

**Moving into your later years?**

**Failing health?**

**Thinking of going into aged care?**



Editor: John Walker, RetireInvest Circular Quay

**Read on to discover three critical steps to help make this a much easier transition and help minimise any financial difficulties.**

Dear Friend,

Growing older is inevitable. And as you grow older, depending on your mobility and health, you may need to make some difficult decisions regarding your lifestyle, living arrangements and care.

It's not easy to finally accept that you may need additional care, leave the family home and move in with one of your children, or to a retirement village, hostel or nursing home.

And if this isn't challenging enough, you may also be faced with navigating a complex web of financial issues with respect to your assets and income, aged care fees, social security benefits and eventually your estate.



So the last thing you want or need is the additional stress worrying about costs of care, whether you'll have enough money to live and leave a legacy to your loved ones.

Effective planning is **critical** if you want to leave a legacy to your loved ones.

And unless you're an expert in law, financial planning, accounting and medicine, you need to have a competent team around you. A team who has your best interests at heart.

In this white paper I'm highlighting some of the major issues you might face and how you can successfully navigate your way around them. I've also included some case studies that highlight what could go wrong should you not take appropriate advice.

So let's start with three major bases that must be covered if you're going to have a relatively stress free, financially stable journey into your later years.

- 1) Estate planning and enduring power of guardianship.
- 2) Financial planning to help you live a comfortable life, as well as the ability to leave a legacy (should you desire).
- 3) Selection of a retirement facility - navigating the complex maze of fees, social security benefits and facility contracts.

## 1) Estate Planning

It's a simple question. Do you want your assets to go to people you nominate or would you prefer the State to decide on your behalf?

Many people die "intestate" or without a Will. And that's fine if you don't have any assets you want to distribute to family or elsewhere.



However if you do have assets, without a recognised Will you may run the risk of your estate being divvied up in ways you might not expect or want.

Every State and Territory in Australia has its own rules governing the distribution of assets. Suffice to say your money could end up being distributed to unintended beneficiaries.

Without a Will, your family could wait months, and sometimes even years, before the estate is wound up in the courts, leaving them waiting for

money; money that they may desperately need.

So to make it stress free and easier on your family and any beneficiaries I recommend creating a comprehensive estate plan prepared by a professional.

A comprehensive estate plan should:

- Allow your beneficiaries to legally reduce or altogether eliminate tax on income generated from their inheritance every year after receiving their inheritance.
- Protect your beneficiaries' inheritance in the event of divorce or bankruptcy (on their part).
- Minimise or avoid death benefits tax (which can be as high as 31.5%) when distributing your superannuation benefits.
- Protect the capital - sometimes your beneficiaries may need to be protected from themselves. They might have mental health issues, be involved with illegal drug taking or even have a spouse or children who you do not wish to waste their inheritance.
- Achieve potential capital gains tax savings on assets distributed through your estate.

But a Will is not enough...

## Power of attorney and enduring guardianship

You should also decide what will happen in the event that you can no longer administer your affairs while still alive. For example, you might be in an accident, have a stroke or dementia.

It's wise to give a Power of Attorney and Enduring Guardianship to someone you can trust. Power that can only be invoked under certain circumstances.

If you don't appoint someone, you risk the State or Territory Public Trustee taking over (possibly at a considerable cost paid from your own money). And while they may be tasked with looking after you, you're one of thousands of cases they deal with simultaneously, so you may not get the level of care you might expect from a trusted family member or friend.

And if you're thinking, "I won't do this now – I'm still young...", that could be a big mistake too. It's better to set these structures up well before you need them.

Why? As you grow older, you run the risk of starting dementia or simply not wanting to give up control, even though your decision making ability is being impeded. And then it's possibly too late!



## 2) Financial Planning

If you're reading this, you'll probably fall somewhere between two extremes.



- a) You have very few assets and essentially depend on the pension.
- b) You have so much money you don't know what to do with it and have absolutely no financial concerns whatsoever.

In the former, the State may look after you. Your options could be extremely limited when it comes to a retirement village (over 55's), but should you need to move into an aged care hostel or nursing home, your fees may be paid out of your pension.

And if you've got so much money, and don't have assets and legacy tied up in family trusts, good luck to you.

However, most people fall somewhere between these extremes and that's where effective financial planning comes into play.

Remember, your goal is to live a comfortable lifestyle and be able to leave a legacy if you wish.

So it makes sense to reduce your aged care fees and take advantage of whatever help the State offers. After all, the more money you get from the state, the less of your own you have to spend, enabling you to have a more comfortable life and leave a legacy.

Once again, forward planning is essential. And it should start well before you think you'll need to move into a care facility.

So what could you be doing?

