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# 1 About the inquiry

Australia's population, like that in many countries, is ageing. The average age of Australians is increasing, and there will be many more older Australians. Over the next 40 years, the number of Australians aged 85 and over — the major users of aged care services — is projected to more than quadruple, from around 0.4 million in 2010 to 1.8 million by 2050 (Australian Government 2010d).

The ageing of our population is largely in response to improvements in life expectancy. In 1983, in Australia, a female reaching the age of 65 could expect to live on average for another 18 years, while a male could expect to live for a further 14 years. By 2002, these figures had risen to 21 years for females and 18 years for males. And, by 2021, they are expected to increase further — to 24 years for females and 21 years for males (Department of Health and Ageing (DoHA), sub. 482).

This is something to celebrate. As the World Health Organization (WHO) said:

... population ageing is one of humanity's greatest triumphs. (2002, p. 6)

The Minister for Mental Health and Ageing also recently said:

We worked for a long period of time — medical researchers, public health experts and Australians changing their own lifestyles not to die in our 50s. We now pretty much as a matter of right are able to look forward after we've finished raising our families, after we've finished the peak years of our work, to some time to smell the roses, time to travel, time to spend with our grandchildren and then hand them back as soon as they get ratty; also time to do a little bit of study, part-time work and volunteering.

This is something that should be celebrated. It is one of the great achievements of humanity and deserves a much more positive frame. (Butler 2011, p. 2)

The Benevolent Society, while agreeing, also recognises that this presents some challenges:

The ageing of the population is a triumph in terms of medical, social and economic advancement and it offers many opportunities. But it also presents social and economic challenges for individuals, communities and for governments in relation to systems of social support. (2010, p. 12)

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A key driver of increased life expectancy is advances in health care that were not available to, or affordable for, previous generations. However, while older Australians are living longer than previous generations, it is inevitable that many will become frail and require care and support. More older Australians will mean a significant increase in both demand for aged care services and spending on aged care.

In terms of demand, the number of Australians receiving aged care is projected to increase by around 150 per cent over the next 40 years. This equates to over 2.5 million older people (those aged 65 or older) or almost 8 per cent of the population using aged care services by 2050 (DoHA, sub. 482). Government expenditure on aged care is expected to increase from 0.8 to 1.8 per cent of GDP by 2050 (Australian Government 2010d).

While life expectancy has been increasing, Australia has also experienced a period of strong economic growth and this has led to significantly higher real incomes and wealth. Looking forward, the *2010 Intergenerational Report* projects that real GDP per person will grow by 1.5 per cent per annum over the next 40 years (Australian Government 2010d). Clearly, a productivity driven reform agenda will increase the capacity of the community to meet the higher costs of aged care.

The older population themselves will, on average, be more affluent and are likely to expect higher quality care and greater choice over how they live their lives and the care and support they receive. As Colombo et al. at the Organisation for Economic Cooperation and Development (OECD) said:

... as societies become wealthier, individuals demand better quality and more responsive social-care systems. People want care systems that are patient-oriented and that can supply well co-ordinated care services. (2011, p. 38)

Demand for aged care services is also expected to become more diverse in the future because of:

- changing patterns of disease among the aged (including the increasing prevalence of chronic diseases and dementia)
- a wider range of preferences and expectations (including rising preferences for independent living).

It is expected that older Australians will also want to take advantage of advances in care and technology to assist them to remain independent and engaged in society for longer. The United Kingdom Government's recent White Paper — *Building the National Care Service* — noted:

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It is safe to imagine that the pace of technological change that we have seen over the last 20 years will continue, and that by 2030 the kinds of technology that will be available to us will be far beyond anything we know at the moment. Those using the care and support system will increasingly expect technology to play a part in helping them decide what care to choose and helping to improve their quality of life, and the care and support sector will need to be positioned to take advantage of these innovations. (HM Government 2010, p. 50)

A further challenge will be the need to secure a significant expansion in the aged care workforce at a time of age-induced tightening of the labour market, an expected relative decline in family support and informal carers and strong competition for workers from within parts of the health and disability systems.

