# Challenger Tech

**October 2018**

## The family home assessment for aged care residents

**By Michael McLean, Technical Services Manager**

A common question Challenger Tech receives from advisers is 'How is the family home assessed for my aged care client?'. There are a few elements required to answer this question, and it can be confusing because there could be different assessments for residents who entered care on different dates. In this article we discuss the evolution of the assessment of the family home of aged care residents for both the aged care means test and Age Pension assessment.

There could be different assessments for residents who entered care on different dates.

### Homeownership and the principal home

The concept of a homeowner can be simple if a client merely owns a house or unit and lives there. However, the definition of a 'home' could mean different things to different people. The definition of a 'homeowner' is therefore not so straight forward. Social security law has evolved over time to encapsulate various forms of principal homes.

For social security, a person is considered a homeowner if they have or their partner has:

- a right or interest in their principal home, and
- the right of interest gives them reasonable security of tenure in the home.

A principal home is generally the home in which a person lives for the greatest amount of time each year and can include an area of adjacent land on the same title document. Adjacent land to the home up to two hectares can be assessed as part of the principal home if it is used primarily for private or domestic purposes, i.e. it is not used for running a business.

Furthermore, land above two hectares (approximately five acres) on the same title, for example farm properties, may be exempt under the extended land use test if the following conditions are met:

- the person has reached Age Pension age,
- the person is qualified for Age Pension or Carer Payment,
- the house has been their home for 20 years or more continuously, and
- the person is making effective use of land.

But the principal home is not always a house or unit owned by a person. Centrelink considers that the principal home can also include:

- boats,
- caravans,
- special residences:
  - retirement villages,
  - granny flat interests, or
  - sale leaseback arrangements.

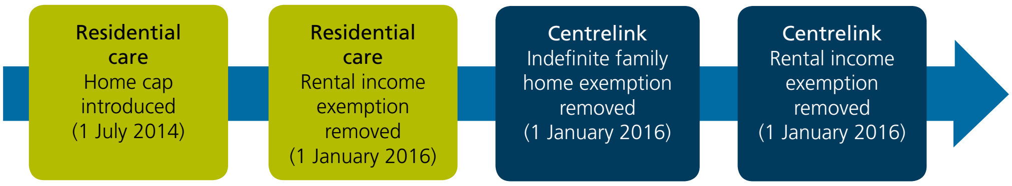
This article will focus on standard home ownership, with reference to retirement villages and granny flat interests.

It is important to note that the principal home, or family home, assessment is different for aged care and Age Pension purposes. For example, you could see a client where their home is assessed for aged care but not for Age Pension.

> The family home assessment is different for aged care and Age Pension purposes.

Additionally, the assessment of the family home for aged care residents has seen changes in recent years which means it can sometimes be different depending on when they entered care.

**Chart 1: Important dates – family home assessment for aged care residents**




## Aged care assessment

### Assets Test

The family home is exempt for the purposes of the aged care means test where it is occupied by a protected person. A protected person includes a:

- spouse or dependent child,
- carer eligible for an income support payment who has been living in the home for the past two years, and
- close relative eligible for an income support payment who has been living in the home for the past five years.

Where the family home is not occupied by a protected person, the home is assessed up to the home cap. The home cap was introduced as part of the 1 July 2014 reforms and is currently $166,707 as at 20 September 2018.

> For aged care purposes, where the family home is not occupied by a protected person it is assessed up to the home cap.

## Extended land use test

For properties above two hectares, if the extended land use test is met for Age Pension purposes then the whole property will be assessed as the principal home and exempt for aged care purposes if there is a protected person living in the home. If there is no protected person living in the home, then the home cap will apply to the whole property.

If the extended land use test is not met when a client enters aged care, then only up to two hectares can be assessed as the principal home for aged care and would be assessed up to the home cap if there is no protected person living in the home. The land above two hectares would be counted as an asset.

## Retirement villages and granny flat arrangements

A former retirement village resident will generally be treated as a homeowner for the purposes of the aged care means test whilst they maintain an interest in the unit. The home cap will apply to the amount that would be refunded to the former retirement village resident upon vacating the unit if no protected person remains living there.

A person who had a granny flat interest upon moving into aged care will generally be assessed as a non-homeowner for aged care purposes because they do not have title to their home and may not be refunded an amount when they vacate it. Whether or not there is an assessable value associated with the granny flat interest going forwards depends on the terms of the agreement. For example, if the resident maintains the ability to rent out the home whilst they live in aged care, then there can be assessable income and an asset value associated with the life interest.

