
OVERVIEW

Key points

- Over one million older Australians receive aged care services. The range and quality of these services have improved over past decades, but more needs to be done.
- Future challenges include the increasing numbers and expectations of older people, a relative fall in the number of informal carers, and the need for more workers. By 2050, over 3.5 million Australians are expected to use aged care services each year.
- The aged care system suffers key weaknesses. It is difficult to navigate. Services are limited, as is consumer choice. Quality is variable. Coverage of needs, pricing, subsidies and user co-contributions are inconsistent or inequitable. Workforce shortages are exacerbated by low wages and some workers have insufficient skills.
- The Commission's proposals address these weaknesses and challenges and aim to deliver higher quality care. The focus is on the wellbeing of older Australians — promoting their independence, giving them choice and retaining their community engagement. Under this integrated package of reforms, older Australians would:
 - be able to contact a simplified 'gateway' for: easily understood information; an assessment of their care needs and their financial capacity to contribute to the cost of their care; an entitlement to approved aged care services; and for care coordination — all in their region
 - receive aged care services that address their individual needs, with an emphasis on reablement where feasible
 - choose whether to receive care at home, and choose their approved provider
 - contribute, in part, to their costs of care (with a maximum lifetime limit) and meet their accommodation and living expenses (with safety nets for those of limited means)
 - have access to a government-sponsored line of credit (the Australian Aged Care Home Credit scheme), to help meet their care and accommodation expenses without having to sell their home. A person's spouse, or other 'protected person' would be able to continue living in that home when an older person moved into residential care
 - choose to pay either a periodic charge or a bond for residential care accommodation
 - if they wish to sell their home, retain their Age Pension by investing the sale proceeds in an Australian Age Pensioners Savings Account
 - have direct access to low intensity community support services
 - be able to choose whether to purchase additional services and higher quality accommodation.
- Limits on the number of residential places and care packages would be phased out, while distinctions between residential low and high care and between ordinary and extra service status would be removed.
- Safety and quality standards would be retained. An Australian Aged Care Commission would be responsible for quality and accreditation; and would transparently recommend efficient prices to the Government.

Overview

Older Australians generally want to remain independent and in control of how and where they live; to stay connected and relevant to their families and communities; and be able to exercise some measure of choice over their care.

While changes to the aged care system over past decades have increased the range and quality of care and support available to older Australians, there are significant variations in the quality of services. However, fundamental reform is required to overcome the delays, discontinuities, constraints and shortages that currently exist, and to respond to future challenges. The challenges include:

- a significant increase in the number of older people
- an increasing incidence of age-related disability and disease, especially dementia
- rising expectations about the type and flexibility of care that is received
- community concerns about variability in the quality of care
- a relative decline in the number of informal carers
- a need for significantly more nurses and personal care workers with enhanced skills.

Aged care can be greatly improved. Government policies, programs and regulations, and the services offered by community groups and businesses, need to be redesigned around the wellbeing of older people and be delivered in ways that respect their dignity and support their independence. Services need to be affordable for older people and for society in general.

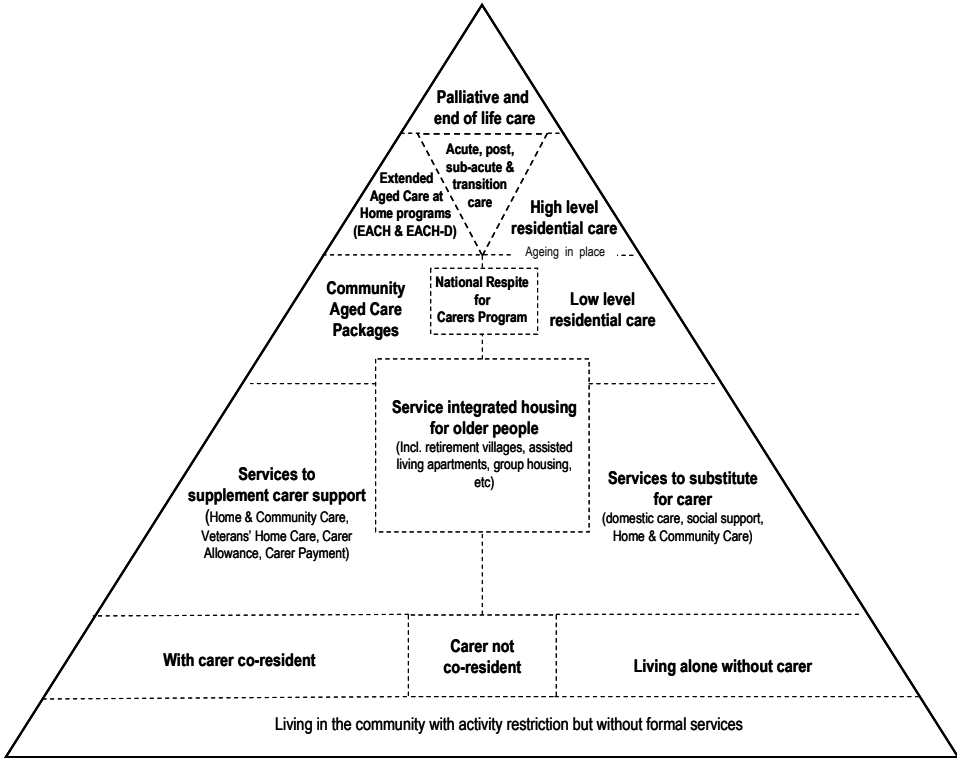
The Productivity Commission has been asked to develop detailed options to redesign and reform Australia's aged care system and to recommend a transition path to a new system.

Australia's current aged care system

Most Australians who reach old age can expect to need aged care services. Within limits, the types of services, their intensity, and their duration, are provided according to each older person's assessed needs. The aged care service continuum is represented in figure 1.

Care and support is mainly provided by partners, family, friends and neighbours — of those older Australians receiving assistance in the community, about 80 per cent receive it from informal carers.

Figure 1 Current modes of care in the aged care system



In addition, government-subsidised services are provided to over one million older Australians (and their carers) each year, with more than half receiving low intensity support through the Home and Community Care (HACC) program. The number of higher level community care packages and residential care places in each region is limited by needs-based planning ratios — 25 places per 1000 people aged 70 or over for community care packages and 88 places for residential care. However, not all approved places in each region are being used.

As at 30 June 2010, more than 160 000 Australians received permanent residential care, with the majority receiving high level care. In recent years, around 70 per cent of residents were female and around 55 per cent of residents were aged 85 years or older.

In 2009-10, Australian, state and territory government expenditure on aged care was around \$11 billion, with two-thirds of that expenditure directed to residential aged care.

Strengths and weaknesses of the current system

The strengths and weaknesses of the system are well known.

In terms of the former, the range and quality of care and support available to older people has been increasing, with quality and safety standards continuing to improve. The workforce is generally appropriately skilled and dedicated to caring. However, due to the variable quality of training, some workers have insufficient skills.

But, there are many weaknesses. The need for fundamental and wide-ranging reform has been identified in the 2004 Hogan Review, the 2009 National Health and Hospitals Reform Commission Report, the 2010 Henry Review, the Commission's previous reports, the analysis it has undertaken for this inquiry, and in the many submissions from inquiry participants. Concerns about the current system include:

- delays in care assessments and limits on the number of bed licences and care packages — older people may suffer excessive waiting times and have limited choice of care providers, while providers have reduced incentives to become more efficient, improve quality, innovate, or respond to consumer demand
- discontinuous care across the packages of community-based services — changes in an older person's care needs can lead to a change in their 'care package', care provider, and personal carer
- constrained pricing — concerns include the low level of charges for high care accommodation, declining hours of service within the care package funding levels, the rate of indexation for subsidies, and the need for a 'temporary' Conditional Adjustment Payment
- difficulties in obtaining finance, in particular, to build high care residential facilities
- financial inequities — the levels of user co-contributions are inconsistent and inequitable within and between community and residential care
- insufficient and inadequate funding for restorative and reablement care; and for palliative and end-of-life care
- variable care quality across the system, which older Australians and their carers also find complex and difficult to navigate
- uncertainty about care availability — there is limited confidence among those needing care that they can leave their care package during periods of greater wellness and independence and re-engage readily should their circumstances change

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- workforce shortages — due in part to low wages, high administrative loads arising from the burden of regulation, strenuous work environments and limitations on scopes of practice
 - complex, overlapping and costly regulations — with an embedded culture in governments of excessive risk aversion and a lack of independence of some regulatory activities
 - insufficient independence of the complaints handling process from the Department of Health and Ageing (DoHA) — with policy development and the administration of regulation being combined, contrary to best practice
 - incomplete and overlapping interfaces — within and between jurisdictions, and also with health, disability, mental health, housing and income support.

Future challenges

The dimensions of the challenges facing aged care are well known, but worthy of a brief review.

- The number of Australians aged 85 and over is projected to increase from 0.4 million in 2010 to 1.8 million (5.1 per cent of the population) by 2050.
- By 2050, it is expected that over 3.5 million older Australians will access aged care services each year, with around 80 per cent of services delivered in the community.
- There is increasing diversity among older Australians in their preferences and expectations (which continue to increase), including a greater desire for independent living and culturally relevant care. This is particularly relevant for many culturally and linguistically diverse, sexually diverse, and Indigenous communities.
- The *Intergenerational Report 2010* estimated that Australian Government spending on aged care would increase from 0.8 per cent of GDP in 2010 to 1.8 per cent of GDP by 2050.
- While further advances in the management of some diseases are expected, more people will require complex care for dementia, diabetes and other morbidities associated with longevity, as well as palliative and end-of-life care.
- Many older Australians with low income have substantial wealth, which gives them the capacity to meet their lifetime accommodation costs and to make a modest contribution to the costs of their care, subject to a reasonable safety net.
- The relative availability of informal carers will decline, reducing the ability of some older people to receive home-based care.

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- The aged care workforce will need to expand considerably at a time of ‘age induced’ tightening of the overall labour market, an expected relative decline in family support and informal carers, and strong demand for workers from other parts of the health and disability systems. It will need to adopt new models of care and scopes of practice.
 - There is a need to harness new, cost-effective assistive and information technologies that offer opportunities for productivity gains and higher quality care.

