Major changes to residential aged care from 1 July 2025

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The Government introduced new Aged Care legislation to Parliament on 12 September 2024. The legislation includes major changes to both Home Care and Residential Aged Care including changes to fees and charges from 1 July 2025.

The new legislation is aimed at improving the quality and viability of the aged care system and was described by the Prime Minister as 'once in a generation' reform.

However, the new rules have important financial planning implications as they will result in increased fees and charges for many people who commence accessing aged care from 1 July 2025.

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Residential aged care

On 12 September 2024, a Bill[1] for a new Aged Care Act was introduced to Parliament which addresses 60 recommendations from the Royal Commission into Aged Care Quality and Safety and legislates the Government's response to the Final Report of the Aged Care Taskforce.

At the time of writing, the legislation has not passed through Parliament although it has bipartisan support. It has been referred to a Senate Community Affairs Legislation Committee on 16 September so further changes may be made.

A key principle of the new reforms is that increased funding is required to improve the quality and viability of the aged care system. In 2022-23, 46% of aged care providers made a loss from accommodation. The Government has stated that current funding arrangements will not deliver the total $56 billion in capital funding required by 2050.[2]

The new reforms include increased funding from both the Government, and aged care recipients. Aged care recipients with the ability to pay a higher contribution towards the cost of their care will be required to do so. Protections will be put in place to ensure those with lower means are able to access aged care.

A central principle of the new reforms is that the Government will pay for clinical care, with aged care residents paying a greater contribution for everyday living and accommodation expenses.

Changes are proposed to both accommodation payments and ongoing care fees for residential aged care, with most changes commencing 1 July 2025. Grandfathering will apply to those already in residential aged care when the new rules commence.

Key reforms to residential aged care include:

- Accommodation payments
  - Accommodation price cap - increased from $550,000 to $750,000
  - Introduction of a retention amount - 2%p.a. of lump sum accommodation payments for a maximum of 5 years
  - Indexation of Daily Accommodation Payments (DAPs)
  - Refundable Accommodation Deposits phased out from 2035
- Ongoing fees
  - Introduction of a new means tested 'Hotelling Contribution' of up to $4,580.75p.a
  - Means tested care fee replaced by a new 'Non-Clinical Care Contribution' of up to $36,923.40p.a

[1] Aged Care Bill 2024
[2] Response to the Aged Care Taskforce - Accommodation Reform, Department of Health and Aged Care

- Additional services fees and extra services fees replaced by a new ‘Everyday Living Fee’

It is also important to note that the calculation of the **means tested amount** also changes under the new reforms from 1 July 2025. Both the calculation of assets and income components are proposed to change.

The reforms will have important financial planning implications as fees and charges for residential aged care will be higher for many people accessing aged care from 1 July 2025.

Accommodation Payments – Key changes

Accommodation price cap increase

Under current rules, an aged care facility can charge an accommodation payment of up to $550,000 for a room or part of a room, without requiring approval from the Independent Health and Aged Care Pricing Authority. This limit has not changed since 2014.

Under the proposed changes, this limit will increase to $750,000 from 1 January 2025 and will be indexed to CPI over time.

This may result in an increase in accommodation prices for some rooms from 1 January 2025, particularly those that are currently around $550,000.

New retention amount

From 1 July 2025, aged care providers will retain a portion of any lump sum accommodation payments when the person leaves the aged care facility.

The retention amount will apply to both Refundable Accommodation Deposits (RADs) and Refundable Accommodation Contributions (RACs) paid by new residents who enter care on or after 1 July 2025. Residents who are already in residential aged care on 30 June 2025 will not be affected.

The retention amount will be calculated as 2% per annum of the RAD or RAC balance, with the amount debited monthly. The retention amount will be calculated on the length of stay in the aged care facility, with a maximum period of 5 years.

Under the proposed new rules, the reduction in lump sum accommodation payment due to the retention amount will not cause an increase in the amount of any DAP or DAC payable.

Example

If Judith entered aged care on 1 July 2025 and paid a RAD of $550,000, the facility will retain $11,000 per year[3], for up to 5 years.

Indexation of Daily Accommodation Payments (DAPs)

Under current rules, Daily Accommodation Payments (DAPs) are a fixed amount, calculated by multiplying the accommodation payment amount by the Maximum Permissible Interest Rate (MPIR) at the date of entry.

