Taking the DAP from the RAD

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One of the most common questions our clients ask is ***"How are we going to pay the RAD?"***

Since the aged care reforms clients can choose to pay for their cost of accommodation by RAD, DAP or a combination. Combination payments include the ability to choose to have their DAP deducted from their RAD.

The client's chosen payment method can have wide ranging implications from their pension entitlement to the money left to their estate and their cost of care. When determining how to fund the accommodation payment, consideration needs to be given to all of the potential impacts. For client's little income having the DAP deducted from the RAD can be a simple solution, but attention needs to be given to the reduction of assets over time. When looking at the longer term impact children often consider loaning some of the money for the RAD.

Let's look at an example of the choices clients can make in funding their cost of accommodation.

Fred is an 81 year old widower who lives with his daughter, Claire. Fred and his other children wish to enable Claire to continue living in the home after Fred moves into care. Claire meets the criteria to exempt Fred's home from his asset assessment.

<u>Fred's Assets</u>

House	\$700,000 (exempt)
Investments	\$230,000
Contents	\$10,000

Fred has found an Aged Care Facility he would like to move to, keeping him close to his family and friends. The bed in the facility Fred likes is **\$450,000.**

The maximum amount Fred can pay towards his RAD is \$194,500, with a DAP of \$47.25p.d. Paying the DAP would create a negative cash flow for Fred of around \$12,000p.a and reduce his investments to zero in around 3 years.

Let's look at what happens if Fred:

1. **Pays $194,500 towards his RAD, with the remainder by DAP. Having the DAP deducted from the RAD**

2. **Pays $194,500 towards his RAD, pays $10,000 by DAP and allows the Family to loan him $245,500 to top up his RAD**

1. Paying $194,500 and deducting the DAP from the RAD enables care to be affordable for Fred and gives him a small surplus income of around $5,200p.a.

However, Fred's DAP increases each month, accelerating the reduction of his RAD – giving less back to his estate. Fred's RAD reduces to **$92,271 after 5 years** and will be **zero in around 8.5 years**.

2. Fred's son has offered to pay $245,500 towards the RAD as an interest free loan.

While the RAD is exempt from the calculation of Fred's pension entitlement it is assessable for the calculation of his Means Tested Care Fee, and increases his MTCF by around $10p.d.

Leaving a DAP payment of $1.85p.d enables Fred to keep his former home (and rent received) exempt beyond the 2 year general exemption.

Fred has a positive cash flow of around $1,500p.a

When Fred leaves the facility and repays the loan to his son the balance of his **RAD** refund will be **$194,500**.

Understanding the choices available and the impacts of those choices comes from Fred receiving quality financial advice.