

# Navigating retirement village life from a Financial Perspective

Presented by AgedAdvisor New Zealand, in conjunction with  
The Retirement Village Residents Association of NZ

May 2022



# Your speakers for the next 40 - 60 minutes...

## **Nigel Matthews**

Founder of Aged Advisor - New Zealand's largest review site for Retirement Villages and Aged Care and Chief Executive (Interim) for the Retirement Village Residents Association, Nigel has 10 years of in-depth knowledge on the sector and what residents think. He has spoken and listened to literally thousands of prospective and existing village residents and brings a wealth of resident experience to help others better understand the needs and perspectives of residents.

***Aged Advisor New Zealand** has over 9000 in-depth Reviews on 750+ villages and care facilities around NZ and is expanding into the legal and financial service sectors so that over 65's can make informed decisions on the firms that serve this demographic well.*

## **Peter Carr**

As President of the RVR - Retirement Village Residents Association, Peter has spoken to thousands of residents throughout the country and is regularly invited to present at conferences and seminars. As a past Director of Field Days, local JP and resident in a retirement village - he is well practised at speaking and sharing first hand experience of what residents should be told about before moving into a village.

***RVR** is the Retirement Village Residents Association of NZ with almost 10,000 members in three quarters of the NZ registered retirement villages.*

# Acronyms Defined...

**DMF - Deferred Management Fee** : This is a cost paid after a resident leaves or terminates their unit in a village. Generally ranging between 20%-30% of the original ORA purchase price, this sum is used towards shared facilities or other village needs. The percentage is outlined in the ORA and varies depending on the type of retirement living you are situated in. The sum is accumulated during the first few years of residence and the balance returned once the unit has been resold. A village may also take costs of repair or outstanding fees owed to the village when the resident leaves and there is normally no capital gain.

**KTS - Key Terms Summary** : As of April 2020, all registered retirement villages that are members of the RVA are required to provide this two page statement as part of their sales process, and covers the key terms of your ORA. It is recommended that you ask for a copy as part of your decision making process.

**LTO - Licence to Occupy** : While this licence gives you legal access to live in the unit or home you will move into, it doesn't give you ownership of this space. This "right" is established by the terms of the ORA. Under an LTO, you have permission to access and use the village's facilities or services as well as your independent space.

# Acronyms continued...

**ORA - Occupation Right Agreement** : This refers to the contract you sign with a village operator before you move in. Outlined in the contract are the specific details of the LTO you purchase. This could also be a unit title, cross lease, rental right or lease for life. Essentially the ORA covers details of your terms in the retirement home by determining the cost (ie. ongoing costs, how much will be paid on termination of the contract), basic rights (ie. village manager's duties, policies outlined in the Retirement Villages Act) and any other policies of legal importance (ie. how complaints are processed.)

**RC - Retirement Commissioner** : This is an organisation focused on helping retirees with the financial and legal obligations of entering into a retirement village. They focus on three areas: Retirement Policies, Retirement Villages and Financial Capability. A large part of this is updating the Government on policies and procedures that will better the retirement process for residents.

**RORV - Registrar of Retirement Villages** : The Registrar of Retirement Villages main function is to maintain the Retirement Villages Register.

**RVA - Retirement Villages Association** : A national membership body representing most operators of retirement villages.

**RVR - Retirement Village Residents Association of NZ** : A national membership body representing residents living in retirement villages.

# Quick, high level overview...

**Approx. 48,000 residents in 450+ villages around New Zealand**

**Big 6 operators** : The six largest Retirement Village operators – Ryman, Metlifecare, Summerset, Bupa, Oceania, and Arvida are significant players in the New Zealand Retirement Village market. Between them they have an estimated 43% of villages throughout the country and the larger than average size of their villages means that they account for 60% of national unit numbers.

**Penetration Rates** : Estimated resident numbers in Retirement Villages as a percentage of the 75+ population, give an indication of the current demand for Retirement Village living, and is a key input to forecast future demand. Overall, the national penetration rate is 14.3% with the highest regional penetration rates in the Bay of Plenty Region (19.2%), followed by the Auckland Region (17.8%) and then the Gisborne Region (17.3%).