[3] Please note this is a simplified calculation. The EM indicates that retention amounts are calculated on a daily basis and deducted no more frequently that once per month. It is unclear at the time of writing whether the calculation or deduction of the retention amount will reduce the RAD / RAC balance for the calculation of future retention amounts.

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Under the proposed changes, DAPs for all residents entering residential aged care on or after 1 July 2025 will be indexed to CPI, twice per year. Residents who are already in residential aged care on 30 June 2025 will not be affected.

This change will not apply to Daily Accommodation Contributions (DACs).

Phasing out RADs by 2035

The Government will take progressive steps to ensure aged care providers reduce their reliance on RADs and consider phasing out RADs, subject to an independent legislated review by 2030, to confirm the sector's financial state and access to capital.

It is not clear at this stage whether DAPs will be the method for paying for accommodation, if RADs are phased out. This will have important financial planning implications if implemented, including the impact on social security entitlements as RADs are asset and income test exempt for social security means test purposes.

The Royal Commission into Aged Care Quality and Safety identified several issues with the RAD system that led to this recommendation:

- RADs and DAPs are not economically equivalent, which creates incentives for aged care providers and older people to prefer one over the other, depending on changes in the MPIR.
- Use of RADs creates liquidity risks for aged care providers, as the RAD must be refunded within 14 days of the resident leaving care.
- The presence of RADs distorts access to finance towards aged care providers better able to attract RADs.
- RADs are not a reliable capital financing mechanism for certain types of aged care facilities, such as those in rural and remote areas.

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Accommodation contributions cannot exceed accommodation payments

Under current rules, a low means resident may be asked to pay an accommodation contribution based on their means tested amount and the maximum accommodation supplement payable to the facility.

In some cases, the calculation of the accommodation contribution can result in an amount that is higher than the amount that would be charged as an accommodation payment for the same room (that is, the amount that would be payable if the person was not a low means resident).

Under the proposed changes, this problem is rectified by limiting the amount of accommodation contribution payable to the amount of accommodation payment that would be charged for the same room.

Accommodation payments - What is not changing?

- An aged care resident is a low means resident (who may be asked to pay an accommodation contribution) if their means tested amount at the date of entry is below the maximum accommodation supplement (currently $69.49 per day). In respect of assessable assets, the means tested amount calculation is unchanged for this calculation.
- Accommodation contributions are calculated based on the lower of means tested amount and the maximum accommodation supplement payable to the facility (although under the proposed changes they are also limited to the amount of accommodation payment payable for that room).
- Accommodation payments can be paid as a RAD or DAP, or any combination of the two.
- DAPs are calculated by multiplying the accommodation payment amount by the MPIR (although under the proposed changes DAPs are also indexed to CPI).

Ongoing fees – Key changes

New Hotelling Contribution

Under the current rules, the Government pays a Hotelling Supplement of $12.55 per day (as at 20 Sept 2024) to assist aged care facilities to fund everyday living costs such as meals, cleaning and laundry.

Under the proposed reforms, aged care residents who enter aged care on or after 1 July 2025 will be asked to pay some or all of this amount, based on their means tested amount.

The daily Hotelling Contribution is calculated as a resident's means tested amount, less the maximum accommodation supplement (currently $69.49 pd), up to a maximum Hotelling Contribution which is currently $12.55 pd ($4,580.75 pa).

Based on 20 March 2024 rates and thresholds provided in the Explanatory Memorandum to the Bill, the Hotelling Contribution is essentially calculated as 7.8% of assets over $238,000 or 50% of income over $95,400 (or a combination of both). Using these assumptions, the maximum Hotelling Contribution is payable by residents with assets over $290,454 or income over $103,762[4] (or a combination of both).

Note that fully and partially supported residents will not pay the Hotelling Contribution as their means tested amount is below the applicable thresholds.

New Non-Clinical Care Contribution

For new aged care residents from 1 July 2025, the Means Tested Care Fee will be replaced by a new means-tested Non-Clinical Care Contribution (NCCC).

The NCCC will assist aged care facilities to cover the cost of non-clinical care such as bathing, mobility assistance and provision of lifestyle activities.

The daily NCCC is calculated as a resident's means tested amount, less the sum of the maximum accommodation supplement (currently $69.49 pd) and the maximum Hotelling Contribution (currently $12.55 pd), up to a maximum daily NCCC of $101.16 pd (threshold at 20 March 2024).

