Aged Care explained - residential care fees

The cost of residential aged care

Your questions answered

How much you need to pay if you move into residential aged care can be complex to understand – especially as the rules that apply to you may depend on when you first entered the aged care system. We explain the contributions you may be asked to pay and the choices you have available. The complexity of navigating through your options highlights the value of financial advice to give you peace of mind and to support good decision-making.

RAFS
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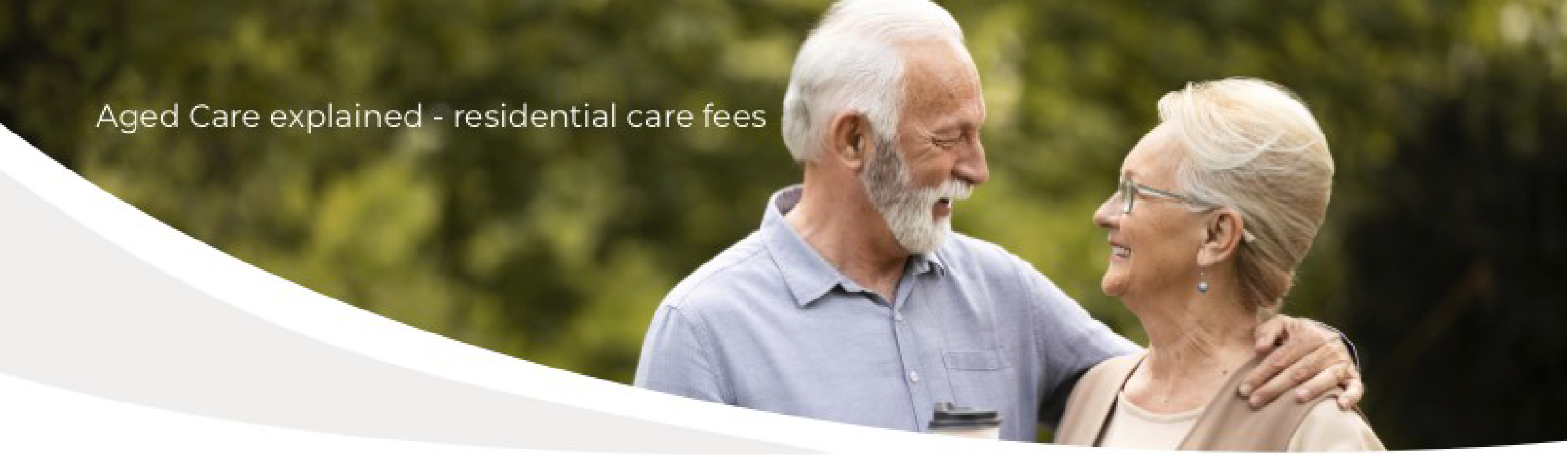


Fees explained

The cost of your care in residential aged care and the contributions you pay towards these costs can be divided into four categories.

Accommodation payments pay for your room and the use of amenities.

Essential living fees pay for your daily living expenses.

Care costs cover the cost of staff and other equipment needed to look after you.

Higher everyday living fees pay for lifestyle choices and additional (or higher quality) services.

Some fees are means-tested, using your assets and income to calculate your 'means-tested amount (MTA).' This is used to determine how much you need to contribute.

Your MTA is calculated using a complex formula so seek advice to have this calculated for you.

Accommodation	Refundable accommodation deposit (RAD)
	Daily accommodation payment (DAP)
Essential living expenses	Basic daily fee (BDF)
	Hotelling contribution (HC)
Care costs	Means-tested care fee (MTF) or Non-clinical care contribution (NCCC)
Additional lifestyle services	Higher everyday living fee (HELF)

1. Accommodation payments

You will be asked to pay for your room and the use of other amenities in the aged care service. The care provider sets the room price.

The room price will be quoted as a lump sum called a **refundable accommodation deposit (RAD)** as well as the equivalent **daily accommodation payment (DAP)**. You can check the provider's website or *www.myagedcare.gov.au/find-a-provider* to see the published amounts.

Once you have been offered a place and agreed on the accommodation payment you will start by paying the daily payment. At any time you can choose whether to pay all or some of the lump sum RAD to reduce this daily fee.

If you don't have a lot of assets or income, you may qualify for government concessions (as a low-means resident).

Refundable accommodation deposit (RAD)

If you choose to pay a RAD you give up access to this money while you live in the aged care service. But when you leave, it is refundable to you or your estate. If you moved into care on or after 1 July 2025, the provider will deduct and keep 2% per annum from the amount you pay but only for the first five years – so you may lose up to 10% of the amount paid. If you moved into care before that date, these retention deductions do not apply.

