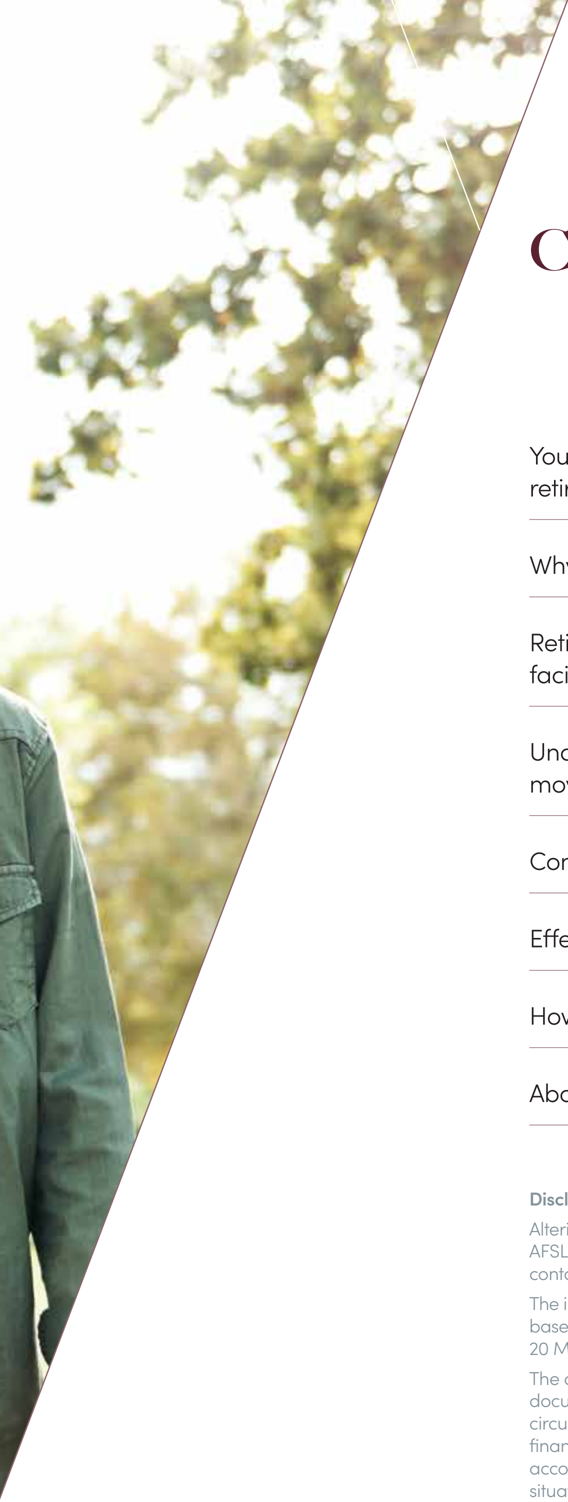
ALTERIS FINANCIAL GROUP

Your Financial Guide to Village Living

Rightsize with confidence

Wealth / Accounting / Lifestyle / Care



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Disclaimer

Alteris Financial Group Pty Ltd ABN 59 133 479 115 AFSL No 402370 is responsible for the information contained in this guide.

The information is general in nature and is based on rates and thresholds current as at 20 March 2024.

The application of the information in this document will depend on your specific personal circumstances. We recommend you consult a financial adviser whose advice will take into account your particular objectives, financial situation and individual needs.

Your guide to living in a retirement village

Many Australians who decide to downsize after retirement find themselves considering a move to a retirement village.

When examining your options there can be so much information to consider, making it difficult to make a confident decision.

At Alteris, we specialise in understanding the financial implications of a move to a retirement village, and we can work with you to make sure every detail is considered when making this decision.

This brochure highlights some important points to consider when deciding if a retirement village is the best option for you.

Why choose a retirement village?

We often hear from our clients that moving to a retirement village is a lifestyle decision. When looking to downsize, there are many great advantages to retirement village living. We've outlined a few of the main advantages our clients list here.