The system, as currently configured, cannot withstand these challenges. Fundamental reforms are needed and the new arrangements should be built on a clear statement of the Government’s policy objectives for the caring of older Australians.

Policy objectives

There are strong rationales for government involvement in aged care, including equity of access to appropriate care, the protection of vulnerable consumers and the correction of market failures such as gaps in the provision of information. The Australian Government has principal responsibility for aged care planning, funding and regulation, and for supporting informal carers. The Government states that it:

... aims to ensure that all frail older Australians have timely access to appropriate care and support services as they age ... through a safe and secure aged care system. (DoHA 2009, p. xi)

A number of participants presented their visions of a future system of care and support for older Australians. While the visions varied, they had many common themes, including that: the focus should be on wellbeing; services should promote independence; and people should be able to make their own life choices, even if it means they accept higher levels of risk. Older people should be treated with dignity and respect and should be able to die well. Carers of older people should be adequately supported.

The overriding objective of public policy is to improve the wellbeing of the community as a whole. In the context of aged care policy, the focus for older people should be on their physical and emotional needs, connectedness to others, ability to exert influence over their environment, and their safety — within their expressed life choices. At a broader level, the wellbeing of family members, friends and neighbours who provide care to older people, and people who provide formal care also need to be considered. The effects of policies on current and future taxpayers who fund care subsidies should also be taken into account.

To guide future policy change, the aged care system should aim to:

- promote the independence and wellness of older Australians and their continuing contribution to society*
- ensure that all older Australians needing care and support have access to person-centred services that can change as their needs change*
- be consumer-directed, allowing older Australians to have choice and control over their lives and to die well*
- treat older Australians receiving care and support with dignity and respect*
- be easy to navigate, with older Australians knowing what care and support is available and how to access those services*
- assist informal carers to perform their caring role*
- be affordable for those requiring care and for society more generally*
- provide incentives to ensure the efficient use of resources devoted to caring for older Australians and broadly equitable contributions between generations.*

While the distinction between the various components of aged care costs are not always clear, unpacking aged care (into accommodation, everyday living, health and personal care costs) is important for designing future funding principles for aged care and for ensuring consistent subsidies and user contributions across care settings.

The Australian Government should adopt separate policy settings (including for subsidies and co-contributions) for the major cost components of aged care, namely care (including personal and health care), everyday living expenses and accommodation.

This report offers a detailed plan for implementing a new policy framework which encapsulates the Commission's proposed objectives and approaches to policy settings.

Consumer-directed care

Older Australians told the Commission that they did not want to be passive recipients of services, dependent on funded providers. Rather, they wanted to be independent and be able to choose where they live, which provider they would use, the way in which services are delivered, and whether to purchase additional services and/or a higher standard of accommodation.

There is strong empirical evidence that consumer choice improves wellbeing, including higher life satisfaction, greater life expectancy, independence and better continuity of care. In addition, competition amongst providers in a system where consumers can exercise choice leads to a more dynamic system, with enhanced incentives for greater efficiency, innovation and quality. A more flexible system would also enable providers to increase the range and scope of their services, freeing them from the current highly regulated, risk-averse regime. Regulations should revert to a more appropriate role of ensuring safety and quality, protecting the vulnerable and addressing market failures.

A simplified gateway to the aged care system

The current system is complex and difficult to navigate. For older people to be able to exercise choice, they need relevant, current and accurate information that they can easily understand.

The Commission proposes that this information be delivered by a new national platform that integrates, simplifies and enhances the current disparate information networks (including the National Carelink and Respite Centres and DoHA sites). A single Australian Seniors Gateway Agency (the Gateway) would be responsible for the information platform. Older Australians would be able to access the Gateway's information directly both centrally and through its regional outlets, or through general practitioners (GPs), health clinics, Centrelink or other entry points. There are significant advantages to enabling a plurality of information sources, with all of those services founded on the one coherent and integrated source of information.

The Gateway would consolidate the many assessment processes currently undertaken by HACC providers and Aged Care Assessment Teams (ACATs). For older people to receive an entitlement to approved aged care services, they would first need to be assessed by (or on behalf of) the Gateway, by a local team of professionals.

Similarly, an assessment of the capacity of informal carers, and any support they may require, would also be part of the Gateway's functions but carers could also separately approach Carer Support Centres for a wide range of assistance, including emergency respite.

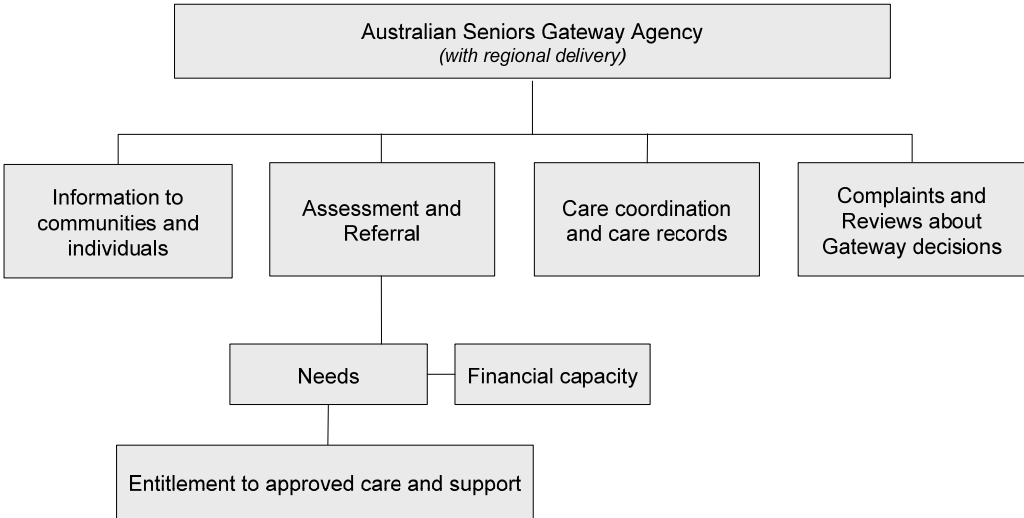
Assessors would use a set of criteria that would apply for all levels of care and support in both community and residential settings. The Gateway would arrange for Centrelink to undertake a separate assessment of the older person's financial capacity to make co-contributions, where required.

Other, lower-intensity community and carers support services outside of the formal Aged Care System (figures 3 and 5) would continue to be accessed directly, or be provided as part of a Gateway-assessed entitlement or referral.

Coordination of aged and health care, and of the providers of that care, becomes increasingly important for older people as the scope and complexity of their needs increase. This role is already performed by a number of general and nurse practitioners, community health clinics and Community Options Program providers. The Gateway would offer a default care coordination service and assess a person’s need for more complex case management, as appropriate, the latter being available as an entitlement.

The Commission proposes the establishment of an Australian Seniors Gateway Agency which would be responsible for maintaining the national aged care information database, and for delivering assessment and care coordination services (figure 2). Older Australians assessed as needing care would receive an entitlement to services through the Agency.

Figure 2 Australian Seniors Gateway Agency



An electronic record of assessments, entitlements, co-contributions and use of approved services would overcome the need for older people to repeatedly tell their story to different agencies and providers. It should also reduce errors and inconsistencies in care records and enhance coordination across the various providers of care, support, health and accommodation. The record would assist with administering lifetime limits to personal care expenditure as set out below. Such records would be protected under the *Privacy Act 1988*.

Care that meets the needs of older Australians

The care needs of older Australians vary from person to person and over time, as ageing is a unique experience. Care needs depend on people's functional capacities, physical and mental health, culture and language, and the environment within which they live. Accordingly, older Australians need access to a flexible range of care and support services that address their specific current needs and, to the extent possible, restore their independence and wellness.

Under the current system, some care needs are not being met because of inflexibilities within the system. While the HACC program has some ability to deliver a variety of services to meet the individual needs of its clients, community care packages are less flexible bundles of services. There are limits to their supply and funding, and there are large gaps between packages.

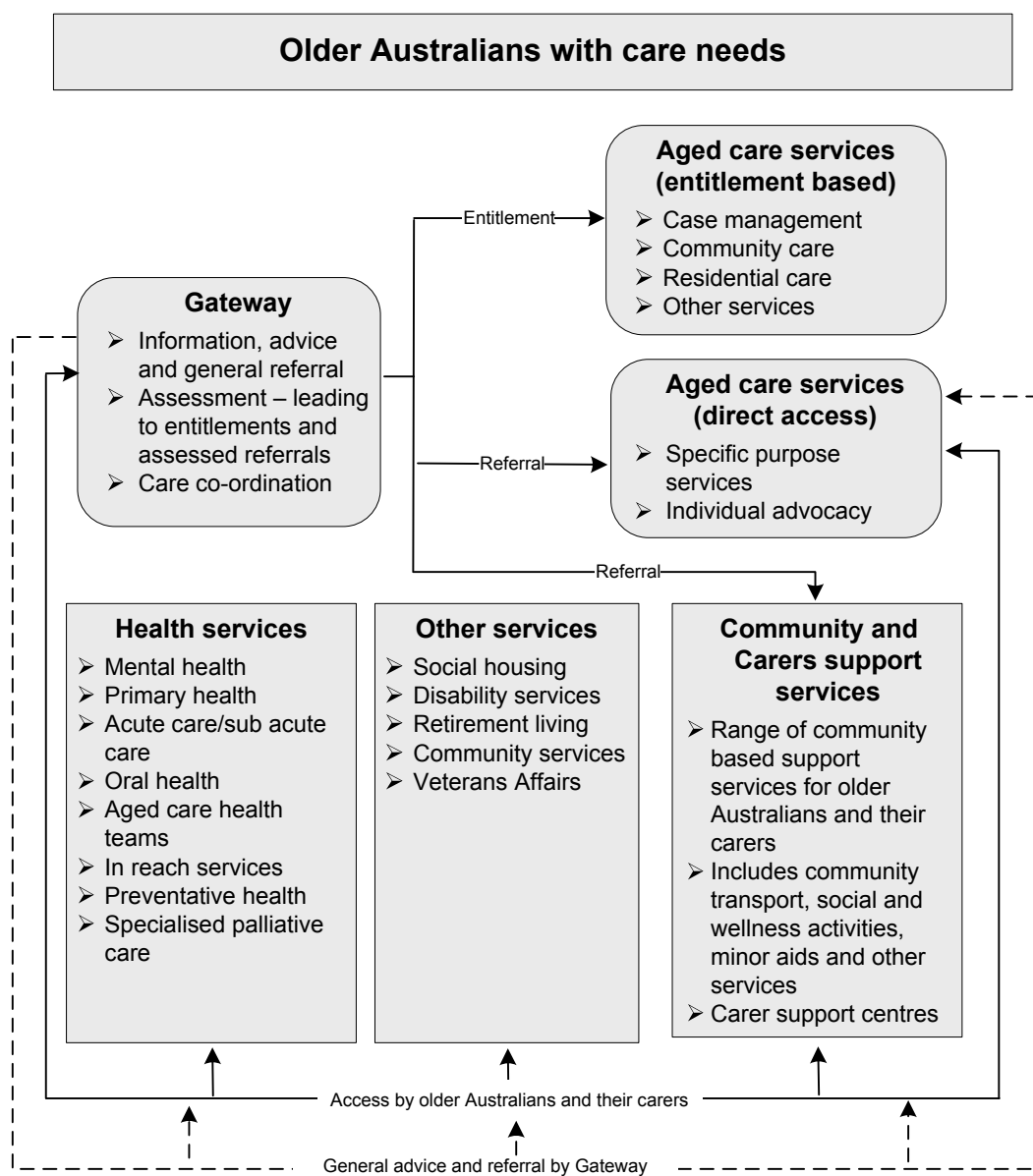
The Commission proposes a model of care and support that offers a flexible range of services to meet older people's individual needs using a mixed approach to access. This combines an entitlement-based approach with direct access for some services (figure 3).

