



WealthAdviser

Renting out your family home

IMPLICATIONS FOR WHEN
YOU MOVE INTO AGED CARE



Contents

Contents	1
Before you get started	2
Letter from the Wealth Adviser Library	3
Introduction	4
The Pros and Cons of Keeping Your Home and Renting It Out	5
Emotional and Psychological Considerations	6
Tips for Managing the Emotional Impact:	7
Alternative Options	7
Government Support and Resources	8
Case Study 1: Anne's Scenario	9
Case Study 2: Ron and Sandy's Scenario	10
Case Study 3: Maria's Scenario	11
The Bottom Line	12
Footnotes	12
Additional Resources	12



Before you get started

This digital handbook contains general and factual information only, and is part of the Wealth Adviser library, published by:

- Wealth Today (AFSL 340289)
- Sentry Advice (AFSL 227748)
- Synchron Advice (AFSL 243313)
- Millennium3 (AFSL 244252)

Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

© WT Financial Group Limited (ABN 87 169 037 058) 2021

This publication is protected by copyright. Subject to the conditions prescribed under the Copyright Act 1968 (Cth), no part of it may be reproduced, adapted, stored in a retrieval system, transmitted, or communicated by any means; or otherwise used with without prior express permission. Enquiries for permission to use or reproduce this publication or any part of it must be addressed to WT Financial Group by email to info@wtfglimited.com.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

The Wealth Adviser Library was established with the goal of providing sound financial information to everyday Australians. Our mission is to build an accessible and comprehensively supported national network of advice practices dedicated to delivering tailored financial advice.

The Advantage of Knowledge

We firmly believe that knowledge offers a significant advantage in creating and managing wealth effectively, planning to achieve your goals, and preparing for the unexpected challenges life may present. This is why our team of experts has developed this series of digital handbooks and manuals, which aim to educate not only on the benefits but also on the potential risks and pitfalls of various strategies and investments.

We trust you will find this publication both informative and professionally presented. Your feedback is highly valued, as we continually strive to offer content in a format that is most relevant to you.

Take the Next Step

Wealth Adviser, a division of WT Financial Group Limited, supports over 400 privately owned and operated advice practices across Australia. We encourage you to connect with one of our advisers to discuss your objectives and explore how they might help you achieve your financial goals.

At the end of this handbook, you will find instructions on how to book an appointment.

Wealth Adviser Library

Introduction

Many Australians have a significant amount of wealth tied up in their family home when it's time to move into aged care — not to mention many precious memories.

Understanding the implications of either keeping your home and renting it out or selling it is crucial. This decision can significantly impact your eligibility for both aged care and social security benefits, many of which are means-tested via both assets and income tests.

In this handbook, we'll explore the pros and cons of keeping your home and renting it out versus selling it. We'll also present updated case studies to illustrate these scenarios using current figures for 2024. Additionally, we'll delve into the emotional and psychological considerations of this significant life decision, explore alternative financial options, and provide information on government support and resources available to you. This handbook will be particularly useful for your adult children if they hold (or will hold) an enduring power of attorney over your affairs. As our population ages and life expectancies increase, more Australians will find themselves in this position. By 2050, it's projected that over 3.5 million Australians will require aged care services.¹

