

Accessing equity in RADs and ILUs – the need to change financial models

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Overview

- Why equity access to RADs and ILUs is needed
- Range of options
- Consumer Credit
- Security issues
- Methods to release equity
- Structures on entry and exit
- Beating off the beneficiaries - themes

In a nutshell

‘If the proportion of people entering retirement as home owners continues to decline, a growing proportion of those who subsequently need to enter residential aged care will be unable to post an accommodation bond financed from proceeds of selling their houses’

Saul Eslake – quote reported in Australian Ageing Agenda May- June 2017

In a nutshell – the proposition

- Proposition is: If the Aged Care Act is moving to separate accommodation from care, then the characteristics of ‘accommodation’ provided by seniors housing providers (retirement villages and approved providers) must move to more reflect the characteristics of people ‘living at home’ in terms of alternatives, access and financing options.

Overview of changing wealth

- Drop in rate of outright home ownership for >65 yrs from:
 - 85% -1991
 - 82% - 2001
 - 79% - 2011
 - 70% - 2017
- Rate of home owners paying off mortgage has increased from c10% - 2011 to 15% - 2017
- Percentage of private renters – seniors currently c13% projected to increase from 98,600 in 2018 to 172,900 in 2028
- Significantly less outright home ownership in future generations as a result of housing affordability crisis

Housing Decisions of Older Australians – Productivity Commission Research paper December 2015

The Super Challenge of retirement income policy – CEDA report September 2015

Building Seniors' Financial Capability National Financial Literacy Strategy ASIC 2017

Affordability for seniors – a comfortable life

- Definition of income poor – in 2011 -12:
 - <\$34,000 pa single and
 - < \$51,000 pa couples
- Definition of ‘modest comfortable life’ :
 - Income :
 - For singles - > \$43,000 pa
 - For couples - > \$58,000 pa
 - Assets:
 - For singles - >\$400,000 net
 - For couples - > \$500,000 net
- *CEDA report 2015 based on Superannuation*

Primary issues facing ageing population

- ASIC survey of 55+ population – top financial priorities

Issue	%
Paying day to day household bills	78
Having enough money to enjoy life	69
Make sure can access money for emergency	54
Paying healthcare and medical costs	45
Saving for a holiday or travel	42
Being able to help children financially	23

- The current ageing population remains (relatively) asset rich and income poor and does not access equity to maintain comfortable life, foregoing essentials.