Older Australians who experience an increase in frailty might require personal care services such as daily showering and dressing, assistance with eating, toileting, oral hygiene and health monitoring. The number and/or intensity of care services that older people need can increase — but this might be temporary rather than permanent — or decrease.

Older Australians might also increasingly require specialised care, such as for wound management, and other health (including dental) and nursing care, including dementia and challenging behaviour, incontinence, palliative and end-of-life care, and restorative care and rehabilitation, including transitional and sub-acute care.

Under the Commission's proposed model, older Australians would receive an entitlement to approved aged care services upon assessment by the Gateway. The entitlement would cover care services including personal and nursing care as well as more specialised services. This could also include case management as well as access to high level aids and home modifications. Care recipients would receive a detailed care assessment outlining care objectives, the type and intensity of services to meet the objectives, and the total value and timeframe of the entitlement.

Figure 3 Accessing aged care and support



Older Australians would also have access to lower intensity community support services (such as home maintenance and meal preparation). These services could either be accessed directly or through the Gateway as a referral, or as an entitlement where those services are assessed as being essential to the delivery of higher or more complex levels of service. The full range of aged care services and community supports are set out in figure 5.

Assistance would also be provided to informal carers, and include ongoing planned and emergency respite, either through aged care providers or specialised carer support services.

Providers of aged care services (in the community or as operators of residential aged care facilities) and community and carers support services would need to be approved, with many requiring accreditation and appropriate regulatory oversight.

Where appropriate, services would be modified to meet the particular needs of special needs groups. And, importantly, as needs change, consumers or providers would be able to initiate a reassessment by the Gateway, which could result in increased or decreased levels of support or a change in service mix. In residential care facilities, the provider could undertake such ongoing reassessments, subject to validation and audit processes.

Opening up the supply of care and accommodation to enhance choice

Current trends in service use underline the mismatch between what is offered by the system and what older people want. There is a high and unmet demand for the limited number of community care packages and a decline in demand for residential low care. Many, especially those not suffering from dementia, are deferring entry into residential high care until they reach greater frailty. However, providers are presently constructing very little new residential high care unless it is for ‘extra service’ places, which allows them to charge accommodation bonds.

The current limits on the supply of services often preclude older people, who have an ACAT approval for services, from choosing between competing approved providers. In the Commission’s view, competition would be a powerful incentive for providers to improve quality and efficiency, and to offer care solutions that best address the needs of individuals.

Crucially, by opening up supply in the aged care system, the Commission’s recommendations are designed so that older Australians can be confident about getting the care they need when they need it, including in situations where their condition has deteriorated.

As part of the new consumer-directed arrangements, the Commission proposes the progressive relaxation and eventual removal of supply-side limits on bed licences, community care packages and other services, while maintaining quality standards and provider accreditation. As a temporary measure, to improve service responsiveness, an additional service level should be added between community aged care packages (CACPs) and extended aged care at home (EACH).

To improve the flexibility of supply in residential care, the Commission is proposing to overturn the alignment between intensity of care and type of accommodation (low care in hostel settings and high care in nursing homes), noting that the more recent policy of ‘ageing in place’ has already blurred the boundaries.

Also in need of reform are the current methods of charging for accommodation which similarly differentiate between high care (daily charges) and low care and extra service (accommodation bonds). For high care at the present time, the one daily rate applies equally to old three-bed rooms and to newly constructed single rooms with ensuites and is also set at a level which is insufficient to ensure investment in new residential high care facilities.

The Commission proposes that the current distinctions between residential low and high care and between ordinary and extra service status be removed.

To enable older Australians to exercise informed choice when deciding on their community or residential care provider, all providers should be required to publish up-to-date information about their approved services in terms of availability, quality and price in each local area, and the cost of any additional services they choose to offer. Quality and accreditation assessments for residential and community care should be published by the proposed Australian Aged Care Commission (AACC) (see below).

This opening up of supply, and creation of a responsive and competitive market, will require providers to change their business models and will test the management skills of some. However, the transition must be orderly, to ensure the ongoing delivery of safe, quality care to older people and the viability of the aged care industry, while not protecting individual providers.

The Commission recognises that being able to choose between competing providers is not always feasible. In some situations, the pricing recommendations of the proposed AACC would include supplements (or block funding) to providers of specialised services (such as specific aged care services for homeless people) and to those operating in rural and remote areas (including Indigenous-specific flexible aged care services). The report provides commentary on testing the further use of market-based instruments, block funding and multipurpose services in thin markets.

Funding aged care

Increases in the public costs of aged care are inevitable, given the greater longevity of older people and the lifetime risk of requiring aged care (table 1), the ageing of the baby boomers, and increased expectations as to the quality of services. The costs of public health and the Age Pension are also expected to increase. Although currently each Australian aged 65 years or older is supported by five people of working age, by 2050 this ratio is expected to fall to 2.7. Thus, service delivery must become more effective and efficient, but this will not, in itself, sufficiently reduce the rate of growth of public expenditure.

Table 1 Lifetime risk of requiring aged care, 2006–08

<i>Remaining lifetime risk of requiring care (%)</i>	<i>At birth</i>	<i>At age 65</i>	<i>At age 75</i>	<i>At age 85</i>	<i>At age 95</i>	<i>At age 100 or over</i>
Females	62	68	72	80	83	65
Males	42	48	53	62	67	41

The relaxation of supply-side constraints is essential to improving choice and competition, but it will add to the risk of even greater public expenditure unless there are also changes to funding arrangements. The Commission aims to contain the fiscal risks associated with aged care, while recognising that, even under the current system, the public costs to the Australian Government are projected by the *2010 Intergenerational Report* to rise significantly.

Many participants to the inquiry, including consumer organisations, recognised that if aged care were to be greatly improved, there would need to be higher aged care contributions from those older Australians who have the financial capacity to pay, provided that those with limited means were protected. Co-contributions were also seen as a way of encouraging people to more closely assess the value of the care and support they were receiving, to better appreciate the value of those services and in turn to increase pressure on providers to improve the range and quality of their services.

Providers' concerns with the funding arrangements centred on the residential high care accommodation charge and the indexation rates applying to care payments. They claimed that the former no longer provides an adequate return on capital, and drew attention to the reduction in the construction of residential high care facilities. Providers who have both low and high care licences are cross subsidising from the escalating values of low care and extra service accommodation bonds and from the carry forward of bonds into high care through 'ageing in place'. The average bond paid by new residents has risen from \$58 000 in 1997-98 to over \$230 000 in 2009-10. Thus, whereas the average bond exceeds the cost of new construction for basic residential accommodation, the accommodation charge in non-extra service high care is insufficient to meet a reasonable return on equity for investment in new construction.

A further significant funding issue is the complex and distortionary interaction between the income and assets tests for the Age Pension and for co-contributions for aged care. Incoming residents have an incentive to pay large accommodation bonds so as to retain their Age Pension and reduce their care co-contributions. Providers have an incentive to ask for high bonds as they are an interest-free source of debt financing, and their ability to get them has been reinforced by artificial supply constraints.

A new care co-contribution regime

Under current arrangements, there is considerable discontinuity between the levels of private co-contributions paid for HACC services, for CACP and EACH packages, and for care delivered in residential aged care facilities. This has led to inequities between older people with the same needs and the same financial capacity, and to an inefficient allocation of resources within and between the different forms of community and residential care.

The Commission proposes that the current arrangements be replaced by a single national care co-contribution regime which would apply across the Aged Care System, whether services are delivered in the community or in a residential aged care facility. The rate of the private co-contribution would be set according to a person's financial circumstances, with the amount paid varying according to the underlying price (which would reflect both the complexity and extent of care). The Government, on the transparent advice of the proposed AACC, would set care prices. Co-contributions for services delivered under the Aged Care System would be treated separately from user charges for community support services.

To reinforce the transfer of choice and control to older people, they would be responsible for paying their co-contribution directly to the provider, or providers, from whom they selected to purchase services. They would also assign their Government subsidy to the selected approved provider(s). Older people could change providers at their discretion, with the Government subsidy then flowing to the newly selected approved provider(s).

