

Departure fees

for a retirement village

A departure fee generally must be paid when you permanently leave a retirement village (including upon your death). Departure fees are also known as exit fees or deferred management fees.

Departure fees can be a significant amount, so it is important to check your village contract to understand how your departure fee is calculated.

Why must I pay a departure fee?

Most villages charge a departure fee but they can vary widely between villages.

Departure fees are the main source of revenue for a retirement village. They allow the operator of a village to generate income which can be used for other purposes not covered by recurrent charges, such as improving or expanding the services and facilities at the village.

Departure fees also allow for lower recurrent charges and greater flexibility in regards to entry prices. This provides more people with access to retirement villages.

How are departure fees calculated?

Departure fees can be calculated in a number of ways but must always be calculated on a daily basis from the date your contract began to the date you permanently vacated the premises. If you move to a different unit in the same village, for the purposes of calculating your departure fee, the total time you lived in the village must be used and you cannot be required to pay more than one departure fee.

You should check your village contract for specific details of your departure fee, but most can be calculated in the following ways:

- a percentage of the **entry price** accruing over time at a specific rate (for example, 2.5% a year),
- a percentage of the **re-sale price** when the unit is sold or leased to a new resident accruing over time.

The rate of accrual can vary greatly between villages so you should compare villages and their departure fee

structure before deciding whether a particular village is right for you. It is not uncommon for the rate of accrual used to calculate your departure fee to change based on the number of years you live in the village. Generally, the rate is higher in the first couple of years only, before returning to a lower rate in later years.

Minimum and maximum departure fees

Most village contracts set a minimum and/or maximum departure fee that is payable when you leave.

Maximum fees are often linked to the number of years you live in the village. For example, your departure fee may be calculated as 3% a year, up to a maximum of 10 years. This means the maximum departure fee you will have to pay if you live in the village for 10 or more years will be capped at 30% of either the purchase price or sales price, depending on what has been agreed in your village contract. That is, 3% a year multiplied by 10 years which comes to 30%.

Minimum departure fees are the minimum amount you will need to pay as a departure fee. For example, your contract may provide for a minimum departure fee of 6% of either the purchase price or sales price, depending on what has been agreed in your village contract, regardless of how long you live in the village.

Examples of minimum and maximum departure fees

The following examples show how minimum and maximum fees may be calculated. Note these are simple examples only - your contract may take into account other factors when calculating departure fees, so it is important to always check your village contract.

Example 1: Jing has lived in her village unit for 15 years. She has decided to leave the village to move closer to family. Under her village contract, the departure fee she must pay is calculated at 3% per year, for a maximum of 10 years and is calculated by reference to the price she paid for her unit. Jing paid \$100,000 for her unit.

Jing's departure fee is calculated as follows: $3\% \times 10$ (years) \times \$100,000 = \$30,000

Example 2: Bob has lived in his village unit for one year. He has decided to leave the village as it does not suit his needs. Under his village contract, the departure fee he must pay is calculated at 3% of the price paid for his unit for each year he has lived in it, with a minimum fee of 6% of the purchase price. Bob paid \$250,000 for his unit.

If Bob's village agreement did not set a minimum departure fee, Bob would only need to pay 3% of the purchase price as his departure fee (i.e. $3\% \times 1$ year \times \$250,000 = \$7,500). However, there is a minimum fee of 6% of the purchase price under the village contract.

Therefore, Bob's departure fee is calculated as follows: $6\% \times$ \$250,000 = \$15,000

Administration fees

Instead of a 'minimum departure fee', some villages charge a one-off administration fee when a unit is sold or when you move out. It is usually based on the re-sale price but check your village contract for specific details.

How do I know if my departure fee has been calculated correctly?

When you (or your estate) receive your refund from the operator you must be given a statement that shows how the departure fee was calculated. In addition to explaining how your departure fee was calculated, the statement should outline:

- any share of capital gain that is payable to the operator (if applicable),
- any recurrent charges that were payable after you left the village,
- any costs associated with selling your unit (if applicable), and
- any other costs that you were required to pay.

Disputing your departure fee

If you do not agree with how your departure fee was calculated, you can apply to the NSW Civil and Administrative Tribunal (Tribunal) for a review. You will need to provide evidence to support why you think the departure fee was calculated incorrectly. You may wish to seek independent legal and/or financial advice before making an application to the Tribunal.