## Income Test

The net rental income from the family home (if any) will be assessed for the purposes of the aged care means test. However, if a client entered care before 1 January 2016, then rental income will be exempt if they are also paying a daily accommodation payment (DAP) or daily accommodation contribution (DAC).

For a couple, the exemption applies individually. This means you could see a scenario where the rental income from the family home is exempt for one spouse, but assessed for the other spouse, leading different means-tested care fees for each.

## Age Pension assessment

### Assets Test

A person's family home is exempt for Centrelink/DVA purposes whilst they live in it. Where a person enters residential aged care and keeps the family home, it will automatically be exempt under the Assets Test for two years from the date they leave the home.

For couples, the family home will be exempt for as long as one member of the couple continues to live in it. The family home will automatically be exempt under the Assets Test for two years from the date the last member of the couple leaves it.

Tip:
The two-year exemption period applies to Age Pension assessment only. It does not apply to the aged care assessment.

> Where a person enters residential aged care and keeps the family home, it will automatically be exempt under the Assets Test for two years from the date they leave the home.

## Indefinite exemption

For people who entered residential aged care before 1 January 2017, the two-year Assets Test exemption for the former home will be extended to an indefinite exemption and the person or couple will remain a homeowner where the following conditions are met:

- the resident is accruing a liability to pay a daily accommodation payment (DAP) or daily accommodation contribution (DAC), and
- the family home is rented out.

For example, a single resident who moved into care before 1 January 2017, has paid $490,000 of their agreed $500,000 accommodation price, and is renting out their family home, will have the home exempt from the Age Pension Assets Test under the indefinite exemption.

**Trap:**
Clients who have paid their full accommodation lump sum will not be eligible for this exemption.

The ability to receive the indefinite exemption is not lost forever if the resident does not meet the above conditions after two years. For example, a resident moved into care before 1 January 2017, pays a DAP and did not rent their home. Two years later, they become a non-homeowner, their home counts as an asset and they lose their Age Pension. Subsequently, if they begin to rent out their home and continue to pay a DAP, the resident becomes a homeowner again and their home is exempt.

For a couple, the indefinite exemption is available for both spouses if one spouse meets the above conditions. For example, if one spouse entered care before 1 January 2017, is paying a daily accommodation amount and they are renting out the home, then the family home remains exempt indefinitely for both spouses. This is the case even if the second spouse moved into care after 1 January 2017.

## Extended land use test

For those who live on properties greater than two hectares, the extended land use test will continue to apply for Age Pension purposes if it applied for the person immediately before entering aged care. Where the extended land use test applies, the whole property is exempt for two years when a person moves into care and can be exempt past two years if the conditions for the indefinite exemption are met.

## Retirement villages and granny flat interests

For special residences, a pensioner is considered a homeowner if the lump sum amount they paid for their home, known as the entry contribution (EC), is greater than the extra allowable amount (EAA) at the time of payment. The extra allowable amount is the difference between the single homeowner and single non-homeowner thresholds, currently $207,000 as at 20 September 2018.

For special residences, a pensioner is considered a homeowner for Age Pension purposes if the lump sum amount they paid for their home, known as the entry contribution (EC), is greater than the extra allowable amount (EAA) at the time of payment.

If the person is considered a homeowner, then their EC is exempt from the Assets Test and they are subject to the homeowner asset thresholds for Age Pension. Retirement village residents who are non-homeowners will be subject to the non-homeowner thresholds and their EC will count as an asset (but not assessed under the Income Test).

When retirement village residents enter aged care, retirement villages can take months or more to return the exit amount to clients, so there may be a significant period during their aged care stay where they have this asset.

Their homeowner status for Age Pension purposes will remain until their interest in the unit is sold. For example, if they were homeowners before entering aged care, then they will remain homeowners whilst they have not received their exit amount. Once the unit is sold and they receive their exit amount, they will be non-homeowners.

A person who had a granny flat interest upon moving into aged care will generally be assessed as a non-homeowner for Age Pension purposes, unless they intended to return to it or a spouse remained living in it. This can depend on the terms of the agreement, which may stipulate conditions when a person moves into aged care.

A granny flat interest may continue to be assessed for Age Pension purposes if the resident maintains the ability to receive income from the life interest.

## Income test

The net rental income from the family home (if any) will be assessed for the purposes of the Age Pension Income Test. However, if a client entered care before 1 January 2017, then rental income will be exempt if they are also paying a daily accommodation payment (DAP) or daily accommodation contribution (DAC).

## Summary

Given that there are several exemptions and various dates to keep on top of, below are two summary tables to help put the family home assessment for aged care residents into perspective. There is also a decision tree flowchart at the end of this document, which can be used as a guide for understanding how the home interacts for different client cases. The Challenger Aged Care Calculator can also help by modelling client aged care client scenarios, including determining the appropriate family home assessment.

