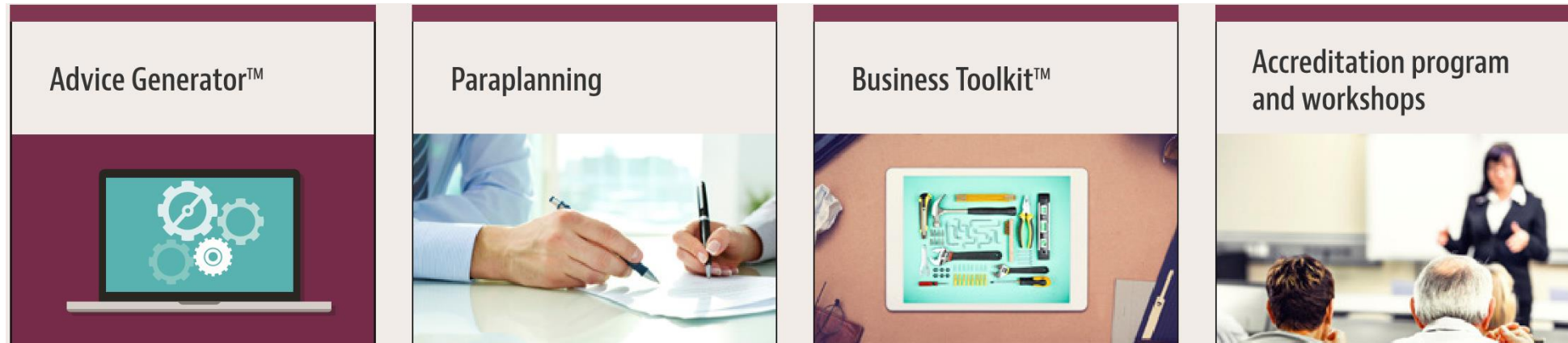


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Here to help



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