We have prepared our annual estimates of the new subsidy rates as at 1 Jul 05. We have estimated a COPO index movement of 2.11% based on a CPI increase of 2.6% and an SNA increase of 1.95% of AWE. Projected rates include the second last "co-alescence" adjustments for Victoria and Tasmania (of 14.5%). We also show the projected Conditional Adjustment Payment (CAP) in its second year, being 3.5% of the subsidy rates. Please note that these are only projections to assist you in budgeting purposes. The final figures determined by DoHA may vary to our projections.

5. BONDS EXEMPT FROM THE ASSETS TEST

It is anticipated that many persons entering aged care services from 1 Jul 05 may be very keen to pay accommodation bonds to allow maximum pension entitlements to be retained. This should greatly assist in the marketing of the accommodation bonds in Extra Services High Care facilities. We have prepared a handout/notice that Low Care services and bond-taking High Care services may like to consider for use. The handout/notice also identifies that existing residents who have already paid a bond (i.e. agreed to pay a bond any time before 1 Jul 05), can apply to Centrelink/DVA to have that already-paid bond assessed as exempt from the assets test. Pensioners should make this application by 30 Sep 05 to allow full retrospectivity to 1 Jul 05. (In special circumstances a person may have up to 30 Jun 06 to request this backdating.)

For anyone wanting a complimentary copy of this handout/notice, please email us at juoffice@underwoods.com.au and we will forward it directly to you.

6. TRANSFER OF BOND BALANCES

As the average accommodation bonds taken in Low Care services continue to grow, there is greater willingness on the part of service providers to have residents **transfer** their bond balance when they move from a Low Care service to a High Care service, be it co-located or on a different site or with a different provider.

These large accommodation bonds provide much greater income to the High Care service provider than the option of reassessing the resident for their capacity to pay an accommodation charge and levying a maximum of $16.25/day in lieu of a bond. The transfer of an accommodation bond is "by agreement" of **both** the provider and the resident. It is anticipated that, with the 1 Jul 05 changes to the assets test, many more residents will wish to ensure that their bond balance is transferred to the High Care service provider to enable them to continue to maximise pension entitlements and minimise income-tested fees.

Income Maximisation Strategies

Some Low Care providers have embraced income-maximisation strategies including combination lump sum and periodic payment options and have allowed residents to withdraw part or all of the periodic payment from their lump sum rather than having to fund it separately from any income on their remaining assets. This is a particularly useful option where the resident's remaining asset may be a house that is not rented or is rented to family members at a low net income.

Having part of all of a periodic payment withdrawn from the bond lump sum will far more swiftly erode the lump sum balance than just taking the "traditional" accommodation bond retention, of currently, $3,114p.a.

Quantum of the Accommodation Bond Balance

The question has come up as to what constitutes the *"accommodation bond balance"*, when that bond is transferred to another provider. I.e. is the *accommodation bond balance* the original amount of bond paid less standard retentions **or** does it include other reductions such as accrued periodic payments or even accrued daily fees? The answer is that the *accommodation bond balance* to be refunded on transfer is the amount of the original bond less **any** amounts that have been or are permitted to be deducted under Section 57-19 (1) of the Aged Care Act which includes interest or deductions for Extra Services Amounts or periodic payments.

Therefore, the bond balance that is available for transfer could be very substantially lower than simply "the lump sum less retentions". (Note: The *accommodation bond balance* will be the **total** of the remaining lump sum **plus** the lump sum equivalent on which any periodic payment is based.)

7. APPLICATIONS FOR CACP's AND EACH's

We are very pleased to advise that JU&A assisted clients in three states to successfully apply for CACPs and EACHs in ACAR 2004 including successful applications for two new EACH programs for providers in two states. All successful applicants were also High Care and Low Care service providers with retirement village units. These home care packages fitted in extremely well with their residential care and accommodation activities.

If you would like any assistance with applications for ACAR 2005, please contact Libby Madden at James Underwood & Associates on (07) 3222 9666 or email libby@underwoods.com.au. It is likely that ACAR 2005 will be announced earlier than last year's ACAR and work on applications is recommended to begin asap.

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 $349

JAMES UNDERWOOD & ASSOCIATES PTY LTD

Newsletter

No. 1/05

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CONTENTS:

1. "NO RETENTION" BONDS

We are seeing an increasing number of services successfully offering "no-retention bonds" as both a marketing tool and a way to increase cash holdings for capital works. Their popularity lies in these being effectively "interest-free loans" to the service provider, so no "draw-down" or reduction in a person's capital has to occur. A typical example is to offer a $250,000 bond **with retentions** of $3,114p.a. **or** a $310,000 bond as an **"interest-free loan"** only.

