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Newsletter

No. 4/04

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1. DEEMING FUNDS

The upper deeming rate used by Centrelink for determination of deemed income moved from 4% to 5% on 20 March 2004. This will have resulted in many more residents becoming subject to income-tested fees. Those residents already on income-tested fees will have noted a significant increase in those fees.

The increase in deeming rates also results in a reduction in pension for many residents. The change in the lower deeming rate from 2.5% to 3% and in the upper deeming rate from 4% to 5% has quite a dramatic impact on how many pensioners are "caught in the net" for pension reductions.

Prior to 20 March 04, a single pensioner would have needed assessable assets above $91,250 to have deemed income above the "threshold" of $120/fn. From 20 March 04, this threshold dives to just $76,640, i.e. a pensioner is assessed to earn 3% on the first $35,600 of assets and 5% on the balance. Once they have total assessable assets above $76,640, they start to have pension reductions at 40 cents in the dollar.

For those organisations that already have deeming funds in place, now is certainly the time to remind all current residents of their existence.

Brochures

Clients who use our brochures to publicise their deeming fund to new and existing residents may contact Libby Madden to get a complimentary update of the brochure. Don't forget that you need to specify whether you are running a "pooled" or a "non-pooled" fund and whether you use only the **income** generated from the fund for capital works or whether you use **both** capital and income.

Applications

Deeming funds are available to almost all religious and charitable organisations as they have public and benevolent institution (PBI) status. Gaining exempt deposit (deeming fund) status allows organisations to offer to take in deposits with exemption from the Centrelink deeming requirements. A complimentary deeming fund information pack is available to all newsletter subscribers. For any assistance with deeming fund applications, please contact Libby Madden on libby@underwoods.com.au or 07 3222 9666.

2. LICENCES FOR TRANSFER

Client services have advised us of having places available for sale and transfer in Queensland. Recent sales have been at $40,000 + GST. We have noted that there is also one sale under contract at $45,000 + GST. Similar prices are achieved in New South Wales and South Australia.

Places can be approved for transfer to most regions throughout a state. High Care and Low Care places attract the same sale price. We have not seen the Department of Health and Ageing unreasonably withhold approval for any transfer requests. If you would like to discuss any proposed transfers – acquiring additional places, selling surplus places or discontinuing operations – please contact James Underwood on (07) 3222 9666.

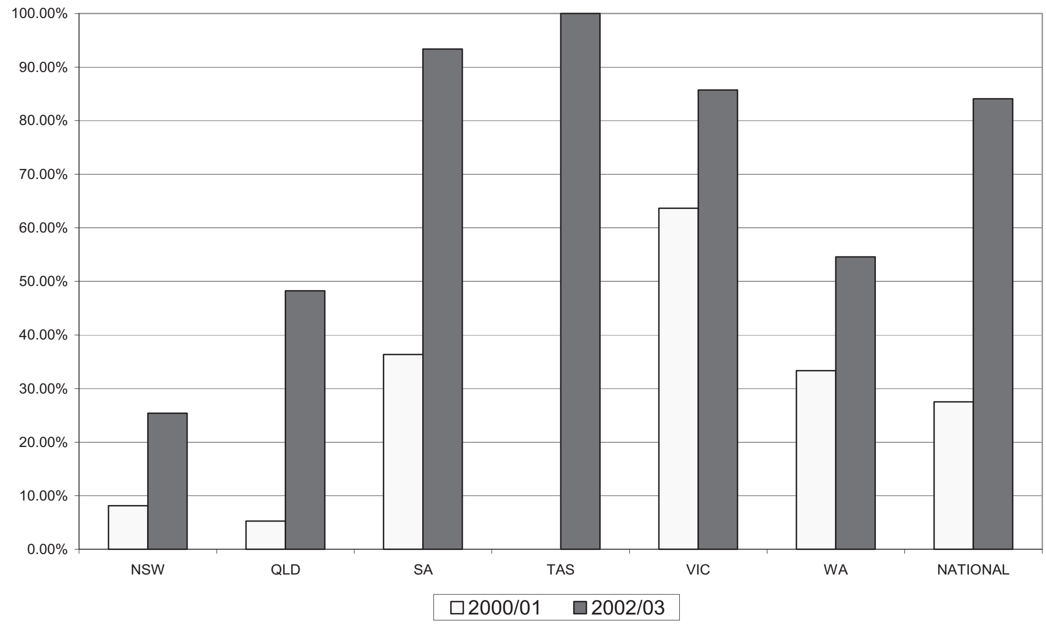
3. NATIONAL SURVEY RESULTS

The 2003 Bentleys MRI/JU&A National Residential Aged Care Survey was recently released. Some 200 services participated in the survey – up some 51% over the previous survey. Following are some further highlights from the survey.