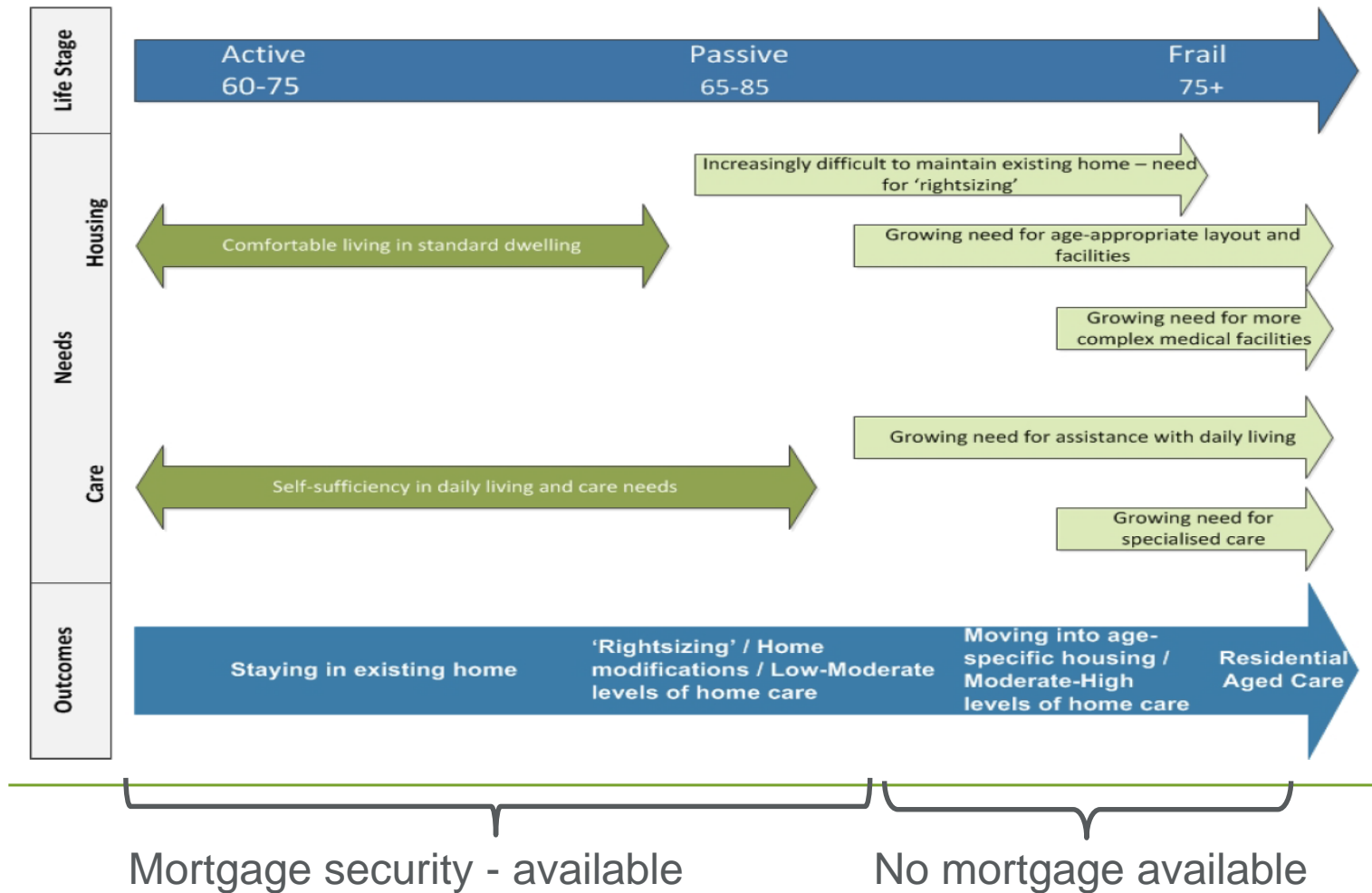
Changing generational attitudes

Older Australians in the next decade or two (dominated by the baby boomer cohort) are likely to be wealthier on average, but also with greater dispersion in the distribution of household wealth. They may be less risk averse than their predecessors, with a greater willingness to take on and hold debt, and to draw down on their home asset to fund their retirement and care needs. This might also reflect a weaker bequest motive, compared with previous cohorts.

- Productivity Commission Report 2015

Current range of options

Figure 2 Housing and care needs — a simple schema



Productivity Commission Report

Consumer credit

- Consumer credit
 - payment of a debt owed by one person (the **debtor**) to another (the **credit provider**) is deferred;
 - a charge is or may be made for providing the credit - interest;
- To provide 'credit' means to engage in the regulated consumer credit regime

Approach	Credit?
Defined amount due at a future defined time	No
Amount due today, not paid, interest charged on outstanding debt recoverable anytime	No
Amount due today but agree to defer payment with no interest or any charge	No
Amount due today but agree to defer payment with interest until later date	Yes

‘Security’ – nature of RAD and ILU payments

Elements	Aged Care	ILU
Basis of payment of refundable amount	Accommodation agreement - RAD	Lease or licence agreement – ingoing contribution (premium)
Contractual obligation to repay loan	Yes	Yes
Contractual obligation supported by legislation	Yes – ‘approved provider’ responsible	Yes – ‘village operator’ responsible
Further legislative support	Government guarantee	Statutory charge
Security of tenure	Yes – limited grounds	Yes – requires generally Tribunal order most states
External administrator-receiver and manager bound?	Yes – liquidators can prefer outgoing residents	Yes – liquidators can prefer outgoing residents

