

Retirement villages – not a lifestyle at any cost

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About Consumer Affairs Victoria

- Vision

Confident Consumers and Protected Communities

- Objectives

To protect and promote the interests of consumers

To ensure markets work in the interests of consumers and the broad community

To improve access to consumer protection services, particularly vulnerable groups.

Review of the Retirement Villages Act



- The review commenced in 2002
- Significant consultation with residents, advocacy groups and industry representatives
- Discussion paper was released in July 2002
- Various roundtables on key presenting issues have been held

Thematic issues arising in the review



Residents

- Complex legal structures, contracts and fees
- Resident participation in retirement village decision making
- Dispute resolution

Operators

- Difficulty complying with different legislation (Retirement Villages Act, Aged Care Act)
- Balancing needs to ensure village remains viable
- Maintenance of consumer confidence in the retirement village industry

Fairness and reasonableness of retirement village contracts project



- The project brief
 - Analyse and reporting on the fairness and reasonableness of current financial arrangements of deferred management fees and ingoing contributions; and
 - Develop a financial modelling device and financial assessment tool for prospective residents.

Characteristics of fair value for residents



Affordability

- Level of capital input: ingoing contribution and deferred management fee
- Ongoing outlay: the percent of income that is expended over time and the proportion of total income spent on housing

Mobility: the ability to exit the village

- Ability to leave due to change of circumstances such as diminishing health, loss of a partner, children moving out of the area, or simply a realisation that they may not have chosen wisely and that they would like to live a more independent life

Transparency: the ability to make an informed choice

- The ability to make an informed choice is associated with being provided with information to enable consumers to:
 - Make a reasonable assessment of the cost and services on offer
 - Compare these costs and services with similar offers from other retirement villages
 - Understand the type and level of services and facilities provided as part of purchase price and ongoing costs associated with living in a retirement village
 - Compare the costs with the purchase or rental of similar sized accommodation in a similar location not within a retirement village

Retirement Villages Consumer Assessment Tool



ReVCAT is designed to assist people to:

- **Assess** the cost and services on offer from the retirement village operator
- **Choose** between retirement villages by comparing the costs charged and services offered by one retirement village operator with the costs and services of other retirement village operators
- **Understand** the type and level of services and facilities provided by the retirement village operator as part of the ingoing contribution (purchase price) and ongoing costs associated with living in a retirement village
- **Compare** the costs of living in a retirement village with the purchase or rental of similar sized non-retirement village accommodation in a similar location

Retirement Villages Consumer Assessment Tool



- A series of linked spreadsheets, movement by hyperlinks and cursor activity
- Incorporates data input and formula calculations
- Presents core financial components of contracts
- Offers worksheet, graph and table output

Retirement Villages Consumer Assessment Tool



The Tool allows prospective retirement village residents to assess the financial cost and consequences of entering into a residence contract.

It provides the following variables:

- Purchase price of the property bought by resident
- Years of residency
- Interest rate as determined by the ten-year Commonwealth Bond Rate (CBR) and detailed daily
- Monthly body corporate fee or monthly service fee (maintenance charge)
- Regular costs paid by the resident
- The extent to which the deferred management fee (DMF) is applied
- The purchase price of the unit or residence right
- The CPI as applied to maintenance charges and as applied to annual living costs
- The cost of the sale of the unit or residence right
- Financial penalties when and if applicable
- The comparative cost of remaining in a family home.

Retirement Villages Consumer Assessment Tool



Areas addressed by ReVCAT

Name of Visible Spreadsheet	Activity
Start New	Allows entry to calculation and presentation spreadsheets.
Exit Fees	Calculates departure costs for three different methods of calculating deferred management fees. Allows the user the opportunity to create three different scenarios for each method. Presents results of calculations graphically.
Investment	Calculates return on investment for three different methods of calculating deferred management fees. Linked to Exit Fees spreadsheet and utilises same input data to determine results. Presents results of calculations graphically.
Cost of Living	Calculates regular annual living costs for resident of retirement village and compares costs to similar non-retirement village accommodation in a unit. Spreadsheet incorporates an index for inflation. Linked to Exit Fees spreadsheet and utilises same input data to determine results. Presents a listing of lifestyle benefits of retirement villages for information of prospective residents.

Retirement Villages Consumer Assessment Tool



Method 1 (Percentage of the Selling Price)

The DMF is levied on the selling price of the unit at the time of sale. The fee is calculated from the date of original settlement for the unit until the date of settlement on the transfer of the unit to the next resident of that unit. The fee is calculated as a percentage, generally 3 per cent per annum, up to a maximum of ten years. The number of years depends on the number of years the resident has lived in the unit at the retirement village before moving out.

Method 2 (Bank Guarantee Security)

The DMF fee is levied on the ingoing contribution paid by the new resident. The DMF is secured by way of a bank guarantee for a fixed period of time. Generally the guarantee is for the number of years the resident has lived in the village up to a maximum of eight years (if the resident has lived in the village more than eight years, the maximum is usually eight years).

The money secured by the bank guarantee is returned to the resident who leaves the village (or their estate) at the end of a fixed period. The village owner retains any interest made on the investment, and no interest is payable to the departed resident. The fee is levied as a percentage, generally 2.5 to 3 per cent (2 per cent in one contract).

Method 3 (Retaining Component of the Capital Gain)

The DMF is levied as a half the capital gain made on selling the resident's unit. The fee is calculated by subtracting the ingoing contribution from the selling price and dividing by two. This amount is then deducted from the selling price and retained by the company.