- Your aged care fees may be determined by your income.
- If you are or may be entitled to Centrelink benefits, you might start by moving your assets into "Centrelink friendly" structures that help reduce your assessable income and potentially your fees. Failure to do so may have you paying more fees than necessary which is money that could be going towards your estate.
- You may move loss-making assets to other family members in a planned and timely way, so you can off-set capital gains against them.
- Think about what you'll be doing with the family home. Keeping it empty, renting it out or selling it, all have major implications with respect to asset and income tests and tax.
- And if you can't reduce your fees, talk to us about how Life Insurance could benefit your estate by paying out the amount you paid in aged care fees.



Naturally, your individual circumstances are unique, so take this as a general guide and come in and see us for specific advice.

### 3) Selection of a retirement facility



Let's start by defining exactly what the different aged care options are. Some of your choices could be limited by the state of your health. We'll then move onto various financial implications and traps you need to be aware of.

- **Granny flats**

A granny flat arrangement simply means you're living with one of your children or another carer, and contributing financially towards your care.

*(source: OnePath Technical)*

- **Retirement villages**

Retirement villages are essentially serviced or self-care units, villas or houses for over 55's. Facilities may offer varying degrees of support such as common dining rooms and recreational facilities.

Most require a lump sum entry fee which can range from a few thousand to hundreds of thousands of dollars and you'll also be charged ongoing maintenance fees.

As each facility has its own entry/ exit fees and rules (that could potentially tie up your money for years should you leave or die), it's very important to get advice before signing any agreement or contract.

*(source: OnePath Technical)*

- **Hostels and nursing homes**

Hostels and nursing homes provide higher levels of daily care. Hostels provide lower levels of care - with non-nursing staff on call. Hostels also provide assistance with meals, social activities etc.

Nursing homes provide high levels of assisted care and constant medical supervision.

*(source: OnePath Technical)*

Hostels and nursing homes are governed by Federal legislation with high subsidies, therefore getting into one is not simple.

To enter you must be assessed by the Aged Care Assessment Team who will determine what level of care you require.

Each accommodation choice has its own set of financial considerations. As you're moving out of the family home, you need to decide what you're going to do with it. Are you going to keep it, and if so, will it stay empty, or will you rent it out?

And if you need to sell it to pay for your new accommodation, what are the implications regarding Centrelink's Asset and Income tests, which could directly affect your accommodation bond and daily care fees, pension and other benefits?

While you may not be eligible for an Age Pension, there are numerous other benefits (health, travel etc) that could be available; all of which helps make your money last much longer.

So no matter what accommodation option you choose, you owe it to yourself to make sure your assets are structured correctly so you get the maximum benefit from Social Security. This applies even if you're a self-funded retiree.

I've put together a series of examples and real life case studies from my files (names are changed for privacy) which will help to illustrate the points I've made above.

But first, let's look at how an aged care facility's fees and charges are determined.

- **Aged care fee determination**

Retirement villages charge an incoming fee which varies between villages. Some give you direct ownership in the unit (where you pay the purchase price) whereas others may only give you a right to occupy (where you enter into a loan/licence or leasehold arrangement). The fee is determined by the facility and contracts vary widely, so it's prudent to get expert advice before signing any documents and handing over your hard earned money.

- **Hostels and nursing homes**

Hostels and nursing homes are covered by Federal legislation and other subsidies.

**Fees you could be up for include:**

- An accommodation bond which is paid on entry or a monthly accommodation charge.
- A daily care fee and possibly an income tested fee.

Our role as your advisor is to help you understand how your assets and income will affect these fees and consider changes which may improve the benefits you receive.

Please understand this is a complex topic and beyond the scope of this article, so I encourage you to contact me for a confidential discussion as to your personal circumstances.

**Now to the case studies...**

## Case Study 1: Moving into a granny flat

You decide to move in with your son, rather than live in a retirement village or hostel.

So you sell your house and realise a profit of \$200,000. Wanting to help your son, you give him \$150,000 to put an additional room on the house and help pay for your expenses.

Centrelink determines you're cohabitating under the "granny flat" arrangement and deems the money you gave your son is contributing to your care. Therefore it's not income or asset tested and you won't lose any benefits you already have.

There is a downside though.

If you leave the granny flat within 5 years, Centrelink will review the arrangement. If Centrelink decide that your reason for leaving could have been anticipated at the time you commenced the granny flat arrangement, they may apply deprivation rules.

And a portion of the proceeds of sale from your son's house could be subject to capital gains tax when he sells it, due the granny flat arrangement.



## Case Study 2: Keeping or selling the family home

There are a number of complex rules with regard to how the family home is treated with respect to your assets and income.

And these rules have a major impact on how your aged care fees and other benefits are determined. Get it wrong and you could waste thousands of dollars a year.



### Here are some examples:

Sally sold her home without first getting financial advice.

As a result, Centrelink deemed her to have far greater assets which meant she completely lost her Age Pension. To add insult to injury, her aged care daily care fees went up leaving her substantially out of pocket.

John wants his children to inherit the family home. For sentimental reasons he decides not to rent it out and just kept it vacant while he's in aged care.

