

TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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103 | Financing Aged Living

Financing aged living is not an easy undertaking. It is confusing and can be expensive.

Financing Aged Living

In the last episode John Saunders of The Pittwater Partnership walked you through the care options you have.

This episode is about how to actually pay for these options. So John Saunders will walk you through the income and asset tests you face, charges you incur and government subsidies you receive. Here is what we learned.

Retirement Village

Retirement villages usually receive no government funding. But never say never. There might be some funding – for example when a retirement village offers some form of home care. But in a pure sense – just as a lifestyle option – there is no funding. And so there is no income or asset test to pass.

And that is good. But it also means that you are on your own. Yes, there is some oversight and legislation but it is a lot less. And so you need to be on your guard.

Check out what you need to pay at the start to join and as important what you will get back when you leave. Who will pocket the capital gain of your unit over the time you hold it? Or bear a capital loss? And what are the recurring fees for maintenance and the lot? Engage a well-versed solicitor to help you.

Home Care

Home care means you receive support in your home. The government wants to encourage home care so there is no asset test, only an income test. And that income test is quite generous in comparison to other programs. The problem is that it is very hard to get a place. There are long waiting lists.

Residential Aged Care

And then there is residential aged care. This one is heavily subsidised and hence regulated. And therefore very confusing.

To understand how residential aged care is financed, think about what you receive. You receive medical care, accommodation, nursing care and extra services.

Medical Care

Paying for your medical care is easy. Medicare keeps covering this. It doesn't matter whether you are at home or in a residential aged care facility.

Accommodation

The payment for accommodation wraps around four acronyms. RAD, DAP, RAC and DAC. If you have mastered these, you got accommodation sorted.

RAD – Refundable Accommodation Deposit

DAP – Daily Accommodation Payment

RAC – Refundable Accommodation Contribution

DAC – Daily Accommodation Contribution

Loan vs Rent

RAD, DAP, RAC and DAC are all about the same thing. It is to cover the capital cost of your accommodation. Your room cost money to build. Whoever financed the cost of that room will incur interest on these costs, which they will need to recover from you.

And this can happen in two ways. You either just lend them the money interest free (RAD or RAC). So you loan the money it took to build your room.

Or you pay the recurring interest (DAP or DAC) on those building costs. Like a rent payment.

Australian Government Assistance

RAD and DAP apply when you are not eligible for Australian Government assistance. And so you are meeting the full costs of your accommodation on your own.

RAC and DAC apply when you also make some contribution towards your accommodation costs, but the Australian Government covers the rest on your behalf.

That is the main difference to a RAD and DAP. Otherwise the concept of RAC and DAC is the same as RAD and DAP. Why we even need different terms has passed us so far.

But let's look at each component individually now.

RAD

A RAD is a lump sum payment for your accommodation in an aged care home that you agree with your aged care home to pay for your room (single occupancy). The RAD can be quite a large amount. Amounts of \$0.5m are not unusual.

The RAD is refundable when you leave or change to a DAP. Think of it like an interest free loan you give to the aged care facility to cover the cost of your room.

DAP

The DAP is the RAD price converted to a daily fee using a legislated formula. The interest used is usually around 5.96%.

The DAP is your daily payment for accommodation in an aged care home. You usually pay the DAP on a monthly basis. The DAP is not refunded when you leave or decide to convert to a RAD. Think of DAP like a rent payment.

RAC

The RAC is a lump sum payment for accommodation in an aged care home, just like a RAD. The only difference to a RAD is that you only cover part of the cost and the Australian Government covers the rest.

The RAC, minus any amounts deducted (as agreed) is refunded when you leave – just like a RAD.

DAC

The DAC is the daily contribution for your accommodation in an aged care home that you pay when you also receive Australian Government assistance with these accommodation costs. Just like a DAP and similar to paying rent, you pay the DAC on a monthly basis in advance.

You won't receive a refund for any DAC you paid even when you leave or decide to pay a RAC.

Combination

RAD and DAP or RAC and DAC are not either-or decisions. While you can choose a full lump sum or monthly payment, you can also choose any combination thereof.

So you could pay a partial lump sum and cover the rest with monthly payments. Or change from a monthly payment to a lump sum and vice versa.

Deductions

You can request to deduct a monthly payment from any lump sum you paid.

And if your aged care home agrees, you can deduct other amounts from the lump sum you paid – for example care fees. The lump sum, minus any amounts deducted (as agreed), is then refunded when you leave.

Nursing Care

So now you have a bed and a room but you don't have any help yet. There are no meals. Nobody to help you get up or dress. So here come the basic daily fee and the means-tested fee.

The basic daily fee is to cover your day-to-day living costs such as meals, cleaning, laundry, heating and cooling. It is 85% of the single person rate of the basic age pension and indexed with the age pension. This applies even if you are a member of a couple.

The basic daily fee is calculated daily. And you pay it for every day that you are in an aged care home, even when you are away on social leave or in hospital. You usually pay in advance on a fortnightly or monthly basis.

The means-tested fee is an additional contribution you pay for your nursing care when your income and assets exceed certain thresholds.

Extra Services

And then you pay for any extra services you might receive. Newspapers, flowers, a more upmarket design of your room. Most aged care facilities don't charge an extra service fee but it does become more prevalent.

All this is just our brief take on the issue, but please listen to the episode above. John Saunders explains all this in a much better way than we ever could.

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