The Challenger Aged Care Calculator can help by modelling client aged care client scenarios.

**Table 1: Family home exemption eligibility for aged care assessment based on different entry date periods for residential care**

| **Exemption availability (aged care)** | **Entry pre-1 Jan 2016** | **Entry 1 Jan 2016 – 31 Dec 2016** | **Entry from 1 Jan 2017** |
|---|---|---|---|
| *Income Test* | | | |
| Aged care rental income exemption | Yes[i] | No | No |
| *Assets Test* | | | |
| Aged care protected person exemption | Yes[ii] | Yes | Yes |

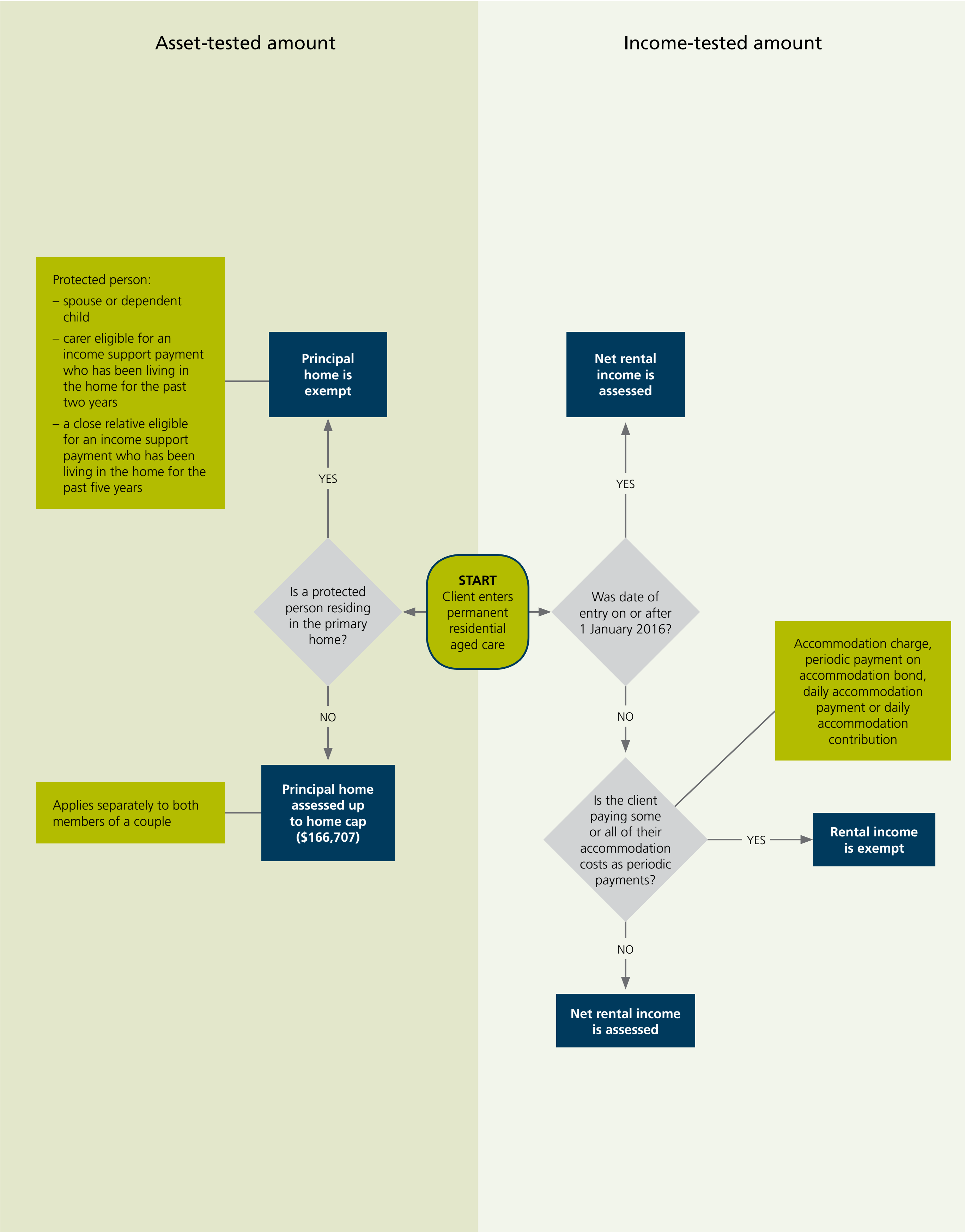
i Subject to paying a daily accommodation amount and renting out the home
ii The home cap was introduced from 1 July 2014