## 1.1 The Commission's brief

Deficiencies in Australia's aged care system are well known and the need for significant reform to meet future challenges has been highlighted in a number of recent reports including:

- *Australia's future tax system: Report to the Treasurer* (Henry Review 2010)
- the National Health and Hospitals Reform Commission's (NHHRC) *A Healthier Future for All Australians* (NHHRC 2009)
- the Productivity Commission's (PC) *Trends in Aged Care Services* (PC 2008) and *Annual Review of Regulatory Burdens on Business: Social and Economic Infrastructure Services* (PC 2009a)
- the Senate Standing Committee on Finance and Public Administration's *Inquiry into Residential and Community Aged Care in Australia* (SSCFPA 2009)
- the *Review of Pricing Arrangements in Residential Aged Care* (Hogan 2004b).

In view of the well documented weaknesses of the current system and the future challenges, the Government asked the Commission to undertake a broad-ranging inquiry with the aim of developing detailed options for redesigning Australia's aged care system to ensure that it can meet the challenges facing it in coming decades. Specifically, the Commission was asked to:

- systematically examine the social, clinical and institutional aspects of aged care in Australia, building on past reviews of the sector
- develop options for reforming the funding and regulatory arrangements across residential and community aged care (including the Home and Community Care (HACC) program)

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- address the interests of special needs groups, including people living in rural and remote locations, Aboriginal and Torres Strait Islander people, culturally and linguistically diverse communities and veterans
  - systematically examine the future workforce requirements of the aged care sector, and develop options to ensure that the sector has access to a sufficient and appropriately trained workforce
  - recommend a path for transitioning from the current funding and regulatory arrangements to a new system that ensures continuity of care and allows the sector time to adjust
  - examine whether the regulation of retirement-specific living options, such as retirement villages, should be aligned more closely with the rest of the aged care sector and, if so, how this should be achieved
  - assess the medium and long term fiscal implications of any change in aged care roles and responsibilities.

The full terms of reference are available at the front of this report.

In November 2010, the Commission requested, and the Government granted, an extension to the inquiry's reporting date from April 2011 to the end of June 2011.

## **1.2 What is aged care?**

Aged care essentially refers to the services available to older people who, because of frailty and other age-related conditions, are unable to live independently without assistance. Services range from relatively low intensity support such as assistance in the preparation of meals and household maintenance to high-level care in a congruent environment or institution (box 1.1).

In recent years increasing emphasis has been placed on the promotion of healthy ageing or wellness, with a greater focus on support and services that allow older Australians to maintain their connectedness to the community and to be actively engaged citizens.

Most aged care is provided by informal carers (such as partners and children, mostly daughters, and neighbours and friends). In addition, many older people and their carers are supported by charitable organisations and volunteers. An extensive array of services are provided privately through the market, ranging from house cleaning and home maintenance to personal care and private nursing. A further subset of aged care services are subsidised, regulated and, at times, directly delivered by governments.

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Compared to the general population, older Australians report higher levels of disabling conditions (or morbidities) such as dementia, paralysis, speech-related impairments, arthritis and hearing disorders. Many older Australians live with multiple disabling conditions (or co-morbidities) — people aged 65 or over reported an average of 2.8 health conditions in 2003 (Australian Institute of Health and Welfare (AIHW) 2010a). Older people are also at significantly higher risk of injury due to falls, compared to the general population.

