
3 Future demand for aged care services

Key points

- Population ageing is expected to lead to a burgeoning demand for aged care services over the next 40 years. This is likely to be only partially offset by reductions in severe and profound age-specific disability rates.
 - The number of people aged 65 and over is expected to increase from 13.4 per cent of the total population in June 2007 to 25.3 per cent by 2047. An even bigger relative increase is anticipated for the ‘old old’ – those aged over 85 years, who tend to be the main users of aged care services. This group is expected to increase from 1.7 to 5.6 per cent of the total population over the period.
 - The trend towards increased longevity at older ages is also expected to continue. Based on assumed improvements in mortality, on average, men aged 65 in 2047 could live 3.7 years longer than those aged 65 in 2007, and women 2.8 years longer.
- Demand will also be influenced by the growing diversity among older Australians in terms of their:
 - care needs reflecting the changing pattern of disease associated with increased longevity, including an increase in the prevalence of co-morbidities
 - cultural and linguistic backgrounds reflecting Australia’s post-war immigration patterns
 - preferences and expectations (including an increasing preference for independent living arrangements supported by community-based aged care services)
 - incomes and wealth.
- While the future demand for aged care seems set to become markedly more heterogeneous, the extent to which aged care providers are able to respond will be an important determinant of the care mix that eventually develops and the contribution they make to the wellbeing of older Australians.

It is now widely recognised that the ageing of Australia's population will have far-reaching implications for society, for the economy and for the ability of governments to meet the expectations of the community. Ageing will also place significant additional demands on Australia's aged care system and the associated financing and delivery of its services. In contrast, we do not currently have as good an understanding of the implications of the growing diversity among older Australians on the demand for these services. This chapter briefly outlines the effects of population ageing on the demand for aged care services, explores some emerging trends that point to increased diversity among the aged and considers how the future demand for aged care is also likely to be shaped by the availability of care (that is, the supply side of the aged care 'market').

Notably, the chapter does not consider the impact of price on the future demand for aged care. While the price of a service would normally be expected to be a prime determinant of demand, in the case of aged care, prices are largely determined by the levels of subsidy available to service providers and the fee structures chargeable to recipients for aged care services. These arrangements are set by the Australian Government as part of the wider institutional and regulatory framework. The direct influence of 'price' on demand is therefore significantly muted. However, if in the future, governments decide to relax these pricing arrangements, the effective price charged by providers for residential and community care may become a more relevant consideration as a factor affecting demand.

3.1 The effects of population ageing

Over the next 40 years, the Australian population is projected to both grow and age (see, for example, PC 2005b and Treasury 2007). Population ageing largely reflects the combined effects of: lower fertility rates since the 1960s that have led to slower growth in younger age cohorts; and increased longevity that has contributed to stronger growth in the number of people in older age cohorts. As a result, the number and proportion of older people in the population is increasing.

While not a new phenomenon, population ageing is expected to accelerate over the next few decades, particularly from 2020 onwards. In 2007, those aged 65 years or more comprised around one in seven Australians. By 2047, almost one in four Australians will be aged 65 years and over. Population ageing is expected to lead to a burgeoning demand for aged care services. At the same time, there will be relatively fewer persons in younger cohorts available to support the provision of these services (as aged care workers, as working age taxpayers and as informal carers).

Since the Commission's report *Economic Implications of an Ageing Australia* (PC 2005b), the Commonwealth Treasury (2007) has released updated demographic projections in its *Intergenerational Report 2007* (table 3.1). These projections reveal that:

- The number of people aged 65 and over is expected to increase from 2.8 million (13.4 per cent of the total population) in June 2007 to 7.2 million (25.3 per cent) by 2047.
- An even bigger change is anticipated for the 'Old old' — those aged over 85 years, who tend to be the main users of aged care services. This group is expected to increase from 400 000 (1.7 per cent of the total population) in June 2007 to 1.6 million (5.6 per cent) by 2047.
- The aged dependency ratio (the proportion of people aged over 65 to people of traditional working age, 15-64) is projected to increase from almost 20 per cent in 2007 to over 42 per cent by 2047.