Many prospective residents understand that, if they were to retain that additional $60,000, the deemed income on it could be subject to Income-Tested Fees (ITF's) at 25% (i.e. there would likely be an additional ITF of $28.77/fn on that $60,000). From 1 Jul 05, when bonds are no longer subject to the Centrelink assets test, a part-pensioner could also increase their pension entitlement by up to $180/fn by paying an extra $60,000 bond, if they are within the relevant asset-test thresholds. Persons who entered aged care and paid a bond **before** 1 Jul 05 can have their pension entitlement adjusted from 1 Jul 05, on request (backdated to 1 Jul 05, if they request their review by 30 Sep 05).

In summary, residents save by having no "retentions" and can save on the ITF and, possibly, increase their pension. The total possible "return" for that $60,000 additional bond is:

Saved Retention	$3,114 p.a.
Reduced ITF	750
Increased Pension	4,680
Total "Return"	$8,544 p.a.

This is a "return" of **14.2% p.a.** on that $60,000 for the first five years of residency – a very good outcome for the resident! (The complexities also underline the need for new residents to seek third-party financial advice when considering bond options on entry, e.g. is this forgone retention assessable as "income"?)

2. EXTRA SERVICES APPLICATIONS HISTORY

In the last five years, JU&A has successfully applied for extra services status for 30 services and has seven applications (from the December 04 and March 05 ES Rounds) awaiting advice of outcome.

Below is a listing of the service provider groupings of successful and pending extra services applications made by JU&A in the last five years.

Operator	No of Services		No of States & Territories
Anglican	5	in	2 States plus ACT
Baptist	1	in	1 State
Catholic	5	in	4 States
Charitable	4	in	3 States
Churches of Christ	4	in	1 State
Jewish	1	in	1 State
Lutheran	2	in	2 States
Private-for-Profit	13	in	3 States
Uniting Church	2	in	2 States
TOTAL	37	in	6 States plus ACT

Of the 30 successful applications:-

24 are operational
4 are not yet built
1 commences on 1 May 05
1 awaits completion of minor capital works

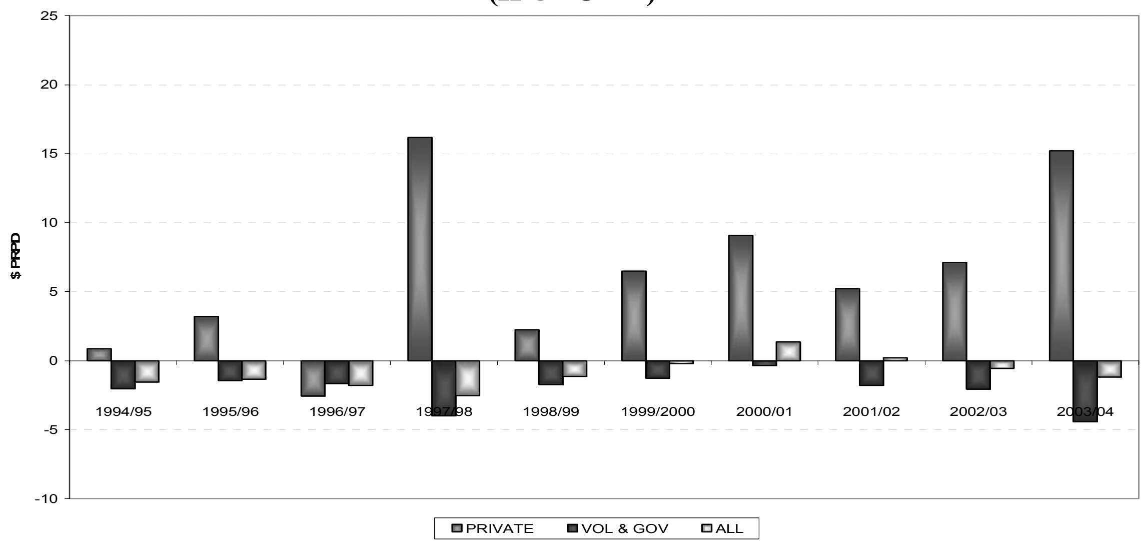
The most current DoHA website shows a total of 110 operational ES facilities nationally as at 22 September 04. Many have only **part** of the service approved for ES.