### **Box 1.1 What is aged care or long term care?**

The OECD defines 'long term care' as:

... a range of services required by persons with a reduced degree of functional capacity, physical or cognitive, and who are consequently dependent for an extended period of time on help with basic activities of daily living (ADL). This "personal care" component is frequently provided in combination with help with basic medical services such as "nursing care" (help with wound dressing, pain management, medication, health monitoring), as well as prevention, rehabilitation or services of palliative care. Long term care services can also be combined with lower-level care related to "domestic help" or help with instrumental activities of daily living (IADL). (Colombo et al. 2011, pp. 11-12)

An International Consensus on Policy For Long-Term Care of the Ageing, developed by the WHO and the Milbank Memorial Fund, defined long term care as:

... the system of activities undertaken by informal caregivers (family, friends and/or neighbours) and/or professionals (health, social services and others) to ensure that a person who is not fully capable of self-care can maintain the highest possible quality of life, according to his or her individual preferences, with the greatest possible degree of independence, autonomy, participation, personal fulfilment, and human dignity. (WHO and the Milbank Memorial Fund 2000, p. 6)

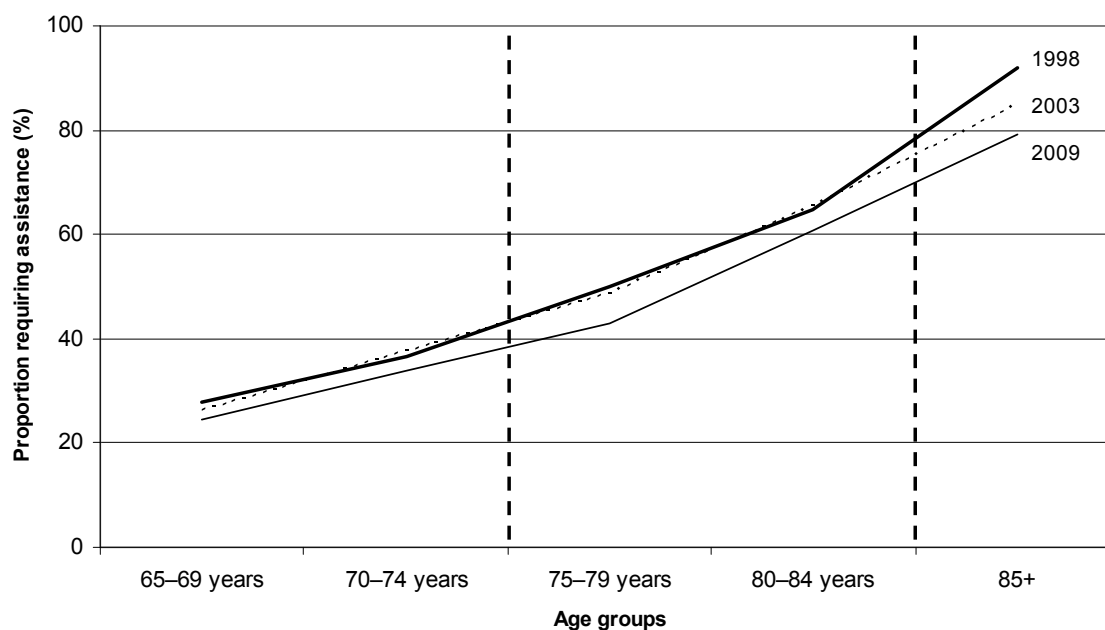
DoHA described aged care as:

... care for chronic illness or disability for which hospital care is no longer deemed appropriate. ... In Australia, this form of long term care is generally referred to as 'aged care' (sub. 482, p. 10)

The onset of age-related disability and frailty can create a need for assistance with everyday living activities and, progressively, personal care (figure 1.1). Over half of all older people in 2003 reported having a disability that led to them requiring assistance, including with self-care, mobility and communication (ABS 2004).

The need for care and support is particularly characteristic of people aged 85 and older. There is a noticeable rise in the prevalence of severe or profound limitations at those ages and in the use of aged care services (chapter 2).

Figure 1.1 Need for assistance by age of older person



Data sources: ABS Cat. no. 3201.0, 4430.0, and 44300do001.

### 1.3 Who are older Australians?

While there is no agreed definition of ‘older Australians’, they are typically defined as people aged 65 years or over. This reflects, until recently, the Age Pension eligibility age, which was set when the Age Pension commenced in 1909 under the authority of the *Invalid and Old-Age Pensions Act 1908*. In the same year though, the United Kingdom Parliament passed the *Old Age Pensions Act 1908* which set 70 years as the minimum pension age (box 1.2).