Based on 20 March 2024 rates and thresholds provided in the Explanatory Memorandum to the Bill, this essentially means that residents with sufficient means will contribute 7.8% of their assets over $502,981 or 50% of their income over $131,279 (or a combination of both) up to a daily limit of $101.16 ($36,923.40p.a). Using these assumptions, the maximum NCCC is payable by residents with assets over approximately $975,000 (assuming income is below the income free area).

An annual cap does not apply to the NCCC, however as mentioned above it is subject to a daily cap.

A lifetime cap will apply to the NCCC. Aged care residents will no longer be required to pay the NCCC when they reach $130,000 in total contributions, or after 4 years, whichever occurs first. Any contributions for supports made by the resident under the Support at Home program before they enter residential aged care will count towards the $130,000 lifetime cap. The lifetime cap will be indexed twice per year.

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[4] Note that this assumes that the 3rd and 4th income threshold is above this level. At the time of writing it is unclear what the 3rd and 4th income thresholds will be – see 'How is the means tested amount calculated under the new rules?' below for further information.

New Higher Everyday Living Fee

Under current rules, standard aged care facilities can charge an Additional Service Fees and extra services facilities can charge an Extra Service Fee for additional services or amenities.

Under the proposed changes, these fees will be replaced with a new Higher Everyday Living Fee for new residents from 1 July 2025.

This new fee is designed to enable residents to purchase additional daily living services, while providing consumer protections that ensure the fees are only applied for additional services and only taken up by those who genuinely want and can make use of these services.

Residents will only be able to agree to pay a Higher Everyday Living Fee after they have entered care, and will have a cooling off period and regular review opportunities.

Ongoing fees – What is not changing?

- The basic daily care fee of 85% of the basic Age Pension (currently $63.57 per day) is still payable by all residents
- Fully supported residents will continue to only pay the basic daily care fee, and partially supported residents will only pay the basic daily care fee and an accommodation contribution

'No worse off' principle

All residents living in residential aged care before 1 July 2025 will not see a change in their accommodation costs or ongoing fees due to aged care reform under the 'no worse off' principle.

Where a client was covered by the 'no worse off' principle for Home Care and they subsequently move to residential aged care on or after 1 July 2025, they will stay under the pre-1 July 2025 residential aged care rules when determining their ongoing fees, unless they opt to move to the new rules.

However, the changes to residential aged care accommodation payments will apply.

The following people are covered by the 'no worse off' principle for Home Care if at 12 September 2024 they were:

- receiving a Home Care package, or
- on the National Priority System, or
- assessed as eligible for a package.

How is the means tested amount calculated under the new rules?

Under the new rules, the means tested amount will determine the following fees and charges for new residents who enter care from 1 July 2025:

- Accommodation payments – the means tested amount at the date of entry determines whether they may pay an accommodation contribution (low means resident) or will pay an accommodation payment.
- Amount of accommodation contribution payable
- Amount of Hotelling Contribution payable
- Amount of Non-Clinical Care Contribution payable

Similar to the current rules, the means tested amount is calculated by adding together an income tested amount and an asset tested amount.

However, the new means tested amount calculation has additional income and asset thresholds and a new asset test taper rate.