Table 3.1 Australian population projections
As at 30 June (millions)

<i>Age range</i>	<i>2007</i>	<i>2017</i>	<i>2027</i>	<i>2037</i>	<i>2047</i>
0–14	4.0	4.1	4.2	4.3	4.3
15–64	14.1	15.2	15.9	16.4	17.0
65–74	1.5	2.2	2.7	3.0	3.0
75–84	1.0	1.2	1.8	2.3	2.6
85 and over	0.4	0.5	0.7	1.1	1.6
65 and over	2.8	3.9	5.2	6.4	7.2
Total	20.9	23.2	25.3	27.1	28.5
<i>Percentage of the total population</i>					
0–14	19.1	17.7	16.7	15.7	15.0
15–64	67.4	65.6	62.7	60.7	59.7
65–74	7.0	9.5	10.6	10.9	10.7
75–84	4.7	5.0	7.2	8.5	9.1
85 and over	1.7	2.2	2.7	4.2	5.6
65 and over	13.4	16.7	20.5	23.6	25.3

Source: Treasury (2007, p. 16).

A number of recent studies have considered the likely effect of population ageing on the future demand for aged care services and government expenditure (box 3.1). Despite some methodological differences, these studies paint a broadly similar picture. Treasury's latest projections, assuming no change in current policy settings for aged care services, show that:

- Australian Government spending on aged care for those aged 65 years and over is expected to increase from 0.7 per cent of GDP in 2006-07 to 1.9 per cent by 2046-47. This is due largely to increasing expenditure on residential aged care, which is projected to rise from 0.5 per cent of GDP to around 1.5 per cent in 2046-47 (table 3.2).

Most of the projected growth in government expenditure on aged care is due to the effects of population ageing, which is expected to account for around three-quarters of the projected increase in real spending per person over the next 40 years (Treasury 2007).

Of particular interest to policy makers is how population ageing may affect the demand for different types of aged care services and the consequences for government expenditure, assuming no change in current policy settings (table 3.2). Treasury's projections suggest there will be stronger growth in high care residential and community care places relative to low care residential places. This view accords with the expectations of many commentators. For example, Ergas (2006, p. 2) contends that:

Demand for care may ... shift from being a continuum that moves from home, into low-level care and then (typically for only a short time) into high-level care, towards a pattern concentrated at the two ends of the spectrum. Moreover, the duration of care at each of those ends seems likely to rise, so that high-level care becomes less of an immediate antecedent to death.

Box 3.1 Recently published projections of aged care use and expenditure

- *Productivity Commission*
 - *Long-Term Aged Care: Expenditure Trends and Projections* (Madge 2000) discussed the factors that influence long-term aged care demand and provided projections of total expenditure on aged care at 10-year intervals to 2031. The cost projections, covering residential and community care, incorporated associated usage projections based on the number of aged care places that would be available at different points in time.
 - *Submission to the Review of Pricing Arrangements in Residential Aged Care* (PC 2003) was prepared as the Commission's contribution to the Hogan Review. The submission provided projections for residential aged care use at 10-year intervals to 2041 and for Australian Government spending on residential aged care.
 - *Economic Implications of an Ageing Australia* (PC 2005b) included an analysis of aged care expenditure. The report provided projections for the number of persons expected to receive residential and community care at 10-year intervals to 2044-45 and the associated Australian Government and State and Territory government expenditure.
- *The Financial Implications of Caring for the Aged to 2020* (Allen Consulting 2002) was commissioned in conjunction with the Myer Foundation Project 2020, 'A Vision for Aged Care in Australia'. The report focused primarily on future costs and investment requirements and included projections of the number of people expected to need aged care services (residential and community) in 2020 and the associated expenditure requirements for the Australian Government, State and Territory Governments and individuals.
- *The Review of Pricing Arrangements in Residential Aged Care* (Hogan Review 2004) included aged care projections derived from the Aged Care Dynamic Cohort Model developed by Access Economics (2004). The projections, at 10-year intervals to 2042-43, covered the number of people expected to need aged care services (residential and community) and the associated expenditure requirements (Australian Government, State and Territory Governments and individuals) assuming no change to funding arrangements. This left a funding shortfall that would need to be sourced either from the Australian Government or elsewhere.
- *The Intergenerational Report 2007* (Treasury 2007) provided a basis for considering the Australian Government's fiscal outlook over the long term and included expenditure projections for both residential and community care at 10-year intervals to 2046-47. The report updated the projections in the first Intergenerational Report, released in 2002 (Treasury 2002).

