
OVERVIEW

Key points

- Over the next 40 years, population ageing and growing diversity among older people — in terms of their care needs, preferences and affluence — are expected to pose a number of challenges to Australia’s aged care system. These include:
 - a significant increase in demand — those aged over 85 tend to be the main users of aged care services, and their numbers are expected to increase at least four-fold by 2047
 - the changing pattern of disease among the aged is expected to increase the proportion of frail older people with more complex care needs
 - an increased preference for independent living arrangements supported by community care, and a desire for greater autonomy and choice in aged care services generally
 - many of the aged having higher levels of income and wealth with which to leverage services, although significant numbers — over three quarters of those of age pension age — will continue to be eligible for the age pension
 - needing to secure a significant expansion in the aged care workforce at a time of ‘aged induced’ tightening of the labour market, accentuated by competing demands from the acute care sector.
- The policy implications of these prospective challenges are broad ranging and complex. This study highlights several areas where further analysis seems called for to aid the development of an improved framework for aged care, including:
 - assessing the potential for unbundling residential care (that is, accommodation, everyday living and personal care costs) to better reflect the underlying costs of these services and enable better targeting of public subsidies to those most in need
 - examining the current dual gate-keeping system and the scope to improve it by dispensing with the planning and allocation system (while retaining accreditation) and relying on the entitlement for aged care services established by aged care assessment teams
 - considering the feasibility of introducing ‘consumer-centred’ care arrangements to enhance the potential for older people to influence the nature and scope of the services they receive
 - looking at ways of improving responsiveness in aged care education and training arrangements and extending scopes of practice to overcome inefficiencies and inflexibilities in the workforce.

Overview

The Australian community places significant importance on older people having access to high quality and cost effective aged care services. This is reflected in current institutional and regulatory arrangements, which give considerable weight to achieving equity of access and a minimum acceptable standard of service quality. Australia's extensively regulated, highly subsidised and somewhat 'standardised' aged care system will come under increasing pressure as a result of population ageing and growing diversity among older people. These pressures will present a number of challenges for the current policy framework and require changes to enhance its effectiveness.

In recent years, the Commission has undertaken a number of studies of the aged care sector and the challenges it faces (see, for example, PC 1999, 2003 and 2005b). This study updates that work by examining trends in the demand for, and supply of, aged care services and their implications. It analyses how emerging challenges on the demand-side of the aged care 'market' are creating pressure for the supply-side to be more flexible, responsive and efficient. In particular, it examines impediments to Australia's aged care system being able to respond to demands for higher quality services and greater choice. It also considers how prospective developments in aged care will affect the aged care workforce and the types of services that are sustainable in the long term. Finally, it examines the scope for further productivity improvements in aged care, which will be central to helping to contain future cost pressures while improving service quality.

A profile of Australia's aged care sector is provided in box 1.

A larger and more diverse client base

Population ageing in Australia is a result of both a sizeable decline in fertility rates since the 1960s and an increase in longevity through advances in medical technology and public health initiatives (table 1). As a consequence, there will be a demand for aged care services by a significantly larger number of older people (both in absolute and relative terms) over the next 40 years. Today, those aged 65 years or older comprise around one in seven Australians. By 2050, about one in four will be aged 65 years or older (PC 2005b).

Box 1 Profile of Australia's aged care sector

Older Australians (aged 65 years or over)	<ul style="list-style-type: none">• 2.8 million (30 June 2007)• 13.4 per cent of the population
Assistance with personal and everyday activities	<ul style="list-style-type: none">• 32 per cent of those aged 65-74 years (2003)• 86 per cent of those aged 85 years and over (2003)
Mix of government-funded services	<ul style="list-style-type: none">• 144 959 people received permanent residential care (30 June 2007)• 101 252 permanent high care residents (69.8 per cent of residents)• 43 707 permanent low care residents (30.2 per cent of residents)• 756 855 clients of key government funded community care programs (30 June 2007)
Recurrent government expenditure (for clients aged 65 years or older)	<ul style="list-style-type: none">• Aged care assessments — \$58 million• Residential care — \$5398 million• Community care — \$2117 million• Financial support for carers — \$1018 million• Total — \$8591 million (2006-07)
Residential aged care providers	<ul style="list-style-type: none">• Private non-for-profit — 1762 facilities (61.4 per cent)• Private for-profit — 773 facilities (26.9 per cent)• Government — 337 facilities (11.7 per cent)• Total — 2872 facilities (30 June 2007)
Residential aged care workers	<ul style="list-style-type: none">• 156 823 (mid-2003) (1.5 per cent of the workforce)