3. 2003/04 NATIONAL SURVEY RELEASED

The 2003/04 Bentleys MRI/JU&A National Aged Care Survey was released in March 2005. The survey results highlighted the continued decline in returns for voluntary and government High Care services. This sector makes an average loss of $4.44 per resident per day (prpd) after inclusion of "other costs". "Other costs" are building depreciation, interest paid and rent.

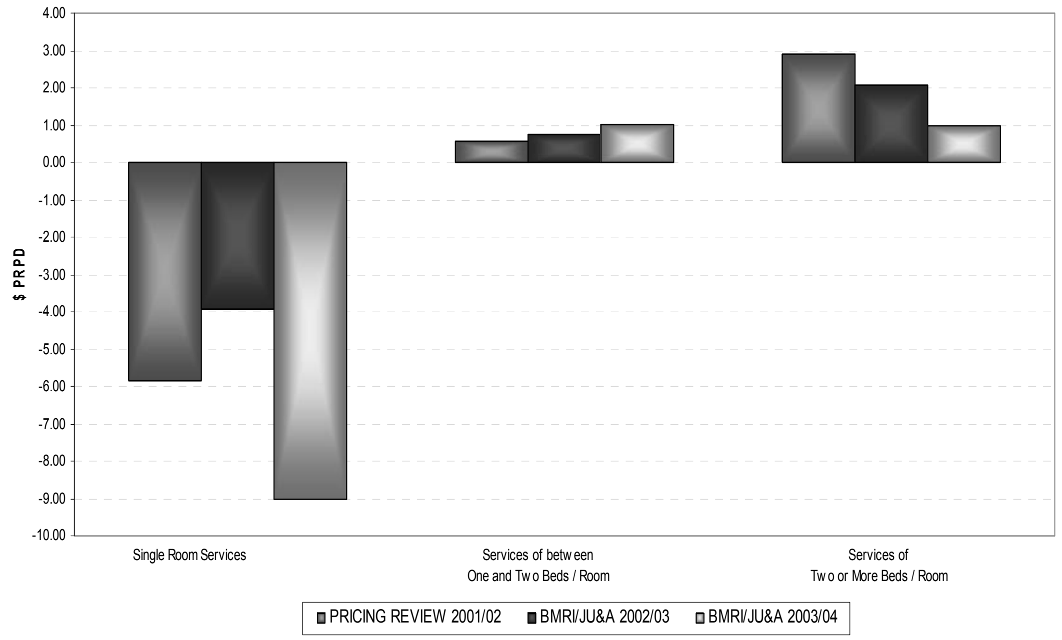
The first graph on the next page also shows the enormous gulf between returns in the private-for-profit sector and in the voluntary/government sector. Respondents from the private-sector High Care services showed an average return after other costs of $15.21 prpd. The graph includes data from the 2001/02 Pricing Review Survey.

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



A key factor in High Care profitability was whether care was delivered in single room services or in services with a proportion of double or multiple occupancy rooms. In 2003-04, those High Care services with all single rooms were, on average, losing $9.02 prpd after other costs compared to a modest surplus of approx. $1.00 prpd in **non**-single room High Care services. State Government Nursing Homes (SGNH's) are excluded from this analysis. This result has been compared to the results in the 2002/03 Bentleys MRI/JU&A National Survey and to the results of the Pricing Review 2001/2002 survey in the graph below. Very similar outcomes are seen:

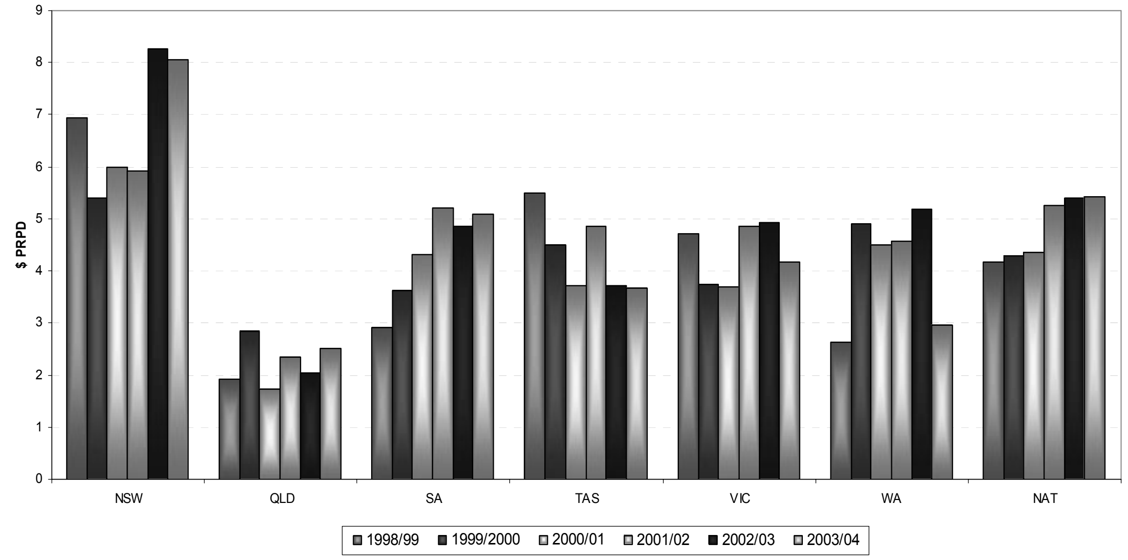
MOVEMENT IN SURPLUS/(DEFICIT) AFTER OTHER COSTS BY AVERAGE ROOM OCCUPANCY TYPE SERVICE (HIGH CARE EXCLUDING SGNH'S)



