Technical guide

Challenger CarePlus

Current as at 6 November 2023

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Contents

Introduction

Challenger CarePlus (CarePlus) is designed for people receiving, or planning to receive, Government-subsidised aged care services. As well as providing fixed monthly payments for life and a known lump sum on death, CarePlus may help clients improve their net cash flow and have greater confidence around the affordability of aged care services.

CarePlus is comprised of two products:

- CarePlus Annuity; and
- CarePlus Insurance

The two separate financial products are collectively referred to as CarePlus.

In this guide, we explore the technical aspects of CarePlus, including how it is assessed under the Centrelink/DVA income and assets tests, how income is taxed and how it's taxed on withdrawal.

Target Market Summary

This product is likely to be appropriate for someone who is receiving, or planning to receive, Government-subsidised aged care services and seeking guaranteed monthly income for life, with a lump sum payable to nominated beneficiaries or their estate upon death.

This product is not suitable for someone who is looking for capital growth or who needs to access the lump sum invested outside of regular payments.

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Product features

Figure 1 and Figure 2 provide a summary of the main features that apply to CarePlus Annuity and CarePlus Insurance. Please refer to the Challenger CarePlus Product Disclosure Statement (PDS) and Target Market Determination (TMD) for further details.

Figure 1: CarePlus Annuity at a glance

What type of investment is this?	An immediate lifetime annuity.
Who can invest in CarePlus Annuity?	Anyone aged 18 years and older receiving, or planning to receive, Government-subsidised aged care services (including home care packages and residential aged care). Investors will also need to purchase CarePlus Insurance (see below).
Investment term	The investor's lifetime.
Minimum investment amount	$10,000 (combined total with any CarePlus Insurance premium).
Regular payments	Fixed monthly payments for the investor's lifetime.
Additional investments	The investor cannot add to their CarePlus Annuity once it starts. However, they can invest in a new CarePlus.
Voluntary withdrawals	The CarePlus Annuity has a voluntary withdrawal value based on the investor's life expectancy. The maximum withdrawal value starts at 100% of the amount invested in the CarePlus Annuity and progressively reduces until it reaches zero at the end of the withdrawal period. The withdrawal value is impacted by the cost of breaking the investment, and movements in interest rates between the time of investment and the time of withdrawal.
On death	Upon death during the withdrawal period, a death benefit equal to the maximum withdrawal value is payable. No death benefit is payable outside the withdrawal period. The investor can select who receives the lump sum benefit payable upon death or the amount will be payable to the estate.
Upfront and regular adviser service fee	Where the client has provided their authorisation, an agreed dollar amount can be charged. For ongoing fees, the maximum is 50% of regular payments. For upfront fees, the maximum that can be charged depends on the amount invested and the client's life expectancy.

Figure 2: CarePlus Insurance at a glance

What type of insurance is this?	A life risk insurance policy with guaranteed acceptance and no underwriting.
Who can buy CarePlus Insurance?	Anyone aged 18 years and older receiving, or planning to receive, Government-subsidised aged care services. Investors will need to purchase CarePlus Insurance together with the CarePlus Annuity (see above).
Insurance term	The investor's lifetime.
Minimum premium amount	$10,000 (combined total with the CarePlus Annuity investment).
Level of cover	The level of cover (sum insured) equals the difference between the total amount invested in CarePlus and the CarePlus Annuity death benefit (so that the total CarePlus death benefit equals 100%[1] of the amount invested into CarePlus).
Voluntary termination	The investor can cancel CarePlus Insurance at any time and receive a termination value.
On death	Upon death, a lump sum amount equal to the sum insured is payable. The investor can select who receives the lump sum benefit payable upon death or the amount will be payable to the estate.

1 If the investor resides in South Australia, stamp duty (currently 1.5% of the Insurance premium) will be deducted from the termination value or sum insured before being distributed to the investor or their beneficiaries.

Challenger CarePlus

CarePlus is designed for people receiving, or planning to receive, Government-subsidised aged care services. CarePlus provides fixed monthly payments for the lifetime of the person requiring aged care (to assist with the ongoing costs of care) and returns 100%[2] of the amount invested to their nominated beneficiaries or estate when they die.

CarePlus is comprised of two products:

- CarePlus Annuity and;
- CarePlus Insurance.