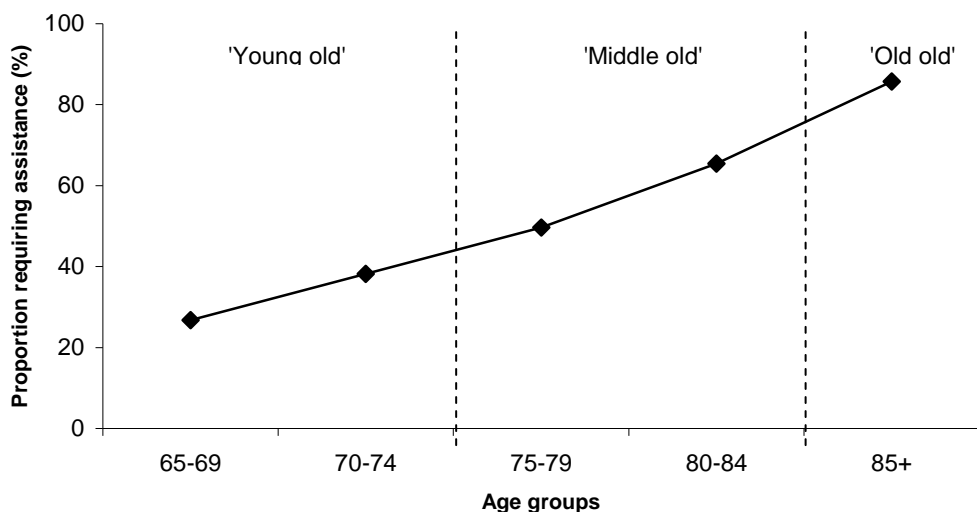
Table 1 Life expectancy at selected ages

Age	1901-1910	1965-66	1975-77	1985-87	1995-97	2006
Males						
65	11.3	12.2	13.1	14.6	16.2	18.3
75	6.6	7.3	7.9	8.8	9.8	11.1
85	3.6	4.1	4.4	4.9	5.4	5.9
Females						
65	12.9	15.7	17.1	18.6	19.9	21.5
75	7.6	9.2	10.3	11.4	12.3	13.4
85	4.2	4.8	5.5	6.1	6.5	7.1

Based on data from the ABS Disability, Ageing and Carers Survey, the need for some form of assistance with personal and everyday activities increases markedly as people move into older age cohorts, particularly for those aged 85 years and over (figure 1). Reductions in severe and profound age-specific disability rates in coming years will only partially offset the growing demand for aged care services.

Figure 1 Need for assistance by age of older persons

Percentage of population in 2003



A sizeable increase in the required *quantum* of services is not the only challenge in providing aged care services. Over the next few decades, older Australians are expected to become more diverse in terms of their care needs, preferences, incomes and wealth. This will have important implications for the *qualitative* aspects of aged care services (such as the range of services needed and the flexibility of service delivery) and the cost of these services.

The range of services provided will also need to respond to the changing health status of the aged. Much of the increased longevity over the past 30 years has arisen from declines in mortality from some diseases, such as heart disease and stroke. However, as more people live to older ages, the prevalence of chronic diseases increases markedly. For example, the number of Australians with dementia is expected to increase from around 220 000 to over 730 000 between 2007 and 2050. There will also be a growing prevalence of co-morbidity (people living with two or more diseases at the same time). This changing pattern of disease will create greater diversity in the care needs of older people, especially among the 'old old' where it will present new challenges in caring for the very frail.

Older age cohorts will progressively reflect greater ethnic diversity as Australia's post war migrants age. As a result, the demand for culturally appropriate, flexible and consumer centred age care services is expected to increase.

A large number of baby boomers will also have higher levels of income and wealth to purchase the aged care services they want. They represent the wealthiest households in Australia, having a net worth of around \$381 000 on average compared to about \$292 500 on average for all Australians. Even so, considerable diversity in the incomes and wealth of older Australians is likely to drive sharp differences in the demand profile for aged care services. As a result, the aged care sector will increasingly face the dual challenge of providing improved services for people with high incomes or wealth, while continuing to provide quality aged care services to those reliant, to varying degrees, on government income support.