Salary Packaging Varying State-by-State

There remains a substantial difference among the states in the level of salary packaging in place in voluntary and government homes. Despite large growth in the number of services making salary packaging available, the packaging is offered to the majority of staff in less than half of the services in New South Wales and Queensland. This compares with South Australia, Tasmania and Victoria where almost all services provide salary packaging for most or all staff, as shown in the graph on the next page.

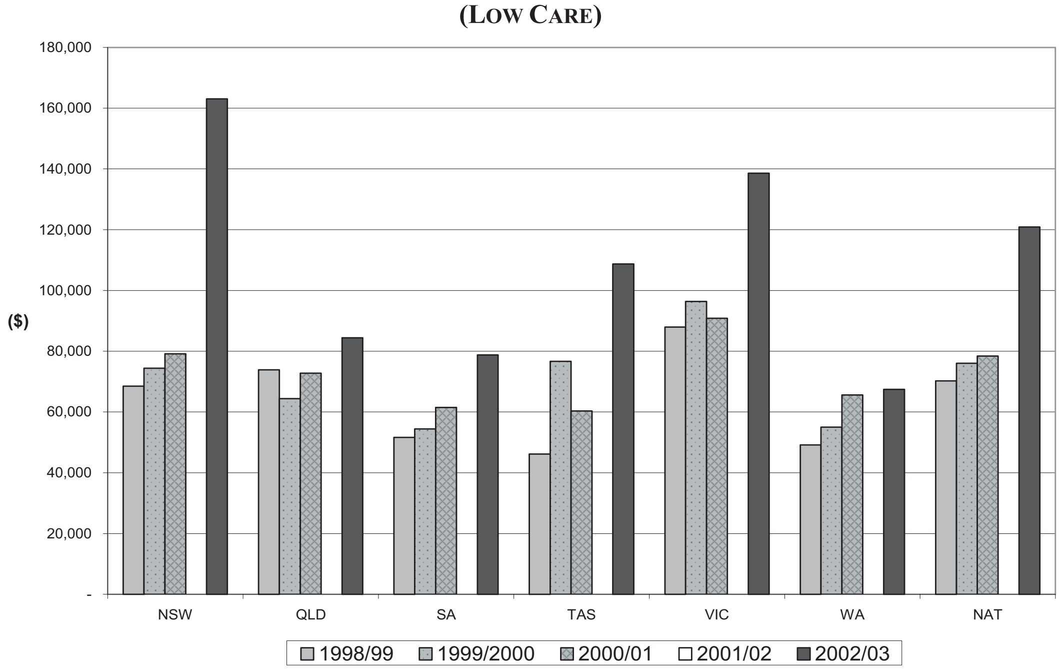
COMPARISON OF LEVEL OF SALARY PACKAGING IN PLACE FOR "MOST OR ALL" STAFF (VOLUNTARY/GOVERNMENT)



Accommodation Bonds

The graph below shows state averages for the **highest** accommodation being sought by services (not the average bond received). Most services set a pre-determined maximum bond for their new residents. Others vary their maximum requested after review of a prospective resident's advice of assets. These maximum bonds are then averaged state-by-state. The national average of this highest accommodation bond sought has moved from $78,410 in 2000/01 to $120,890 in 2002/03 – a 54% increase! The enormous increase was led by New South Wales and Victoria and reflects the growth in the residential property market in those states across the two years. This also shows how providers in these two states have set bonds at well above the "rent assistance/pensioner supplement entitlement level". Many new residents will have no eligibility for pensioner supplement after they sell their homes, in any event. (Persons with total assessable assets above (currently) $414,250 receive **no** pension and thus have **no** eligibility for rent assistance/pensioner supplement. Persons with assets just above the cut-off may be eligible for a hardship supplement equivalent to pensioner supplement).

