



Refundable Accommodation Deposit, Daily Accommodation Payment and Compound Interest Explained

Fees payable by a resident in an aged care facility are regulated by the Commonwealth Government of Australia.

The Refundable Accommodation Deposit (RAD) is a lump sum payable upon entry to an aged care facility by residents who are not entitled to receive government funding towards their accommodation costs. The room price is set by the aged care facility and is subject to stringent government regulation.

Refundable Accommodation Deposit (RAD) is the lump sum dollar amount payable to an aged care facility and is a contribution towards the cost of the resident's living environment, including bedroom, recreational areas and dining rooms.

Daily Accommodation Payment (DAP) is the interest payable on any outstanding lump sum amount (RAD) that has not been paid by a resident to the aged care facility. The current interest rate used to calculate the DAP is set by the Commonwealth Government and is currently 5.76% from 1st of January 2017.

Residents will have the choice of paying for their accommodation as a RAD; a DAP; or a combination of the two.

A new resident will have up to 28 days from entering care to choose whether to pay the agreed accommodation price by a RAD or DAP or a combination of both. The DAP is the default position until a RAD is paid. Daily payments are not required more than one month in advance.

Drawing Daily Accommodation Payments (DAPs) from the Refundable Accommodation Deposit (RAD)

The DAP can be paid by the resident or can be drawn down from the RAD if the resident has chosen to pay a combination of a RAD and a DAP. Providers may also agree to have other amounts drawn down from the RAD, however they may increase the DAP by an amount that compensates for the decreasing RAD balance. This needs to be clearly explained in writing to the resident. The minimum assets the Government has legislated that a resident must hold at the date of entry is \$46,500 for a single person or \$93,000 for a couple and can include, car, contents, investments or the family home.

Here are some examples:

Full RAD

John has chosen a facility and the price of the room is \$400,000 (RAD). John has decided to pay the RAD of \$400,000 in full on day of entry. In this instance, there is **no** DAP applicable and, subject to any other approved deductions, the RAD of \$400,000 would be returned in full on departure.

RAD and DAP Combination

Let's assume John was only able to pay a partial amount of \$100,000 towards his \$400,000 RAD. John would be asked to pay interest on the unpaid \$300,000 indefinitely or until such time as he paid \$400,000 to the aged care provider in full. This regular payment is called a Daily Accommodation Payment (DAP). The current Maximum Permissible Interest Rate used to calculate the DAP is set by the Commonwealth Government and is currently 5.76% from 1st of January 2017.

For example, John has left \$300,000 of his RAD unpaid so he will be required to pay the outstanding \$300,000 in the form of a DAP:

$$\$300,000 \times 5.76\% = \$17,280 \text{ pa} / 365 \text{ days} = \$47.34 \text{ per day.}$$

There are two ways that John can fund his DAP:

- Make regular monthly payments and leave the \$100,000 RAD paid intact. In this instance the Daily Accommodation Payment (DAP) will remain at \$47.34 indefinitely (subject to any other deductions).
- Deduct the DAP from the \$100,000 RAD. In this instance, the DAP will increase on a monthly basis due to the compound interest effect.

What is Compound Interest?

This is interest calculated on the initial principal that is outstanding and also the accumulated deductions. Below is an example of how John's DAP will alter should he decide to deduct the DAP from his initial RAD Deposit.

| Month | Daily DAP funded from cash flow (No deduction from the RAD) | Daily DAP (Deducted monthly from the RAD) |
|----------|--|--|
| January | \$47.34 | \$47.34 |
| February | \$47.34 | \$47.57 |
| March | \$47.34 | \$47.80 |
| April | \$47.34 | \$48.03 |

| | | |
|------|---------|---------|
| May | \$47.34 | \$48.26 |
| June | \$47.34 | \$48.49 |

Effectively, this means that the DAP will continue to increase should John make any deductions from his RAD deposit.

Other Fees

Please note other fees are payable upon entry into aged care and are subject to your individual personal financial position.

- Compound Interest** Interest which is calculated not only on the initial principal but also the accumulated deductions.
- DAP** Daily Accommodation Payment and is the interest payable on any unpaid Refundable Accommodation Deposit.
- RAD** Refundable Accommodation Deposit is lump sum contribution made to your cost of accommodation based on the price of the room chosen.
- MPIR** This Maximum Permissible Interest Rate is set by the Commonwealth Government and is currently 5.76% from 1st of January 2017