



WealthAdviser

Renting out your family home

IMPLICATIONS FOR WHEN
YOU MOVE INTO AGED CARE





Before you get started

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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.

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Letter from the Wealth Adviser Library

Dear **Reader**

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

[Wealth Adviser Library](#)



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Renting Out Your Family Home: Implications for When You Move into Aged Care

Many Australians have a significant amount of wealth tied up in their family home when it comes time for them to move into aged care, not to mention many precious memories. It's important to understand the implications of either keeping your home and renting it out or selling it. The decision can have a significant impact on your eligibility for both aged care and social security benefits. Many of these benefits are means tested via both assets and income tests.

In this eBook, we will look at the pros and cons of keeping your home and renting it out versus selling it. We will also look at case studies. The eBook will also be useful for your adult children if they have (or will have) an enduring power of attorney over your affairs. More and more Australians will find themselves in this position as our population ages and life expectancies increase. By 2050, it is forecast that 3.5 million Australians will be living in aged care.¹



1. https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/AgedCare



The pros and cons of keeping your home and renting it out

Pros	Cons
<p>✓ Rental income can assist with ongoing aged care fees (such as the Basic Daily Care Fee*, see definition below the table).</p>	<p>X Retaining the family home may mean you don't have enough money to pay for the Refundable Accommodation Deposit (RAD) when you move into aged care.</p> <p>If you can't, you will be required to pay a Daily Accommodation Payment (currently 4.1% of any unpaid RAD).</p>
<p>✓ The potential for capital growth over time. Australian residential property has a long-term growth trend throughout history, especially properties in good locations (for example, in inner city areas).</p>	<p>X The rental income will be included in your income test for both aged care and social security benefits, which could adversely affect your entitlements. For example:</p> <ul style="list-style-type: none"> • it may reduce the amount of age pension you're eligible to receive or make you ineligible to receive any age pension. If you are already 'income-test sensitive' prior to renting out your family home, each dollar of rental income you earn will reduce your age pension by 50% until it is eroded completely. • it may mean you pay an increased Means-Tested Care Fee**** (see definition below the table). If you are already 'income-test sensitive' prior to renting out your family home, each dollar of rental income you earn will increase your Means-Tested Care Fee by 25% (up to the maximum fee amount).
<p>✓ There is an aged care security assets test exemption for the family home after moving into an aged care facility, provided that it is not resided in by anyone other than a 'protected person'*** (see definition below the table).</p>	<p>X If the home is left vacant or resided in by someone other than a 'protected person'***, up to \$171,535 worth of the value of the home will be included in your aged care assets test.²</p>
<p>✓ There is a social security assets test exemption for the family home after moving into an aged care facility for up to two years, provided that it is not resided in by anyone other than a 'protected person'***.</p>	<p>X If the home is left vacant or resided in by someone other than a 'protected person'**, the value of the home will be included in your social security assets test after two years.</p>
<p>✓ The net value of a family home is capped at a concessional rate for means testing purposes when you are in aged care and no longer residing in it after two years. The cap is currently \$171,535.</p>	<p>X There is no guarantee the property will always be able to attract tenants.</p>

2. <https://www.health.gov.au/sites/default/files/documents/2020/12/schedule-of-fees-and-charges-for-residential-and-home-care-schedule-from-1-january-2021.pdf>



<p>✓ There is a capital gains tax (CGT) exemption for your main residence for up to six years while you are renting it out. This means you can rent your home out for up to six years after you move into aged care without incurring any CGT liability.</p> <p>This exemption also applies to any beneficiaries who inherit the home after your death. They can continue to rent it out for an additional two years before the property loses its CGT exemption.</p> <p>However, it's important to understand that if you rent it out for longer than six years, you will lose your CGT exemption for the subsequent years.</p>	<p>X The property may need significant (and costly) repairs, maintenance, or renovations to be marketable to tenants, especially if it is an old property.</p>
<p>✓ 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.</p>	<p>X You may need to pay for a property manager to look after all aspects of renting the home.</p>

* Basic Daily Care 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 pension rate.³

** A 'protected person' includes:

- a spouse,
- a carer who is eligible for an income support payment and who has lived in the home for the last two years or more,
- a parent, sibling, child or grandchild who is eligible for an income support payment and who has lived in the home for the last five years or more,
- a dependent child under the age of 16, or
- a full-time student under the age of 25.