The design of the co-contribution regime needs to take into account the variability of the financial capacity of older people to make a co-contribution. While the majority of older Australians receive either a full or part Age Pension, even by 2050, a large proportion of these pensioners are expected to have considerable wealth, with the principal residence making up most of this wealth. Currently, the median household of those aged 65 to 74 holds around 79 per cent of their net worth in their principal residence, rising to 90 per cent for the median household of those aged 75 and over.

The Commission proposes that a person's capacity to contribute to aged care be based on an assessment of both their income and their assets, and that this assessment be undertaken on behalf of the Gateway by Centrelink. For the income assessment, the Age Pension's income test would be used — for ease of understanding by older people and for efficiency of administration. However, to promote equity, the assets test needs to overcome the exclusion of the principal residence and accommodation bonds from the Age Pension assets test. A further

complexity of the current Age Pension assets test is that lump sums arising from the sale of the principal residence, but invested in instruments other than housing or accommodation bonds of similar value, are not exempt assets. The Commission therefore proposes that all people be subject to an assets test on those assets exempt from the Age Pension assets test (such as the principal residence and accommodation bonds). The income test would include interest deemed to accrue from assets included in the Age Pension assets test. Such an approach would retain the familiarity with, and efficiency of, a Centrelink social security assessment. It would not affect the person's ongoing eligibility for the Age Pension.

The Commission proposes that the assessment of financial capacity to pay care co-contributions use a 'comprehensive aged care means test'. For income, the Age Pension income test would apply, including interest deemed to accrue from assets that are included in the Age Pension assets test. The assets test would apply to those assets exempt from the Age Pension assets test (such as the principal residence and accommodation bonds).

The Commission recognises that the new arrangement will require some older people, whose wealth is in assets rather than income, to draw down on those assets. An existing scheme, the Pension Loans Scheme administered by Centrelink, enables people of Age Pension age (or their partners) to receive, or top up, their pension payments to the level of a full Age Pension by accessing capital tied up in their assets. The 'loan' is secured against Australian real estate owned by the person — primarily their principal residence. A similar arrangement could be attractive where an older person moves into residential care and their partner or dependent remains in the principal residence, or to help them fund their care co-contributions while living at home.

The Commission proposes that older Australians should not be required to sell their home to meet their aged care co-contributions or accommodation costs. For older Australians whose financial capacity is mainly in the form of their principal residence, there be a Government-backed Australian Aged Care Home Credit scheme, which they could flexibly draw against for their care co-contribution and other aged care accommodation costs up to a specified limit. The scheme would be designed to protect those remaining in the former principal residence, such as a spouse, partner or dependent child with a disability (and other protected persons). The scheme would charge interest on the outstanding balance at a rate equal to the consumer price index, but, as a safeguard, there would be a minimum asset floor below which no further funds could be drawn, and interest would be no longer charged.

Protection against very high costs of care

The costs of aged care (not including accommodation and everyday living costs) vary considerably. They can range from less than \$1000 per annum for basic home support to around \$50 000 for people with dementia on an intensive package in the community, and to around \$65 000 per annum for the highest cost of care services in a residential facility.

The starting point for the Commission is to ensure that care co-contributions are reasonable and affordable, that they are comparable with current arrangements for those of limited means, and that they do not place any group in a position of hardship. Hence, the Commission recognises that some people would not be able to contribute. The report illustrates the effects of an upper limit of co-contributions of 25 per cent of the cost of care, for people with the greatest income and assets, and also illustrates the effect of other upper limits. The final decision as to the appropriate level of co-contributions is one for the Government in balancing the relative proportion of private co-contributions and taxpayer funding. For the purposes of this report and the illustrative cameos, an indicative range of co-contributions of zero (for those with least means) to 25 per cent (for the wealthiest) of the cost of care services was chosen. On this basis, the Commission estimates that two-thirds of community care recipients and three-quarters of residential care recipients would pay a care co-contribution of 15 per cent or less in 2013.

A further source of variability is the probability of needing very costly care. Lifetime estimates show that 68 per cent of women and 48 per cent of men at age 65 will require at least one intensive aged care service at some time in their remaining life (table 1). Less predictable is whether an individual will require such services for an extended period. Many who suffer dementia and need long term residential care fall into this category, and so can others such as those with acquired brain injury or long term chronic health care conditions.

The Commission proposes that, as a safeguard, there would be an upper limit — a lifetime stop-loss limit — to the value of care co-contributions for approved aged care services that any one person pays over their lifetime, irrespective of their financial circumstances. The report illustrates the effect of an indicative lifetime limit of \$60 000, but also examines other limits that the Government might choose.

The lifetime stop-loss limit should be subject to annual indexation at a rate announced by the Government on the transparent advice of the AACC.

The price paid to providers for care services (by way of the user co-contribution and the relevant public subsidy) should be set by the Australian Government at a level

which meets the cost of efficiently delivering approved aged care services. The service payment amounts should be updated annually based on transparent recommendations from the AACC. The level of payment would continue to recognise, as appropriate, any different costs of providing care to special needs groups, including Indigenous Australians and older people living in rural and remote areas. There would be some form of block funding of specialised services, such as for the homeless.

Funding accommodation

The Commission, and many participants in this inquiry, consider that accommodation expenses are a personal responsibility throughout life, while recognising that there are accommodation subsidies (including the availability of public housing and rental assistance) for those in need.

As noted earlier, there are many distortions in the present residential aged care funding arrangements. In terms of high care, providers receive a standard daily accommodation payment, irrespective of the number of beds per room, age of facility or quality of fittings. There is evidence that the present daily charge for high care accommodation does not provide an adequate return on the cost of new supply. Some allocated beds have not been made operational, new rounds of allocations have not been fully subscribed, and some bed licences are being handed back.

In low care and extra service high care, escalating accommodation bond values are a consequence of their attraction to providers and to pensioners. A number of participants argued for the extension of bonds to high care, but if bonds were left uncapped, this could burden many more older people.

In designing its proposals, the Commission focussed on the following considerations. The need to:

- provide a sustainable funding regime to allow for long term investment in aged care residential accommodation
- design a comprehensive but fair co-contribution regime to assist older Australians to access the equity in their principal residence and so contribute to their care costs but be protected from catastrophic costs of care and from having to sell their home
- remove incentives for the payment of very high accommodation bonds that are disproportionate to the value of the accommodation.

Under the Commission's proposals, accommodation providers would receive a sufficient payment from all residents to meet a reasonable return on equity to

maintain and build new facilities, irrespective of whether they receive periodic payments or accommodation bonds. The proposals also remove the incentive for intending residents to pay excessive accommodation bonds by providing an Australian Age Pensioners Savings Account, (which preserves their access to the Age Pension should they choose to sell their home) and by ensuring that care co-contributions are not affected by the size of any accommodation bonds. By removing supply constraints, providers will be less able to use their market power to demand excessive bonds.

The Commission proposes the establishment of an Australian Age Pensioners Savings Account scheme, for those on a full or part-rate Age Pension who wish to deposit all or some of the proceeds of the sale of their principal residence. The real value of the savings account would be maintained by consumer price indexation, and be excluded from the Age Pension assets and income tests. The savings account could be drawn down flexibly by the account owner for any purpose.

The Commission proposes that residential care providers be required to offer a periodic accommodation charge, and, where offered, an accommodation bond of an equivalent (or lower) value, and for both to be published.

In the face of actual or potential competition, the Commission expects that the price of accommodation would be reflective of its value, rather than of the wealth of the consumer. To guard against temporary opportunities for price exploitation, however, the Commission proposes price monitoring during the transition period.

For those in rural and remote localities, where market forces are likely to be weak, the Commission proposes that residential services be provided by the most appropriate local means, whether through a competitive tender or through block funding.

Unlike the current aged care system where older Australians are often forced to sell their home to pay an accommodation bond, the Commission's proposals provide them with the alternatives of an Australian Age Pensioners Savings Account scheme and Australian Aged Care Home Credit scheme.

These reforms, together with the lifting of supply constraints, would enable competing providers to offer a range of accommodation, from a basic standard to very high quality. Older people would be able to choose the standard of accommodation that they want and could afford, just as they have done when living in the community. Those with limited means would, however, be supported through an adequately funded supported residents subsidy.

The Commission proposes that the Australian Government set a supported resident ratio (or quota) in each region, to be met by residential care providers. In setting regional ratios, the Government should assess the potential social impact within regions and, where appropriate, set ratios for subregions that exhibit a degree of homogeneity in the demographic mix. A pilot scheme to test the viability and efficacy of trading supported resident ratio obligations within the same region (or subregion) should be undertaken. If successful, the scheme should be extended to all regions to increase flexibility in the delivery of services.

The Commission suggests that the approved basic standard of accommodation for supported residents should be funded at the prevailing applicable standard of 1.5 beds per room per facility on average, with the funding amount to be transparently assessed by the AACC.

Financing the costs of aged care

The Commission examined a range of options for broadening the funding base to meet the costs of caring for older Australians.

Voluntary personal insurance would allow risk-averse individuals to insure against the possibility of high care costs but it is unlikely to work in anything but a very modest way because of problems on both the supply and demand side of the insurance market. Under the lifetime stop-loss co-contribution model proposed by the Commission, where the Government covers all approved costs above a nominated cap, there could be a role for voluntary personal insurance as the Government would be taking on the ‘long risk’ that individuals and insurers are less willing to accept. Accordingly, the Commission does not support restrictions to voluntary personal insurance being offered by the private sector.

Compulsory aged care savings accounts were rejected as they would reduce choice over savings vehicles and it is essentially too late for this strategy to effectively fund the aged care costs of the baby boomers. Two other broad options have been analysed: compulsory insurance, and the continuation of pay-as-you-go funding from annual government budgets and co-contributions.

The benefits and costs of a compulsory insurance model are explored in the Commission’s parallel inquiry into a national disability long term care and support scheme. Suggested benefits include greater intergenerational equity and certainty of the availability of funds. This option is, in practice, similar to the mandatory taxpayer funded component of the current funding arrangements. That is, to the extent that government ultimately bears the risk of any unfunded care, the notion of strict risk-pooling within a defined benefit fund loses much of its meaning. Indeed,

government-owned insurance schemes have, in the past, returned surpluses to, and requested funding (to offset shortfalls) from, general revenue respectively.

