Parkside Newsletter
Aged Care

Getting your RAD refunded

Understanding the refund rules for RADs may remove some of the stress and worry with a move into residential care.

Room prices in aged care are usually quoted as a lump sum. Often this is a big number, which can cause a lot of worry. But this is also one of the most misunderstood areas of residential aged care. Demystifying the rules may reduce some of the worry.

The lump sum charged for a room in residential care is called a Refundable Accommodation Deposit – RAD for short. While this may look like a lot of money to hand over, it is important to realise that a RAD is not “lost” money. The amount you pay as a RAD refundable when you leave care or pass away.

If you pay a RAD, you will need to give up access to this money while you live in care, but it remains part of your wealth and is part of the inheritance that you can leave to your family.

How much is refundable?

Your full RAD paid will be refundable when you leave care. The amount refunded is only reduced if you have asked (or allowed) the provider to deduct some of your ongoing care fees from your RAD, instead of paying these amounts from your bank account or other income sources.

The rules were different before 1 July 2014, so you may have had experience with a family member who did not get all their money back in previous years. The rules are also different for retirement villages where you may lose a portion of your entry cost as a deferred management fee or refurbishment fee.

Under the current rules for residential aged care, as long as you pay your other fees in full each month, there will be nothing to deduct from the RAD and all of the money paid is eventually refunded.

> ***Example:***
> Danny moves into residential aged care with a room price of $700,000. He chooses to pay this as a lump sum. All of Danny’s other ongoing care fees are paid along the way from his bank account. When Danny passes away, the full $700,000 is refunded to his estate.

When is the RAD refunded?

The aged care provider needs to refund your RAD when you leave care or pass away.

When you pass away, your executor may need to obtain probate and show a copy to the provider. The provider then has 14 days to pay the refund. If the provider does not require probate, they might have a cheque ready to pay the refund when your family come to collect your personal items.

Anticipate your future before gifting

Many retirees may want to help younger family members by gifting part of their savings. But if things go wrong in the future, the joy may turn to grief.

Gifting may help the children and grandchildren, but it may have significant impacts for an older person's own future – especially if an aged care need arises.

Means-testing impacts your eligibility for government concessions, such as the age pension, and impacts how much you will be asked to pay in aged care fees.

Gifting assets may not have the impact you think, as gifts are still assessable for five years if you gift more than the allowable thresholds. If you gift more than $10,000 in a financial year (or $30,000 over five years) the excess counts as a deprived asset for the next five years.
If you want to reduce assessable assets, you need to plan more than five years in advance. But it is hard to predict what may happen in the future. Leaving yourself short, may increase your risks and reduce your range of care choices.

Example
Betty has $700,000 in financial investments, in addition to her home. She decides to gift $300,000 to family. This leaves her with $400,000 in savings, but Centrelink will continue to assess her assets at $690,000 (only reduced by the allowable threshold of $10,000).

As a result, Betty has less assets to support herself. Her age pension only increases by $780 per year.

If Betty needs to move into aged care within the next five years, the gift will also affect her means-test assessment. She will need to fund around $27,000 per year for ongoing care fees (basic fee plus means-tested care fee) plus other personal expenses and accommodation costs.

The key message is to take care before gifting, as protecting your financial future is just as important as helping family members to secure their futures. Gifting assets may leave you with insufficient resources to fund future needs or to adapt to any changes. Financial advice to consider implications may help you to make an informed decision.

If you have any questions regarding Aged Care, call us on 02 9899 4899 to discuss.

Parkside InvestorPlus® Pty Limited

Suite 27, 3-9 Terminus Street

Castle Hill NSW 2154

P 9899 4899 I **E** mail@parksideinvestorplus.com.au I **W** www.parksidefg.com.au