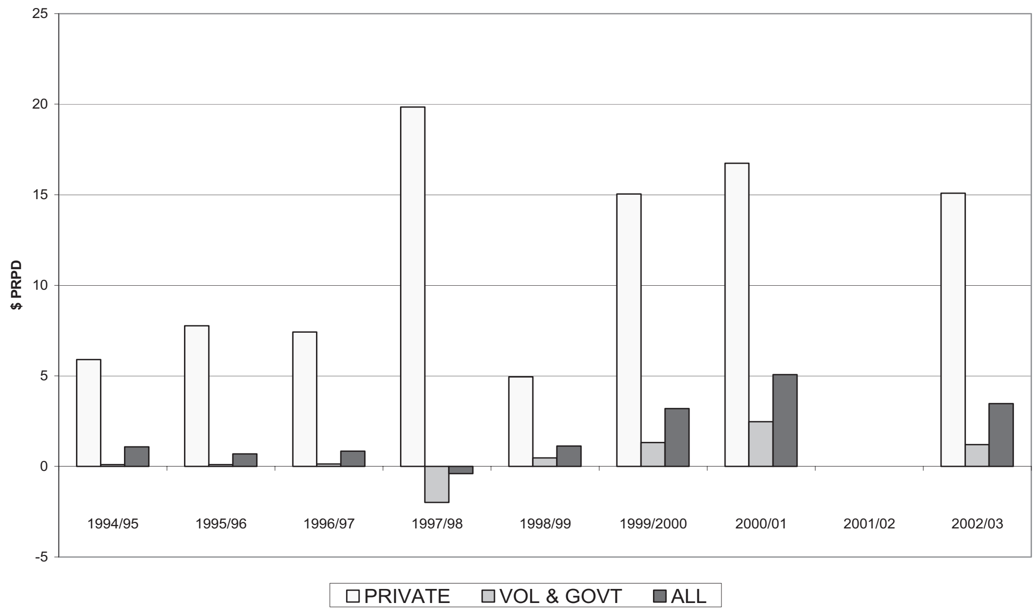
MOVEMENT IN HIGHEST ACCOMMODATION BONDS SOUGHT (LOW CARE)



Surplus (Deficit) Before Other Costs

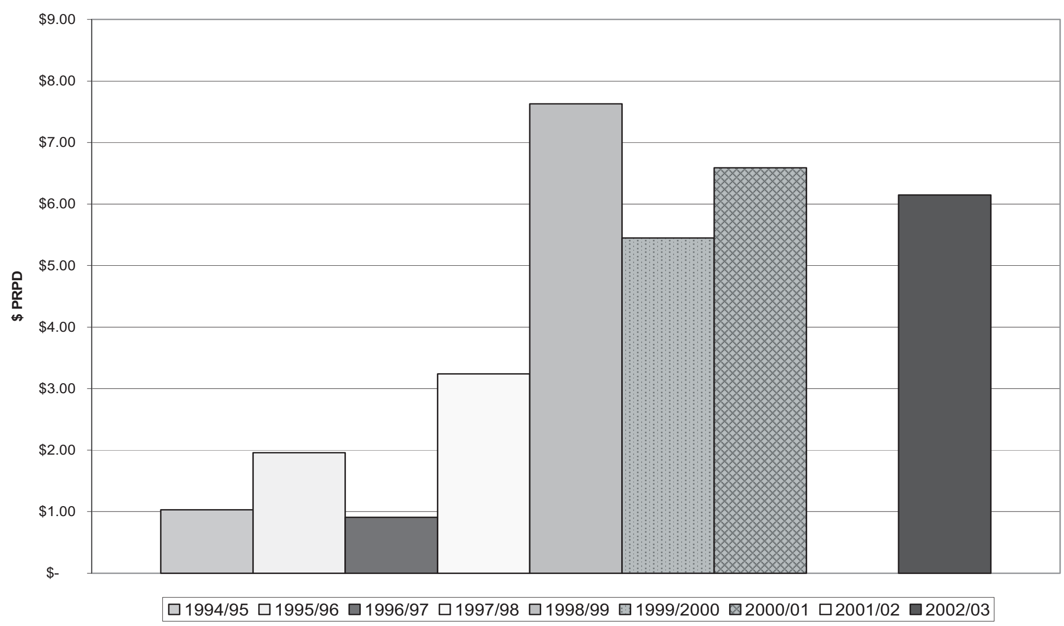
For the first time since 1997/98, the average surplus before other costs fell in High Care. The surplus declined from $5.12 prpd in 2000/2001 to $3.47 prpd in 2002/03. ("Other costs" are the "capital" costs of depreciation on buildings, rent and interest payments).

MOVEMENT IN NATIONAL SURPLUS/(DEFICIT) BEFORE OTHER COSTS – BY OWNERSHIP (HIGH CARE)



The return in Low Care services also declined from $6.59 prpd in 2000/01 to $6.15 prpd in 2002/03.

MOVEMENT IN NATIONAL SURPLUS/(DEFICIT) BEFORE OTHER COSTS (LOW CARE)



Full copies of the Bentleys MRI/JU&A 2002/03 National Residential Aged Care Survey can be purchased using the order form attached or by contacting us directly on 07 3222 9666. The survey includes a comprehensive 60-page report plus all state and national averages for High Care and Low Care and comprehensive benchmarks for each of the 200 participating homes. Please note that we provided our survey template to the Pricing Review to run the 2001/02 figures and the de-identified statistics from the Pricing Review survey will be provided to us to allow an uninterrupted nine-year analysis.