Under a compulsory insurance model, there are also uncertainties relating to the actual premiums that should be set for future care, as well as administration and fund management costs. Under some schemes, premium payments to a compulsory insurance pool represent little more than the hypothecation of taxes, or some sub-set of the taxes, such as a levy on income. Any move to a compulsory insurance model raises significant design and transitional issues.

A key difference between the aged care and disability sectors is that the probability of needing to receive care and support in old age is much higher than the probability of acquiring a non age-related disability. Many older Australians needing aged care services have generally had the opportunity to purchase a home and to accumulate other wealth such as retirement savings, and therefore have the financial capacity to contribute to the costs of their care. Care co-contributions by older Australians, and ongoing responsibility for providing their own accommodation, achieve a measure of intergenerational equity. Also, as the boomers are moving into their retirement years, their scope to contribute to an insurance pool is limited.

Overall, in terms of meeting the costs of aged care, the Commission proposes a pay-as-you-go tax financed system supplemented by higher co-contributions from those with the financial capacity to make them, and a lifetime stop-loss mechanism (to achieve risk pooling) for the high costs of care. Cameos illustrating the effects on various cohorts of care recipients are at schedule C.

The Commission's projections suggests that the Australian Government's outlays under the reformed arrangements could represent in the order of 2.0 per cent of GDP by 2050, compared to the *Intergenerational Report's* projection of 1.8 per cent for the existing system on a comparable basis. Under the Commission's proposals, the Australian Government would meet around two-thirds of the costs of the proposed scheme, with one-third being paid for by, or on behalf of, care recipients.

An estimate of the cost to the Australian Government of the Commission's proposals over the forward estimates period is illustrated in table 2. For the first few years, the cost to government is lower than in the current forward estimates because of the relatively early introduction of the proposed co-contribution regime, while the expansion of residential and community places is gradual over a number of years.

Table 2 Aged care expenditure by the Australian Government — forward estimates and Commission’s proposals

Millions of dollars (nominal)

	2012-13	2013-14	2014-15
Forward estimates	12 390	13 180	14 090
Commission’s proposals	11 077	12 084	13 310

To ensure comparability, the Commission has not included the assessment component, labour force initiatives and information provisions in both the forward estimates and in the Commission’s proposals. While the forward estimates are only available to 2014-15, the Commission estimates that the public cost of its proposals would exceed the cost of the current arrangements by 2016-17.

The Commission has not included potential savings from its proposals in its estimates, in particular through the more efficient use of hospitals and the provision of sub-acute services in residential care facilities at a lower cost.

The Commission is conscious that the removal of limits on aged care supply represents the removal of a significant constraint on the Australian Government’s potential expenditure over time. However, current supply limits restrict the ready availability of services and the exercise of choice by older people and the degree of competition between providers. Their repeal is essential to the success of the reforms. As the Australian Government could manage its fiscal exposure by setting the criteria for needs assessments, the resource levels for approved services, the co-contribution schedules and the standard for basic accommodation, the Commission considers that the removal of restrictions on supply is warranted and appropriate.

Care delivery by informal carers and the formal workforce

Older people want to be cared for by someone who cherishes them, who has time for them, and who respects their right to make their own decisions. Most older people also want to continue to be relevant and connected to their families and communities. Informal carers and the formal care workforce play important roles in providing care and support. Volunteers also contribute to the wellbeing of older people, with many providing highly valued social engagement and spiritual support, and should be appropriately supported in these roles.

Informal carers

Family members and other informal carers, such as friends and neighbours, provide most of the care for older people. They assist with personal and health care, and coordinate the various formal services that the older person might be using.

Demographic trends indicate there will be a decline in the relative availability of informal carers, coinciding with an increased demand for aged care services. There are important implications of these opposing trends — most notably, the potential for greater reliance on formal care services for those with dementia — which will place increasing pressure on care resources and public expenditure.

The significant value to society from the care delivered by informal carers has been recognised by governments through carer payments and other support measures.

To further support carers of older Australians, the Commission proposes that the assessment of the needs of older people by the Gateway acknowledge the role of carers and provide entitlements for the older person to planned respite and other services where appropriate. Carers can also have an assessment of their needs undertaken by a Carer Support Centre. As proposed in this report, these carer services may be accessed either directly or through a referral from the Gateway. Carer supports should include carer education and training, carer counselling and peer group support, and advocacy services. Services specifically for supporting carers should be coordinated and undertaken, where appropriate, by a network of Carer Support Centres, which could also provide services to carers of people with disabilities. Most emergency respite services would also be organised and administered through these Carer Support Centres.

Broader reforms to the aged care system will also be of assistance to carers. These include the replacement of a variety of information sources with a single, easily understood and navigable information platform, and the availability of more flexible care options which are designed to meet the individual needs of those for whom they are caring.

The formal workforce

The high standards of aged care are due, in large part, to the skill and dedication of Australia's health and personal care workforce. In this inquiry, the Commission has focused mainly on the contribution of nurses and personal carers whose roles and skill sets are directly concerned with providing care to older Australians. However, the Commission also recognises the important contributions made by support workers in residential facilities and in home maintenance services for the elderly,

allied health professionals and medical specialists, and the primary and acute health care workforce more generally.

As the number of older Australians rises and the demand for aged care services increases, there will be a commensurate increase in demand for a well-trained aged care workforce. The Commission anticipates that the aged care workforce will need to more than quadruple by 2050, at a time when the overall employment to population ratio will be declining. Aged care employers will be under pressure to offer terms and conditions which will attract sufficient numbers of workers.

Opportunities to ameliorate this rising level of demand for aged care services are canvassed in the report, such as through the promotion of older people's independence and wellness, and the greater provision of reablement care services.

Improved employment terms and conditions are the foundation for building a larger supply of workers in the aged care sector. The most notable shortcoming is the low wage rates for personal carers and the long standing disparity between the wages paid to nurses employed in the aged care sector compared to those employed in comparable settings, such as the public health system. The fiscal impact of increases in wage rates would be felt equally on the current system or the reformed system as proposed by the Commission.

But wage increases alone will not be enough to set the industry on a sustainable path. A coordinated approach to improving the attractiveness of the aged care sector is necessary and will involve paying fair and competitive wages, improving access to high quality education and training, developing well-articulated career paths, improved management, extending scopes of practice, reducing the regulatory burden, and better use of technology. While some of these initiatives may improve productivity, aged care will remain a labour intensive service.

The Commission proposes that scheduled care prices take into account the need to pay fair and competitive wages to nursing and other care staff. The Commission is also supporting the development of more attractive career paths, opportunities for professional development, improved managerial expertise and a review of registered training organisations to ensure the quality of delivery of accredited courses.

The Commission has highlighted the need for workers who have a close connection with the cultural backgrounds of their clients. Attracting Aboriginal and Torres Strait Islander workers and workers from specific cultural and linguistic backgrounds will be especially important in the provision of appropriate care.

Reform of the regulatory framework

This inquiry confirmed the findings of previous reports that the current aged care system contains a plethora of unnecessary, complex and burdensome regulations. Many of them relate to quantity and price restrictions and over-reaction to specific incidents. Problematic governance arrangements have also inhibited best practice regulation. That said, regulation plays an essential role in how the Government manages the risks to the wellbeing of older Australians and the fiscal risks to taxpayers.

Many of the reforms proposed in this report will require the removal of existing regulation and, in some cases, amendments to reflect the new arrangements. The most important changes involve restructuring Australian Government governance arrangements.

The Commission proposes to simplify and streamline the front end of the aged care system through the establishment of the Gateway. This reform would consolidate a number of functions currently carried out by DoHA and by state and territory agencies and funded services.

The Commission also proposes that the policy functions of DoHA be separated from the regulation of aged care, with the latter to be undertaken by an independent commission: the Australian Aged Care Commission (AACC).

The main functions of the AACC (figure 4) would include:

- administering regulations covering the quality of community and residential care, prudential requirements and supported resident ratios, and assisting and educating providers in relation to compliance and continuous improvement
- assessing, reporting, and transparently recommending and monitoring service prices
- providing information, including collecting and disseminating data
- determining and referring complaints and handling reviews.

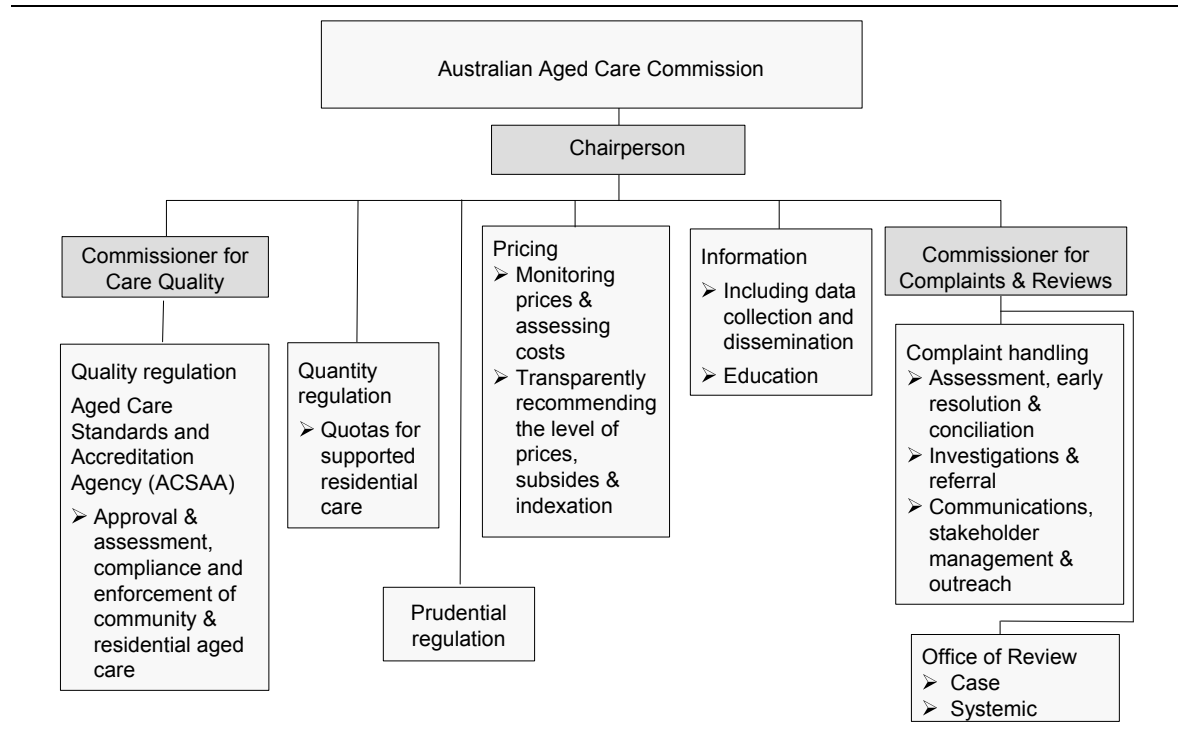
The AACC would have three full-time, statutory Commissioners: a Chairperson; a Commissioner for Care Quality (including standards and accreditation); and a Commissioner for Complaints and Reviews.

