RETIREMENT LIVING OPTIONS

Jason Hurst

AMP

This article is worth
0.5 CPD hours

FPA Dimension
Capability

ASIC Knowledge Area
Aged care

INCLUDES:

- Remaining in the home
- Retirement village
- Land lease community
- Granny flat arrangement

Many clients enter the early stages of retirement residing in a large family-sized home. As people age, their housing needs may evolve over time. In this article, we will consider various retirement living options, excluding residential aged care.

REMAINING IN THE HOME

In the early stages of old age, family members and even friends or neighbours may often be able to provide some support with simple day-to-day tasks in a person's home. If this type of support is not available or becomes too burdensome on family and friends, the Government subsidises two separate programs of support: the Commonwealth Home Support Programme (CHSP) and Home Care Packages (HCP).

The CHSP offers 'entry level' service on a localised level within the community. These services can include things like Meals on Wheels, support with shopping or transport to shops, home maintenance and cleaning services. To be eligible for the CHSP, a person would need to generally be 65 years or older and go through a Regional Assessment Service, which can be organised by contacting My Aged Care on 1800 200 422.

HCPs offer a higher level of support than the CHSP and include nursing and clinical services, in addition to general support services.

HCPs offer four levels of support ranging from basic to complex. A basic daily fee applies to home care, and each package level is allocated a specific Government subsidy ranging from $8,157.75 per annum to $49,592.55 per annum. HCP recipients with income over certain thresholds will be required to meet some of the package costs in the form of an income-tested fee.

The types of services that can be purchased under a HCP include (but are not limited to):

- personal services (e.g. assistance with personal activities, such as bathing);
- nutrition and diet (e.g. assistance with preparing meals and feeding);
- mobility and dexterity (e.g. provision of walking sticks and mechanical devices for lifting);
- nursing, allied health and therapy services (e.g. speech therapy and occupational therapy); and
- transport and personal assistance (e.g. assistance with shopping and visiting health practitioners).

To access HCP, an ACAT[1] assessment (which is similar to the assessment to enter residential aged care) is required to determine the appropriate level of care. The applicant will then be placed in a national queue to be allocated a package.

Once allocated, the funding can be taken to any home care service provider, who will then advise what services can be delivered based on the overall budget.

Clients receiving support at home will continue to be assessed as homeowners for Centrelink/ Department of Veterans' Affairs (DVA) purposes, and there will be no impact on their social security entitlements.

RETIREMENT VILLAGE

Retirement villages are essentially a community for seniors. The individual dwellings are either purchased or occupied under a lease or other form of agreement. Entry is usually restricted to individuals (and their spouses) who have attained 55 years of age or have retired from full-time employment.

Table 1: Centrelink treatment of entry fees to retirement villages

Entry contribution	Centrelink treatment
Equal to or less than $203,000	Assessed as non-homeowner under the assets test. – EC counts as an asset (it does not count under the income test). – May be eligible for Rent Assistance.
More than $203,000	Assessed as a homeowner under the assets test. – EC is not counted under the asset or income tests. – No entitlement to Rent Assistance.

Units may be self-care (the lowest level of care) or serviced (highest level of care). The care provided in a retirement village is generally a private arrangement with the facility, and in some cases, the provider may also be an approved provider of home care packages.

There are various arrangements in the marketplace, and it's important that people considering entering a retirement village have their contracts reviewed by a legal professional, so they have a clear understanding of all entry, exit and ongoing costs.

All arrangements will include some type of ongoing fee or levies, and residents may be asked to pay special levies for upgrades, new services or refurbishments. The three most common types of arrangements are outlined below.

- **Loan/licence or right to occupy** account for approximately 60 per cent of arrangements. Under these types of arrangements, clients pay an entry contribution (EC) and are generally also liable for a deferred management fee (DMF) upon departure. The DMF will vary across providers, however, a common approach is a percentage of the purchase price for each year of residence. This may be capped at a maximum number of years (commonly 10 to 12 years). Some providers may also take a percentage of any capital gain as part of the DMF.
- **Leaseholds** comprise approximately 30 per cent of arrangements. The resident is offered a long-term lease (e.g. 99 years for a dwelling in exchange for a lump sum EC). Upon departure, the resident is refunded the EC less any departure fee. There may also be provisions in the contract to share any capital gains with the village operator. In some cases, a resident may not receive a payment until a new resident takes over the lease.
- **Other freehold arrangements,** such as company title, strata title and rental arrangements, are less common, and make up the majority of the remaining 10 per cent.

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The amount of EC paid to a retirement village will have Centrelink/DVA implications. Centrelink compares the EC against a figure called the extra allowable amount (EAA). The EAA is the difference between the non-homeowner and homeowner assets test thresholds at the time the EC is paid.

The EAA for the 2017-18 financial year is $203,000. (Refer to Table 1 above).

Where the individual is considered a non-homeowner, Rent Assistance may be payable for regular rent-type payments paid to the village operator. Rent-type payments include ongoing service and maintenance fees. Rent-type payments do not include the entry contribution, deferred management fees, or fees for additional services, such as laundry and meals.

LAND LEASE COMMUNITY (LIFESTYLE VILLAGE)

In a residential land lease community (LLC), also known as lifestyle villages or manufactured home estates, the resident usually owns the home (the physical building), but leases the land on which the home sits from the community operator. The home can be a manufactured home or a moveable dwelling; however, in some cases, the building will be fixed to the land and not moveable.

The resident pays site fees (rent) for the right to occupy the site. There are also scenarios where the resident leases both the land and the home.

Like retirement villages, it is important to completely understand the nature of the arrangement and applicable fees and charges before entering an agreement.

