

March 2011

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## **Retirement villages**

Moving to a retirement village can be a costly exercise; CHOICE outlines five key risks.

### **01 .Introduction**

Moving to a retirement village is not only a lifestyle decision, it's also a financial one. Extremely high exit fees can mean you may not have enough money left over to seek alternative or more suitable accommodation if you find it unsuitable.

About 5% of Australians aged 65 and older live in retirement villages. Retirement villages are a growing sector, with the number of villages increasing by more than 8.5% over the three years to July 2010. The majority of accommodation options in a retirement village are independent living units; only about 7% are serviced apartments. While independent living units can give you the option to purchase services such as meals and cleaning, a retirement village is usually not suitable if you need a high level of care - in that case, consider a nursing home.

Many of the services available in a retirement village can also be accessed from your own home, especially if you move to a low-maintenance unit. You can get in a cleaner or gardener, order Meals on Wheels, receive daily calls from Red Cross and have an emergency button installed.

Retirement village residents such as Merryl often mention the lifestyle and community spirit as one of the reasons they enjoy living in their village. "It feels as though we live in a resort," she says. "The people are extremely friendly and there is a tremendous spirit. We have a wonderful manager and an active social committee."

**Tip:** Contact your local council to find out what activities and services are available for older people in your local area.

### **02.Contract traps**

Should you decide to move to a retirement village, state laws give you some limited protection. But you'll still need to look beyond the sales pitch and go through the contracts carefully to fully understand the financial implications. Pay particular attention to the following five issues:

#### **1) What type of contract?**

The main types of contract arrangements are:

- **Strata title** You pay an agreed amount to a former resident or the operator, and then own the unit. You usually also need to enter into a service agreement with the operator.
- **Loan and licence** may be offered by not-for-profit organisations such as churches. You usually pay a contribution in the form of an interest-free loan.

· **Leasehold** The lease is usually registered on the title deed, which protects you if the village is sold. You pay a lump sum for the leasehold.

Entry, ongoing and exit fees can apply to all three contract types.

**Tip:** Alternatively, look out for retirement villages with a rental agreement which usually only charge rent and none of the other fees.

## 2) Entry costs

There are large variations in entry fees for retirement villages, depending on factors including location, facilities, the age and condition of the unit and other fees to be paid.

According to Peter McMullen, National Director of Health and Aged Care from real estate services firm Jones Lang LaSalle, entry fees for a two-bedroom unit in a retirement village could range from \$200,000 to \$400,000 in less affluent areas, to between \$1 million and \$2 million in very affluent areas of Sydney. On average, a two-bedroom unit in a retirement village costs about 90% of the median house price in the area in which it's located (the median house price is based on all types of properties and not restricted to two-bedroom units). Two-bedroom units that are less than 10 years old cost on average just above the median house price, whereas older-style units (more than 30 years old) can be available for half the median house price.

**Tip:** In some states, such as NSW and SA, you have a 90-day settling-in period during which you can move out and pay only market rent and some costs. But beware, depending on terms of the contract you may only get your entry fee back once your unit is resold.

## 3) Ongoing costs

Ongoing costs cover any services provided, maintenance and a management fee for the village owner. According to Jones Lang LaSalle, average monthly fees for a retirement village are about \$350 per month for independent living units, but can range from \$280 to \$650 per month and up to \$1000 per month for resort-style villages in very affluent areas.

One area of concern for residents is that the services these fees cover may sometimes change. "We used to have two emergency buttons in the bathroom, one of them inside the shower," says one resident. "One day I came home and my wife told me they had removed the emergency button in the shower. We weren't notified of this in advance."

The main problem, however, is that ongoing fees can increase more than expected. "The only disappointing aspect of finances has been the increase in monthly fees," says Merryll.

Some states regulate increases in monthly fees. In NSW, unless there are fixed increases for ongoing fees in your contract, increases greater than the Consumer Price Index (CPI) can only come into effect if the residents agree or if the Consumer, Trader and Tenancy Tribunal (CTTT) orders so.

However, the operator is still in a much stronger position than the residents. "We rejected the budget for two items of about \$50,000 in total and went before the CTTT," says John. "The Tribunal agreed with us, but now the operator has lodged an appeal and we have to decide whether we can keep defending this, given that large legal costs could arise."

Other ongoing costs include services such as your telephone, gas and electricity.

**Tip:** Check the terms of the contract on what happens if you move out of your unit or die, as you or your estate may be responsible for ongoing fees for months (if not years) afterwards, depending on when your unit is sold.