*** Refundable Accommodation Deposit

This is a lump sum that gets partially refunded (i.e. less fees and moving out costs) when you

leave the facility. The amount of the RAD and the refund policy varies depending on the type of accommodation and the aged care provider you choose. The maximum that you can currently be charged for a RAD is \$550,000.⁴

**** Means-Tested Care Fee

This fee includes any costs associated with any personal or clinical care that you may require. For example:

- help with dressing, grooming, bathing and/or going to the toilet.
- specialised nursing services, assistance with your medication and/or catheter care.
- You will pay more the more assets and/or income you have (and vice versa), up to a maximum of \$256.44 per day.⁵

3. <https://www.myagedcare.gov.au/aged-care-home-costs-and-fees>

4. <https://www.health.gov.au/sites/default/files/documents/2020/09/schedule-of-fees-and-charges-for-residential-and-home-care-schedule-from-20-september-2020.pdf>

5. <https://www.myagedcare.gov.au/aged-care-home-costs-and-fees>



Case study 1

Anne is single and her family home is worth \$600,000. She is about to enter aged care. She currently has minimal other assets and income, so she is eligible for the full single pension rate of \$944.30 per fortnight.⁶ Her refundable accommodation deposit is \$300,000 and she has not needed to submit a tax return in more than 20 years.

If she decides to rent her home out, she will need to borrow her entire refundable accommodation deposit (\$300,000). She will be charged a Daily Accommodation Payment of 4.1%. This payment will be calculated using the following formula:

The DAP is calculated as follows:

$$\frac{\text{accommodation deposit} \times \text{the interest rate}}{365}$$

So in Anne's case, her Daily Accommodation Payment would be:

$$\begin{aligned} & \$300,000 \times 4.1\% \\ & 365 \\ & \$33.70 \end{aligned}$$

This daily payment would add up to \$12,300 per year. Any rental income that she receives for renting her home out could be used to pay both this fee and her Basic Daily Care Fee (which is currently a maximum of \$52.25 per day or \$19,071.25 per year).

However, the income she receives from renting her property out may require her to submit a tax return and pay tax if her income exceeds the tax-free threshold after allowing for tax-deductible expenses.

Anne's rental income will also be included in her income test to determine her Means-Tested Care Fee if necessary and her ongoing eligibility for the age pension. The value of the home won't be included in the assets test for the age pension for two years after she has moved into aged care.

In addition, if she rents her home out to a non-protected person (i.e. not an eligible carer or eligible relative), her home will be valued at \$171,535 for the purposes of the assets test to assess her eligibility for the Means-Tested Care Fee. This may increase the fee that she would otherwise pay. As mentioned earlier, the Means-Tested Care Fee can be up to \$256.44 per day, depending on the level of care required.

Anne won't incur any CGT liability for up to six years while she rents her home out and she will have the opportunity for her home to increase in value over that time.

On the other hand, if Anne decided to sell her home to fund her refundable accommodation deposit, she won't have to make a Daily Accommodation Payment and she won't have to submit a tax return if her rental income exceeds the tax-free threshold. However, if she invests the surplus funds (i.e. the \$600,000 proceeds of her home less her \$300,000 refundable accommodation deposit), this amount will be included in her assets test for the Means-Tested Care Fee.



6. <https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get>



Case study 2

Ron and Sandy are self-funded retirees and are looking to move into aged care. Their family home is worth \$900,000. They have \$350,000 in term deposits and receive combined super balances of \$800,000. They each currently don't receive any age pension because they fail the assets test.

If they decide to rent their home out and use their \$350,000 to pay for their refundable accommodation deposit, they won't need to pay the Daily Accommodation Payment in aged care. They will also be able to use the rental income to pay for any Means-Tested Care Fees they require, as well as to cover their Basic Daily Care Fee.

In addition, the value of their home will be exempt from the assets test for the Means-Tested Care fee, and it will be exempt for two years from the assets test for the age pension.

They may be able to pass the assets test to qualify for a part-pension due to this exemption and the fact that they no longer have their large term deposit.

Provided they can also pass the age pension income test (including the rental income they generate), they will be eligible for a part pension. The current income limit for couples to receive a part pension in Australia is \$3,188.40 per fortnight.⁷ The income generated from the rental property will require them to do a tax return if their taxable income (i.e. after allowing for tax-deductible expenses) exceeds the tax-free threshold.

Their home will remain exempt from CGT for up to six years after they have moved into aged care and they will have the opportunity for capital growth if its value increases.

The bottom line

Deciding whether or not to rent or sell the family home when you (or your ageing parent/s) move into aged care is a big decision that can have serious financial implications. There are pros and cons of both options, but they depend on your individual circumstances. It's important to do a financial cost/benefit analysis, but the calculations and the considerations can be complex. It's best to seek professional advice that's based on your specific financial situation, needs and goals.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.



7. <https://www.superguide.com.au/in-retirement/age-pension-income-test-thresholds>



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 _____



Readers Notes



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