The Australian Government has announced that the minimum eligible age for the Age Pension will increase to 67 from 1 July 2023. The Minister for Families, Community Services and Indigenous Affairs stated:

As Australians are healthier and living longer, the qualifying age for the Age Pension for men and women will be increased by six months every two years, commencing from 1 July 2017 and reaching 67 on 1 July 2023. (Macklin 2009, p. 1)

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### Box 1.2 Defining 'older Australians'

There is no agreed definition of 'older Australians'. The effects of ageing vary from person to person in terms of their time of appearance, their cause and consequence, their severity and their duration.

- The WHO defines an older person as 'a person who has reached a certain age that varies among countries but is often associated with the age of normal retirement' (WHO 2004, p. 42).
- The United Nations (UN) (including through the 'International Day of Older Persons') uses 60 as the minimum age for an older person (UN 2002). So too does the Australian Bureau of Statistics (ABS) in its *Disability, Ageing and Carers* publication (2004).
- The Australian Institute of Health and Welfare (AIHW 2010a) and the OECD (2005b) typically define an older person as someone aged 65 or older.

There are two main extant governing acts in Australia for aged care; the *Aged Care Act 1997* and the *Aged or Disabled Persons Care Act 1954*. The 1997 Act does not specify a particular minimum age for care, although section 2 of the 1954 Act defines an 'aged person' as 'a person who has attained the age of 60'.

- For aged care planning purposes, the Government uses 70 as the minimum age, with a target by June 2011 of 113 residential and community operational places per 1000 people aged more than 70 (chapter 2). Another consideration is the minimum age eligibility for an older person to access the Age Pension. As the Commission's report identifies, there are several interfaces between the income support and aged care systems.
- The NHHRC proposed (recommendation 42) that the Government change the planning ratio from 113 places per 1000 people aged 70 and over to 620 care recipients per 1000 people aged 85 and over (NHHRC 2009, p. 263).

The Commission is defining an older Australian as someone who has reached the eligibility age for an Age Pension. However, there are several important caveats that apply to this definition.

- Given the marked differences in the health status of many Indigenous Australians, old age is generally defined as commencing at 50 years of age.
- While the use of broad age intervals is useful to define what is meant by 'older Australians', it should not obscure the significant differences in health status, living arrangements, family circumstances, income and wealth, accommodation arrangements and social and cultural practices across the older age cohorts.
- A number of younger individuals, under age 65, with a severe or profound disability currently receive services from, and reside in, the aged care system.

The aged care system will continue as the best place to receive services for such conditions as younger onset dementia.

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This age — the *pension age* — is used in this report as a general guide for ‘older Australians’ rather than a fixed age of 65, although the availability of statistics will generally dictate the continued use of age 65. However, given significant changes in life expectancy and chronic disease prevalence in the adult population, the policy and system design issues dealt with in this report more often focus on those aged 85 and older. This report also acknowledges that Indigenous people over the age of 50 and others with younger onset ageing-related conditions are able to access aged care services currently and would continue to do so in accordance with Government policies.

## 1.4 The Commission’s approach

Consistent with both the terms of reference and its own legislation, the Commission’s assessments of the current aged care system, and proposed options for change, are predicated on improving the wellbeing of the community as a whole.

The Commission’s proposals, based on this wellbeing framework, are aimed at developing a system of care and support for older Australians that is more efficient, equitable, effective (relating to choice, quality and appropriateness) and sustainable.

Such a system would promote the independence of older Australians, their wellness and exercise of choice, provide appropriate and flexible services, be easy to navigate, be affordable yet financially sustainable, ensure the adequacy and efficient use of resources (including a skilled workforce), and assist informal carers.

Considerable judgement is required to achieve an appropriate balance between the various interests: older people requiring aged care and their families; providers of aged care services; aged care workers: the government in its funding, regulatory and delivery roles; and current and future taxpayers more generally.