4. EXTRA SERVICES

The May 2004 budget has now come and gone and with it the implementation of major items from the Pricing Review. The additional income through subsidy and accommodation charge increases will be greatly welcomed, however the underlying challenge in our industry remains largely unanswered.

The Challenge of High Care

This challenge is as follows;

> The largest area of growth in resident need is in High Care. The greatly preferred option for new High Care admissions is to single-room, ensuited services. Attractive, new, single-room, ensuited High Care services across Australia make very poor returns or losses on operation. As the Commonwealth continues to control the fees payable in High Care services and did not bring in bonds in High Care, it is expected that there will be continued and growing financial pressure on our generally unviable single-room High Care services (and most providers are building only single-room services for the future).

The Benefits of Bonds

Accommodation bonds are the only part of income in general residential aged care that are not controlled by government-set maximums. They are only limited by a resident's capacity to pay (and market forces). The enormous growth in median house values across Australia has meant that this capacity to pay bonds has doubled or more in most regions over the last five years.

It is perfectly appropriate (and legal) to utilise the income you receive from investment of accommodation bonds for **operating** expenditure, in addition to meeting your capital works needs. If you prefer, you can simply elect to charge the same higher bonds in High Care that are increasingly in place in Low Care services and charge only a very small additional fee for extra services. Many providers seek "bond-paying" status for just a proportion of their High Care residents and continue to offer their usual level of concessional High Care places to ensure equity of access.

With bonds of $200,000 and $250,000 becoming the norm – not just in metropolitan areas – there is enormous capacity for additional income by taking bonds in High Care. A $250,000 bond invested at just 5% in a term deposit provides $15,554 p.a. or $42.61/day to the service provider. This compares to the new 1 Jul 2004 maximum accommodation charge of just $16.25 prpd or $5,931 p.a. In addition, a modest additional fee could be charged in extra services places – say $20/day after the Government subsidy reduction (the "claw-back") of $4/day. This would provide a further $5,840 p.a. in income.

Making Extra Fees More Affordable

Any resident who perceived they may have difficulty in rearranging their assets to pay an extra $20/day, could always be offered the option to have this additional fee withdrawn from their bond. This modest extra fee of less than $6,000 p.a. would mean there would be an effective "retention" of just under $9,000 p.a. for the first 5 years of the residents stay with the nursing home – a very small investment in getting the desired level of services and accommodation within the new single-room, ensuited High Care services that providers are building today.

No Differences Between E.S. and General Places

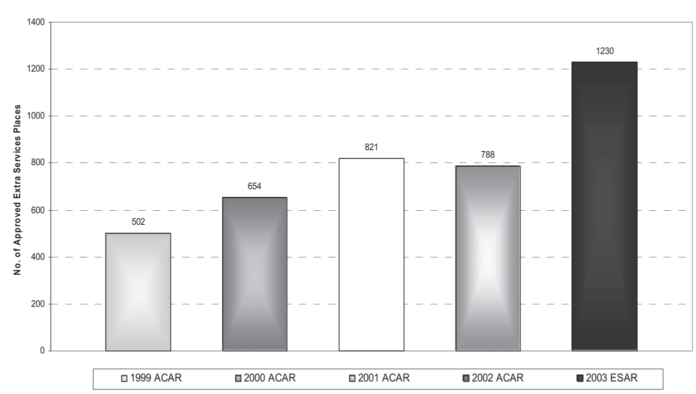
Finally, there is absolutely no need for good providers to provide their bond-paying High Care residents with anything different to what the non-bond paying or concessional residents will receive. It is perfectly appropriate to have services, accommodation and food **identical** for your bond-paying High Care and your non bond-paying High Care and provide a good quality of all these to all residents.

We already do precisely this in our Low Care services with no challenges whatsoever. I.e. we provide identical outcomes for our residents in Low Care regardless of whether they paid a $250,000 bond or paid no bond at all. Now is the time to give very strong consideration to seeking approval from the Commonwealth to make part of your attractive High Care service "bond-paying".

Why not offer a periodic payment in Low Care at the same level as the extra services amount in High Care so **all** new admissions with sufficient assets can pay the **same** fee?

Shown below is a graph detailing the growth in extra services approvals across Australia:

NEW APPROVALS FOR EXTRA SERVICES PLACES – TOTAL PER YEAR



James Underwood and Associates Newsletter is produced two-monthly by James Underwood & Associates Pty Ltd, advisers to the nursing home, hostel and retirement village industry.

If you would like to be added to our mailing list, or for any further information, please contact our office on (07) 3222 9666.

Organisations are invited to subscribe to the newsletter at an annual cost of $325.