**Expected Increase** : This shows an expected increase of approximately 34,000 residents over the next 12 years, which would mean that the total Retirement Village population would be just over 81,000 by 2033.

*Source : JLL Review 2021 - Visit <https://www.jll.nz/en/trends-and-insights/research/retirement-villages-market-review-2021>*

# How their offerings differ...

- Minimum age of entry
- The DMF calculation
- Weekly fees
- Shared capital gains or not
- One or two DMF's
- Weekly entertainment
- Care onsite - none, partial or full continuum of care
- LTO prices ranging from \$200,000 to \$4 million+

# Main Model Defined...

Years		The DMF Accrues Over X Years	1	2	3	4	5	Money Returned	DMF Paid	+ DMF + Capital Gain to Operator
Amount Paid	<b>\$500,000</b>									<b>50%</b>
Ryman	DMF 20%	5	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000	<b>\$400,000</b>	\$100,000	\$350,000
Summerset*	25%	5	\$50,000	\$75,000	\$100,000	\$125,000		<b>\$375,000</b>	\$125,000	\$375,000
Arvida	30%	4	\$37,500	\$75,000	\$112,500	\$150,000		<b>\$350,000</b>	\$150,000	\$400,000
Bupa	30%	3	\$50,000	\$100,000	\$150,000			<b>\$350,000</b>	\$150,000	\$400,000
Oceania	30%	3	\$50,000	\$100,000	\$150,000			<b>\$350,000</b>	\$150,000	\$400,000
Metlifecare	30%	3	\$50,000	\$100,000	\$150,000			<b>\$350,000</b>	\$150,000	\$400,000
<small>Current as at 1 May 2022      E&amp;OE      NOTE: These are indicative only and should not be used as final figures</small>										

# Renting vs Retirement Villages...

## COMPARISON RENT METRIC

Assume a term deposit interest rate of 3% p.a. *[current rates at time of comparison publication]*

Making an interest free loan of \$1m costs the consumer \$30K in interest foregone p.a.

Over years 1 to 5 of the contract total paid to RV each year is;

$(12 \times \$560) + (3.00\% \times \$1,000,000) + (6.00\% \times \$1,000,000) = \$96,720$  per year

recurrent fee + interest income forgone + Deferred Management Fee

**This is \$483,600 over the 5 years, or \$1,860 per week.**

By comparison using domain.com.au an [upper end] 2 BR apartment in that suburb of Sydney had a rent of \$800 per week. *Note: The above figures are inline with NZ figures for 2022.*

Source : [https://www.parliament.vic.gov.au/images/stories/committees/SCLSI/Retirement\\_Housing/RH-Presentation-16112016-MU.pdf](https://www.parliament.vic.gov.au/images/stories/committees/SCLSI/Retirement_Housing/RH-Presentation-16112016-MU.pdf)



# Renting vs Retirement Villages...

## COMPARISON RENT METRIC [Continued]

Assume the customer is 82 years old and a female. Based on actuarial calculations using [at time of publication] Australian Life Tables published by the ABS and the ABS data on disability prevalence rates, we estimate that

- the customer's life expectancy is 9.0 years but
- her expected term of residency is lower at 7.1 years
- the difference is due to the possibility of becoming disabled before death and having to leave the RV to move into an aged care facility

Over the average term of residency of 7.1 years, the cost is \$79,764.18 p.a. or **\$1,533.93 per week**, still substantially more than the [upper end] 2BR apartment in the area at \$800 per week.

Source : [https://www.parliament.vic.gov.au/images/stories/committees/SCLSI/Retirement\\_Housing/RH-Presentation-16112016-MU.pdf](https://www.parliament.vic.gov.au/images/stories/committees/SCLSI/Retirement_Housing/RH-Presentation-16112016-MU.pdf)

# Why people look at Retirement Villages?

Main reasons why people look at retirement village life usually falls under one of the following;

- Down size / release equity in own home.
- The concept of a 'stress-free, maintenance-free, hassle-free life'.
- The opportunity of continuum of care if needed.
- Not to be a burden on their children.
- One (or both of them) have already had a change in health.
- Friends have moved into one and they say they wish they'd done it sooner.
- Community.