To inform its judgements, the Commission has had regard to the quantitative and qualitative evidence relevant to assessing the benefits and costs of the current system and options for reform. The Commission has also undertaken modelling and empirical analysis to assess indicative public and private costs and benefits of its proposals and how they might affect older Australians. It tested these judgements at a modelling workshop held in February 2011. The Commission also contracted Applied Aged Care Solutions Pty Ltd to undertake a study into a new care model — the results of the study are presented in appendix C.

The Commission wishes to acknowledge the Departments of Health and Ageing; Veterans’ Affairs; Families, Housing, Community Services and Indigenous Affairs;

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and the Treasury for providing supplementary data to the inquiry. A number of aged care providers and industry groups were also generous in providing data to the Commission, as have consumer groups.

## **Extensive public input**

In preparing this report, the Commission actively sought input from stakeholders:

- Shortly after receiving its terms of reference, the Commission released an Issues Paper outlining a range of matters on which it was seeking information and advice. In response to that paper, it received close to 490 submissions.
- It met informally with a broad cross-section of interest parties within Australia, including: older Australians and their representative organisations; providers of community and residential care; health and aged care professionals and researchers including those in fields such as nursing, general practice, geriatrics, allied health and personal care.
- To gain a better understanding of various key issues, the Commission held roundtables on the topics of financing and funding, the workforce, accommodation, care, technology and modelling/cost projections. The Commission also held an informal forum on rural and remote area issues.
- Following the release of the draft report in January 2011, the Commission held formal hearings in every state and territory capital city.
- In response to the draft report, the Commission received more than 430 further submissions.

The Commission wishes to acknowledge the efforts of the very many people who have taken the time to lodge a submission to the inquiry and to appear at the hearings. Each submission was closely read and has been valuable in informing the Commission.

More detail relating to public input to the inquiry is provided in appendix A.

## **Interfaces with the disability sector**

Concurrent with this inquiry, the Commission is undertaking an inquiry into disability care and support (see chapter 9 for more details). That inquiry released its draft report in February 2011 and is scheduled to deliver its final report to the Government in July 2011. In defining an appropriate interface between the two sectors, the Commission is mindful of the importance of the service provision being seamless for the person receiving care. In the Commission's view, services should

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be drawn from the sector with the most relevant expertise, irrespective of the funding source.

## **1.5 A road map to the rest of the report**

The remainder of the report comprises three parts.

Part 1 examines the aged care environment, including expected drivers of future demand:

- chapter 2 provides an overview of the current aged care system in Australia.
- chapter 3 reports on the drivers of demand for the aged care system over future years.

Part 2 assesses the strengths and weaknesses of the current aged care system in the context of an analytical framework developed by the Commission:

- chapter 4 outlines an analytical framework against which the current system and the Commission's proposed reforms are assessed.
- chapter 5 assesses the current system including its strengths and weaknesses.

Part 3 outlines the Commission's analysis of, and recommendations on:

- a funding model (chapters 6, 7 and 8)
- access to the new care system (chapter 9)
- quality in the provision of care services (chapter 10)
- care for special needs groups and other diverse groupings of older people (chapter 11)
- age-friendly housing and retirement villages (chapter 12)
- informal carers and volunteers (chapter 13)
- the aged care workforce (chapter 14)
- a new regulatory framework (chapter 15)
- strengthening the aged care evidence base (chapter 16)
- a transitional framework to support the implementation of the Commission's recommendations (chapter 17).

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The Commission's final report is published in two volumes.

- Volume 1 comprises the overview, summary of recommendations, a summary of proposals, and chapters 1 to 5.
- Volume 2 comprises chapters 6 through 17 and appendix A.

Additional supporting analysis is contained in the other appendices to the report. Appendices B to H, and two technical papers provided by DoHA are available in electronic form from the Commission's website at <http://www.pc.gov.au/projects/inquiry/aged-care>.