Independence, with a strong sense of community

After years of maintaining the family home, one of the best aspects of retirement village living is having someone else take care of these tasks to give you the independence to spend your time doing the things you enjoy. Many retirement villages give residents easy access to pools, tennis courts, cafes and libraries.

Living independently while having the opportunity to socialise with like-minded people within the same community can create the perfect environment for a happy and fulfilling retirement.

Living in an area you like, without the price tag

One of the great advantages of retirement villages is that they are often very attractively priced when compared to similar freehold properties in the same area. This may give you greater choice in where you live so you can be closer to family or specific amenities in an area you may not have previously been able to afford.

Greater security

For people concerned about their personal security, retirement villages can be an attractive option because they tend to be highly secure. They are often gated communities with emergency response services, which can give residents a feeling of security and a stronger sense of wellbeing when compared to living in a freehold or strata property.

How do I know it is the right option for me?

Perhaps the best means of judging whether village life is for you is to speak to existing residents of the villages that interest you. Most village operators are happy to assist you to speak with current residents.

Retirement villages and aged care facilities are not the same thing

Sometimes retirement villages and aged care facilities are considered the same thing. It is important to understand that they are actually quite different from each other.

A useful way to understand the distinction is that retirement villages are usually considered a lifestyle decision, while aged care facilities are considered a lifestyle necessity. This is because those who move into an aged care facility do so because they have higher health needs and need full time care.

On the other hand, people who move into retirement villages do so because they still have a high level of independence and are looking to reduce their commitments to maintaining a family home while having easier access to facilities such as shops, cafes and swimming pools.

Moving into an aged care facility

Some people may live in a retirement village and later move into an aged care facility if their health care needs increase. It is important to understand that living in a retirement village is not a requirement for future entry into an aged care facility. It also does not guarantee you a place in an associated aged care facility if there is one on the same site. Most people are generally only able to make this move when a room becomes available.

For people wishing to move from a retirement village residence to an aged care facility, a number of things need to take place:

- The sale of the retirement village residence
- A re-assessment of costs
- A medical assessment demonstrating a requirement for care, known as an Aged Care Assessment Team (ACAT)[1] assessment

Is home care an option?

If later in life you need more care, this doesn't necessarily mean a move to an aged care facility. The Federal Government offers a subsidised Home Care package for people living in their own homes or

1 Aged Care Assessment Services (ACAS) in Victoria.

retirement villages who need more care, allowing them to stay in their own residence. This offers peace of mind to those who are considering a retirement village move.

Selling your retirement village residence to move into aged care

If you move into an aged care facility from a retirement village residence you will need to sell this residence.

To find our more about this process, it's important to talk with your village operator who can provide you with further details based on the contract type.

Understanding the costs of moving into a retirement village

The cost aspect is by far the most difficult to navigate if you are considering a move into a retirement village. The costs and fees associated with retirement village living are unique and you will also need to consider the implications of selling the family home and how this may impact your Age Pension.

You may speak to a range of people who have opinions on these costs and whether they are worthwhile, but the best place to start is to discuss your situation with a specialist at Alteris. We can work with you to assist you to:

- Understand how retirement village fees and charges work
- Maximise and protect any entitlements you may have to an Age Pension
- Consider the impacts of selling the family home and how to invest any excess funds that arise from the sale, and
- Devise the best and most cost efficient options for you when making the move into a retirement village

The uniqueness of the costs of retirement village living means that some people you speak to may not fully understand how they work and why taking these costs into consideration may still make a retirement village the best option for you. Ensure you speak to a specialist at Alteris first for an objective assessment on how this move will impact you both personally and financially.

How are costs structured?

Retirement villages tend to be an affordable option when compared to the median price of houses in the same postcode. This often gives residents of retirement villages extra funds to help further enjoy retirement.