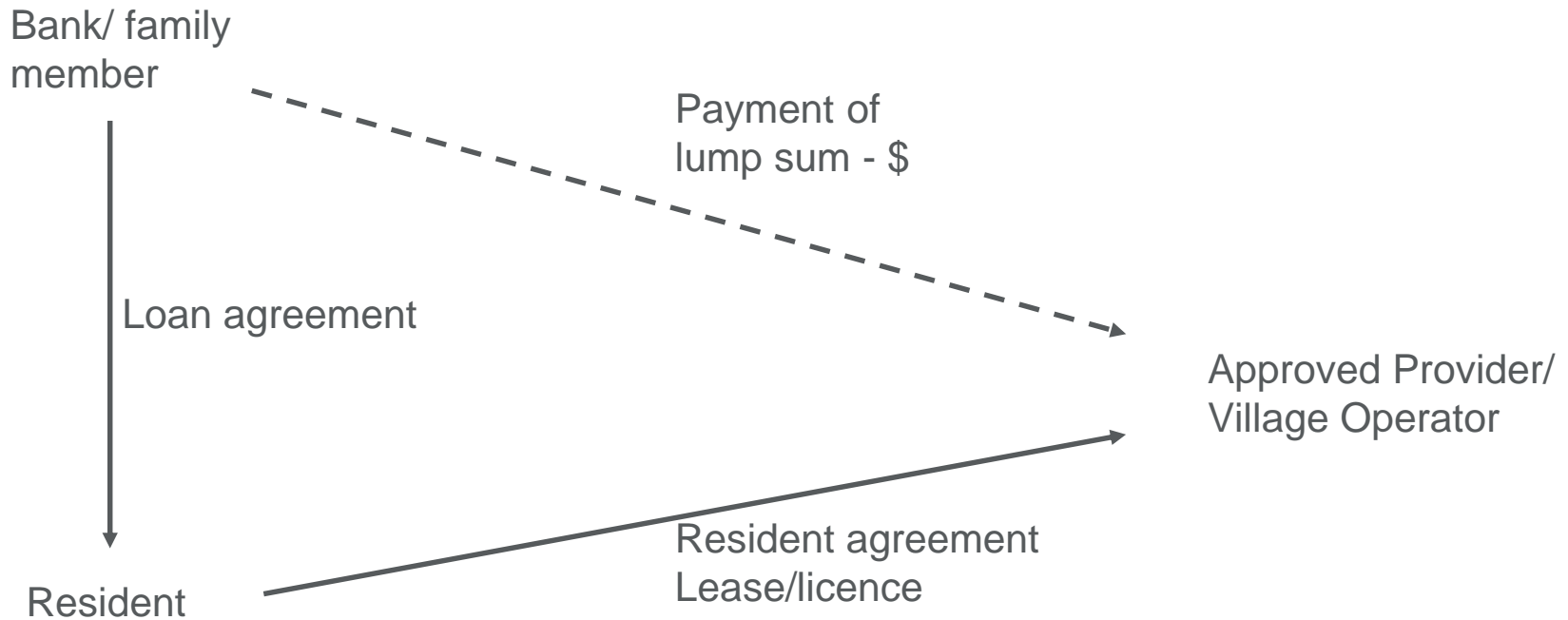
Methods to release equity to pay for services

- Increase level of RAD and not charge for services – ‘opportunity cost’ of equity passes to operator
- Defer payment of amounts until end (without interest to avoid ‘credit’) and set off against lump sum – cashflow impact on operator
- Don’t charge for services until end (without interest) and then set off – cashflow impact on operator
- Third party pays on behalf of resident (family member) and takes security to be ‘repaid’ lump sum in priority (assignment of rights) – estate issues
- Early repayment by AP or ILU to fund transition to other housing – an emerging issue in light of recent criticisms of sector – real issue – how?
- Third party financier lends to resident for payment of lump sum and takes security and assignment of rights – La Trobe Financial Services Aged Care loan