The Commission proposes that the Aged Care Standards and Accreditation Agency operate as a statutory office within the AACC and undertake the quality assessment, accreditation and approval of community and residential care providers. Alongside the AACC's education and compliance checking activities it would also determine

enforcement sanctions, drawing from a broad range of enforcement tools (to ensure that penalties are proportional to the severity of non-compliance).

In order to facilitate feedback loops between complaints and the AACC's compliance and enforcement activities, complaints handling and review should be handled by a division of the AACC. It is envisaged that this division be structured along the lines recommended by the Walton Review (2009), with the addition of conciliation, referrals and outreach. Individuals and providers, who do not agree with the decisions of the AACC, would also be able to request an independent review of the decision. This reform, together with the referral of all appeals against the decisions of the AACC and the Gateway to the Administrative Appeals Tribunal, means that the Office of the Aged Care Commissioner would become redundant.

Figure 4 Proposed functions of the Australian Aged Care Commission



The need for better data and 'evidence' in aged care

Many participants to this inquiry complained that aged care data is difficult to access, there is limited reporting and public availability of analysis and evaluations, and there are 'gaps' in research on ageing. There are also potential conflicts of interest arising from DoHA's role as policymaker, evaluator and main repository for aged care data.

To promote greater transparency and accountability, the Commission proposes that the AACC ensure the provision of a national aged care data clearinghouse.

The clearinghouse's functions will include coordinating, storing and distributing aged care data and facilitating greater access to datasets for researchers, policymakers and the community at large. These will assist decision-makers in the sector (particularly under a more market-based and consumer-directed regime), facilitate more (and more timely) research in aged care, and — through a stronger evidence base — help ensure that aged care policies are soundly based.

Enhancing quality

Participants expressed views about variability in the quality of care provided within the aged care sector, with that quality being seen predominantly in terms of the skills and attitudes of staff, as well as the personal contact time they are able to offer. The amenity of the accommodation and standards of everyday living services are also seen as important. One of the reasons for the quality variation is the design of the current system which allows operators who only meet the minimum standards to survive, but who in a more competitive market might otherwise fail.

The Commission believes that the reforms proposed in this report will promote high quality care through:

- greater consumer choice, more competition and more responsive service providers
- improved funding and, as a result, improved working conditions
- improved regulation and regulatory oversight
- making standardised performance information available to further facilitate the decisions by care recipients and their families on care options and to make providers more accountable for quality outcomes
- greater recognition by providers, staff and trainers of the needs of culturally diverse groups and those with special needs
- increased access to consumer advocates, including through a statutory Community Visitors Program to promote and protect the rights and wellbeing of residents.

Technology

As noted in many submissions, technology has a vital role in improving the quality and range of care available to older Australians, reducing the strain on care workers and improving labour and capital productivity for aged care providers. The Commission's reforms will remove barriers in the aged care system to adopting cost-effective technologies and will provide systemic incentives to improve technology use in aged care.

The Gateway assessment process will assist older people to identify where assistive/enabling technologies are the best fit to meet their care needs. More funds for advocacy services will improve their ability to inform care recipients about the benefits of technologies. These changes, coupled with older people's control over their entitlements to care services and choice of care provider(s), will allow them to select providers who can deliver that best fit.

The national clearinghouse for aged care data will also facilitate the collection and dissemination of information on the cost-effectiveness of technologies in achieving care outcomes. This will benefit care recipients, providers and policy makers by supporting informed decisions on the most appropriate care services.

The proposal to phase-out supply restrictions will mean that providers that offer services (embodying technologies) preferred by care recipients will now benefit from any increase in demand for those services. Further, the AACC will take into account the contribution of technologies in delivering cost-effective services in its recommendations on efficient prices for approved aged care services. This will reinforce the incentives for providers to adopt that technology.

More generally, the Commission's proposal for prices and subsidies to reflect the efficient cost of delivering services should overcome concerns by providers that, under the current system, they cannot find the capital and recurrent funding to introduce new technologies.

Diversity and special needs

The increasing diversity of older people's needs presents an additional level of complexity in the aged care system. Older Australians are increasingly of different ethnic and cultural backgrounds, and have differing preferences. Some live in rural and remote locations. A number have long term disabilities. Sexual diversity also needs to be recognised.

The Commission believes that the systemic reforms proposed will assist all users of aged care services. To ensure better outcomes for those with special needs, the Commission's proposals have placed additional emphasis on the need for improved funding, better skills training of staff, flexible service delivery models, culturally appropriate assessment tools, and enhanced recognition of diversity and special needs in standards and care practices. Successful providers of specialist care will not be constrained from expanding their services. The Commission also proposes that the Gateway operate a range of access hubs for older people from culturally and linguistically diverse backgrounds. Where there is a demonstrated need, block funding should be available to services dedicated to delivering aged care to specific groups, such as homeless people or people from Indigenous communities in remote locations.

Interfaces with disability care and health systems

The Commission is conducting a concurrent inquiry into disability care and support and the draft report of that inquiry has recommended the establishment of a National Disability Insurance Scheme (NDIS) for eligible individuals. The Commission strongly advocates that adequate care and support should be available in both the disability care and aged care systems.

The Commission notes the agreement by the Council of Australian Governments that under the National Health and Hospital Network Agreement (NHHNA), the Australian Government agreed to funding specialist disability services provided under the National Disability Agreement for people aged 65 years and over (50 years and over for Indigenous Australians). Funding for this agreement is already factored into the Australian Government's budget commitments.

Should the Government accept the recommendations of the forthcoming disability care and support inquiry to establish an NDIS, those persons who have been assessed as eligible for the NDIS would, once they reached 65, have a choice of remaining in the NDIS or to transfer to the aged care system. Funding under the NHHNA would follow the person to the system chosen.

Where the person elects to transfer to the aged care system, that system's assessment, care services entitlement, and funding rules would apply. This does not require the person to change provider. Should a person with a disability move into a residential age care facility on a permanent basis, he or she will be deemed to have transferred to the aged care system.

For younger people with disabilities who receive services through the aged care system, the disability care system (including the NDIS where applicable) will meet those costs.

Problems with the interface between the aged care and health care systems are a key factor in preventing older Australians from receiving appropriate and seamless care. The Commission has therefore recommended several specific reforms to assist. These include increased use of visiting multi-disciplinary aged care health teams and measures to allow some sub-acute services to be provided in residential facilities where cost-effective and appropriate. Further, the Commission proposes that for regional aged care planning and service delivery the regions should be aligned to the proposed Medicare locals or, where not appropriate, the Local Hospital networks. For certain purposes, subregions may need to be used.