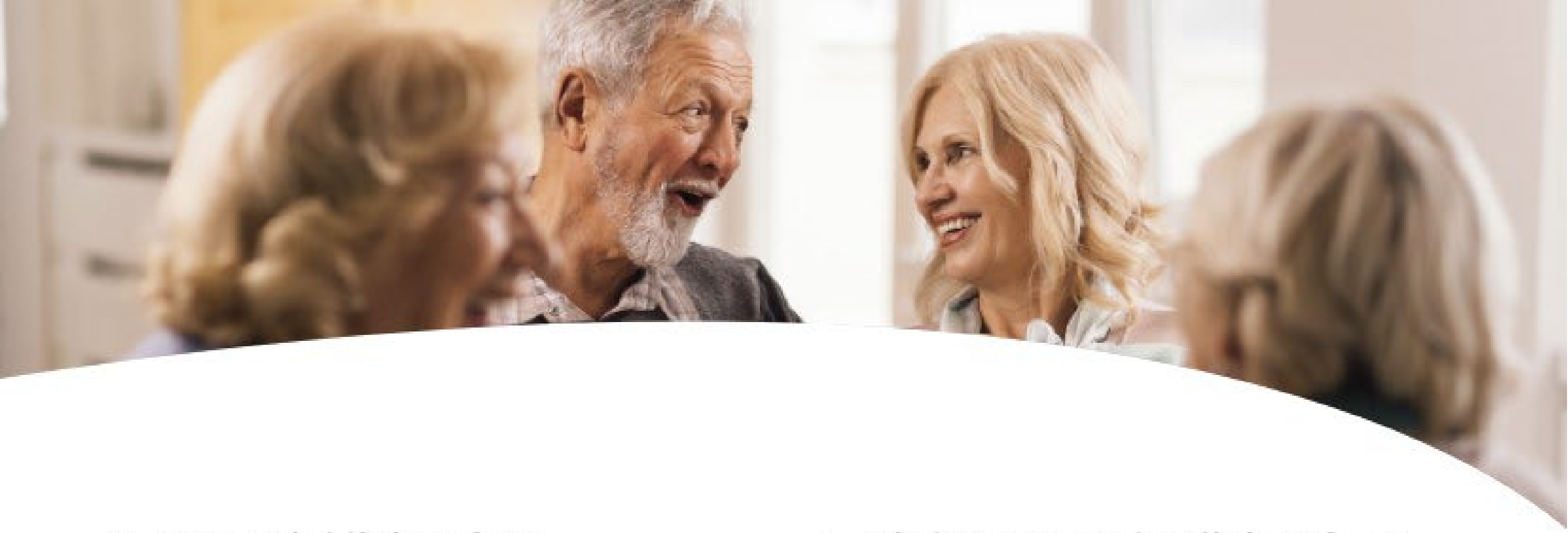
There is no risk with getting your money back as repayment is guaranteed by the Federal Government (if your service is a government-funded service).

Daily accommodation deposit (DAP)

If you don't pay the lump sum RAD you will pay a DAP. This is like paying rent or interest on an unpaid loan.

Each quarter, the government sets the interest rate used to convert the lump sum into a DAP. The rate is fixed for you when you enter care (or move rooms). The DAP payable is indexed in March and September if you moved into care on or after 1 July 2025.

If you have problems generating enough cashflow, you can pay part of the RAD and ask the care provider to deduct the remaining DAP from the RAD paid.



2. Essential living fees

The **basic daily fee** is paid by all residents and is set at 85% of the base single age pension. This is a contribution towards your daily living expenses including meals, cleaning, laundry and electricity.

If you are **not a grandfathered resident** and move into care on or after 1 July 2025, you might also be asked to pay a 'hotelling contribution' based on your calculated means-test amount.

3. Care costs

The Government funds a large portion of your care costs, but if your means-tested amount is more than a certain threshold, you will be asked to make an additional contribution towards part of this cost.

Your contribution is called a **means-tested fee** (which is subject to annual and lifetime caps) if you moved into care before 1 July 2025 or **are a grandfathered resident**.

If you move into care on or after 1 July 2025 and are **not a grandfathered resident**, you pay a daily **non-clinical care contribution** for up to four years but subject to a higher lifetime cap.

4. Higher everyday living fees

You may have an opportunity to access extra services such as a choice of meals, hairdressing, television streaming services etc or higher quality services for an additional daily fee.

Your care provider will provide you with a list of available services and prices that you can choose as individual items or as a package. Acceptance is optional. If you take up an offer, you can opt-out at your review points or if you can no longer use the services selected.

Who is a grandfathered resident?