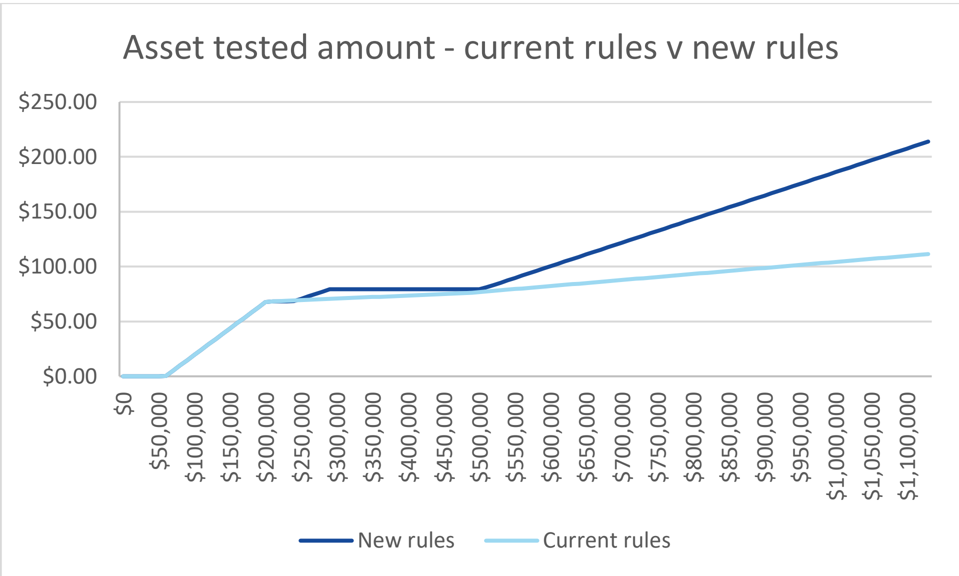
Below is a comparison of the calculation of the means tested amount under the current rules and the new proposed rules. The thresholds used are from examples in the Explanatory Memorandum to the new Aged Care Act 2024 (as at 20 March 2024). Unfortunately not all thresholds were provided, for example, the 3rd and 4th income thresholds. Note, thresholds current as at 20 March 2024 were used for the current rules calculation to be consistent with the date of the thresholds provided in the Explanatory Memorandum.

Income tested amount		**Asset tested amount**	
Current rules	**New rules**	**Current rules**	**New rules**
50% of assessable income over income free area Income free area: • Singles $32,819.80 • Member of a couple $32,195.80 Total divided by 364	50% of assessable income between $32,819 and $82,426 + 0% of assessable income between $82,426 and $95,400 + 50% of assessable income between $95,400 and 3rd threshold + 0% of assessable income between 3rd threshold and 4th threshold + 50% of assessable income exceeding 4th threshold Total divided by 364 Note: thresholds shown are for a single person	17.5% of assessable assets between $59,500 and $201,231.20 + 1% of assessable assets between $201,231.20 and $484,693.60 + 2% of assessable assets exceeding $484,693.60 Total divided by 364	17.5% of assessable assets between $59,500 and $201,231.20 + 0% of assessable assets between $201,231.20 and $238,000 + 7.8% of assessable assets between $238,000 and $290,453 + 0% of assessable assets between $290,453 and $502,981 + 7.8% of assessable assets exceeding $502,981 Total divided by 364

Important points to note:

- Under the income tested amount, nil is assessable between $82,426 and $95,400. Also nil is assessable between the 3rd and 4th threshold. This differs from the current rules where 50% of all income over the income free area is assessable. In some cases, this will result in a lower amount of assessable income under the new rules than the current rules.
- Under the asset tested amount, the calculation is the same for the current and new rules where assessable assets are between $59,500 and $201,231.20. As a result, based on assessable assets the current assessment of whether a person is a low means resident on the date of entry is unchanged as the calculation of the asset tested amount for assets up to $201,231.20 is the same.
- However, the new rules then differ as nil is assessable between $201,231.20 and $238,000 and between $290,453 and $502,981. Another difference is the taper rate, with 7.8% applying between $238,000 and $290,453 as well as to assets exceeding $502,981.

The following graph compares the asset tested amount calculation under the current rules and the new rules. Rates and thresholds as at 20 March 2024 have been used for this graph.



At higher levels of assets, the asset tested amount calculation is significantly higher under the new rules, resulting in a higher means tested amount.

Note, we have not provided a similar graph for the income tested amount calculation as the 3rd and 4th thresholds are unknown at this stage.