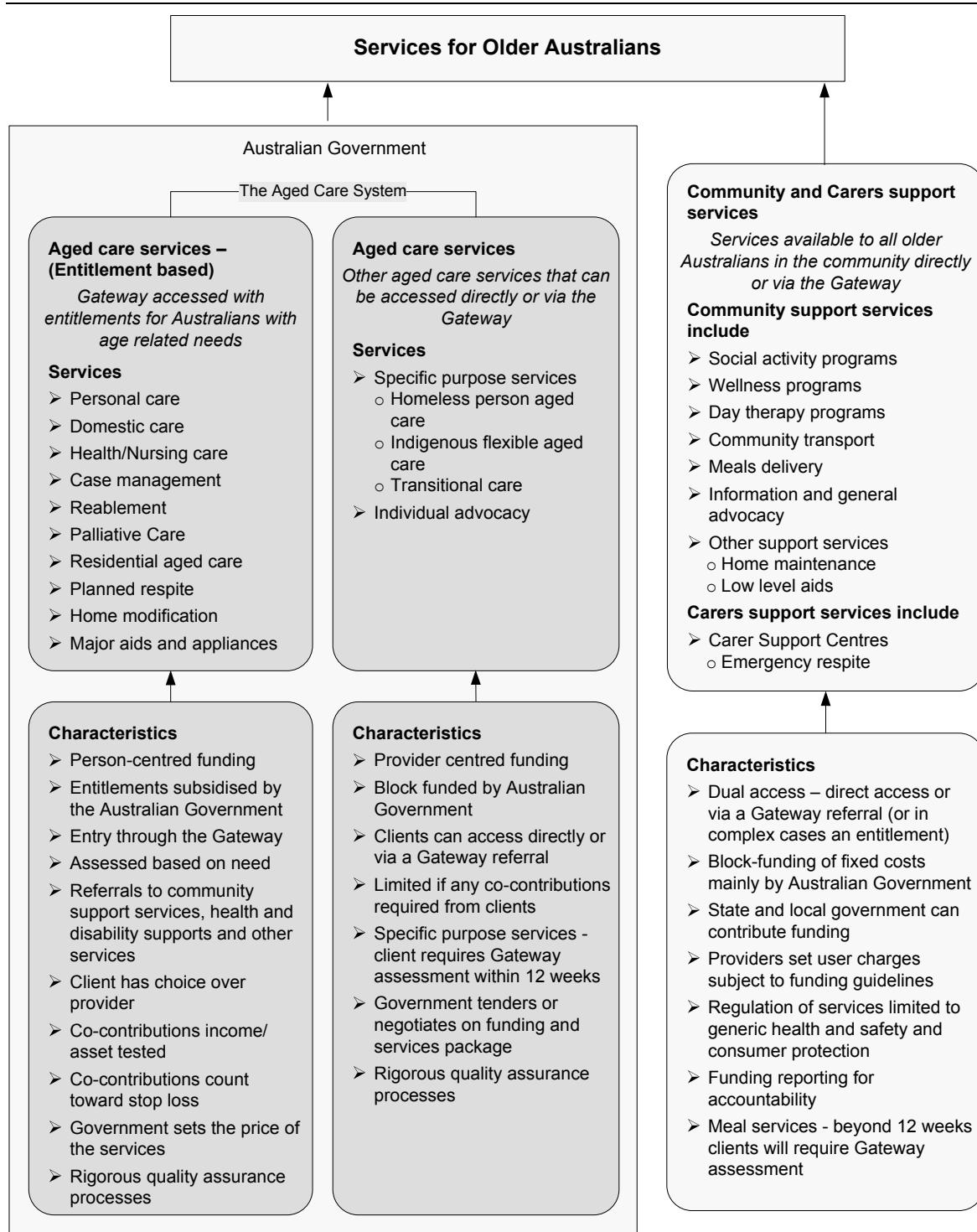
The implementation pathway

The reforms proposed in this report will lead to a new system of aged care services supported by a range of community and carers support services as set out in figure 5. To be credible, these reforms need a strong commitment to change from the Australian Government and from state and territory governments. There is also a need for a properly empowered implementation body that is separate from, but consults with, the key stakeholders; and an implementation plan that is signalled in advance and has clear and measurable milestones. Older Australians, their carers, providers and aged care workers all need certainty about the reform plan and confidence that it will be implemented. The proposed implementation plan includes provisions to protect existing consumers and certain providers of aged care services from disruptive changes and provides a sequenced approach over a five-year period to facilitate a smooth transition to the new arrangements.

The Commission proposes that there be an Aged Care Implementation Taskforce which would drive the reform agenda in consultation with an Aged Care Advisory Group.

An implementation plan, involving three broad stages of reform, is set out in schedule A. In addition, a profile of the impact of the proposals from the perspective of older Australians, their carers and providers is at schedule B.

Figure 5 The structure of the wider system of support for older Australians



Community and Carers support services

Services available to all older Australians in the community directly or via the Gateway

Community support services include

- Social activity programs
- Wellness programs
- Day therapy programs
- Community transport
- Meals delivery
- Information and general advocacy
- Other support services
 - Home maintenance
 - Low level aids

Carers support services include

- Carer Support Centres
 - Emergency respite

Characteristics

- Dual access – direct access or via a Gateway referral (or in complex cases an entitlement)
- Block-funding of fixed costs mainly by Australian Government
- State and local government can contribute funding
- Providers set user charges subject to funding guidelines
- Regulation of services limited to generic health and safety and consumer protection
- Funding reporting for accountability
- Meal services - beyond 12 weeks clients will require Gateway assessment

Schedule A Implementation Plan

<i>Stage 1: expedited measures within two years</i>	<i>Stage 2: within two to five years</i>	<i>Stage 3: five years and beyond</i>
<ul style="list-style-type: none"> Establish the Aged Care Implementation Taskforce and Aged Care Advisory Group Establish the Australian Aged Care Commission (AACC) and Australian Seniors Gateway Agency (the Gateway) Transfer the Aged Care Standards and Accreditation Agency to a statutory office in the AACC Remove the distinctions between low and high care, and between ordinary and extra service Require residential aged care facilities to offer and publish periodic accommodation charges and, optionally, equivalent (or discounted) accommodation bonds. Remove regulated accommodation bond retention amounts Introduce price monitoring for residential accommodation Increase the number of community care places by 20 per cent above the baseline established by the Aged Care Approvals Round, including the introduction of a temporary intermediate community care level between Community Aged Care Packages and Extended Aged Care at Home 	<ul style="list-style-type: none"> Introduce the new model of care assessments and services entitlements Create the formal entitlement based aged care system, together with the block funded community support services Finalise the major regulatory changes Introduce the new co-contribution and lifetime stop-loss funding arrangements Introduce the Australian Aged Care Home Credit scheme Set care prices and the accommodation charge for supported residents based on transparent advice and recommendations from the AACC Review the pilot scheme for trading the supported residents ratio obligations Undertake an assessment of the appropriate total assets test thresholds for the supported resident accommodation supplement Gradually increase the quantity of residential places by 10 to 20 per cent above the baseline established by the Aged Care Approvals Round Introduce measures to improve the quality of aged care services, including the promotion of transparency and accountability 	<ul style="list-style-type: none"> After five years, remove supply restrictions in both residential and community care Commission a public review which would analyse and recommend: <ul style="list-style-type: none"> whether the consumer-directed system had developed sufficiently so that care and supported accommodation prices could be liberalised in certain markets whether any changes to the Accreditation Grant Principles, the Quality of Care Standards, and the Community Care Common Standards were required any changes that may be needed to maintain fiscal sustainability any changes that may be needed to ensure access for special needs groups whether supported residents should receive funding directly from an entitlement and the need for a mandatory ratio applying to residential facilities the efficacy and cost of the reablement service any changes to the financing arrangements, arising from a thorough examination of the operation of the new financial arrangements

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Schedule A (continued)

<i>Stage 1: expedited measures within two years</i>	<i>Stage 2: within two to five years</i>	<i>Stage 3: five years and beyond</i>
<ul style="list-style-type: none">• Set region specific supported resident ratios for all new and existing residential providers (except those subject to explicit grandfathering arrangements) and introduce a pilot scheme for trading supported resident ratio obligations• Increase the supported resident accommodation supplement progressively to a level commensurate with the cost of an approved supported resident place• Introduce the Australian Age Pensioners Savings Account scheme• Conduct a public benchmarking study of aged care costs to initially set the scheduled prices• Provide protection to existing recipients of aged care services through appropriate grandfathering• Increase the release of data, information and research findings with the AACC having the responsibility for the dissemination of data as a national clearing house• Introduce a temporary assistance package for small residential providers.	<ul style="list-style-type: none">• Continuing the increase in the number of community care places that commenced in stage 1• Implement the Commission's remaining recommendations relating to care, quality, catering for diversity, age-friendly housing and retirement villages, carers, the workforce and regulation.	<ul style="list-style-type: none">– an appropriate timeframe for a subsequent public review of the aged care system– re-evaluate workforce sustainability.

Schedule B What do the proposed reforms mean?

Older Australians and their carers

The Commission's recommendations will significantly improve the quality and quantity of aged care services for older Australians. As a result of the reforms, older Australians would:

- have ready access to general advice on ageing issues, as well as specific information about their local aged care services. This advice and information would be available from a range of sources that all draw from a national information platform run by the Australian Seniors Gateway Agency (the Gateway)
- be assessed for their care and support needs by the Gateway. They could also go directly to community-support services (such as meals delivery and community transport) which would continue to be block funded (or receive a Gateway referral to them)
- receive an entitlement to services that matched their needs, and be advised of the price of those services and the details of approved providers in their local area
- be offered a care coordination service run by the Gateway and a case management service when needed
- have a single, updated, aged care electronic record that means that they do not have to keep repeating their history and personal circumstances
- benefit from a new intermediate community care package between CACP and EACH as part of the transitional arrangements
- choose their preferred provider (quantity limits on providers having been lifted), having regard to the quality of services being offered, including the professional and relationship skills of the personal carers, the cultural awareness and languages spoken and the ability to negotiate timing of service delivery
- seek a reassessment of their needs if there is a material change in their circumstances
- be subject to a fair and comprehensive financial means test — based on income and assets — to determine their level of co-contribution for approved care and support services (whether in their home or in residential care), with a safety net for those of limited means and with a lifetime stop-loss for care co-contributions

Aged care providers

The Commission's reforms will involve significant changes for community and residential aged care providers, overcome current financial pressure points and create scope for individual providers to grow within an emerging competitive market. Good managers who meet the needs of empowered older people will have significantly more opportunities to be successful contributors to the caring of older Australians. Providers would:

- be subject to quality accreditation, but be free of any quantity limitations such as bed licences and numbers of care packages (with a five year transition to an open market)
- compete with other providers for clients who had entitlements to care and support services, subject to being approved providers of those services
- receive a price set by the Government for those approved care and support services determined through the assessment process by the Gateway (comprising a care co-contribution from the client and a subsidy from the Government)
- while meeting the approved quality and safety standards, and operating within the price set for the entitlement, compete on a range of dimensions such as the professional and relationship skills of their workforce, the cultural awareness and languages on offer, the quality of food and other services and their responsiveness to the particular requests of individual clients
- offer a range of additional services, at a quality and price set by the provider
- liaise with the Gateway on matters of initial assessments of client needs and entitlements, and be able to undertake subsequent assessments in response to a material change in a client's needs, subject to a risk management audit process
- liaise with the Australian Aged Care Commission on matters of quality standards and assessments, complaints handling and costs of service delivery

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Schedule B (continued)

Older Australians and their carers

- have access to a government-backed Australian Aged Care Home Credit scheme with a no negative equity guarantee to meet their care and accommodation costs if their wealth is held mostly in the form of their house while protecting the share of the equity held by a spouse/partner
- be able to retain their house and be confident that their spouse, dependent child or other 'protected persons' would continue to be able to live in that house, rather than be forced to sell their home in order to go into residential care, as is the case for some at present
- if in residential care, pay a basic daily fee (currently set at 84 per cent of the single age pension), pay their care co-contribution, and pay a daily periodic accommodation charge or equivalent bond, with a safety net for those of limited means
- retain their Age Pension if they sell their home to move to alternative accommodation (such as a retirement village, serviced apartment, or a residential care facility) and pay a lower capital sum or daily charge by investing the excess proceeds from the sale in a Government-guaranteed Australian Age Pensioners Savings Account scheme
- benefit from measures to improve the quality of aged care services, including through a quality assurance framework, better evidence and information, and a more competitive environment facing approved providers
- receive enhanced access to general practitioners at residential aged care facilities through an increased Medicare rebate
- be given every opportunity to maintain or regain functional independence (including reablement)
- be free to choose whether to purchase additional aged care services (including accommodation) beyond the minimum approved entitlement and meet the associated costs themselves
- be confident that the Australian Aged Care Commission is monitoring the quality of care by providers and the price of residential accommodation during the transition period to protect against providers exploiting supply shortages and is an independent avenue for examining consumer complaints
- receive improved access to information about advance care directives, with a link to the proposed electronic records
- get better palliative and end-of-life care through an assessed entitlement from the Gateway.