Challenger's quotation software automatically splits the amount invested into CarePlus across the two products – the purchase price for CarePlus Annuity and the one-off insurance premium for CarePlus Insurance.

> CarePlus investment =
> CarePlus Annuity purchase price +
> CarePlus Insurance premium

The split will depend on a number of factors, including the age and gender of the investor and any upfront adviser fees.

Example: Kathy

Kathy (age 85) invests $300,000 into CarePlus with nil adviser fees. Her CarePlus would have the following split[3]:

CarePlus Annuity purchase price = $101,802

CarePlus Insurance premium = $198,198

Centrelink and aged care assessment

An investment in CarePlus can help increase an aged care recipient's Age Pension entitlement and reduce their aged care fees.

This is because an investment in CarePlus:

- provides an instant reduction in assessable assets under the Age Pension and aged care assets tests, and;
- only has part of the income received assessed under the Age Pension and aged care income tests.

The assessment of CarePlus, purchased from 1 July 2019, under the assets and income tests is detailed below.

CarePlus

The Centrelink/DVA and aged care assessment of CarePlus under the assets and income tests is the sum of the asset and income assessments for both CarePlus Annuity and CarePlus Insurance. That is:

> Assets test assessment of CarePlus =
> Assets test assessment of CarePlus Annuity +
> Assets test assessment of CarePlus Insurance

> Income test assessment of CarePlus =
> Income test assessment of CarePlus Annuity +
> Income test assessment of CarePlus Insurance

The following sections summarise how CarePlus Annuity and CarePlus Insurance is assessed under the assets and income tests.

2 CarePlus provides a death benefit of 100% of the total amount invested. However, if the investor resides in South Australia stamp duty (currently 1.5% of the insurance premium) will be deducted from the sum insured before it is distributed to beneficiaries and/or the estate.

3 Based on the Challenger Aged Care calculator as at 06/11/2023 for an 85 year old female (date of birth 01/07/1938), NSW resident and no advisers fees.

Assets test

CarePlus Annuity

CarePlus Annuity assets test assessment

60% of the CarePlus Annuity purchase price until age 84 (with a minimum of five years), then 30% of the purchase price thereafter.

Example: Kathy

Continuing Kathy's example, her CarePlus Annuity assessed asset value would be calculated as follows:

CarePlus Annuity purchase price = $101,802[4]

Assessed asset value = $61,081 (60% x $101,802)

As Kathy is age 85, the assessed asset value of $61,081 from her CarePlus Annuity will be maintained for five years. After five years, the assessed asset value would reduce to $30,541 (30% x $101,802).

CarePlus Insurance

CarePlus Insurance assets test assessment

Below pension age at the time of investment:

- Surrender/termination value

Pension age and over at the time of investment:

- Greater of the insurance premium paid or the surrender/termination value

Example: Kathy

Continuing Kathy's example, her CarePlus Insurance assessed asset value would be calculated as follows:

CarePlus Insurance premium = $198,198[4]

CarePlus Insurance termination value = $179,465[4]

Assessed asset value = $198,198

As Kathy is over pension age when she bought CarePlus Insurance, the assessed asset test value is the greater of the insurance premium paid and the termination value.

If Kathy was below pension age at the time she bought CarePlus Insurance, the termination value of $179,465 would be assessed. Kathy would receive an updated termination value each year from Challenger to provide to Centrelink/DVA.

Voluntary termination

On termination of CarePlus, the investor will receive the CarePlus Annuity voluntary withdrawal value and the CarePlus Insurance termination value. How this is subsequently invested will determine how it will be assessed under the assets test going forward. For example, if the total withdrawal amount is invested in a term deposit, Centrelink will assess the value of the term deposit as a financial asset.

Refer to the CarePlus PDS and additional information guide for more information on the CarePlus Annuity voluntary withdrawal value and the CarePlus Insurance termination value, including how they are calculated.

4 Based on the Challenger Aged Care calculator as at 06/11/2023 for an 85 year old female (date of birth 01/07/1938), NSW resident and no advisers fees. Assumes bank bill swap rates are as at 06/11/2023.

Overall assets test treatment of CarePlus

The overall Centrelink/DVA assessable asset value of CarePlus is the sum of the assessable asset values of the CarePlus Annuity and CarePlus Insurance. In Kathy's example, her $300,000 investment in CarePlus will have an assessable asset profile over time as illustrated in Chart 1 and Table 1.

