

Certain Non-Concessional Residents: Issues of Equity (Handout)

Assumptions

- MPiR = 6.95% (May 2013)
- Minimum permissible asset level = \$43,000 (May 2013)
- Daily Accommodation Payment (DAP) = \$60
- Equivalent Refundable Accommodation Deposit (RAD) = \$314,244.60

Scenario 1

Resident’s total assets = **\$160,000**
 Resident’s annual income = **\$22,701**

If a person with these financial circumstances wished to enter a facility with a DAP of \$60 and RAD of \$314,244.60, they could do so in the following ways:

- Pay the full DAP of \$60 per day (for example, drawing on their \$160,000 worth of assets); or
- Pay a combination of RAD and DAP, where the RAD can be up to a maximum of \$117,000 (to be left with the minimum permissible asset level of \$43,000).

In a combination payment they may choose to draw down part or all of the DAP from the RAD.

The following example illustrates a resident who has chosen to pay the maximum RAD, to draw down the DAP from the RAD, and to have the DAP increased to compensate for the reducing RAD balance.

The maximum RAD this resident can pay is \$117,000 (leaving the minimum permissible asset level of \$43,000), which leaves an opening DAP of \$37.66 to cover the difference up to the \$60 DAP that has been agreed.

The resident can choose to have the DAP component deducted from the RAD. If agreed, the amount of DAP can be increased to compensate for the reducing RAD balance.

Assuming that the resident and the provider agree that the amount of DAP can be increased after each payment, and that payments are made monthly, an example of the payment schedule in this scenario is as follows:

	Daily payment	Refundable deposit balance
Opening	\$37.66	\$117,000.00
After 1 year	\$40.40	\$102,807.62
After 2 years	\$43.30	\$87,550.12
After 3 years	\$46.40	\$71,239.92

Scenario 2

Resident’s total assets = **\$358,000**

In the second scenario you present, where a resident is a part-pensioner with assets of \$358,000, the resident could pay for their accommodation by a full RAD of \$314,244.60.

This would leave the resident with assets of \$43,755.40, which is above the minimum permissible asset level.

The resident could also choose to pay by daily payment of \$60 (for example, drawing on their \$358,000 of assets) or by any combination of RAD and DAP (that leaves them with the minimum permissible asset level of \$43,000), including drawing down the DAP from the RAD.

Overview:

In Scenario 1, the lower-asset resident has had their RAD reduced to \$87,550 after two years; add back the \$43,000 preserved amount and their assets are valued at \$130,500. So their accommodation has cost them \$29,450 for two years.

Meanwhile, their Scenario 2 friend, who has 2.2 times their assets, still has the \$358,000 they started out with. If these two people entered aged care today, after two years they would both have had \$7,752 reduced from their RAD via the current retentions policy. **So, the richer resident is \$7,752 better off, and the poorer resident is \$21,698 worse off.**