Projections of the number of people receiving full, part and no age or service pensions over the next 40 years provide a useful guide to the proportion of older Australians who are likely to be reliant on publicly subsidised aged care. Between 2007 and 2047, the proportion of people of pension age receiving: a full pension is expected to decline from 55.1 to 35.8 per cent; a part pension to increase from 24.9 to 40.7 per cent; and no pension to increase from 20.0 to 23.6 per cent (table 2). These changes reflect the increasing value of individuals' superannuation and other private assets and income.

Table 2 Projections of people receiving full, part or no pensions
Per cent of those of pension age

	2007	2017	2027	2037	2047
People receiving pensions and no pensions					
Full pension	55.1	48.5	40.6	37.8	35.8
Part pension	24.9	31.1	36.6	38.6	40.7
No pension	20.0	20.4	22.8	23.6	23.6
Total	100.0	100.0	100.0	100.0	100.0

Challenges facing the aged care system

Many analysts and commentators question how well placed Australia's aged care system is to meet these emerging challenges. There are concerns about the degree to which the provision of aged care services is shaped by centralised planning and administrative processes, extensive government regulation and high levels of public subsidy. There are also concerns that the system is overly fragmented and difficult to access and navigate, reflecting the existence of multiple programs combined with the involvement of multiple government departments and agencies across different tiers of government. This fragmentation is seen as a barrier to the aged in understanding what services best meet their needs and to improving service interfaces within the aged care system, and between the aged care system and the broader health and community-welfare systems.

Currently, adjustments to the provision of aged care services occur primarily through periodic changes to regulatory and funding parameters. Governments largely determine how many aged care places are provided, where these places are located, the appropriate mix of services, the price of these services and how they are modified in response to changing community expectations. Competition and price play little role in signalling to providers the changing patterns of demand and the need to adjust decision-making accordingly (including the need for new investment). In effect, client needs and preferences are only revealed indirectly to providers through government planning and regulatory processes, rather than directly.

In part, these arrangements reflect the need to manage the fiscal risk borne by government in funding the provision of aged care. Currently, aged care programs are funded by government on a 'pay as you go' basis (that is, from consolidated revenue), supplemented by user co-payments. As a consequence, taxpayers bear a large part of the cost of providing these services. In the context of an ageing population and an increasing dependency ratio (reflecting a fall in the number of workers relative to Australia's population), this represents a significant and growing

burden for future taxpayers. Indeed, the Australian Treasury has estimated that, assuming no change in current policy settings for aged care services, Australian Government spending on aged care for those aged 65 years and over will increase as a proportion of gross domestic product from 0.7 per cent to around 1.9 per cent between 2006-07 and 2046-47. In that regard however, the Commission noted in its study of the *Economic Implications of an Ageing Australia* (PC 2005b), that Australia will be a richer country when these impacts are felt, having a greater capacity to absorb the additional costs associated with its ageing population.

Clearly, governments need to effectively manage the fiscal risk of funding aged care services. That said, there are concerns that current institutional arrangements, which rely on a planning mechanism in concert with aged care assessments and controls over extra service provision and pricing of services, could involve significant avoidable costs. For example, these controls in their current form combine to limit the scope for competition between providers, distort investment decision-making, restrict consumer choice and weaken incentives for innovation.

Enhancing equity, efficiency and sustainability

Over coming decades, pressures on the demand-side of the aged care market are expected to accentuate a number of weaknesses in the current policy framework, including: inequities arising from existing program design; inefficiencies arising from excessive government regulation; and the need to improve service interfaces within and between aged care services and other systems including acute care, housing and disability services. To varying degrees, a number of recent reviews (see, for example, the Hogan Review 2004) have considered these problems and identified a variety of possible reforms that warrant further consideration.

The Commission has previously argued the case for considering the ‘unbundling’ of the accommodation and everyday living expense components of aged care from the personal care component (PC 2003). Accommodation costs in particular are fairly predictable expenses of everyday life and are not exclusively associated with increasing frailty or disability. In contrast, personal care needs are often unpredictable and can be overly burdensome. Unbundling the different cost components would allow consistent public financing principles to be applied across different types of care, thereby improving the overall equity of the aged care system.

