Note: Examples provided in this information sheet are based on figures current at the time of preparation

10. Simpler and Fairer Income Tested Fees

From 20 March 2008, the arrangements governing income tested care fees will be simplified and made fairer.

As currently, the basic subsidy payable in respect of some residents will be reduced by an income tested reduction, depending on their income and the cost of their care.

Aged care providers will continue to be able to recover this reduction from residents by charging them an additional income tested fee up to the level of the income tested reduction.

Calculating the income tested fee
From 20 March 2008, the maximum level of a resident's income tested fee will be based on their total assessable income rather than the level of their non-pension income. The maximum level of a resident's income tested fee will therefore no longer depend on whether the resident is a pensioner or a self funded retiree.

The maximum level of a resident's income tested fee will be equal to 5/12 of any assessable income in excess of the maximum income of a full pensioner. This threshold is currently $675.50 per fortnight for a single person and $659.50 per fortnight for a member of an illness separated couple.

However, a resident's income tested fee cannot be greater than an indexed cap equal to 150 per cent of the annual single basic age pension. This cap is currently $55.28 per day.

A resident's income tested fee can also not be greater than the cost of their care (that is, the amount of the Australian Government basic subsidy and primary supplements that is paid in respect of the resident).

All residents who are receiving permanent care in an aged care home on 19 March 2008 will also be protected while they remain in that home so that their income tested fee will never be greater than it would have been if the current arrangements had continued.

Examples
Note: The pension is indexed on 20 March and 20 September each year. The following examples are based on pension amounts as at 1 January 2008.

Mrs Bell is single and a full pensioner. She has private income of $80 a fortnight on top of her pension of $543.50 a fortnight. Because her total assessable income is below $675.50 a fortnight, she cannot be asked to pay an additional income-tested fee.

Mr Smith is a single self funded retiree. He has private income of $610.90 a fortnight. Because his total assessable income is below $675.50 a fortnight, he cannot be asked to pay an additional income-tested fee.

Ms Reilly is single and has non-pension income of $300 a fortnight on top of her part pension, which is worth $462.10 per fortnight. Her maximum income-tested fee would be 5/12 of her total assessable income over $675.50 per fortnight. That is, $2.57 a day.

Mr Kostas is a married pensioner. He and his wife have combined non-pension income of $600 a fortnight on top of their part pensions. His total assessable income is $758.10 per fortnight and his maximum income-tested fee would be 5/12 of his total assessable income over $659.50 a fortnight. That is, $2.93 a day.

Mr Jones is a married non-pensioner with private income of $3000 a fortnight. His maximum income-tested fee would be 5/12 of his total assessable income over $659.50 a fortnight. He could therefore be asked to pay an income tested fee of up to $69.18 a day. However, the current maximum income tested fee is $55.63 and so his income tested fee would be reduced to this amount. Moreover, if the amount of the Australian Government basic subsidy and primary supplements that was paid to the provider in respect of Mr Jones was less than $55.63, then his income tested fee would be further limited to that lower amount.

Can all residents be asked to pay income tested fees?
Pensioner and non-pensioner residents with total assessable income less than the maximum income of a full pensioner cannot be asked to pay an income tested fee.

In addition, a resident cannot be asked to pay an income tested fee if they:

- are a respite resident
- are a former prisoner of war
- were receiving residential care at any time after 30 September 1997 and before 1 March 1998
- have a dependent child
- have an income tested fee reduction of less than $1.00 per day, as it will be deemed to be zero.

Residents will continue to be exempt from an income tested fees:

- for the first 28 days of their care (including periods of authorised leave);
- if they leave an aged care home (without entering another) before the Department has informed the provider of the resident's income tested reduction; and
- if they die before the Department has informed the provider of the resident's income tested reduction.

Administrative arrangements
A resident's income tested reduction will continue to be determined provisionally at the start of each quarter. At the end of each quarter the resident's income tested reduction will be reviewed.

If the provisional reduction was set too high the provider will be refunded the difference and be required to refund the resident as currently. If the provision fee was set too low, no additional reduction will be levied for the previous quarter.

A resident's income tested reduction will only be increased at the end of a quarter if the increase is more than $1.40 per fortnight.

What is income?
Income for aged care purposes is not the same as taxable income.

Income, for aged care purposes, is any money, valuable consideration or profits you may have earned, derived or received from within, or outside, Australia. It includes, but is not limited to:

- income support payments from the Australian Government, such as the age pension, a service pension or an income support supplement
- deemed (not actual) income from financial investments (see below for information on deemed income)
- net income from rental property (see below for concessional treatment for some residents)
- war widow/widower pension and some disability pensions
- net income from businesses, including farms
- superannuation and overseas pensions, income from income stream products such as annuities and allocated pensions;
- family trust distributions or dividends from private company shares; and
- deemed income from excess gifting.

Gifting
Since 1 January 2007, the rules for gifting for the aged care assets test have been brought into line with the rules for the pension assets test.

Assets gifted away on or after 10 May 2006 will be assessable. Any amount given away from 10 May 2006 over $10,000 in a single financial year or $30,000 in a five financial year period will continue to be counted as an asset.

In addition if a resident gives away more than the amount allowed, income will be deemed on the excess for the next five years.

How does deeming work?
Deeming assumes that bank accounts and other financial investments are earning a certain rate of income, no matter what income they are actually earning.

Financial investments include:

- bank, building society and credit union accounts
- cash
- term deposits
- cheque accounts
- friendly society bonds
- managed investments
- listed shares and securities
- loans and debentures
- shares in unlisted public companies
- gold and other bullion.

Financial investments do not include:

- the resident's home or its contents
- cars, boats and caravans
- antiques, stamp or coin collections;
- standard life insurance policies
- holiday homes, farms or other real estate
- accommodation bonds.

Under the deeming rules, the actual income earned on an asset is not counted. This means that if the resident earns more than the deemed income, the extra is ignored.

The deemed income is calculated as follows:

Step 1: The values of a resident's financial investments are added together.

Step 2: The first $39,400 ($32,700 for a member of a couple) is deemed to earn the lower deeming rate (currently 3.5%).

Step 3: Amounts over $39,400 ($32,700 for a member of a couple) are deemed to earn the higher deeming rate (currently 5.5%).

Step 4: Income from Steps 2 and 3 is added together to work out the resident's total deemed income.

Note: *The deeming thresholds (currently $39,400 for a single person and $32,700 for a member of a couple) are indexed to the Consumer Price Index on 1 July each year. Deeming rates are monitored to ensure they reflect appropriate rates of return. Any changes to the deeming rates are made in March or September, when pensions are indexed.*

Rental income
There is special treatment of rental income for residents requiring high (nursing home) level care who pay an accommodation charge and rent their former home.

For these residents:

- rental income from the former home will be exempt in full from the pension income test and for aged care fees while they are paying the accommodation charge; and
- the value of the home will be exempt from the pension asset test while they are paying the accommodation charge.

Residents in low level care or Extra Service who pay all or part of the accommodation bond by periodic payments are able to rent out their former home without the value of the home or rental income affecting their pension.

However, there is a general exemption for up to two years from the pension asset test of the former home for people entering residential care who do not meet the above special conditions.