There are generally three types of fees and costs associated with retirement villages:

1. **Ingoing**
- Purchase price to live in the retirement village

2. **Ongoing**
- The communal running costs of the village covered by general service fees (sometimes referred to as the recurrent charges)
- User-pay fees such as communal meals, onsite hairdresser and outings
- Ordinary living costs, such as meals, utilities, health insurance and home contents insurance
- Home Care Packages (if required), which may be Commonwealth government subsidised

3. **Outgoing**
- A Deferred Management Fee (DMF) – paid on exit, where the village operator recoups fees in exchange for a lower upfront entry cost
- Capital Gain sharing for some villages – the decreased or increased resale value of the unit upon departure
- Reinstatement or refurbishment fees – to help restore the property to an acceptable standard for the new resident
- Commission – some retirement villages appoint their own agent to sell the unit and a commission is charged on the sale price

Understanding the costs *(continued)*

What is a Deferred Management Fee (DMF)?

A DMF is paid on exit, where the village operator recoups fees in exchange for a lower upfront cost. They are charged to help ensure that villages are affordable for a wider range of people by keeping the entry cost lower.

Often, village properties are marketed at what can be considered a low price, when compared to a freehold property.

The advantage of a DMF is that it allows you to defer a large part of the village cost until after you depart the village, so you can maximise your finances while you live in the village and pay lower ongoing fees during your tenancy. A DMF is commonly calculated as a percentage of the purchase price, paid for each year of residency, but capped at a maximum. This gives you great peace of mind in knowing what will be the maximum fee payable on departure.

The DMF is often the most misunderstood aspect of funding a move to a retirement village. An Alteris specialist can work with you to devise a plan on how to structure your finances to ensure you are making the best decision possible.

How we can work with you to consider fees and costs

There are many important considerations to make when contemplating entry into a retirement village. Alteris specialist advisers can help you work through the following important issues:

- Can a higher purchase price with a lower DMF be more suitable?
- Is a lower purchase price option with a higher DMF more suitable for my goals?
- Is the DMF based on the purchase price or sale price?
- Would a future capital gain share be calculated before or after the DMF is deducted?
- Is paying my general service fees upfront a worthwhile option to negotiate?
- Will a capital loss be shared?
- Does the village require reinstatement or refurbishment at any stage and if so, what are the likely costs?
- Will commission be charged on sale of the unit?

Contracts and legislation

Retirement villages and aged care facilities are managed under different sets of legislation.

Retirement village contracts are not standardised and offer many different forms of ownership and structure. The most common are Loan Lease, Licence and Leasehold, though other forms do exist such as strata, company and trust titles.

Loan Lease and Licence are similar in that the initial ingoing contribution is structured as an interest-free loan, in exchange for the right to live in your chosen unit. Upon departure, the loan is repaid.

Leasehold differs in that the lease is registered on title. Upon departure, the lease is surrendered.

Loan Lease, Licence and Leasehold are usually favoured by village operators because they offer you security of tenancy. Often, the tenure can be up to 99 years.

An advantage of this type of contract is that stamp duty can often be avoided.

It is important to understand retirement village contracts are generally governed by state legislation and do vary between States and Territories.

As with the purchase of a freehold house or unit, it is strongly recommended that specialist legal advice is sought to review a contract.

Effect on Age Pension

The loss of some or all of the Age Pension is understandably one of the main concerns for people contemplating a move into a retirement village. This can be a risk if there is a surplus of funds following the sale of the family home.

A secondary concern can be the affordability of the recurrent charges to live in a retirement village.

Everyone's individual circumstances are unique and it is crucial to discuss your personal situation with a specialised Alteris adviser before making a decision on a move to a retirement village. With the benefit of our expert advice, we can show you how to maximise affordability of this move and assess if it is possible to preserve either part or all of your Age Pension.

Here is an example of how specialist advice can completely change the financial outcome of a move to a retirement village.

