



Client Fact Sheet

July 2009



Aged care – sell or keep your home?

If you move to a hostel or nursing home the decision to sell or keep your home can affect how much age pension you receive as well as the daily care fees you will pay. Overall this impacts your total net income.

Age pension

The age pension you receive is determined by applying both an income test and an assets test. The lower amount calculated under both tests is the pension you will receive.

Assets test

If you keep your home it is exempt from the assets test for at least two years. The exemption period can be longer in some cases.

Your home will remain exempt indefinitely if:

- your spouse lives in the home, or
- you move to a hostel (or extra care nursing home), your home is rented and you pay some or all of your accommodation bond by periodic payment, or
- you move to a nursing home, your home is rented and you pay an accommodation charge.

If you sell your home, the money you receive will be assessed depending on how it is used. However, you will be assessed against the higher non-homeowner limit.

Income test

If you are paying some of an accommodation bond as periodic payments or are paying an accommodation charge, any income you receive from renting your home will be exempt for the income test.

If the home is sold, the income test assessment depends on how you use this money. There are three broad categories that you could choose to invest in and each type has a different impact on the income test:

- financial investments (bank account, shares, unit trusts etc) – deemed to receive a specified rate of return
- investment property – taxable income is assessed
- income streams – the income received less a portion that is considered to be a return of your capital is assessed.

Tip:

Keeping your home may help to reduce assessable assets and income. This may boost your total income and keep costs lower compared to selling the home.

However, financial advice is needed to consider your total situation and determine the right outcome for you. For example, you also need to consider:

- expenses to keep your home, and
- the expected net returns for each option.

Daily care fees

You need to pay daily care fees while you live in a hostel or nursing home. The amount you pay depends on your circumstances, and in particular, your assessable income.

All residents pay a basic daily care fee. Residents may or may not pay an income-tested daily care fee depending on how much income they receive. Income includes Centrelink/DVA assessed income plus any Centrelink/DVA pension received.

You will pay an income-tested fee if your assessable income is more than \$717.80 per fortnight for a single person (or \$1,399.60 per fortnight combined for a couple). These rates are current to 19 September 2009.

Tip:

If you keep your home, rent it out and pay some or all of your accommodation bond by periodic payment or pay an accommodation charge, the rent you receive is not used to calculate any income-tested daily care fee.

Assessment of the home

The table below summarises the options for your home and how they impact your age pension and aged care fees.

	Aged care Impact on entry cost	Centrelink Centrelink status	Assets test impact	Income test impact
Nursing Home				
Sell home	Proceeds assessed depending on how used/ invested	Non-homeowner	Proceeds assessed depending on how used/ invested	Proceeds assessed depending on how used/ invested
Retain home – spouse lives there	Home not assessed	Homeowner indefinitely	Home exempt indefinitely	N/A
Retain home – eligible person lives there ^	Home not assessed	Homeowner for 2 years	Home exempt for 2 years	N/A
Retain home – vacant	Home assessed	Homeowner for 2 years	Home exempt for 2 years	N/A
Retain home – rented	Home assessed	Homeowner*	Home exempt*	Rental income exempt*
Hostel				
Sell home	Proceeds assessed depending on how used/ invested	Non-homeowner	Proceeds assessed depending on how used/ invested	Proceeds assessed depending on how used/ invested
Retain home – spouse lives there	Home not assessed	Homeowner indefinitely	Home exempt indefinitely	N/A
Retain home – eligible person lives there ^	Home not assessed	Homeowner for 2 years	Home exempt for 2 years	N/A
Retain home – vacant	Home assessed	Homeowner for 2 years	Home exempt for 2 years	N/A
Retain home – rented and pay lump sum bond	Home assessed	Homeowner for 2 years	Home exempt for 2 years	Rental income is assessable
Retain home – rented and pay bond as periodic payments	Home assessed	Homeowner*	Home exempt*	Rental income exempt*

* If the resident entered a nursing home before 1 July 2004, the exemptions only apply for the first 5 years (or 2 years if entered hostel before this date). At the end of this time, the person becomes a non-homeowner, the home is an assessable asset and rental income is assessable.

^ Eligible person is defined as a dependant child (includes any child under age 16 or full-time student under age 25), a carer who is eligible for income support and has lived there for at least 2 years, or a close relative who is eligible for income support and has lived there for at least 5 years.

Case study

Nancy is a 72 year old widow who is moving into a hostel. She has been asked to pay an accommodation bond of \$135,000.

Her assets include:

Asset	Value
Home	\$400,000
Bank account (interest rate 6.0% pa)	\$120,000
TOTAL	\$520,000

Nancy does not have enough money to pay the bond without selling her home so she is considering her available options and what to do with her home.

- Option 1 – Nancy pays \$120,000 of the accommodation bond as a lump sum and the remaining \$15,000 as periodic payments. The interest rate payable on the periodic payments is 7.13% (rate current to 30 September 2009). This leaves no money in her bank account and she rents her home for \$20,800 per annum.
- Option 2 – Nancy sells her home to pay the full \$135,000 bond as a lump sum and invests the rest of the money in her bank account.

The table below shows the two options and the impact each has on Nancy's fees and age pension.

Option	Periodic payment (pf)	Age pension (pf)	Daily care fees (pf)	Investment income (pf)	Net income (pf)*
Keep home	\$41.13	\$575.80	\$467.74	\$800.00	\$866.93
Sell home	nil	\$458.80	\$538.19	\$888.46	\$809.07

*Before tax

Assumptions:

- Home is rented for \$20,800 per annum. Expenses are not included.
- Capital growth on home is not included.
- Bank account earns 6.0% pa interest.
- Assessable income on bank account is calculated using deeming rates current as at 1 July 2009 – first \$42,000 at 2% and the balance at 3%.
- Age pension rates and thresholds are current to 19 September 2009. Pharmaceutical Allowance is included.

In this example, the option for Nancy to keep the home, rent it out and pay half the bond as a periodic payment results in a higher net income than the option to sell the home. However, expenses to keep the home and the potential capital growth should also be taken into consideration.

The above comparisons are examples only and the results may vary for individual circumstances. You should seek financial advice to discuss your personal situation before implementing any strategy.

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