

04 September 2015

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Case Study on RAC's & DAC's

Why not pay extra RAC!

As interest rates stay very low, we see many clients who use our residential agreements asking us about families who want to pay the full applicable Refundable Accommodation Contribution (RAC) themselves to avoid having the resident paying any Daily Resident Contribution (DAC).

Challengingly, the family's decision to do so should often be based on whether a service has significant refurbishment funding approved and/or whether the service has more than 40% low means residents. Confused? Read on:

Case Study – Mrs Jones

Assets:	Cash	\$ 6,000
	Retirement Village Unit Payout	92,000
	Household Effects	2,000
		\$100,000

Mrs Jones has \$100,000 in assets and is therefore assessed as "low means".

Mrs Jones' DAC at entry is $$(100,000 - 46,000) = \$54,000/2080 = \$25.96/\text{day}$.

Mrs Jones elects to pay \$54,000 as a RAC on entry and pays a further \$46,000 some 29 days after entry, to a total of \$100,000.

After paying the \$100,000 RAC, Mrs Jones' DAC is reduced by
 $\$100,000 \times 0.0615/365 = \$16.85/\text{day}$.

Mrs Jones new DAC is \$9.11/day.

Mrs Jones's family would like to pay additional RAC to bring the DAC to zero.
i.e., pay $\$9.11 \times 365/0.0615 = \$54,067$

So, if Mrs Jones' family pays \$54,067 to the provider, the service would hold
\$154,067 and reduce the \$25.96/day DAC to zero.

But, personal loans from the family are shown as assets with no accompanying
liability on Centrelink assessments. Accordingly, Mrs Jones will be shown as
having net assets of \$154,067 on her next quarterly assessment and the DAC
will be re-calculated.

The new DAC would be assessed as:

$\$(154,067 - 46,000) = \$108,067/2080 = \$51.96/\text{day}$

So, to cover a \$51.96/day DAC, the family and Mrs Jones would need to lodge
a total RAC of:

$\$51.96 \times 365/0.0615 = \$308,380$ (i.e., pay a further \$154,313.)

Note: But, if the family actually paid another \$154,313, then Mrs Jones would
have to also pay an asset tested fee component!

Now, if the service where Mrs Jones resides is not eligible for significant
refurbishment funding, and has less than 40% low means, then Mrs Jones can
only be charged a maximum of \$26.09/day (or \$154,843), so the big increase is
not applicable (yet).

Or, if the service Mrs Jones lives in is eligible for significant refurbishment
funding, but has 40% or less low means, then the maximum is \$40.04/day
(or \$237,636).

The Solution: Provide the family with information sheets on RAC's and DAC's
and encourage them to get financial advice. (Note: We are not financial
advisers.)

Residential Care Places for Sale

South East Sydney

4 places \$44,000/place Currently vacant and surplus to requirements
Could also transfer to other NSW regions,
subject to DSS approval.

2 - 4 places \$55,000/place Currently vacant. Considering sale.
Could also transfer to other NSW regions,
subject to DSS approval.

Tasmania

68 places \$39,000/place Currently vacant.
Could transfer to any Tasmanian region,
subject to DSS approval.

North Sydney

89 places Provisional approvals.
Could also transfer to other NSW regions,
subject to DSS approval

Sale Prices of Residential Aged Care Bed Licences 2014/15

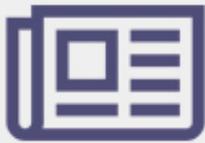
Each year, James Underwood & Associates prepares an advice on the sale prices of residential aged care bed licences in each state across Australia.

To order your copy of the advice, please contact Katrina Mensah on
T: (07) 3229 8955 or via email, katrina@underwoods.com.au.

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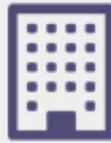
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Ph: 07 3229 8955
Fax: 07 3229 5435
A/H: 0419 765 001

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