Centrelink's rules state that John can still be considered a home owner for two years from the date he moves and his home will not be included in any asset or income tests during this time.

After that time it will be considered an asset and deemed to be earning an income. And that may result in both an immediate loss of pension benefits AND an increase in the daily care fees.

However, if John had rented out his property and arranged to pay his accommodation bond in instalments, his home and the rental income would have been exempt from Centrelink income and assets tests.

So the moral of the story is that it can be better for some to rent out the home after moving into aged care.

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Beth sold her home for \$800,000 and downsized to a \$400,000 unit. She then gave her daughter \$400,000 as a gift.

She's on a pension, so informs Centrelink of the change of address, but neglects to tell them the new value of the premises.

A couple of years later Beth is moving into an aged care facility and Centrelink enquire if she's given any money away in the past 5 years. Centrelink exclude \$10,000 of the gifted money from the income and assets test, however they assess the other \$390,000 as a 'deprived asset'.

As a result, Centrelink may claw back previous pension payments made to Beth and she may face a large increase in daily care fees.

### Case Study 3: Retirement villages

Harriet bought into a retirement village. The initial payment was \$600,000 and she has monthly upkeep fees of \$575.

Harriet's health deteriorated and she now needs to move into a hostel.

The hostel want an accommodation bond of \$400,000 which Harriet would need to fund from the sale of her retirement unit. Although the hostel cannot require Harriet pay the lump sum bond within the first six months of entry, they will charge her interest on the outstanding amount until she has the funds to pay the bond.

So it pays to get legal advice and review the fine print of your contract. In some cases.

Now that's just a small sample of what you need to consider, to so you are on the right track to avoid losing money and benefits.

As you can see, there's a lot to consider and that's why seeking financial advice is essential. The average person could not keep up with legislation changes and investment opportunities alone! As with most complicated things in life like medicine or law, it's okay to say you need HELP!

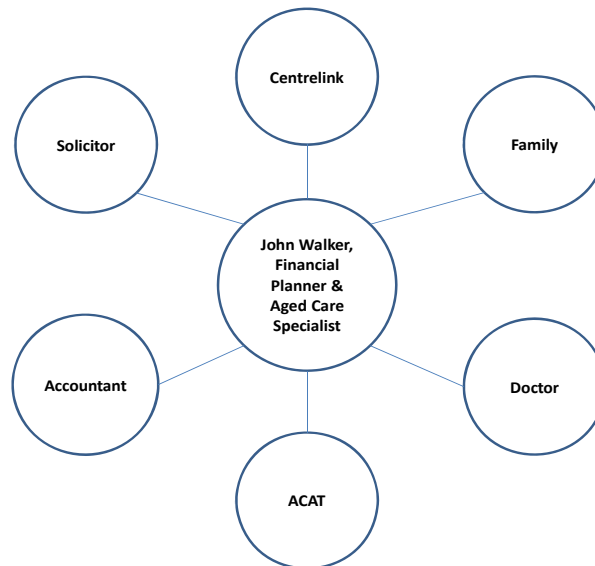
Making financial decisions that affect your advancing age without good advice can be a big mistake!

Therefore it's critical that you plan well ahead and have a competent team around you; a team who has your best interest at heart.



## So how can I help you?

As your Financial Advisor specialising in Aged Care, I can liaise with the team that looks after you.



## More specifically, as a Financial Planner, I can help you plan ahead by...

- Getting your investments and assets into a “Centrelink friendly” state.
- Facilitating family discussions where options are discussed –a granny flat might be a more appropriate option than a nursing home etc.
- Working out the options for the family home.
- Helping you understand funding for aged care – potentially including the pros and cons of reverse mortgages
- Balancing your financial requirements up front with those that are ongoing
- Explaining how you can “gift” money to reduce your assets without falling foul of Centrelink rules.
- Assisting you understand how Estate Plan and Enduring Power of Attorney arrangements operate.
- Timing your entry into the care facility - If you are part of a couple should you go separately or together?
- Keeping Centrelink informed, even if you are not a Centrelink beneficiary.
- Negotiating fees on your behalf with the aged care facility.
- Because we know how the system works we can help you structure your assets and income while considering the effects on your Centrelink benefits and aged care fees.

Now even if you are sure you're okay, frankly it doesn't hurt to have a second opinion from an expert to look over your financial affairs.

We're likely to spot things that have fallen through the cracks. You can sleep better knowing that you and your family are protected financially.

### **So what's your next step?**



I invite you to call my office and arrange a no obligation first meeting where we'll sit down and discuss your situation.

Should both of us feel there's merit in moving forward, we can discuss options and take appropriate action.

**Don't leave it until it's too late - call me to make an appointment on (02) 9241 3733.**

Warm regards,

John Walker \*  
RetireInvest Circular Quay  
Level 6, 2 Bulletin Place  
Circular Quay NSW 2000

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