William's example

William is 80, single and lives on a full Age Pension of $1,116.30 per fortnight ($29,023.80 per annum). He owns a home valued at $1.1m and has $250,000 in savings. William independently decides to move into a retirement village. After selling his home and moving into a $600,000 unit in a retirement village he is left with savings of $750,000. As a result, William loses his Age Pension. With his only income coming from his savings, and expenses of $25,000 for ongoing living costs and $7,200 for the annual retirement village recurrent charge, he will be faced with a cashflow deficit. In addition, after five years, his DMF will be $180,000, payable on departure.

An alternative approach with the benefit of specialist advice

Before making his move into a retirement village, William seeks the advice of a specialist lifestyle adviser at Alteris. Together, they review the various options for William's move into his chosen retirement village.

Taking this advice, William decides to proceed with the contract option with the retirement village to pay an entry costs of $950,000 which does not have a DMF. William also elects to gift $10,000 to his son and embark on a $15,000 long-dreamed-of holiday adventure.

William also makes a downsizer superannuation contribution of $300,000 and starts a tax-free income stream, leaving the $75,000 in savings.

William now has three sources of income; his Age Pension, his superannuation income stream and the interest on his savings account. Together, they provide sufficient income to cover both his ongoing living costs and the retirement village recurrent charges.

Thanks to the advice he received, after allowing for conservative rates of return, William's funds are expected to support him comfortably for the rest of his life and then leave an inheritance for his son.

Investment choices for surplus funds

If you find yourself with surplus funds after the sale of your home, investing these funds will be an important decision.

You will want to ensure you have steady cash flow, andmost likely, not take excessive risks with your money.

Generally speaking, the interest rate return from cash is low, so a more specialised approach to investing is usually required. You may be able to use superannuation to assist with tax effectiveness, depending on a number of factors.

Your decisions should be designed as part of 'whole of life' planning.

How can Alteris help me?

Alteris Financial Group offers specialised advice to anyone contemplating moving to a retirement village.

Our advisers are experts in the field and can help you in the following ways:

- Assessing the financial consequences of different funding options for a retirement village, including the impact on your Age Pension
- Determining how long your capital might last
- Assessing when your Age Pension is likely to recommence or increase
- Assessing whether the money left over from the sale of your home can be directed to tax effective superannuation or other retirement products
- Setting up and managing an investment portfolio tailored to your needs using your surplus funds
- Ensuring your cash-flow requirements can be met with regularity

About
Alteris Financial Group

Alteris Financial Group provides financial advisory and management for individuals and families across generations and at every stage of life.

Privately owned, we hold an Australian Financial Services Licence and have been assisting clients achieve their financial goals for more than 25 years.

Through our specialist divisions, Wealth, Accounting, Lifestyle and Care, we work with clients to assist them through the often complex process of planning and structuring the move to a retirement village or aged care facility.

Our offices are located in the Sydney CBD and Brisbane CBD.

Why choose us?

Most financial advisers have a limited exposure to the financial considerations of the retirement village and aged care financial maze.

Alteris lifestyle and care advisers specialise in the field of retirement lifestyle and living. We help many hundreds of people a year make the move with confidence.

We have an unparalleled understanding of all areas of aged care and retirement villages, including Centrelink and Department of Veterans' Affairs (DVA) pension entitlements, tax implications, wealth transfer, longevity planning, retirement village and aged care facility fees, the advantages and disadvantages of selling the family home and investing surplus funds to meet cash-flow needs.

Customised solutions

Each situation is unique, and we will ask a lot of questions as part of our research so the advice we provide can deliver the best financial outcome for you. Our advice is tailored to you so you can feel completely comfortable and confident to make the move.

Fee transparency

The Alteris Financial Group charges on an agreed fee-for-service basis. Under these arrangements, you know exactly what you will pay and when – transparency is guaranteed. Our interests are aligned only with those of our clients, and any potential conflict of interest is eliminated.

ALTERIS FINANCIAL GROUP

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ACS AGED CARE ADVICE PROGRAM OF THE YEAR 2023 WINNER

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