Aged care providers

- be able to access information from the proposed Australian Aged Care Commission regarding projections of future demand trends and ways to improve the quality of services.
- In addition, providers of residential care would:**
- be able to seek approved provider status for all levels of care and support delivered in a residential setting (with inability to meet the demands of specific residents being dealt with on a strict exception basis), with the distinction between low, high and extra service care being removed
 - receive care payments for community and residential care set by the Government on the transparent advice and recommendation of the Australian Aged Care Commission
 - charge all residents for their everyday living costs by way of a basic daily fee (currently set at 84 per cent of the single age pension)
 - set their own periodic accommodation charge for all new residents and, if desired, offer an accommodation bond of up to the equivalent amount, and publish those charges and bonds (with current bonds being grandfathered)
 - receive a set daily accommodation fee for supported residents, based on the average cost of 1.5 beds per room per facility at a level designed to meet the value of that standard of accommodation
 - be required to provide for a minimum quota of supported residents with a pilot scheme on a tradeable ratio obligation within the relevant region
 - be able to offer a range of other services in their facilities, such as respite care, transition care, reablement, sub-acute care, rehabilitative and restorative care, behaviour management stabilisation, palliative pain management and end-of-life care, subject to meeting the relevant quality and safety requirements, and reaching agreement on prices and other terms and conditions
 - access a transitional assistance package for small residential providers.
-

Schedule C — Illustrative cameos

The recommendations in this report will change the way in which consumers of aged care engage with the sector. In particular, the recommendations will result in consumers:

- being assessed by the Gateway for eligibility for an entitlement to aged care services in the community or in a residential aged care facility
- having their capacity to contribute to the cost of care assessed by Centrelink on behalf of the Gateway
- paying a co-contribution for their care costs (a possible indicative range from 0 to 25 per cent of the cost of their care based on the means test)
- being protected against catastrophic care costs by a lifetime (indexed) stop-loss limit (a possible indicative cap of \$60 000)
- paying for residential accommodation via a periodic charge or an accommodation bond of equal (or lower) value, or some combination thereof
- having access to the Government-backed Australian Aged Care Home Credit scheme which would help unlock their home equity so they could contribute to their care and accommodation costs while not having to sell their home. The scheme would protect a spouse, partner, dependent child with a disability or other ‘protected person’ still living in the principal residence
- having access to the Australian Age Pensioners Savings Account scheme if they wish to sell their principal residence and remain an age pensioner.

This schedule examines, for illustrative purposes only, the possible implications of the Commission’s recommendations for various cohorts of persons who may be subject to the new co-contribution regime.

The comprehensive aged care means test will ensure that those with insufficient resources to make any contribution to their aged care costs will be protected.

Assumptions

The cameos in this section are based on the following assumptions.

- Total care costs in community care of \$25 000 per year (\$961.40 per fortnight), expected to be around the cost of the intermediate package proposed in the transition period.

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- Total care costs in residential care of \$35 000 per year (\$1346.15 per fortnight), which approximates the average care cost in residential care.
 - House prices of \$500 000 and \$1 million.¹ Where only one member of a couple needs care, only that person's share of the equity (generally 50 per cent) is taken into account for the means test.
 - Indicative residential accommodation charges of \$50 per day (\$700 a fortnight).
 - The following categories of older people:
 - a full-rate age pensioner (both a home owner and non-home owner) and partnered and single
 - a single part-rate age pensioner (home owning) with an income of \$1500 per fortnight (inclusive of the Age Pension)
 - a part-rate age pensioner couple (home owning) with a combined income of \$2000 per fortnight (\$1000 per fortnight each, inclusive of the Age Pension)
 - a single self-funded retiree (home owning) with an income of \$2500 per fortnight
 - a self-funded retiree couple (home owning) with a combined income of \$3000 per fortnight (\$1500 per fortnight each).
 - The cameos examined cover single persons and couples in community care and couples in residential care where one person remains in the principal residence.

Community care

Under the Commission's proposals, older people assessed as eligible for community care services by the Gateway would be able to choose their provider(s) and would also be assessed (by Centrelink on behalf of the Gateway) for the co-contribution they would be required to pay based on their assets and income. Based on indicative figures, the proportion of approved care costs payable would range from 0 to 25 per cent, subject to the indicative lifetime stop-loss limit for care co-contributions of \$60 000.

The relevant cameos for a single person with total care costs in the community of \$25 000 per year are shown at table C.1 and for a couple (with one person requiring care) at table C.2.

¹ The median price of established house transfers (ABS Cat. No. 6416.0) ranged from \$345 000 (Hobart) to \$595 000 (Sydney) in the September quarter 2010 (most recent estimates available).

Table C.1 Community care cameos — single persons
(dollars)

<i>Person</i>	<i>Home</i>	<i>Total care cost per fortnight</i>	<i>Care co-contribution per fortnight</i>
Full-age pensioner	No	961.40	40.00
Full-age pensioner	500 000	961.40	195.51
Full-age pensioner	1 million	961.40	240.38
Part-age pensioner	500 000	961.40	240.38
Part-age pensioner	1 million	961.40	240.38
Self-funded retiree	500 000	961.40	240.38
Self-funded retiree	1 million	961.40	240.38

Table C.2 Community care cameos — couple, one person receiving care
(dollars)

<i>Person</i>	<i>Home 50% of equity for means test</i>	<i>Total care cost per fortnight</i>	<i>Care co-contribution per fortnight</i>
Full-age pensioner	No	961.40	40.00
Full-age pensioner	500 000	961.40	115.38
Full-age pensioner	1 million	961.40	195.51
Part-age pensioner	500 000	961.40	132.40
Part-age pensioner	1 million	961.40	212.53
Self-funded retiree	500 000	961.40	175.89
Self-funded retiree	1 million	961.40	240.38

Residential care

The following cameos are based on a couple where one person needs to enter residential care for a service involving an annual total care cost of \$35 000, the other remaining in the home. The assessed co-contribution for care could be obtained through the Commission's proposed Australian Aged Care Home Credit scheme to access the person's share of their home equity (which excludes the share of a spouse or other 'protected person'). The relevant care co-contributions for the cameos are shown at table C.3.

Table C.3 Residential care cameos — care co-contributions for a couple, one person in residential care
(dollars)

<i>Person</i>	<i>Home 50% of equity for means test</i>	<i>Total care cost per fortnight</i>	<i>Care co-contribution per fortnight</i>
Full-age pensioner	No	1346.15	0
Full-age pensioner	500 000	1346.15	94.23
Full-age pensioner	1 million	1346.15	205.88
Part-age pensioner	500 000	1346.15	134.42
Part-age pensioner	1 million	1346.15	246.06
Self-funded retiree	500 000	1346.15	195.31
Self-funded retiree	1 million	1346.15	306.95

In addition, the resident would be required to pay for his or her accommodation and everyday living expenses.

Accommodation charges (or bonds) would be paid according to the price published by the relevant residential care provider. For illustrative purposes, an accommodation charge of \$50 per day, or \$700 per fortnight, has been used.

All residents (including supported residents) pay the everyday living expense of \$553.05 per fortnight (84 per cent of the basic single rate Age Pension).

The total cost of residential care, including accommodation, care and everyday living expenses, is illustrated in table C.4.

Table C.4 Residential care cameos — total cost covering one person in residential care, partner remaining at home
(dollars)

<i>Person</i>	<i>Home 50% of equity for means test</i>	<i>Accommodation per fortnight</i>	<i>Everyday living expenses per fortnight (84% of the Age Pension)</i>	<i>Care co-contribution per fortnight</i>	<i>Total per fortnight</i>
Full-age pensioner	No	0	553.05	0	553.05
Full-age pensioner	500 000	700	553.05	94.23	1347.28
Full-age pensioner	1 million	700	553.05	205.88	1458.93
Part-age pensioner	500 000	700	553.05	134.42	1387.47
Part-age pensioner	1 million	700	553.05	246.06	1499.11
Self-funded retiree	500 000	700	553.05	195.31	1448.36
Self-funded retiree	1 million	700	553.05	306.95	1560.00

A person entering residential care would be protected in several ways under the Commission's proposals. First, by the care lifetime stop-loss limit, which takes account of co-contributions for care in community and residential settings. Second, where a person retains a principal residence and uses the Australian Aged Care Home Credit scheme to draw upon his or her share of the home's equity, there would be both a maximum drawdown on that share of the home equity and a no negative equity guarantee. When a person reached that limit, he or she would become a supported resident and be liable only for paying everyday living expenses (currently \$553.05 per fortnight).

A spouse (or other 'protected person') would also be able to remain in the principal residence when the older person moved into residential care.

Why a comparison with the current aged care system is not practical

The Commission has not included a comparison of the proposed new co-contribution regime to that which applies under the present aged care system.

While DoHA has issued a policy indicating what co-contributions providers can charge for community care packages, the actual amount individuals pay is determined through a negotiation between the care recipient and provider. Recent information from the Community Care Census highlights that the actual fees charged are well below the maximum permitted. In the case of residential care, the widely varying amounts deposited in accommodation bonds preclude any meaningful comparison.

While information is available on the distribution of co-contributions that are currently charged, it is not possible to determine how these fees relate to the income and assets of care recipients. As such, it is not possible to compare what people would pay under the proposed arrangements with the current co-contributions they make.

Effectively, the current system has an arbitrary application of fees and charges: two people of identical financial means using the same aged care services could pay significantly different fees and charges. A key advantage of the proposed new co-contribution regime is that it is coherent, transparent and equitable.