Chart 1 – Assets test treatment of Kathy's CarePlus over time

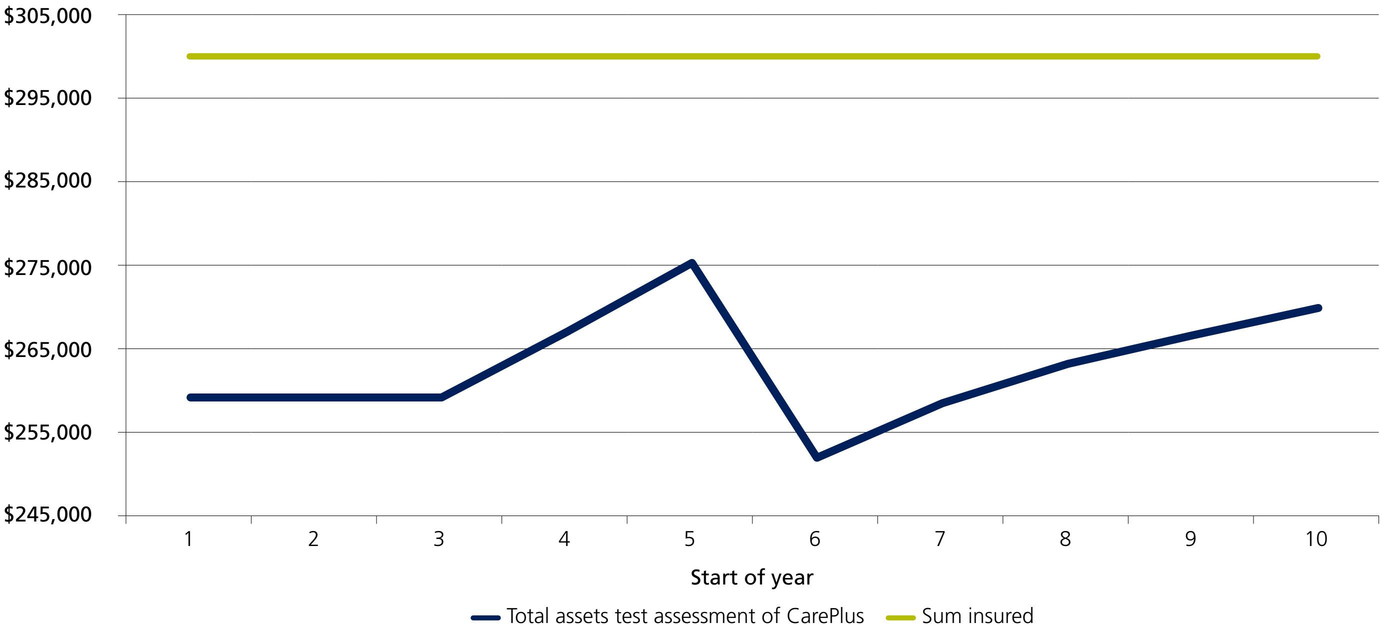

Table 1: Detailed breakdown of the assets test treatment and sum insured of Kathy's CarePlus[5]

Beginning of year	CarePlus Annuity assessed asset value	CarePlus Insurance premium	CarePlus Insurance termination value	Total assets test assessment of CarePlus	Sum insured
1	$61,081	$198,198	$179,465	$259,279	$300,000
2	$61,081	$198,198	$188,423	$259,279	$300,000
3	$61,081	$198,198	$197,275	$259,279	$300,000
4	$61,081	$198,198	$205,901	$266,982	$300,000
5	$61,081	$198,198	$214,104	$275,185	$300,000
6	$30,541	$198,198	$221,626	$252,167	$300,000
7	$30,541	$198,198	$228,019	$258,559	$300,000
8	$30,541	$198,198	$232,702	$263,243	$300,000
9	$30,541	$198,198	$236,099	$266,640	$300,000
10	$30,541	$198,198	$239,334	$269,875	$300,000

5 Based on the Challenger Aged Care calculator as at 06/11/2023 for an 85 year old female (date of birth 01/07/1938), NSW resident and no advisers fees. Assumes bank bill swap rates are as at 06/11/2023.

