

Ageing with Dignity



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The problem

The average length of stay in an aged care facility in New Zealand is less than two years.

Occupancy of New Zealand's existing facilities is high and very few new stand-alone aged care facilities are being built to provide capacity for the increased demand from New Zealand's ageing population.

The foundation document in the sector, the Aged Residential Care Service Review 2010, found that the return for operators and investors from building new stand-alone aged care facilities is insufficient.

Existing facilities are typically a small single room and often residents do not get to choose which facility they go to.

A solution

The aged care sector has developed a solution.

In the last five years operators have increasingly began to offer care suites sold under the ORA contract structure used in the retirement village industry.

A typical facility will have 30-40 square metre care suites, where residents can acquire the right to occupy for the rest of their days, in a location of their choosing.

Compare this to a 12-15 sqm room in a traditional aged care facility, communal shower and no view, where residents may not be assured of getting the facility of their choice and may be moved constantly within the facility where they are resident.

So how does it work? The price of the care suite can typically be \$300-400k, which is provided to the operator as a resident loan on entry. The Deferred Management Fee ('DMF') to the operator will typically be c.35% of the ORA value which will be deducted from the resident loan on exit, and the balance returned to the family. The DMF fee may be graduated over the length of stay so that if a resident stay is only one year the amount deducted may only be c.15%.

Would you commit \$45-140k of your inheritance to ensure your parent enjoys the last few years of their life with dignity in a well-appointed, large suite in a location of their choice?

	Scenario One	Scenario Two	Scenario Three
ORA Contract (Resident Loan)	\$300,000	\$350,000	\$400,000
Length of Stay	1 Year	2 Years	3 Years
Effective DMF Fee %	15%	30%	35%
DMF Deducted on Exit	\$45,000	\$105,000	\$140,000
Resident Loan Repaid	\$255,000	\$245,000	\$260,000

Note: Some operators offer services and facilities that are outside the range shown above

This provides an attractive solution to a growing number of older New Zealanders. Operators based throughout New Zealand are now offering this service. The DHBs are supportive as it provides additional capacity.

It is good for the operators too. It provides a viable return to enable new capacity to be built as the operator receives the resident loan up front, and receives the residential care subsidy from the DHBs (or private payers) for the provision of care services, as long as the accommodation portion of the subsidy is not received twice.

How to access?

Where family are not based in the same town as their parents or are time poor (particularly with both children and their partners working) this offer is seen as increasingly attractive. The quality of facilities being offered by operators is of a high standard, providing modern living design (typically a living and welcoming area, kitchenette and bedroom) in an attractive setting. In your research look for operators that are offering care suites under an ORA contract structure.