The rules for aged care fees changed on 1 July 2025, making the fees more expensive. However, you will be grandfathered under the old rules (and qualify as a grandfathered resident) if:

- You moved into residential care before 1 July 2025 (and have not opted into the new rules), or
- You were approved for or receiving a Home Care Package as at 12 September 2024, and move into residential care on or after 1 July 2025.

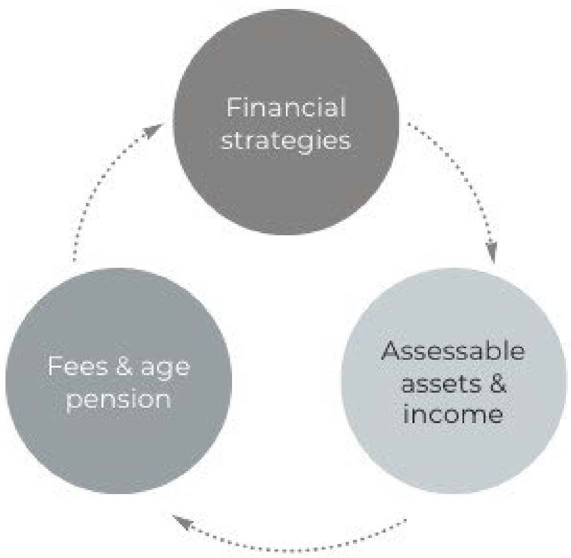
Covering the costs

Working out how much you need to pay and the best way to structure your finances to meet the costs needs you to evaluate a range of financial strategies and choices.

Each strategy has the potential to change your assessable assets and income, which in turn can affect your fees and age pension entitlements. The most important goals are to ensure you create enough cashflow and protect your estate.

Some important questions to consider are:

- What will you do with your former home?
- How will you choose to pay for your room?
- Can you create enough cashflow to cover your daily needs?



Decisions for your home

If your former home is left vacant, you'll need to decide what to do with it. This might be a difficult decision as it often involves emotional as well as financial considerations.

You might need to access the money tied up in your home to pay for your room in care. This doesn't always mean that you have to sell your home – there are alternatives such as renting it out or accessing equity release loans.

To decide on your best option, you should consider:

- Can the home be easily rented and for what price?
- How much do you need to spend to make your home rentable?
- Who will manage the home and look after it?
- Can an equity release loan free up enough cashflow and what are the costs and conditions of the loan?
- How these decisions impact your pension entitlements and your ongoing care contributions?

Paying the RAD

For many people the large numbers required to pay for a room creates the most worry.

While payment of a refundable accommodation deposit (RAD) usually requires a restructure of your finances, don't think of it as something to avoid. If handled properly, a RAD can provide distinct advantages. For example, it may help to improve your age pension eligibility.

The lump sum RAD, even with a retention deduction, may be better for your overall wealth position than paying the daily accommodation payment (DAP) due to the high interest rates.

A financial adviser who is licensed and accredited for aged care advice can help to develop strategies to help you pay for accommodation in a way that suits you and make sure you consider all aspects over your full stay in residential care.

Establishing a reliable cashflow

It is important to create a reliable and regular cashflow to cover your daily care contributions and any additional personal expenses.

The decisions you make concerning the family home and how you pay for accommodation will affect your cashflow. While your aim may be to maximise age pension, minimise fees and generate a good return from your investments, these are not independent objectives.

Working with your adviser

It can be hard (and stressful) to analyse all of your options and decide which ones are most suitable on your own. This is where a financial adviser who is experienced in aged care advice can provide valuable guidance and support.

Working with an adviser will give you the support to make well-informed choices with confidence. This can take away some of the stress for you and your family and avoid costly mistakes.

Example A:

Bert* wanted to keep his family home but with little money in the bank he thought he'd have to sell the house to pay for his room in care. His adviser showed him another way. Instead of paying the full lump sum RAD, Bert decided to pay part as a RAD and the rest as the DAP and rent his home. This strategy allowed Bert to keep his home and also improved his cashflow through rental income and maximising his age pension.

Example B:

Mavis* planned to sell her home to pay the lump sum RAD. When she consulted her financial adviser she discovered that the money left over from the sale would reduce her age pension and increase her care contributions. Her adviser recommended that after paying the RAD, Mavis invest some of the surplus money in a lifetime annuity strategy that provided asset exemptions. This produced reliable income and also helped improve her age pension.

** Not real names.*

IMPORTANT INFORMATION:

Rolanda Adams Financial Services

213 Liverpool Road, Ashfield NSW 2131

1300 352 470

info@rolandaadams.com.au

www.rolandaadams.com.au/