Income test

CarePlus Annuity

CarePlus Annuity income test assessment

60% of the annual payment

Example: Kathy

Continuing Kathy's example, assessable income from her CarePlus Annuity would be calculated as follows:

Annual payment = $16,574[6]

Assessable income = $9,944 (60% x $16,574)

Ongoing adviser service fees

The investor can agree to the payment of an ongoing adviser service fee, deducted from their regular payments. Centrelink does not reduce assessable income of the CarePlus Annuity by the amount of this fee.

CarePlus Insurance

The income assessment of CarePlus Insurance is similar to the income assessment of other life insurance policies. As there is no income paid, there is no assessable income from CarePlus Insurance.

CarePlus Insurance income test assessment

Nil

Voluntary termination

On termination of CarePlus, the investor will receive the CarePlus Annuity voluntary withdrawal value and the CarePlus Insurance termination value.

If the termination value received is greater than the initial premium, the excess will be assessed by Centrelink/DVA as income for 12 months. Centrelink/DVA does not assess the voluntary withdrawal value from CarePlus Annuity under the income test.

Overall income test treatment of CarePlus

The overall Centrelink/DVA income test treatment of CarePlus will be solely based on assessable income from the CarePlus Annuity (assuming the CarePlus Insurance is not cancelled early). As income from the CarePlus Annuity is not indexed, assessable income from CarePlus remains constant over time.

In Kathy's example, her $300,000 investment in CarePlus will have an income test assessment over time as detailed in Table 2.

Table 2: Detailed breakdown of the income test treatment of Kathy's CarePlus

Year	CarePlus Annuity annual payment	CarePlus Annuity assessable income	Careplus Insurance assessable income[7]	Total income test assessment of CarePlus
1	$16,574	$9,944	$0	$9,944
2	$16,574	$9,944	$0	$9,944
3	$16,574	$9,944	$0	$9,944
4	$16,574	$9,944	$0	$9,944
5	$16,574	$9,944	$0	$9,944
6	$16,574	$9,944	$0	$9,944
7	$16,574	$9,944	$0	$9,944
8	$16,574	$9,944	$0	$9,944
9	$16,574	$9,944	$0	$9,944
10	$16,574	$9,944	$0	$9,944

6 Based on the Challenger Aged Care calculator as at 06/11/2023 for an 85 year old female (date of birth 01/07/1938), NSW resident and no advisers fees.

7 Assumes CarePlus Insurance is not cancelled prior to death.

Taxation treatment

The following information applies to individuals who are Australian tax residents only and is based on our understanding of current taxation legislation as at the date of this document.

Taxation upon investment

No tax is deducted from the amount invested into CarePlus.

On receipt of regular payments

The regular payments from CarePlus (from the amount invested in CarePlus Annuity) are made up of two components:

- deductible amount; and
- assessable amount.

Deductible amount

The deductible amount is the amount of each payment that broadly represents the return of part of the original investment capital from the CarePlus Annuity. This amount is tax free and is calculated based on the gender and age of the investor at the time of investment. It is fixed for the term of the CarePlus Annuity.

To calculate the deductible amount, divide the purchase price of the CarePlus Annuity by the investor's life expectancy at commencement.

Deductible amount

Purchase price divided by the life expectancy of the investor at commencement

Example: Kathy

In Kathy's example, her total $300,000 investment into CarePlus provides her with an annual deductible amount of $13,813 calculated as follows:

Total amount invested in CarePlus = $300,000

CarePlus Annuity purchase price = $101,802[8]

CarePlus Insurance premium = $198,198[8]

Kathy's life expectancy (85 year old female) = 7.37[9] years

Deductible amount = $101,802/7.37 = $13,813

Assessable amount

The assessable amount is the amount (if any) of each annuity payment that is deemed to represent earnings. Depending on the investor's personal circumstances, this amount may be subject to Pay As You Go (PAYG) withholding tax.

Note: PAYG is not a final tax, and a greater or lesser amount of tax may apply on assessment of your client's annual income tax return.

Where income paid from the annuity is less than the deductible amount, no income is counted for taxation purposes. The excess deductible amount does not reduce other assessable income of the individual.

If income paid exceeds the deductible amount, only the difference between income paid and the deductible amount is assessable.