The Pros and Cons of Keeping Your Home and Renting It Out

Pros	Cons
Rental income can assist with ongoing aged care fees (such as the Basic Daily Fee*).	Retaining the family home may mean you don't have enough money to pay for the Refundable Accommodation Deposit (RAD***). If you can't pay the RAD, you'll be required to pay a Daily Accommodation Payment (DAP) at the current interest rate of 8.38% ² on any unpaid RAD amount.
Potential for capital growth over time. Australian residential property has historically shown long-term growth, especially properties in desirable locations (e.g., inner-city areas).	Rental income will be included in your income test for both aged care and social security benefits, which could adversely affect your entitlements. - It may reduce or eliminate your Age Pension. - It may increase your Means-Tested Care Fee****.
There's an aged care assets test exemption for the family home after moving into an aged care facility, provided it's not occupied by anyone other than a 'protected person'**.	If the home is left vacant or occupied by someone other than a 'protected person'**, up to \$206,039.20³ of the home's value will be included in your aged care assets test.
There's a social security assets test exemption for the family home for up to two years after moving into aged care, provided it's not occupied by anyone other than a 'protected person'**.	After two years, if the home is left vacant or occupied by someone other than a 'protected person'**, the home's value will be included in your social security assets test.
The net value of a family home is capped at a concessional rate for means-testing purposes when you're in aged care and no longer residing in it after two years. The cap is currently \$206,039.20³.	There's no guarantee the property will always attract tenants.
Capital Gains Tax (CGT) exemption for your main residence for up to six years while you rent it out. This means you can rent your home for up to six years after moving into aged care without incurring any CGT liability. This exemption also applies to beneficiaries who inherit the home; they can continue to rent it out for an additional two years before the property loses its CGT exemption. However, renting it out for longer than six years means you'll lose your CGT exemption for the subsequent years.	The property may require significant (and costly) repairs, maintenance, or renovations to be marketable to tenants, especially if it's an older property.

If you sell your family home and invest the proceeds instead of renting it out, the proceeds will be included in your assets test for both aged care and social security benefit assessments.

You may need to pay for a property manager to handle all aspects of renting the home.

* **Basic Daily Fee**

- Every person living in a residential aged care facility must pay this fee, which is set by the government at 85% of the single basic Age Pension rate.
- As of 20 September 2024, the single basic Age Pension rate is \$1,047.10⁴ per fortnight, making the Basic Daily Fee \$63.57 per day.

** **A 'Protected Person' Includes:**

- A spouse or partner.
- A carer eligible for an income support payment who has been living in the home for at least two years.
- A close relative (parent, sibling, child, or grandchild) eligible for an income support payment who has been living in the home for at least five years.
- A dependent child under the age of 16.
- A full-time student under the age of 25.

*** **Refundable Accommodation Deposit (RAD)**

- This is a lump sum that is fully refundable (minus any agreed deductions) when you leave the facility.
- The RAD amount varies depending on the type of accommodation and the aged care provider you choose.
- The maximum RAD without approval is \$550,000; amounts above this require approval from the Aged Care Pricing Commissioner.

**** **Means-Tested Care Fee**

- This fee covers the cost of your personal and clinical care needs.
- Examples include assistance with daily living activities (dressing, bathing, toileting) and specialised nursing services.
- The fee is means-tested and increases with your assets and income, up to an annual cap of \$31,706.83 and a lifetime cap of \$76,096.50.

Emotional and Psychological Considerations

Moving into aged care and deciding what to do with your family home isn't just a financial decision; it's an emotional one as well. The family home often holds decades of memories and represents independence and familiarity. Letting go or changing its purpose can be challenging.

- **Attachment to the Home:** The thought of selling or renting out your home may bring feelings of loss or sadness. It's important to acknowledge these emotions and give yourself time to process them.
- **Sense of Identity:** Your home may be closely tied to your identity and sense of self. Changing your living situation can affect how you view yourself and your place in the world.
- **Family Dynamics:** Decisions about the family home can sometimes lead to disagreements among family members. Open communication is key to ensuring everyone's feelings and opinions are considered.
- **Transitioning to Aged Care:** Moving into aged care is a significant life change. It may bring feelings of

anxiety or fear about the unknown. Seeking support from professionals, friends, or support groups can be beneficial.

- **Maintaining Social Connections:** Consider how your decision will affect your social life. Staying connected with friends, family, and community can help ease the transition.

Tips for Managing the Emotional Impact:

- **Seek Professional Support:** A counsellor or psychologist can provide strategies to cope with the emotional aspects of this transition.
- **Involve Loved Ones:** Share your feelings with family and friends. They can offer support and may provide valuable perspectives.
- **Visit Aged Care Facilities:** Familiarising yourself with potential new homes can alleviate some anxieties.
- **Focus on the Positives:** Consider the benefits of aged care, such as increased support, social activities, and peace of mind for both you and your family.