**Table 2: Family home exemption eligibility for Age Pension assessment based on different entry date periods for residential care**

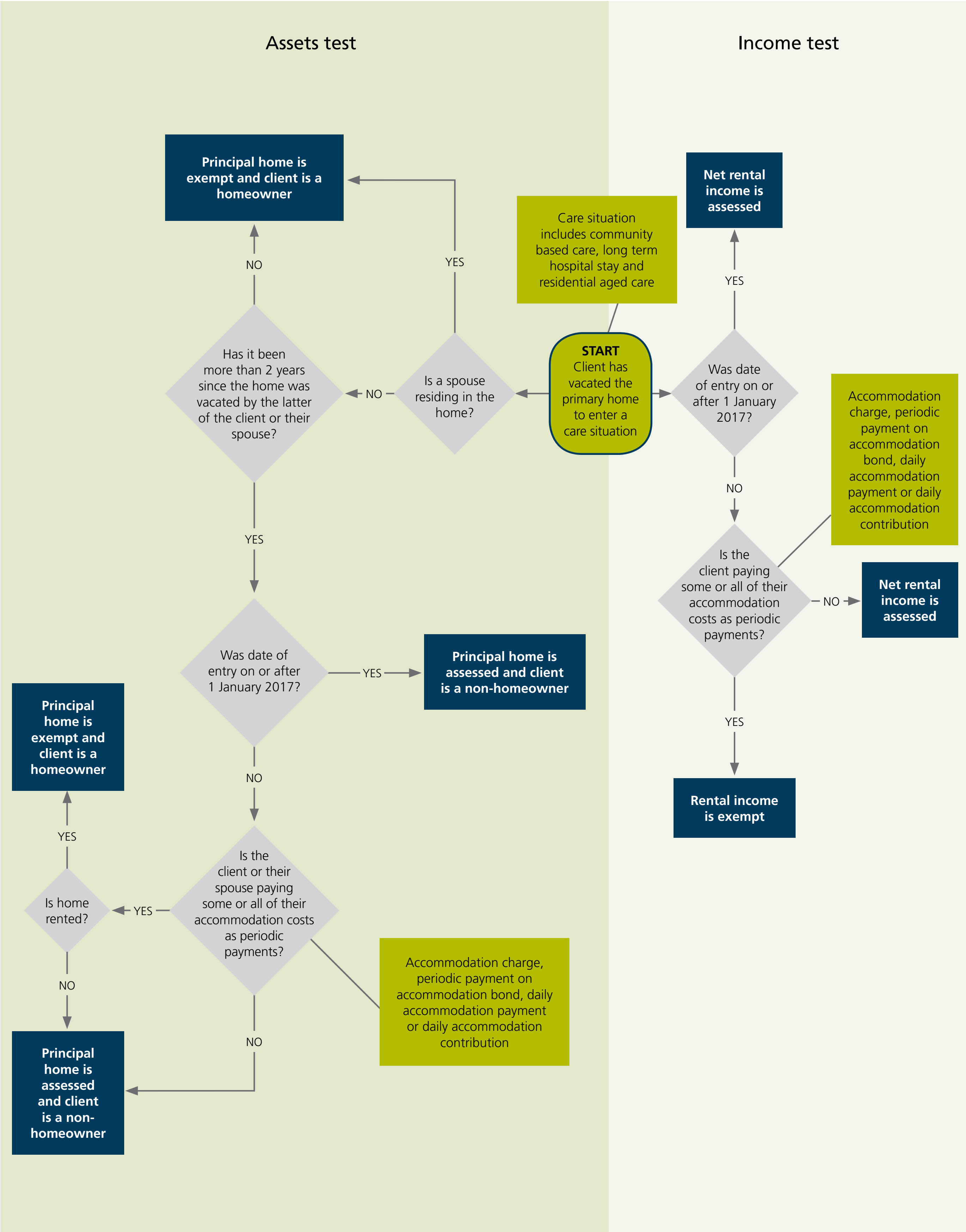
| **Exemption availability (Age Pension)** | **Entry pre-1 Jan 2016** | **Entry 1 Jan 2016 – 31 Dec 2016** | **Entry from 1 Jan 2017** |
|---|---|---|---|
| Income Test | | | |
| Age Pension rental income exemption | Yes[i] | Yes[i] | No |
| Assets Test | | | |
| Age Pension two-year exemption | Yes | Yes | Yes |
| Age Pension indefinite exemption | Yes[i] | Yes[i] | No |

i Subject to paying a daily accommodation amount and renting out the home

## Principal home treatment for aged care



## Principal home treatment for Age Pension for care situation



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