## 4) Exit fees

Exit fees – also known as deferred management fees – can be very complicated and may include one-off and/or annual charges over a specific period of time, for example 10 years. Examine your capital gain entitlement carefully as you may only get part or none at all, this could mean you suffer a significant

capital loss – see Devil Is InThe Detail, XX. You may also have to pay an amount for refurbishment of the unit, such as new carpet or paint.

Residents point out that it can take a long time before you receive your exit entitlements; this usually depends on how soon your unit is resold. The worst example we’ve heard about is from Steve, whose mother passed away eight years ago with her estate only now receiving the exit entitlements.

**Tip:** In some states, such as Victoria and SA, depending on your contract there can be special rules so that you will receive your entitlements after a certain period if you need to go to an aged care facility and pay an accommodation bond – even if your unit hasn’t sold.

**5) Future care**

The majority of accommodation options in a retirement village are independent living units. It’s a good idea to think about your future needs and check if the retirement village also offers serviced apartments or if the operator is an approved provider for community care packages which may allow you to stay in your unit for longer.

Nursing homes are sometimes located within retirement villages – but don’t assume your future care is secured if you move into such a village. Nursing home places are regulated by the federal government, not state, and their allocation is determined on a needs basis rather than whether or not you’re an existing village resident.

**03. Case study**

RETIREMENT VILLAGE VS LOW-MAINTENANCE UNITS		
	JOAN	EDWARD
Entry price	\$360,000	\$360,000
Deferred management fee	20% one-off	3% per year *
Total fee after nine years	\$72,000	\$115,000
Resident’s portion of capital gain	20%	80%
SCENARIO 1: Selling price: 8% - capital gain/nine years	\$720,000	\$720,000
PAYOUT FIGURE	\$360,000	\$530,000
SCENARIO 2: Selling price: 2% - capital gain/nine years	\$430,000	\$430,000
PAYOUT FIGURE	\$300,000	\$300,000

TABLE NOTES \* For the first nine years, plus a one-off 5% sinking fund fee in the first year. All figures are rounded.

Nine years ago, Joan and Edward each bought a two-bedroom unit in different retirement villages with different fee and capital gains structures; both cost \$360,000 to buy. Edward paid a 32% fee (3% annual fee for nine years plus a 5% sinking fund contribution) while Joan paid a one-off 20% fee. Joan receives only a 20% share of the capital gain, whereas Edward gets 80%. In the case of an 8% capital gain, Edward comes out on top; in the case of a 2% capital gain, both suffer a similar capital loss. By comparison, if they’d bought a low-maintenance unit, they would have received the full value – \$720,000 in the first scenario and \$430,000 in the second.

Note: Other costs such as refurbishment and selling costs have not been taken into account and would also have to be deducted from the payout figure.

TABLE NOTES \* For the first nine years, plus a one-off 5% sinking fund fee in the first year. All figures are rounded.

# 04.CHOICE verdict

## CHOICE verdict

It's crucial that prospective retirement village residents get financial as well as legal advice. While lawyers and financial advisers versed in retirement contracts may not be easy to find, it is well worth the effort. Contact the [fair trading](#)/consumer affairs office in your state or territory for further information and to familiarise yourself with the relevant laws.

CHOICE will continue our research into retirement village contract traps. In particular, we're concerned about:

- Lack of transparency due to non-standardised contracts that are difficult to understand.
- Lack of ability to change accommodation options because of high exit fees.
- Contract traps, which affect a potentially vulnerable consumer group at a time of life when choices are already limited.

## RETIREMENT VILLAGE CHECKLIST

If you're considering moving into a retirement village, apart from checking on the contract traps, consider:

- **Talking to your family and friends.**
- **Visiting a sufficient number of retirement villages** to compare services, facilities and financial arrangements.
- **Whether the services and facilities at the village will still be suitable as you get older.** Are there any stairs, for example, and are the paths easy to access?
- **Whether there is adequate parking for visitors.**
- **Whether you can access local facilities** such as GPs, shops, hospitals, libraries, churches, clubs and public transport.
- **Whether you can make changes to the inside of premises** – for example, in the event you need a wheelchair.
- **Whether you can have someone stay over for a visit or move in.**
- **Whether you can have a pet.**
- **Whether or not the grounds are pleasant and well-tended.**
- **The security arrangements** Is there sufficient external lighting?

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