On the surface, some LLCs may look very similar to retirement villages. It's important to seek clarity from the provider and examine the contract, as the Centrelink/DVA implications are quite different to retirement villages.

Continued overleaf

Where a resident of an LLC owns the home (the building) but rents the land, they will be considered a **homeowner for Centrelink purposes,** regardless of the value of the purchase price. The value of the home is exempt under the assets test. Furthermore, the resident may be eligible for Rent Assistance, with ongoing maintenance, service or site fees counted as rent, depending on their circumstances.

Due to the Centrelink differences that have been outlined between retirement villages and LLCs, it is also advisable to take the contract to a Centrelink Financial Information Services officer for confirmation of exactly how Centrelink/DVA may view a particular arrangement, before signing any contracts.

Commonly, when Australians invest in property, future capital growth is a strong consideration. Moving into a retirement village or LLC should be seen as more of a lifestyle decision. Capital growth on this type of housing is generally lower than other apartments or units in the same area, and any capital growth is likely to be reduced by the DMF and any sharing arrangement with the provider.

Residents in age specific accommodation can enjoy physical and psychological health benefits by living in these communities.

Despite this, residents in age-specific accommodation can enjoy physical and psychological health benefits by living in these communities. This includes support and sense of community of living with like-minded individuals, access to organised activities and support services on site, and/or transport to offsite activities.

GRANNY FLAT ARRANGEMENT

The Centrelink granny flat rules allow people to transfer assets to another person (in most cases, a close family member) in exchange for a right of occupancy for life in a residential property, with the potential to be exempt from the usual deprivation/ gifting rules.

A granny flat interest encompasses much more than just a self-contained flat on someone's property. It includes any life interest or right to accommodation for life in a private residence in which the individual does not have any legal ownership.

Although Centrelink may accept that a person has a granny flat interest, even if it's not in writing, it is recommended that a legal document be drawn up by a solicitor to have evidence of the arrangement and to provide certainty for the client.

It is also important to review the client's estate plans, as entering into a granny flat arrangement with one family member could dilute the parent's estate to the detriment of other family members. We also recommend that clients confirm any taxation or stamp duty issues with a tax adviser before proceeding.

For Centrelink purposes, granny flat interests are created when a person:

- transfers the title of a home they live in to someone else and keeps a lifetime right to live in that home or in another home. This applies only if the home was totally exempt from the assets test; or
- pays for the construction, fit out of a home on another person's property, and retains a right to occupancy for life; or
- provides some or all of the purchase price of a property registered in another person's name and retains a right to occupancy for life.

In the above situations, deprivation will not apply. Usually, the value of the granny flat interest is the value of the home transferred, construction costs paid or purchase price of the property.

There are some circumstances where Centrelink allows the granny flat interest to be valued at a different amount, known as the 'reasonableness test amount', rather than the amount paid. This can apply in certain situations, including where a person:

- transfers the title of their home or purchases a property in another person's name and transfers additional assets.
- pays for the construction of a dwelling and transfers additional assets.
- uses the granny flat rules to gain a social security advantage.

A granny flat interest can also be created where a person gives money to another person in exchange for a life interest in a property owned by that person. In this case, the reasonableness test is always applied.

When the reasonableness test applies, Centrelink applies a formula to determine a reasonable value for the granny flat. Any amounts over the reasonableness test amount will be considered gifts.

Like a retirement village, the value of the granny flat interest is called the EC and determines the home ownership status of the person.

The EC is assessed against the same thresholds as retirement villages. (Refer to Table 1.)

Centrelink will review granny flat arrangements if the individual stops living in the home within five years of the interest being created. If the reason for leaving the home could have been anticipated at the time the interest was created, the deprivation rules will apply; that is, deprivation is to be assessed from the date the person stopped living in the home to the fifth anniversary of the creation of the granny flat interest.

This is particularly important with respect to future entry into residential aged care.

If the reason for vacating the granny flat interest was foreseeable, and the vacation is within five years of the creation of the interest, deprivation rules would apply. The client will not have access to the associated capital (because they used it to pay for the granny flat), yet a deprived amount is considered an asset and deemed (until the fifth anniversary of the creation of the interest) for Centrelink/DVA purposes, as well as when calculating the means-tested amount for permanent residential aged care purposes.

Jason Hurst, Technical Services Manager, AMP.

FOOTNOTE

1. *Aged Care Assessment Team. In Victoria, the assessment is conducted by the Aged Care Assessment Service (ACAS).*

QUESTIONS

To answer the following questions, go to the CPD tab at moneyandlife.com.au/professionals

1 In order to access a home care package, a person must be assessed by:

a. Their family doctor.
b. The regional assessment service (RAS).
c. ACAT (or ACAS in Victoria).
d. There is no medical assessment, it is purely age based.

2 A retirement village resident will be assessed as a homeowner by Centrelink/DVA:

a. In all cases.
b. If their entry contribution is more than $203,000.
c. If their entry contribution is more than $200,000.
d. Never, they are always treated as non-homeowners.

3 Centrelink/DVA will only assess an arrangement as a 'granny flat interest' if a separate dwelling is built.

a. True.
b. False.

4 Which of the following is a typical advantage of moving to a retirement village after selling a family home?

a. Support and sense of community living with like-minded people.
b. Guaranteed capital growth in the value of the retirement village.
c. Guaranteed increase in Centrelink entitlements.
d. All of the above are common advantages.

5 Which are the issues that should be discussed with a client considering a granny flat arrangement?

a. Centrelink considerations.
b. Estate planning considerations.
c. Tax and stamp duty considerations.
d. All of the above.

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