# Best practice decision-making...

## Personal • Legal • Financial

1. Pre-Entry.
2. Money In - What you are paying for when you move in...
3. Money During - What you're spending while you're there...
4. Money Out - What you get back and when...

# 1. Pre-Entry...

## Items covered

- What to ask if someone approaches you BEFORE they have decided on a village or village life?
- Checklists
- Additional Resources / websites

## What to ask if someone approaches you BEFORE they have decided on a village or village life?

- What's prompted you to look at Retirement Village living?
- What are the main things you want in a village?
- *How many have you looked at, run by different operators?*
- Are you expecting this to be your final move?
  - Consideration given to housing market and capital gains?
- How close do you want to be to family and friends?
- How much are you budgeting on per month?
- Current health? Cost and options for care?
- Are there other things you also want to do? Travel? Invest? Gift?

# Checklists and additional resources...

- *Aged Advisor NZ - website and magazine. [www.agedadvisor.nz](http://www.agedadvisor.nz)*
- *The RVR - Residents Association. [www.rvr.org.nz](http://www.rvr.org.nz)*
- *The Retirement Commission (previously called the CFFC)*
- *Aged Concern, Grey Power, SeniorLine*
- *Citizens Advice Bureau*
- *Consumer NZ*
- *JLL - Great for industry knowledge.*

## 2. Money in - What are you paying for and receiving...

### Items covered

- Summary of Key Terms and where to find it.
- Registered vs non registered. Is it Statutory Supervisor exempt and what are the implications?
- Buying off the plans? What to look out for? Negotiation points.
- What happens in the event of a natural disaster?
- Can my Trust do the deal? How does the finance come from a family trust?
- Capital loss and capital gain?
- Costs of any associated / onsite care?
- Maintenance and replacement of chattels. Who is liable?
- Transfer fees and/or paying upfront if wanting to move to another unit?
- Double DMF's?
- Premium Room Fees? Care suites? Financial implications. What "Priority" access means?

# Summary of Key Terms...

- Key Terms Summary Document
- Templated 2 pager
- Required by all RVA Accredited Villages since April 2020.
- Ask for it upfront.

**RVA NEW ZEALAND**  
Retirement Villages Association

### SUMMARY OF KEY TERMS

Village: \_\_\_\_\_  
Accommodation Type: \_\_\_\_\_  
Correct as at \_\_\_\_/\_\_\_\_/\_\_\_\_

KEY TERMS	DETAILS FOR RESIDENT/UNIT
<b>Fees payable by resident</b>	
<b>Maximum Deferred Management Fee (DMF) (or equivalent fees) payable by resident for unit</b>	Maximum total as a percentage of capital sum: _____ % Method of calculation: On entry _____ % Per annum: Year 1 _____ % Year 2 _____ % Year 3 _____ % Year 4 _____ % Year 5 _____ %
<b>Weekly fees payable by resident</b>	
- How much?	\$ _____ per week for a _____ \$ _____ per week for a _____ \$ _____ per week for a _____
- Can these be increased by the operator?	<input type="checkbox"/> Yes <input type="checkbox"/> No
- If yes, how often?	<input type="checkbox"/> Annually <input type="checkbox"/> Any time <input type="checkbox"/> Other -specify _____
<b>Are there any other regular fees payable by the resident to the operator and can these be increased?</b> [For example, service fees.]	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Does the resident contribute to long term maintenance through a contribution to a specific village sinking or maintenance account?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Fees payable on termination (excluding DMF)</b> [For example, admin, marketing fees.]	
<b>Capital gains/losses</b>	
<b>Does the resident share in any capital gain on the sale of the unit?</b> - If yes, what share? [Specify]	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Is the resident exposed to any capital loss on the sale of the unit?</b> - If yes, what is the exposure? [Specify]	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Leaving the unit</b>	
<b>Once the resident has left their unit when do they stop paying weekly fees?</b>	<input type="checkbox"/> On leaving the unit <input type="checkbox"/> Other - specify _____



# Registered vs non registered?

- Registered are covered under the Retirement Villages Act
- Non-registered normally offer unit titles.