Assessable amount

Annual payment less annual deductible amount

Any tax payable on the assessable amount of the CarePlus Annuity can often be reduced or removed completely by one or more of the following:

- **Tax-free threshold**
  The first $18,200[10] of assessable income received (from all sources) is tax free.
- **Tax offsets**
  Relevant tax offsets can help reduce any tax payable and can include:
  - Senior Australians and pensioners tax offset (SAPTO)
  - Low income tax offset (LITO)

At the end of each financial year, Challenger will send investors a PAYG payment summary and tax information with details to assist them in completing their annual tax return.

Commonwealth Seniors Health Card (CSHC)

The CSHC helps senior Australians with the cost of prescription medicines under the Pharmaceutical Benefits Scheme (PBS), Government-funded medical services and other Government concessions.

The CSHC is available to Australian residents who are of Age Pension or Service Pension age, but are not in receipt of any Centrelink or DVA income support payments. The CSHC is not asset tested, but is subject to an income test (except where the card was issued due to the rebalanced assets test on 1 January 2017) whereby an individual must have adjusted taxable income (ATI) and deemed income from account-based pensions (that are not grandfathered) of less than:[11]

- $95,400 (for singles)
- $152,640 (for couples combined), or
- $190,800 (for couples combined who are separated by illness).

Investing in CarePlus may assist eligible self-funded retirees to qualify for the CSHC by reducing their overall taxable income.

8 Based on the Challenger Aged Care Calculator as at 06/11/2023 for an 85 year old female (date of birth 01/07/1938), NSW resident and no advisers fees.

9 Based on 2015-2017 Life Expectancy tables from Australian Government Actuary (www.aga.gov.au).

10 Based on the Australian Taxation Office (ATO) thresholds for 2023-24 financial year.

11 Thresholds as at 20 September 2023.

Upon termination of policy or death

The CarePlus Annuity voluntary withdrawal value and CarePlus Insurance termination value received by the investor on early termination of CarePlus is generally not subject to tax. On death of the investor, the total death benefit (CarePlus Annuity death benefit plus CarePlus Insurance sum insured) paid to the estate and/or beneficiary(ies) is also generally not subject to tax.

However, if the investor resides in South Australia, stamp duty (currently 1.5% of the insurance premium) will be deducted from the termination value or sum insured before it is paid to the investor, the estate and/or nominated beneficiary(ies).

Case study

Jane (residential aged care)

Jane is 85 and widowed. She was living on her own for some time after her husband passed away, but has become frail with age.

After researching her options with the help of her family, Jane was assessed by an Aged Care Assessment Team (ACAT) as eligible for residential aged care and found a suitable aged care home to move into.

Jane's residential aged care home had an advertised accommodation payment of $550,000. She agrees to that amount and sells her home to pay the Refundable Accommodation Deposit (RAD) of $550,000. She now has $900,000 in term deposits and $50,000 in cash and wants to explore other strategies for this money.

If Jane leaves her money in cash and term deposits, based on social security and aged care rates and thresholds as at 20 September 2023, she will not receive an Age Pension entitlement. Also, her total aged care fees are $45,636 (consisting of a basic daily care fee of $22,214 and a means-tested care fee of $23,422).

Jane visits a financial adviser to find out whether she will be able to pay for her aged care fees and $2,600 per year ($50 per week) of other ongoing living expenses.

The financial adviser's recommendation

The first strategy Jane's financial adviser considers is to retain her existing portfolio of term deposits and cash.

Under this strategy, as illustrated in table 3, Jane has a cash flow shortfall of $11,808 in the first year.

Jane's financial adviser also explores whether investing $900,000 in CarePlus instead of term deposits can help improve this outcome. The remaining $50,000 will stay in cash in case Jane needs access to funds.

CarePlus is designed especially for those who are receiving, or planning to receive, Government-subsidised aged care services (including both home care and residential aged care).

CarePlus will provide Jane with a guaranteed regular income for the rest of her life to help cover the costs of aged care and living expenses.

In the event Jane passes away, 100%[12] of the amount she invested will be paid to her nominated beneficiaries, in this case her children, and/or her estate.

CarePlus can also help reduce Jane's aged care fees and increase her Age Pension entitlements from the way it interacts with the means testing rules.

