

Doing your sums on aged care



Noel Whittaker

You won't necessarily have to sell the family home if you need to leave it.

PEOPLE often assume they will be forced to sell their home to fund their move to aged care.

It may be the right decision for some, but keep in mind there are special rules that apply to the former home if you keep it.

For two years from the date you or your partner move out, the former home is exempt from the Centrelink assets test, to enable you to move back to the home if you are able to do so.

Another set of rules may enable you to keep and rent your former home with both an asset and income exemption applying. For these exemptions to apply you must be paying an accommodation charge, or paying an accommodation bond by periodical payment, and renting out the former home.

If you meet these criteria then the former home, and any rent received, are exempt from the calculation of your aged pension under both asset and income tests, and from the calculation of daily income-tested fees.

The rent received doesn't need to be commercial; you could rent the home for only \$1 a week plus outgoing expenses to a child or grandchild. But it does need to be received for these exemptions to apply. And remember that the rent, however small, needs to be declared for income tax purposes, and capital gains tax may be applicable to the eventual sale of the property.

The amount of accommodation bond that you may be asked to pay is determined by a number of factors that include the

location of the facility, house prices in the area and the resident's ability to pay.

You may be asked to complete an asset assessment, and then negotiate an accommodation bond up to the amount stated in the letter that comes to you from the Department of Health and Ageing after the assessment.

Another common practice is the market-price approach in which the management determines the amount of bond for the facility as a whole, or decides upon a bond amount for different rooms based on size, views, proximity to communal areas, nurses stations and so on.

Often the bond amount quoted is simply a base amount, and you can negotiate with the facility to pay more.

While it may defy logic to pay more than you need to, for some people this can be a very simple and effective strategy as many facilities offer discounts on the ongoing fees to people who choose to pay a bigger bond.

This strategy can achieve the triple benefit of an increase in pension entitlement, a discount on ongoing fees and a reduction in the daily income-tested fee.

Like many financial strategies, this may not benefit everyone, or even the same person beyond a certain point.

The most important considerations are to determine the total rate of return being achieved and how this compares with other investments.

To maximise your return you will need to determine the point at which the pension is maximised and the daily

income-tested fee is minimised. Remember, the discount being provided by the facility is constant.

Giving funds to the facility beyond this point could mean that your total return is reducing, so no more pension can be received and the income-tested fee cannot be reduced further (or is \$0).

In this case the only return on your capital would be the discount from the facility.

■ CASE STUDY

Shirley sells her home for \$550,000, pays \$300,000 for an accommodation bond, and banks \$250,000.

The facility offers her a return of 3.5 per cent on any extra bond money paid.

If she pays them an extra \$200,000 she will receive a \$3403 increase in her aged pension, plus \$2003.85 reduced income-tested fee and a \$7000 discount on her care fees.

As her private income reduces and her pension increases, her daily care fee will rise from \$38.33 a day to \$40.25 a day (an increase of \$700.80 a year).

This gives her the equivalent of 5.85 per cent net on the extra \$200,000.

If she negotiated to pay \$155,000 extra instead of \$200,000, leaving \$95,000 in the bank, her rate of return would be equal to 6.5 per cent after the other costs were recalculated.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noelwhit@gmail.com



Q I refer to your recent article on aged-care bonds. If Albert and Barry are both applying for a place at an aged-care facility where Albert is assessed with a bond of \$400,000 and Barry with a bond of \$100,000, isn't the aged-care facility going to give the place to Albert every time? What mechanism is in place to ensure Barry finds accommodation?

A I never said a facility would prefer \$100,000 instead of \$400,000 but you may be misinterpreting the

fact that a facility may prefer a supported resident over a bond payer. A supported resident could not pay a bond of \$100,000.

Q What are the advantages of having my wage deposited directly into my credit card account? How do I differentiate between my money and the bank's money?

A If I have \$3000 on my card and my wage of \$5000 is deposited, does that mean the bank will take the \$3000 straight away?

A If you deposit money into your credit card account the bank will use it to pay the outstanding debt and any accrued interest. Should there be funds over, your card will have a credit balance which will be put towards future purchases and cash withdrawals.

Send your questions to noel.whittaker@whittakermacnaught.com.au

CBA on nose among some home-loan clients

By JOHN COLLETT

THE Commonwealth Bank, among the big-four banks in particular, has been given a big slap by its home-loan customers after the lenders helped themselves to mortgage rate rises in excess of the Reserve Bank's 0.25-percentage-point rise in the cash rate last November.

The February 2011 *Banking Customer Satisfaction Report* by Roy Morgan Research shows the big four banks' home-loan customers have all recorded weaker satisfaction since home-loan rates were raised in November by more than the increase in the cash rate.

But it is the Commonwealth Bank that has clearly felt the

biggest effect after it lifted its standard mortgage rate the most, by 0.45 percentage points.

The report shows an 8.7-percentage-point decline in satisfaction among the Commonwealth Bank's home-loan customers between October and February. That compares with declines of less than two percentage points for the three other big banks.

In terms of overall satisfaction, all the big banks have about the same level. Perhaps this shows the extent to which the senior management of the big banks are prepared to damage their brand, especially among their home-loan borrowers, who are customers of long standing, to appease the near-

term demands of institutional shareholders.

The Roy Morgan report shows that the gap in overall satisfaction between the four big banks has narrowed to only 2.9 percentage points – the closest they have been in the past decade.

In other words, they are as bad as each other. All the expensive advertising campaigns in the world, with cutesy themes such as National Australia Bank's "we've broken



up with the other big banks", won't blind consumers to that fact. The NAB's campaign, superficially, is at least meant to be humorous but no one spends big bucks on an advertising campaign without serious intent.

NAB is trying to pretend it's somehow different from the others, competition is robust and that the government has no need to proceed with its banking-reform packages designed to

stimulate healthy rivalry.

But the fact is, even after the big banks have cut certain fees and reduced interest rates on some of their mortgages, their home-loan customers still forfeit a lot of money by sticking with their generally more expensive home loans.

The gap between them and the smaller banks on overall customer satisfaction has increased over the past year, particularly during the past three months.

Bendigo Bank is the market leader in overall customer satisfaction, at 87.2 per cent.

The big-four banks' average overall satisfaction is 75 per cent, credit unions achieved 88.5 per cent and for building societies it's 90.8 per cent.

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