Unbundling provides scope to more accurately price the individual components to better reflect their underlying cost; better target government subsidies to those most in need; and overcome some of the inequities between users of residential and

community care. However, unbundling raises a number of implementation issues that would require resolution if this approach were to be introduced.

The current pricing arrangements covering accommodation payments give rise to inefficient cross-subsidies between low and high residential care and distort investment decision-making. The problems posed by these anomalies could be addressed in a number of ways. One previously proposed option would be to require all residents who can afford to make a capital contribution to pay either a lump sum bond, or a daily or periodic rental charge (at a level equivalent to the bond).

The efficiency and responsiveness of Australia's aged care system could potentially also be improved by reforming the current dual gate-keeping system. While there are a number of possibilities here, one approach which warrants further investigation would be to dispense with the aged care planning and allocation system (while retaining accreditation) and rely on the entitlement for aged care services established by aged care assessment teams. Further analysis would also be required to identify the appropriate form of any transitional arrangements to avoid the possibility of significant policy induced disruption to the market. There would also be a need for complementary reforms to secure the desired balance between concessional and non-concessional aged care places, and to promote cost effective provision and use of these services.

The need to improve service interfaces has emerged as a key challenge in recent years. There are significant crossovers between different bundles of aged care services and between the aged care system and other systems such as health and housing. These are most problematic for older people needing to access multiple services in order to continue to live independently in the community, and also for those needing to make the transition between related systems (for example, from hospital to home or to a residential care facility). Progress in this area will require a whole-of-government response, given the involvement of multiple government departments and agencies across different tiers of government.

Improving service quality and providing greater choice

The ability of older Australians to exercise choice is limited by regulatory and financing arrangements that effectively ration the quantity, and limit the mix, of available services. The ability of providers to differentiate their services in terms of price and quality is also highly constrained. For example, while 'extra service' places provide a degree of additional choice in residential care, this is limited to hotel type services (accommodation, food and other amenities) and does not extend to personal care. The ability of older people to exercise choice of community care

services is constrained by the current program and funding mix. And, their ability to remain in the community is affected by the availability of related support services, such as public transport and housing.

A number of issues need to be considered as part of any assessment of the case for introducing measures to enhance choice, including user preferences for exercising choice and their decision-making capacity. There are also issues about the scope of services to be included and the implications for regulatory settings covering, for example, the need for enhanced information and quality assurance for consumers. Also relevant is the feasibility and nature of competition in the market for aged care services and the role of experimentation and trialling in guiding the development of new arrangements over time.

The reform experiences of Australia's disability services sector and of aged care in some other countries suggest that consumer centred care arrangements can provide users with greater choice and autonomy in service selection and packaging, reduce the incidence of unmet need and enhance satisfaction with care services.

Within aged care, consumer centred care could be implemented through incremental refinements and/or extensions to existing programs. Alternatively, pooled funding mechanisms with assisted choice could involve Australian governments combining their aged care programs at a regional level, with case managers assisting clients to assess, plan and coordinate their care. A third option would be to issue a cash entitlement which clients could use to purchase aged care services directly from competing providers or through a brokering service. These options need further analysis and debate.

Implications for the aged care workforce

Changes in the level and composition of demand for aged care services, along with the challenges arising from an 'aged induced' tightening of the labour market over coming years, will also have implications for the aged care workforce. This, in turn, will impact on the sustainability of the services being supplied, because most are labour intensive and the relative costs of providing different bundles of services will be affected by broader workforce changes. The evidence suggests that over the next 40 years there will be difficulties in securing an adequate supply of personnel with the necessary skills to support the delivery of aged care services.

The sector will face stronger competition for paid workers from the acute care sector and other industries than it does at present. There is already a shortage of nurses in general, and of aged care workers in particular. On average, the age profile of the residential care workforce is markedly older than the health and community

care workforce and the Australian labour force as a whole. Over coming decades, the sector will need to replace a growing number of retiring workers. This will place a premium on attracting new workers and retaining existing workers.

The reason most commonly cited by employers experiencing difficulties in attracting and retaining staff in the sector is the substantially lower remuneration of its employees compared with the workforce in similar sectors.