In Jane's case, CarePlus has improved her net cash flow from a shortfall of $11,808 in the first year to a surplus of $11,270.

Table 3 compares the year one outcomes for the term deposit and CarePlus strategies.

Strategy outcomes

By implementing the CarePlus strategy, in comparison to the term deposit strategy, Jane has been able to achieve:

- a guaranteed income stream for life to help pay for aged care fees;
- a reduction in her means-tested care fee of $1,219 in year one;
- a $6,050 increase in Age Pension entitlement;
- a reduction in tax of $1,572;
- improved net cash flow of $23,078 in year one; and
- an increased benefit to the estate of $23,078 at the end of year one.

The cash flow and estate planning benefits of the CarePlus strategy can continue past the first year while Jane remains in care.

12 CarePlus provides a death benefit of 100% of the total amount invested. However, if the investor resides in South Australia stamp duty (currently 1.5% of the insurance premium) will be deducted from the sum insured before it is distributed to beneficiaries and/or the estate.

Table 3: Illustrating cash flow and estate planning outcomes for year one

Year 1	$950,000 in cash and term deposits	$900,000 in Challenger CarePlus, $50,000 in cash
Cash flow		
Investment income	$38,000	$2,000
CarePlus	N/A	$50,237
Age Pension	$0	$6,050
Less personal expenses	$2,600	$2,600
Total	**$35,400**	**$55,687**
Aged care fees		
Basic daily fee	$22,214	$22,214
Means-tested care fee	$23,422	$22,203
Total	**$45,636**	**$44,417**
Total tax payable	**$1,572**	**$0**
Net cash flow	**($11,808)**	**$11,270**
Estate value (at the end of year one)	**$1,493,317**	**$1,516,396**

Results from the Challenger Aged Care Calculator as at 23/10/2023. Assumes bank account and term deposit earning rate of 4% p.a., Challenger CarePlus rates based on a female (date of birth 01/07/1938), residing in NSW and no adviser fees. The estate value includes the RAD of $550,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

George (home care)

George is 80 years old, single and lives independently in his own home (estimated to be worth $900,000). Recently, however, he is finding it harder to manage some daily tasks on his own and decides to have an ACAT assessment to see if he is eligible for Government assistance. His assessment approved him for a level two home care package (basic daily fee of $11.87), and he was advised that he may need to pay an income-tested care fee on top of the basic daily fee.

George has $450,000 in the bank, $10,000 in personal effects and his current living expenses are $31,200 per year ($600 per week). He decides to see his financial adviser to help him manage his cash flow and minimise any fees associated with his home care package.

The adviser enters George's information into the Challenger Aged Care Calculator to compare $400,000 invested in CarePlus or leaving the entire $450,000 in cash and term deposits. The following tables show a snapshot of the results produced by the calculator for year one.

For details of calculations, other investment years and assumptions supporting these results, refer to the Challenger Aged Care Calculator available on AdviserOnline.

Table 4: Illustrating cash flow and estate planning outcomes for year one

Year 1	$450,000 in cash and term deposits	$400,000 in Challenger CarePlus, $50,000 in cash and term deposits
Cash flow		
Investment income	$18,000	$2,000
CarePlus	N/A	$22,193
Age Pension	$16,171	$20,792
Less personal expenses	$31,200	$31,200
Total	**$2,971**	**$13,785**
Aged care fees		
Basic daily fee	$4,333	$4,333
Income-tested care fee	$0	$0
Total	**$4,333**	**$4,333**
Net cash flow	**($1,362)**	**$9,452**
Estate value	**$1,390,388**	**$1,401,202**

Results from the Challenger Aged Care Calculator as at 23/10/2023. Assumes bank account and term deposit earning rate of 4% p.a., Challenger CarePlus rates based on a male (date of birth 01/07/1943), residing in NSW, and no adviser fees. The estate value assumes any cash flow deficit is funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

We're always ready to support you

Challenger has a range of aged care tools to help you and your clients with their aged care planning, including calculators, videos and case studies. To access them or find out more:

- **Visit challenger.com.au**
- **Log in, or register for AdviserOnline at adviseronlineportal.com.au**
- **Speak to your Challenger BDM**
- **Call Adviser Services on 13 35 66 or Challenger Tech on 1800 176 486**

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