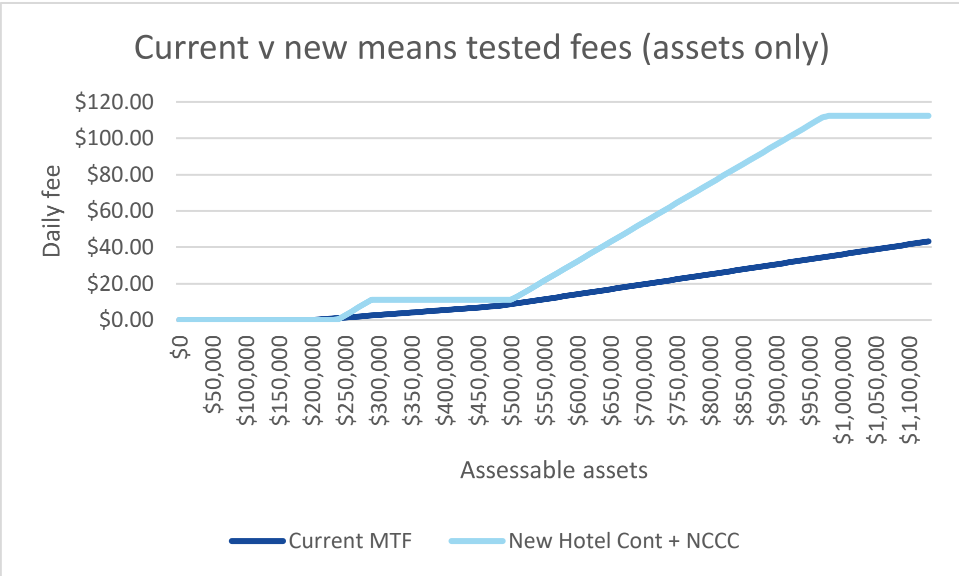
Means tested amount – what is not changing?

- Amounts included in assessable assets are not changing:
  - Former home is exempt if a protected person resides in it
  - Capped value of former home (currently $206,039.20) is assessable if no protected person resides in the home
  - Refundable Accommodation Deposits are included in assessable assets
- Amounts included in assessable income are not changing:
  - Income support payments (less minimum pension supplement and energy supplement)
  - Deemed income

Means tested fee comparison

The following graph compares the amount of means tested fee payable under the current rules for various levels of assessable assets, to the new means tested fees payable (Hotelling Contribution + Non-Clinical Care Contribution).

Note, this graph is comparing the fees for various levels of assessable assets only (not income). Rates and thresholds are as at 20 March 2024.



Points to note:

- Means tested fees under the new rules (Hotelling Contribution + Non-Clinical Care Contribution) are much higher than the current means tested care fee at higher levels of assessable assets.
- When assessable assets exceed approx. $975,000, the maximum Hotelling Contribution + Non-Clinical Care Contribution is payable.

Case studies

Single age pensioner - Judith

Judith is a single person entering a residential aged care facility. She is selling her home and using the proceeds to pay the accommodation payment of $550,000 as a Refundable Accommodation Deposit (RAD).

After paying the RAD, she has $350,000 left in the bank. She also receives the Age Pension.

Let's compare her cashflow position if she entered residential aged care under the current rules, or after 1 July 2025 under the new rules.

Note: for the purposes of the calculation we are using rates and thresholds as at 20 March 2024, to be consistent with the thresholds provided by the Explanatory Memorandum to the Aged Care Bill 2024. This includes a maximum Hotelling Contribution of $11.24 per day.

Means tested amount calculation

The following table shows Judith's means tested amount under the current rules and new rules from 1 July 2025:

Income tested amount Assessable income = $33,501			**Asset tested amount** Assessable assets = $900,000	
Current rules	**New rules**		**Current rules**	**New rules**
(50% x ($33,501 - $32,819.80))/ 364 = **$0.94 per day**	(50% x ($33,501 - $32,819.80))/ 364 = **$0.94 per day**		17.5% of assessable assets between $59,500 and $201,231.20 + 1% of assessable assets between $201,231.20 and $484,693.60 + 2% of assessable assets exceeding $484,693.60 = $35,943.70 / 364 **= $98.75 per day**	17.5% of assessable assets between $59,500 and $201,231.20 + 0% of assessable assets between $201,231.20 and $238,000 + 7.8% of assessable assets between $238,000 and $290,453 + 0% of assessable assets between $290,453 and $502,981 + 7.8% of assessable assets exceeding $502,981 = $59,861.78 / 364 **= $164.46 per day**

Cashflow

	Current rules	**New rules – entered post 1 July 2025**
Age Pension	$28,342	$28,342
Interest	$10,500	$10,500
Basic daily fee	($22,615)	($22,615)
Hotelling Contribution	-	($4,102.60)
Means tested care fee	($11,513)	-
Non-Clinical Care Contribution	-	($31,397.30)
Surplus/deficit	**$4,714**	**($19,272.90)**
Retention amount		($11,000)
Surplus/deficit	**$4,714**	**($30,272.90)**

Assumptions: Bank account interest 3%p.a, taxation is not included in cashflow, rates and thresholds as at 20 March 2024

As can be seen from the table above, if Judith entered under the current rules, she would have a cashflow surplus of $4,714p.a. However if Judith entered aged care under the new rules from 1 July 2025, she would have a cashflow deficit of $19,272.90p.a. due to the significantly higher ongoing fees.