Alternative Options

If neither selling nor renting out your home feels like the right choice, there are alternative financial options to consider:

1. Reverse Mortgages and Home Equity Release Schemes

- **How They Work:** These options allow you to access the equity in your home without having to sell it. You receive funds (either as a lump sum, regular payments, or a combination), which are repaid when the home is sold, usually after you pass away or move into permanent care.
- **Benefits:**
 - You can remain in your home while accessing funds to pay

for aged care services or other expenses.

- Flexibility in how you receive and use the funds.

- **Considerations:**

- Interest compounds over time, which can significantly reduce the value of your estate.
- May affect your eligibility for the Age Pension due to increased assets or income.
- Fees and interest rates can be higher than traditional loans.

- **Important:** Seek independent financial and legal advice before entering into such agreements.

2. Downsizing Incentives

- **Government Initiatives:** The Australian Government offers incentives to encourage older Australians to downsize their homes, such as the "downsizer contribution" to superannuation.
- **Downsizer Contribution:**
 - If you're 65 years or older (eligibility age may change, so check current criteria), you can contribute up to \$300,000 (\$600,000 per couple) from the sale proceeds of your home into your superannuation.
 - This contribution doesn't count towards your concessional or non-concessional contribution caps.
- **Benefits:**
 - Potential tax advantages within the superannuation environment.
 - Freeing up capital that can be used to fund aged care or other expenses.

- **Considerations:**
 - The proceeds may affect your Age Pension due to assets and income tests.
 - Moving costs and the emotional impact of leaving your home.
- **Note:** Eligibility criteria and rules can change. Consult with a financial advisor to understand how this could work for you.

3. Granny Flat Rights or Interest

- **What Is It?** An arrangement where you transfer ownership of your home (or proceeds from the sale) to someone else in exchange for a lifetime right to live in a property.
- **Benefits:**
 - Provides accommodation security.
 - May have social benefits if living with family.
- **Considerations:**
 - Complex legal and social implications.
 - Could affect your eligibility for the Age Pension.
 - Important to have formal agreements in place to protect your interests.
- **Recommendation:** Seek legal advice to draft agreements and understand the implications.

4. Home Care Packages

- **Staying at Home Longer:** If your needs can be met through home care services, you may not need to move into residential aged care immediately.
- **Benefits:**
 - Allows you to stay in your familiar environment.
 - Tailored care services to meet your needs.

- **Considerations:**
 - There may be waiting lists for packages.
 - Costs are income-tested and may include a basic daily fee and an income-tested care fee.
- **Action Steps:** Contact My Aged Care to assess your eligibility and begin the process.

Government Support and Resources

Navigating aged care services and understanding your entitlements can be complex. Fortunately, there are numerous government resources and support services available to assist you.

1. My Aged Care

- **What It Is:** The Australian Government's starting point for aged care services.
- **Services Offered:**
 - Information on aged care services.
 - Registration for assessments to determine care needs.
 - Guidance on service providers and costs.
- **Contact:**
 - **Website:** www.myagedcare.gov.au
 - **Phone:** 1800 200 422

2. Services Australia

- **Role:** Administers social security payments, including the Age Pension and assessments for aged care fees.
- **Services Offered:**
 - Information on how your income and assets affect your payments.
 - Details on concessions and supplements you may be eligible for.

- **Contact:**
 - **Website:** www.servicesaustralia.gov.au
 - **Phone:** 132 300

3. Department of Health and Aged Care

- **Role:** Provides policy advice and programs on health and aged care.
- **Resources:**
 - Information on aged care reforms.
 - Publications and reports on aged care services.
- **Website:** www.health.gov.au

4. Aged Care Quality and Safety Commission

- **Role:** Regulates and resolves complaints about aged care services.
- **Services Offered:**
 - Information on your rights in aged care.
 - Complaints resolution process.
- **Contact:**
 - **Website:** www.agedcarequality.gov.au
 - **Phone:** 1800 951 822

5. Financial Information Service (FIS)

- **Offered By:** Services Australia
- **Purpose:** A free service providing information to help you make informed decisions about investment and financial issues.
- **Contact:**
 - **Phone:** 132 300 to speak with a FIS officer.

