

Retirement villages need cleaning up

The country's thriving retirement village sector is taking some heavy hits to its reputation as the Productivity Commission inquiry into caring for older Australians uncovers financial horror stories that deserve closer attention from federal and state governments.

Criticisms of the sector by former and current residents of retirement villages and aged care facilities have focused on the complex and confusing contracts, the inequitable financial terms and the myriad conflicts of interest that can distort the decision making of retirement village operators.

Industry participants have admitted to this column that there are dodgy operators that need to be cleaned out of the sector. They say the industry needs to build a reputation for balancing the interests of shareholders, who want operators to maximise profits, and the interests of residents, who need to be treated with dignity and not ripped off.

One anecdote conveyed to this column which is similar to those notified to the Productivity Commission involves an elderly woman who moved into a retirement home in Sydney that was also able to provide her with a range of extra care services.

However, within a year of purchasing the unit on a long term lease she was forced, due to ill health, to move to other premises.

This is when the balance tipped firmly in favour of the shareholders of the public company that managed the development. It continued to charge her the monthly fee of \$1200 while it tried to sell the unit. The sale was dragged out for more than 18 months, as no buyer could be found.

The time taken to sell the unit turned out to have significant financial consequences for the woman because it pushed the date of the ownership into a third year. Under the contract any unit owned for three years or more was liable for an exit fee, called a deferred management fee, of 33 per cent of the sale price of the property.



monthly fees over the 18 month period while the property was being sold.

The conflict of interest is quite apparent. The longer it took the operator of the village to sell the property the more money it collected from monthly charges and the more it would make from the exit fee. Had the property sold before the beginning of the third year the exit fee would have only been 23 per cent.

This anecdote is based on the documents in the hands of the solicitor who represented the woman. The company involved was not able to verify the facts spelled out above but a spokeswoman said that the exit fee on some contracts was 30 per cent after three years.

The solicitor did say that the exit fee was disclosed in the original documents, but the woman's relatives said that the period during which she entered the home was one of intense emotion and clauses at the bottom of contracts were not a priority.

The woman involved was fortunate that she had sufficient

financial means to pay for her move to another aged care facility.

There are even worse cases described in submissions made to the Productivity Commission. In fact, the commission has rarely received so many submissions from individuals for a single inquiry. It is now up to 600 and they are still coming in.

One submission from the Association of Residents of Queensland Retirement Villages cited two cases. One was an 81-year-old who sold her retirement village unit for \$380,000 but was left with less than \$70,000 from the sale after the village operator deducted more than \$300,000 in exit charges, including a deferred management fee.

The association said the operator owns more than 30 villages in Queensland and NSW.

A second case involved a 68-year-old pensioner who is currently homeless, awaiting the sale of a retirement village unit that has been on the market for almost two years. The operator manages more than 60 villages in Australia and New Zealand.

According to the retirement village operators, deferred management fees are essential if the cost of entry into retirement villages is to be kept at a level that Australians can afford.

They also argue that the fees are needed to pay for the access that residents have to community services such as community meeting areas, swimming pools and bowling greens.

But many submissions to the Productivity Commission have highlighted that contracts were often written in vague or general terms and were complex and confusing.

The Retirement Village Residents Association has called for national legislation incorporating standard contracts for each of the different types of financial arrangements. The commission said there was merit in pursuing this suggestion.

An alternative to the outright purchase of a unit would be renting, but the Australian means test for pensions makes it uneconomic.

As it is now, a couple or

individual wishing to collect a pension in retirement would be silly to sell their home and put the money in the bank and rent. If they did that it would be highly likely they would not pass the pension asset test.

In the United States, the generally accepted way to live in retirement is to rent a property.

The commission, led by Mike Woods, is likely to recommend that Australia should allow for a pension bond.

This would involve money from a house sale being kept in a special pension bond account that would not be included in the pension asset test.

The broader issue raised by the widespread use of deferred management fees is the period chosen before this kicks in.

The industry practice used to be that period for collecting the 30 per cent fee 10 years or about 3 per cent a year. That is still the case at some public companies.

However, an increasing number of Australians are leaving their homes later in life and therefore are entering retirement villages at a much older age.

For example, the average age of purchasers of a recent large retirement village development in Sydney's Lane Cove was 81. This trend means that residents tend to stay for less time and properties are turned over faster.

It was in response to this trend that some companies changed their contractual terms to shorten the period for collecting exit fees.

Another broader issue that is raised by the earlier anecdotes is that liquidity is critical to any investment. Property is a great investment, but if you cannot sell it then it is a burden.

This column has discovered that there are ethical companies that will not string out property sales. In fact, they will take assets on their own balance sheet within six months because they recognise the funds will almost certainly be needed for other purposes.

The number of people aged over 85 and over is projected to rise from 400,000 to 1.8 million between now and 2050.

It is hoped that the Productivity Commission report due out in June will make recommendation to speed up the necessary cleaning up of an essential industry.

