Three key retirement village considerations

Presented by Orbit Wealth Advice

There are many reasons why people move into a retirement village (village). Reasons range from the benefit of private accommodation with easy access to facilities, to social activities and freedom to choose a lifestyle that meets their needs.

Whilst predominantly a lifestyle decision, the move into a village can also generate several significant financial outcomes. We explore three of the key financial considerations below.

1. Paying the entry cost

When entering a village, clients generally pay an entry fee also known as an Entry Contribution (EC). The amount payable is based on several factors including the facilities available, the age, location and condition of the village. Depending on the type of contract the EC may be a rental agreement or may be based on an agreed price comprised of a loan, a payment or a combination thereof.

For those entering a village it is important to consider the impact of how the entry cost interacts with any social security benefit entitlements. For instance where the EC is greater than the Extra Allowable Amount (EAA) at the time of entry the amount paid is an exempt asset and the pensioner will be considered a homeowner.

For example, if Bob and Marley were to sell their former home and the net proceeds of $750,000 was used to pay the $398,000 entry cost, they would continue to be treated as a couple homeowner but have an additional $352,000 in assessable assets under the Assets Test for the Age Pension.

In some cases, a client may pay their EC in the form of more than one contract. For example, Adam obtains the right to reside in a village under two contracts for the purchase of a unit and a garage. The total amount paid under the contracts is Adam's EC — the signing of more than one contract does not alter the assessment.

Alternatively, where a client had other funds to pay the EC and elected to retain their former home, its market value will generally count as an assessable asset from the date they move into the village. If the principal home is rented in any situation, income generated will count towards the Income Test.

In certain circumstances, where the move relates to the need for a substantial level of care, then the former home may be exempt under the Assets Test for a period of up to two years. Where the home is rented, any rent automatically counts.

Providing a substantial level of care involves one or more of the following:

- a partner in receipt of Carer's Allowance, Carer's Payment or Department of Veterans' Affairs Carer Service Pension in respect of the caree;
- the caree is paid the Disability Support Pension and because of their medical condition they require assistance;
- the caree is over Age Pension age and regarded as frail;
- the caree can provide medical evidence that they left their home because of illness;
- the caree can provide medical evidence that they required assistance after being discharged from hospital; or
- the caree has been assessed by an Aged Care Assessment Team and is waiting to be admitted to residential care or has been accepted for approved respite care.

2. Ongoing cashflow

Another consideration for village clients is the ability to meet their regular cash flow commitments. In general, monthly fees designed to cover the day-to-day management and maintenance of running a village often apply. Depending on the breadth and quality of facilities, ongoing costs will vary. With a nationwide average monthly service fee for single residents of $4092 per month, a regular review of ongoing cash flow can help ensure clients continue to achieve their long-term objectives.

For many clients, social security entitlements such as Age Pension or Rent Assistance may form a key component of their cash flow.

For situations specific to villages, if a client is assessed as a non-homeowner, the fees and charges are assessed as rent and Rent Assistance may be payable if the client meets all the other eligibility requirements.

The amount of Rent Assistance that can be paid to eligible non-homeowners varies, depending on how much rent is paid. The minimum amount of rent for individuals without dependent children is $118.60 per fortnight for singles and $192.20 per fortnight for a couple

combined. For every $1 of rent paid above the minimum amount, $0.75 of Rent Assistance is payable up to a maximum of $133 per fortnight for singles and $125.40 for couples combined.

If the client is assessed as a homeowner, they are not generally eligible for Rent Assistance. Although the EC counts as an asset for those who pay $203,000 or less, it is not deemed for the Income Test.

For example, Mary has paid an EC of $180,000. She has $420,000 in savings and $5,000 home contents. As a non-homeowner, her assessable assets under the Assets Test is $605,000. For the Income Test, deemed income on $420,000 of financial assets would be assessed and she may be entitled to Rent Assistance.

For couples living together in a village, they will be paid an Age Pension based on the partnered rates and thresholds. However, if they live in a village and are affected by illness, they may be paid the higher 'illness-separated rate'.

Another consideration relates to their ability to age in place, and to obtain access to the level of care they require should the need arise. We explore this in the following section.

3. Funding aged care

As health needs change over time, clients may need to access aged care services. Whether a client is accessing home care services or moving into a residential aged care facility, this change in circumstances may impact their cash flow.

Clients in receipt of a home care package can expect to fund a basic daily fee of $3,712 per annum and/or an income-tested fee, depending on their assessable income. This cost is in addition to their ongoing monthly fees to the village and lifestyle expenses.

Importantly, where a client's home care needs exceed the approved home care package funding level, additional drawdown of available assets may be required.

In cases where a person is moving from a village to a residential aged care facility, they are generally required to sell their unit (or share in the village) as soon as possible. As part of a resident's contract, an exit fee or deferred management, may be payable upon exit. These fees can differ between providers.

Two examples are illustrated below…Example of village exit fee costs

	Mina	**Bradley**
Entry contribution	$250,000	$400,000
Length of stay	12 years	10 years
Percentage per year (exit fee)	4%	6%
Capped after	10 years	5 years
Sale price	$450,000	$650,000
Exit fee payable on sale price	$100,000	$120,000
Capital gain share	$70,000 (35%)	$125,000 (50%)
Return to resident	$280,000	$405,000

The impact of moving into residential aged care for Mina and Bradley will depend on several factors. These factors include the advertised accommodation payment amount, existing assets and ongoing health expenses. While the average advertised accommodation payment amount in major cities is currently $423,000, clients may face higher prices depending on their preferred facility.

Whilst predominantly a lifestyle decision, the move into a village can also generate several significant financial outcomes. At Orbit Wealth Advice, we can help clients achieve better outcomes in entry costs, ongoing cash flow and funding aged care.

Feel free to call David Hasib on 1800 93 10 20 for a complementary discussion or email any questions to david@TheOrbitGroup.com.au

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