If the retention amount of $11,000 is also taken into account (acknowledging that it doesn't impact cashflow but it is payable by the client as this amount is retained when they leave the aged care facility), her deficit increases to $30,272.90p.a.

Comparison of ongoing fees and retention amounts

The following table compares the ongoing fees and retention amounts payable at various levels of assessable assets under the current rules and the proposed new rules from 1 July 2025 for new residents.

Note: It is assumed that the client has assessable income below the income free area which does not impact the Hotelling Contribution or Non-Clinical Care Contribution).

For the purposes of the calculations we are using all rates and thresholds as at 20 March 2024, to be consistent with the thresholds provided by the Explanatory Memorandum to the Aged Care Bill 2024. Its also assumed that where a RAD has been paid it represents 100% of the accommodation payment.

Total assessable assets	**$100,000 (no RAC/RAD paid)**	**$300,000 (includes RAD $200K)**	**$500,000 (includes RAD $300K)**	**$700,000 (includes RAD $400K)**	**$900,000 (includes RAD $550K)**	**$1,100,000 (includes RAD $750K)**	**$1,300,000 (includes RAD $750K)**
Current rules – entered pre 1 July 2025							
Basic Daily Fee (pa)	$22,615	$22,615	$22,615	$22,615	$22,615	$22,615	$22,615
Means Tested Care Fee (pa)	Nil	$990	$3,149	$7,160	$11,171	$15,182	$19,193
Daily Accommodation Contribution	$7,107	Nil	Nil	Nil	Nil	Nil	Nil
Total (pa)	**$29,722**	**$23,605**	**$25,764**	**$29,775**	**$33,786**	**$37,797**	**$41,808**
Proposed rules – entered post 1 July 2025							
Basic Daily Fee (pa)	$22,615	$22,615	$22,615	$22,615	$22,615	$22,615	$22,615
Hotelling Contribution (pa)	Nil	$4,103	$4,103	$4,103	$4,103	$4,103	$4,103
Non- Clinical Care Contribution (pa)	Nil	Nil	Nil	$15,410	$31,052*	$36,923	$36,923
Retention Amount (pa)	Nil	$4,000	$6,000	$8,000	$11,000	$15,000	$15,000
Daily Accommodation Contribution	$7,107	Nil	Nil	Nil	Nil	Nil	Nil
Total (pa)	**$29,722**	**$30,718**	**$32,718**	**$50,128**	**$68,770**	**$78,641**	**$78,641**

*Note, the Non-Clinical Care Contribution of $31,052 is less than in the Judith example as we have assumed assessable income is below the income free area

Points to note:

- At lower levels of assessable assets (eg. $100,000), there is no difference in fees under the current rules and the new proposed rules
- At higher levels of assessable assets, fees are substantially higher under the new proposed rules. For example, where assessable assets are $900,000, the difference in fees is $34,984p.a ($68,770 - $33,786) where retention amount is included.
- Where assessable assets exceed approximately $975,000, the maximum Hotelling Contribution and Non-Clinical Care Contribution is payable under the new proposed rules. This means that in the above table, the clients with $1.1 million and $1.3 million of assessable assets pay the same ongoing aged care fees.

Advice Implications

- If the proposed legislation becomes law, many clients who enter residential aged care on or after 1 July 2025 will pay higher fees and charges for residential aged care.
- Cashflow planning will be essential to ensure they can meet their ongoing fees and charges. Strategies such as paying a DAP from a RAD may assist.

- The decision as to whether to pay an accommodation payment as a RAD or DAP will become more complicated. If paying a RAD, the retention amount will need to be considered and its impact on estate planning. If paying a DAP, indexation of the DAP over time will also need to included.
- When determining whether a client should retain their former home or sell it when entering residential aged care, potentially higher ongoing fees under the new proposed rules will need to be considered. Does retaining the former home provide the client with sufficient cashflow?

As more information about the reforms becomes available we will provide further analysis and advice implications.

Further information

Response to the Aged Care Taskforce - Accommodation Reform

Response to the Aged Care Taskforce - Residential Care Contributions

Government Response to the Aged Care Taskforce

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