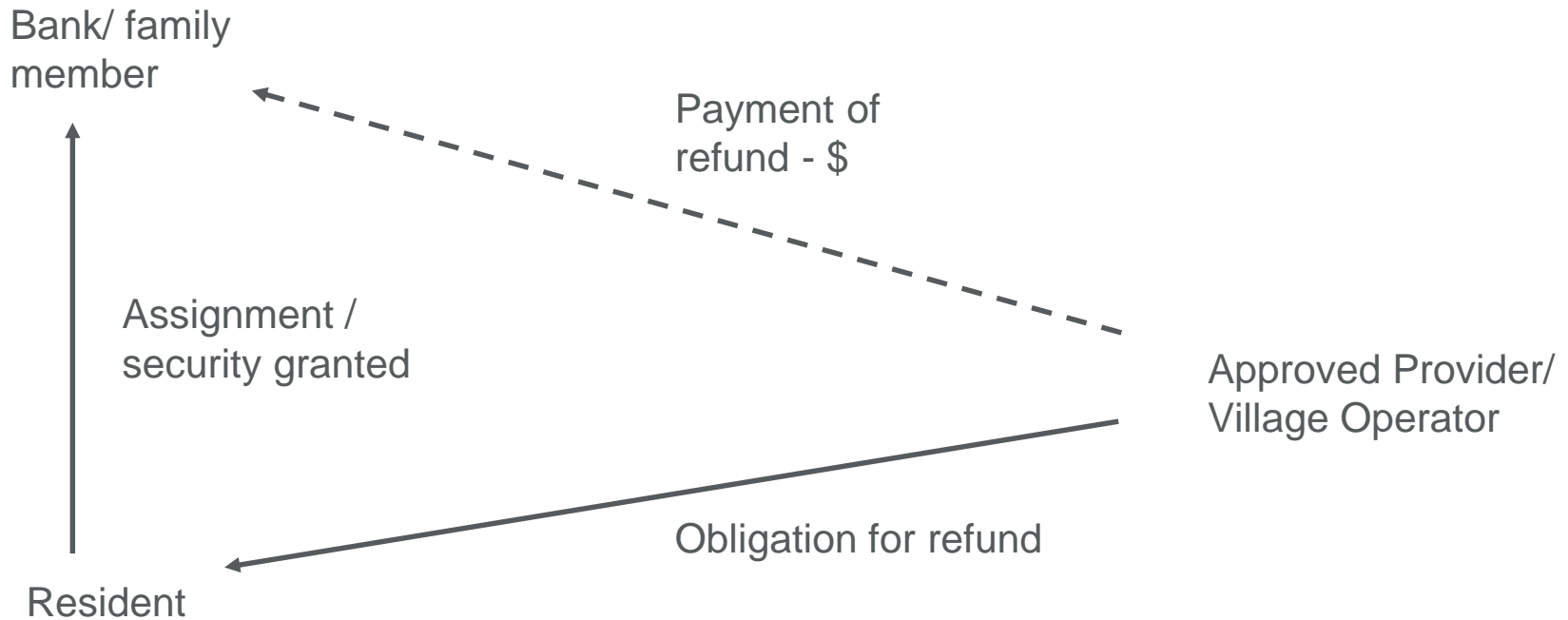
Elements of lump sum to resident

- Contractual obligation to repay is a valuable asset for resident. It is a bundle of 'contractual rights' that manifests itself in cash
- Contractual rights can be 'mortgaged' to secure repayment of another debt
- Contractual right can be 'sold' to give current value
- Debt security can be recorded
- Issues:
 - How do you price or value contractual right?
 - How do you allow for capitalisation of interest or charges?
 - How do you document it? In the original agreement or outside?
 - How do you adjust for DMF or other charges?
 - What if there is a shortfall?

Structure on entry



Structure on exit



Beating off the beneficiaries

- Resident's assets are free to be dealt with until death – autonomy of resident
- Assigned asset should not form part of estate – if properly prepared
- Aged Care Act requires 'must be made within 14 days of provision of probate' – can be sooner and subject to resident's own affairs
- ILU is obligation to refund loan/refundable bond made

Current media

- Australian Law Reform Commission Report - Elder Abuse – A National Legal Response May 2017
- Sun Herald Sydney - 27 August 2017 – *‘Financial abuse of parents growing’*
 - COTA quoted as noting increased abuse of parents to downsize to move to villages sooner, holding access to grandchildren as ransom for financial support
 - Follows earlier Fairfax story that 1 in 4 Gen Y Australians rely upon or will rely upon in heritage to be able to buy a house
 - Allegations of seeking to preserve inheritance and not spending appropriately for care costs
 - Common issues are misuse of powers of attorney, disposal of sale proceeds from home to children

Themes and comments

- Lump sum payments from sale of major asset diminishing
- DMF and other fees under immense pressure as to 'fairness'
- Fundamental conflict between resident focused on day to day and supporter/family looking for explanation as to difficult financial terms and contracts
- Certainty remains key
- Clarity and simplicity in model preferred
- Affordability and ability to fund crucial – loan products
- No recognition of extensive mandatory disclosure obligations and security

Questions?

Thank you

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