6. National Disability Insurance Scheme (NDIS)

- **For:** People under 65 with a permanent and significant disability.
- **Services Offered:**
 - Support for daily living, participation in the community, and achieving goals.
- **Website:** www.ndis.gov.au

7. Translating and Interpreting Service (TIS National)

- **Purpose:** Provides interpreting services for people who do not speak English and for agencies and businesses that need to communicate with non-English speaking clients.
- **Contact:**
 - **Phone:** 131 450

8. Legal Aid and Advocacy Services

- **Purpose:** Offer free or low-cost legal advice, including matters related to aged care, wills, and enduring powers of attorney.
- **Contact:** Varies by state and territory; search for 'Legal Aid' in your region.

Case Study 1: Anne's Scenario

- **Status:** Single
- **Family Home Value:** \$800,000
- **Other Assets and Income:** Minimal
- **Current Age Pension:** Full single rate of \$1,144.40 per fortnight
- **Required RAD:** \$400,000
- **Tax Return Status:** Has not needed to submit a tax return in over 20 years

Option 1: Renting Out Her Home

- **Financial Implications:**
 - Anne would need to borrow her entire RAD of \$400,000.
 - She'll be charged a Daily Accommodation Payment

(DAP) at the current interest rate of 8.38%.

- **DAP Calculation:**
- $\text{DAP} = \text{Unpaid RAD} \times \text{MPIR} / 365$
 $= \$400,000 \times 8.38\% / 365 = \91.84 per day
- Annual DAP cost: $\$91.84 \times 365 = \$33,519$
- **Income Considerations:**
 - Rental income can be used to pay the DAP and the Basic Daily Fee (\$63.57 per day or \$23,203.05 per year).
 - Rental income will be included in her income test for both the Age Pension and the Means-Tested Care Fee.
 - If her income exceeds the tax-free threshold (\$18,200 per year), she may need to submit a tax return and pay income tax.
- **Asset Considerations:**
 - The value of her home won't be included in the Age Pension assets test for two years.
 - For the aged care assets test, since the home is rented out to a non-protected person, up to \$206,039.20 of its value will be included.
 - This inclusion may increase her Means-Tested Care Fee.

Option 2: Selling Her Home

- **Financial Implications:**
 - She can pay the RAD of \$400,000 upfront, eliminating the DAP.
 - The surplus funds (\$400,000) will be included in her assets test for the Means-Tested Care Fee and the Age Pension.

- **Income Considerations:**
 - Without rental income, her assessable income may be lower, potentially maintaining her full Age Pension entitlement.
- **Asset Considerations:**
 - The additional \$400,000 may affect her eligibility for the full Age Pension due to the assets test thresholds.

Capital Gains Tax (CGT):

- Anne won't incur any CGT liability for up to six years if she rents out her home.
- Selling the home means she won't benefit from potential capital growth.

Case Study 2: Ron and Sandy's Scenario

- **Status:** Couple, self-funded retirees
- **Family Home Value:** \$1,200,000
- **Other Assets:** \$500,000 in term deposits, \$1,000,000 in combined superannuation
- **Current Age Pension:** Not receiving any due to the assets test
- **Required RAD:** \$500,000 each (Total \$1,000,000)

Option 1: Renting Out Their Home

- **Financial Implications:**
 - Use \$500,000 from term deposits to pay part of the RADs.
 - Remaining RAD balance (\$500,000) will incur a DAP.
 - **DAP Calculation:**
 $\text{DAP} = \$500,000 \times 8.38\% / 365 = \114.79 per day
 - Annual DAP cost: $\$114.79 \times 365 = \$41,900$

- **Income Considerations:**
 - Rental income can be used to pay for the DAP, Basic Daily Fees, and any Means-Tested Care Fees.
 - Rental income will be included in the income test for the Age Pension and may require them to submit tax returns.
- **Asset Considerations:**
 - The family home is exempt from the assets test for the Means-Tested Care Fee.
 - With reduced assessable assets (due to the RAD payment and home exemption), they may now qualify for a part Age Pension.
- **Age Pension Thresholds for Couples (as of 20 September 2024):**
 - **Assets Test Limit for Homeowners:** \$1,045,500⁶
 - **Income Test Limit for Part Pension:** \$3,822.40 per fortnight combined⁷

Option 2: Selling Their Home

- **Financial Implications:**
 - Proceeds can be used to pay the RADs in full, eliminating the DAP.
 - Remaining funds (\$200,000) added to their assets.
- **Income Considerations:**
 - Investment income from surplus funds will be included in the income test and may reduce their Age Pension entitlement.
- **Asset Considerations:**
 - The surplus funds from the sale will be included in the assets test, likely keeping

them ineligible for the Age Pension.