In the context of a growing demand for aged care, there is clearly a need to moderate the extent of these cost pressures. Reflecting the multifaceted nature of the problem there are a number of possible policy responses. One would be to facilitate workplace change and innovation in job design through extending the training and scope of practice of certain groups of workers (such as registered and enrolled nurses). This primarily involves making the most of the skills and experience of workers in relation to the broad range of functions associated with the delivery of aged care services, while still ensuring the safety and quality of care provided to clients. However, there are currently various regulatory and funding barriers to making progress in this area. There is a need for ongoing investment in education and training to build a sustainable and competent workforce as well as for minimising the extent to which quality-related and other regulations unnecessarily magnify the administration and management tasks of providers and their staff.

The effectiveness of aged care services in Australia also relies heavily on informal carers who directly care for older people and play an important role in coordinating and facilitating formal community care services. However, the availability of these carers is expected to decline over the coming decades. While the demand for informal carers is expected to rise by 160 per cent between 2001 and 2031, the supply is expected to increase by less than 60 per cent. These combined changes are expected to contribute to the carer shortfall increasing from 150 000 to almost 600 000 over this period. In the absence of mitigating changes, such a shortfall could undermine the sustainability of community care and increase the demand for residential care.

Recent reviews suggest that there are five key areas of concern for informal carers of the aged: access to information about support services for those they care for and for themselves; the structure and adequacy of financial support; access to respite and other care services; flexibility of their own workplaces; and training and assistive technologies.

In acknowledging the importance of informal carers, the Australian Government has recently announced an inquiry to investigate how carers can be better supported. The inquiry will provide an opportunity to consider how these and other issues are impacting on the role and contribution of carers.

Volunteers also play an important role in supporting the aged. Demographic change is expected to increase the availability of volunteers. The Commission has previously estimated that the potential pool of formal volunteers will more than double between 2000-01 and 2044-45 (PC 2005b). However, the aged care sector is likely to face growing competition for volunteers from other community activities. As such, there will be increased pressure on aged care organisations to make effective use of their volunteers and provide them with a rewarding experience. Governments also need to be sensitive to unintended consequences of policies that impact on the scale and scope of volunteer involvement.

The scope to improve productivity

Aged care has many of the characteristics that constrain productivity improvements — being labour intensive, relatively ‘low tech’ and involving, to some degree, the tailoring of services to meet the individual needs of clients. Even so, over the long term, the cumulative effect of even relatively small productivity gains has the potential to enhance the ability of the sector to meet the growing demand for its services.

Given the limited data about the productivity performance of the aged care sector, which significantly curtails analysis in this area, the Hogan Review commissioned a study of the efficiency of Australia’s residential aged care sector. In assessing the scope for improving technical efficiency within the sector, the study looked at the performance of residential facilities relative to the best performers. Using this approach, it found that the cost of providing these services could have been reduced by 17 per cent or \$1.1 billion in 2002-03. This notional efficiency gain could, alternatively, have allowed providers to care for an additional 23 100 clients at the dependency levels that existed in 2002-03. The study also suggested that costs could be reduced by a further 7 per cent (or \$470 million) in 2002-03 through structural adjustment to improve the scale efficiency of the sector.

In practice, realising the full gamut of these potential gains would not be possible because not all providers are capable of matching the performance of the industry leaders. Some face higher costs or have less scope to raise productivity because they operate in rural or remote locations or provide care for a high proportion of clients with special needs. In addition, there may be significant up-front costs associated with improving technical and/or scale efficiency. Even so, as noted by the Hogan Review, the current regulatory framework impairs incentives for productivity improvement.

Anecdotal evidence from some providers suggests the potential for further productivity improvements from:

- adopting advances in information technologies to improve the efficiency of administration and care outcomes
- increasing the use of assistive technologies to improve workforce outcomes and client independence
- improving work practices by incorporating greater flexibility into operations through enterprise bargaining
- restructuring operations including outsourcing and adjusting the capital/labour mix in service provision.

There also appears to be scope to strengthen incentives and the capacity of providers to improve their productivity by modifying current regulatory settings. Areas where these settings seem to be constraining the capacity of the sector to operate efficiently include: constraints on the supply of aged care services; the duplication of building certification requirements; inconsistency in the application of accommodation bonds across service types; and administrative inefficiencies with contract management in community care.

In seeking to strengthen the incentives for providers to improve productivity through further regulatory reform, there is a need to ensure that any changes do not jeopardise the broader objectives of the aged care system, particularly in relation to equity and quality.