## Is it Statutory Supervisor exempt and what are the implications?

- Most villages have a Statutory Supervisor
- Part of the FMA - Financial Markets Authority. Fiduciary oversight / responsibility.

# Buying off the plans?

- Usually the best price and lowest weekly / monthly fee.
- Established operator or new? Multi-village or single owner/operator?
- Opportunity to negotiate on price or terms - especially if several new units available.
  - reduced upfront cash amount
  - delay on paying entry fee
  - cover relocation costs
- Community facility normally built later.
- Prepared to live with construction noise and dust?
- Saying they're building a Care Facility in 3 years does not mean you're guaranteed to have one.
  - Case Study - Nelson Village

# Can my Trust do the deal?

- Short answer - No.
- ORAs need to be between a person(s) and the village company
- Only the people that are listed and have signed the ORA have the right to stay.
  - Case Study - New, or under minimum age partner.

# How does the finance come from a family trust?

- The clients lawyer will insert clauses into the ORA to clarify that funds for a purchase / repayment are made to / from the relevant trust.

# Capital loss and capital gain?

- Most do NOT share capital gain. Some Lifestyle Villages do.
  - Hopper Living, Karaka Pines, Freedom.
- Capital loss considered 'unfair' where no capital gain offered.
  - Case Study - Otago Village

# Costs of Care?

- Costs of any associated / onsite care?
  - Call bells etc.
  - Premium Room Fees?
  - Care suites?
- Financial implications.
- What “Priority” access means?
- What about care Subsidies?
  - For over 65’s, the current asset threshold is about \$240,000, or \$131,000 excluding the home and car.
  - Assets correctly settled into a trust are not included in the asset assessment, so this is where the potential advantage lies.

# Costs of Care [Continued]...

- An asset is correctly settled into a trust for residential care subsidy purposes when the asset is transferred and the resultant “paper entry” debt is gradually forgiven or “gifted” at the appropriate annual rate. This can be up to \$27,000 per annum (per couple). In the five years prior to a residential care subsidy application, only \$6,500 per annum (per individual), can be gifted.
- Any gifting in excess of the acceptable annual limit can be added back to the applicant’s assets.
- Significant property value increases in recent times, without a corresponding increase in the asset or gifting thresholds, have made trusts less helpful in qualifying for the subsidy. Gifting the entire value of a home would now take decades at the above rates. A million dollar home for example could take 37 years to gift at \$27,000 per annum.

Source : <https://www.workandincome.govt.nz/products/a-z-benefits/residential-care-subsidy.html#null>

# Chattels - maintenance and replacement?

- Is 'maintenance free' really free?
- The detail is in the ORA and the Key Terms Summary
- Case Study 1 - Otago Dishwasher.
- Case Study 2 - Canterbury Hot Water Cylinder and Door Seals

# Transfer Fees and Double DMF's

- From one dwelling to another? In the village or a sister village?
  - Do you have to pay for the second unit before the first is sold?
- From Town Houses to Serviced Apartments?
- From Independent Living to Care Suites?



# 3. Money during - what you are spending there...

- Fixed fees vs variable fees?
  - Annual running costs of your own house vs the monthly service fees over a year in a retirement village.
  - Fixed has certainty. CPI linked is ok. Variable usually not good.
- Chattels and maintenance [covered in 2]
- Activities
  - Staff or resident-led?
  - Happy hours?
  - Outings?

## 4. Money Out - Amount back to you and when...

- Fish hooks. What to look out for?
- When do I get my money back?
- If I want to get out early - the effect of the DMF over time?
- DMF's that continue to accrue
  - Case Study - One of the Big Six, up to 6 month accrual after exit
- Will I have enough money left if I want to get out?
- Can I get a mortgage or loan if I need to? Finance options?
- Effect on the estate and beneficiaries to the estate?
- Refurbishment?
- Returning the unit back to original?

# How group providers rate...



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**[www.agedadvisor.co.nz](http://www.agedadvisor.co.nz)**

# Questions...

**AgedAdvisor New Zealand • Phone 0800 243 323 • [nigel@agedadvisor.co.nz](mailto:nigel@agedadvisor.co.nz)**

*Helping you to help your clients better understand the financial implications of village life.  
Company or individual sessions available.*