Capital Gains Tax (CGT):

- Renting out their home allows them to maintain the CGT exemption for up to six years.

Case Study 3: Maria's Scenario

- **Status:** Widowed
- **Family Home Value:** \$600,000
- **Other Assets:** \$50,000 in savings
- **Current Age Pension:** Full single rate of \$1,144.40 per fortnight
- **Health Status:** Requires low-level care
- **Decision Point:** Considering a reverse mortgage to fund home modifications and in-home care services.

Option: Reverse Mortgage

- **Financial Implications:**
 - Maria takes out a reverse mortgage for \$100,000.
 - No repayments are required until the home is sold.
 - Interest accumulates over time.
- **Use of Funds:**
 - Home modifications (e.g., installing a stairlift, bathroom renovations).
 - Paying for in-home care services.
- **Income Considerations:**
 - The lump sum received is not considered income for Age Pension purposes.
- **Asset Considerations:**
 - The debt reduces the net value of her home but doesn't affect the assets test unless the funds are invested.

- **Pros:**
 - Allows Maria to stay in her home.
 - Access to necessary care without selling or renting out her home.
- **Cons:**
 - Accumulated interest will reduce the equity in her home over time.
 - Less inheritance for beneficiaries.
- **Important Notes:**
 - Maria should seek independent financial and legal advice.
 - Consider potential impacts on future care needs and estate planning.

The Bottom Line

Deciding whether to rent or sell the family home when moving into aged care is a significant decision with complex financial and emotional implications. The best choice depends on individual circumstances, including asset levels, income, personal preferences, and emotional readiness.

Key Considerations:

- **Impact on Age Pension:** Rental income and the inclusion of the home in assets tests can affect eligibility and payment rates.
- **Aged Care Fees:** Ability to pay the RAD, potential DAP costs, and the Means-Tested Care Fee.
- **Tax Obligations:** Rental income may necessitate filing tax returns and paying income tax.
- **Capital Growth vs. Immediate Funds:** Potential property value appreciation versus the immediate availability of funds from selling.
- **Emotional Readiness:** Your comfort level with leaving the family home or changing its purpose.

- **Maintenance Responsibilities:** Renting requires ongoing property management and maintenance.
- **Alternative Options:** Consider reverse mortgages, downsizing, or home care packages if neither selling nor renting is suitable.
- **Government Support:** Utilise available resources to make informed decisions.

Given the complexities involved, it's advisable to seek professional financial advice tailored to your specific situation, needs, and goals. Engaging with financial planners, aged care specialists, and legal advisors can help navigate this challenging transition.

Footnotes

¹ Australian Institute of Health and Welfare (AIHW), 2021 Aged Care Data Snapshot.

² Maximum Permissible Interest Rate (MPIR) effective from 1 October 2024 to 31 December 2024.

³ Home Exemption Cap for Aged Care Means Test as of 1 October 2024.

⁴ Services Australia, Age Pension Rates as of 20 September 2024.

⁵ Department of Health and Aged Care, Means-Tested Care Fee Cap as of 1 October 2024.

⁶ Services Australia, Assets Test Limits for Age Pension as of 20 September 2024.

⁷ Services Australia, Income Test Limits for Age Pension as of 20 September 2024.

Additional Resources

For further assistance and information, consider reaching out to the organisations listed in the "Government Support and Resources" section of this handbook.

Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day

Date

Time am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email

Your Details

Title

First name

Last name

Mobile



Wealth Adviser

Wealth Adviser is a division of WT Financial Group Limited
Head Office: Level 5, 95 Pitt Street Sydney NSW 2000
Telephone: 02 9248 0422