We see a clear continuation of this downward trend in overall High Care viability as more services move to providing High Care in single rooms. This should be likely to hasten the move for services to seek to change at least part of their High Care places to "bond-paying" and "higher-fee charging" through seeking and gaining extra services approval.

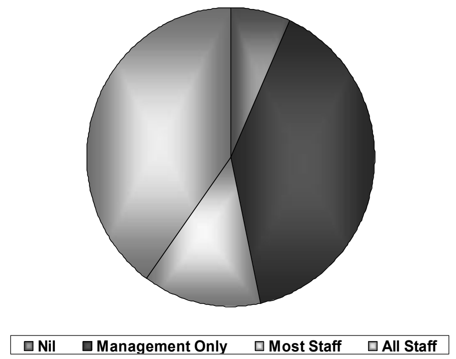
The large increases in average High Care worker's compensation/work cover expenditure of previous years appear to have slowed down with only a negligible increase in the average cost of work cover for High Care services across Australia – from $5.40 prpd in 2002-03 to $5.42 prpd in 2003-04, as below:

MOVEMENT IN WORKERS COMPENSATION EXPENSES (HIGH CARE)

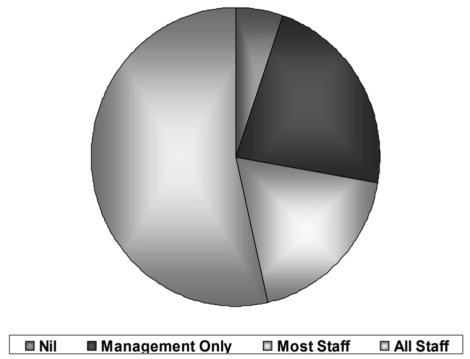


There has been a further substantial increase in the availability of salary packaging in voluntary and government services with over half of all respondent services now offering salary packaging to **all** staff to take advantage of the FBT exemptions for employees of "Public Benevolent Institutions", as below:

SALARY PACKAGING – 2002/03 (VOLUNTARY/GOVERNMENT)



SALARY PACKAGING – 2003/04 (VOLUNTARY/GOVERNMENT)



We are grateful to the 165 High and Low Care service providers who participated to provide excellent quality benchmarks, averages and reports. Non-participants are very welcome to purchase the National Survey results. Please contact Suzy Kingdom or Michelle Mills on (07) 3222 9666 or juoffice@underwoods.com.au or just visit our website at www.underwoods.com.au.

4. PROJECTED 1 JUL 05 SUBSIDY RATES

PROJECTED 1 JUL 05 SUBSIDY & CAP RATES INCLUDING COPO AND "CO-ALESCENCE" ($/DAY)

	All States excl Vic and Tas		Victoria		Tasmania	
RCS Categories	1 Jul 05 Projected Rates	1 Jul 05 Proj CAP @ 3.5%	1 Jul 05 Projected Rates	1 Jul 05 Proj CAP @ 3.5%	1 Jul 05 Projected Rates	1 Jul 05 Proj CAP @ 3.5%
1	120.61	4.22	121.92	4.27	122.17	4.28
2	109.36	3.83	110.49	3.87	110.75	3.88
3	94.22	3.30	95.13	3.33	95.45	3.34
4	66.60	2.33	67.30	2.36	67.61	2.37
5	40.57	1.42	40.57	1.42	40.57	1.42
6	33.61	1.18	33.61	1.18	33.61	1.18
7	25.80	0.90	25.80	0.90	25.80	0.90
8	-	-	-	-	-	-