Sources: Madge (2000); Allen Consulting (2002); Treasury (2002, 2007); PC (2003, 2005b); Access Economics (2004); Hogan Review (2004).

Table 3.2 Projected persons receiving care and aged care expenditure

Persons aged 65 year or older^a

	2006-07	2016-17	2026-27	2036-37	2046-47
Number of places/persons	'000	'000	'000	'000	'000
High care residential	108	148	205	303	405
Low care residential	58	60	82	122	162
Total residential	167	208	287	426	567
CACP	31	50	71	100	125
HACC ^b	518	697	976	1251	1448
Australian Government expenditure (share of GDP)	%	%	%	%	%
Residential	0.54	0.68	0.87	1.21	1.53
CACP	0.04	0.06	0.08	0.10	0.12
HACC ^b	0.09	0.12	0.15	0.18	0.20
Other	0.04	0.05	0.06	0.07	0.08
Total	0.71	0.90	1.16	1.57	1.93

^a These data relate to the projected demand for aged care and Australian Government expenditure on aged care programs by those persons aged 65 years or older. They are lower than Intergenerational Report (Treasury 2007) published results that include access to aged care programs by persons of all ages.

^b Support for persons aged 70 years or older.

Source: Department of the Treasury, unpublished modelling results (2007).

Increased longevity

In terms of the demand for aged care services, a key trend has been towards increased life expectancy at older ages (table 3.3). Although life expectancy at age 65 increased only slightly between 1900 and 1970, since that time it has consistently improved (AIHW 2008b). This largely reflects successful attempts to prolong life through advances in medical technology and public health initiatives. Among OECD countries, Australia's life expectancy at age 65 for males ranked equal second with Iceland in 2006 (behind Switzerland and Japan who were ranked equal first), and for females was fifth (behind Japan, France, Switzerland and Spain) (OECD 2008).¹

Increasing longevity is expected to continue. Based on assumed improvements in mortality, on average, men aged 65 in 2047 could live 3.7 years longer than those aged 65 in 2007, and women 2.8 years longer (table 3.4).

¹ The differences between the top ranking countries for this measure are quite small. For example, there was less than 3 months difference in life expectancy for males aged 65 between Australia (in equal second position) and Switzerland and Japan (in equal first position).

Increased life expectancy at older ages has important consequences for patterns of disease and disability among older people (discussed further below).

Table 3.3 Life expectancy at selected ages

Age	1901-1910	1965-66	1975-77	1985-87	1995-97	2006
Males						
65	11.31	12.16	13.13	14.60	16.21	18.30
75	6.58	7.33	7.91	8.78	9.82	11.10
85	3.65	4.07	4.45	4.89	5.40	5.90
Females						
65	12.88	15.70	17.13	18.56	19.88	21.50
75	7.59	9.22	10.29	11.37	12.26	13.40
85	4.19	4.85	5.49	6.09	6.53	7.10

Sources: ABS (*Australian Historical Population Statistics*, Cat. no. 3105.0.65.001); ABS (*Deaths, Australia*, Cat. no. 3302.0).

Table 3.4 Life expectancy at selected ages, based on assumed improvements in mortality^a

Age	2007	2017	2027	2037	2047
Males					
65	18.78	20.42	21.24	21.84	22.45
75	11.40	12.50	13.08	13.60	14.12
85	5.98	6.49	6.78	7.17	7.57
Females					
65	21.98	23.39	24.04	24.43	24.82
75	13.79	14.85	15.35	15.70	16.04
85	7.29	7.87	8.17	8.45	8.73

^a These life expectancy figures are based on assumptions about future levels of mortality in Australia. There can be no certainty that any particular outcome will be realised.

Sources: ABS (*Population Projections, Australia, 2004 to 2101* Cat. no. 3222.0) unpublished data.

Disability levels

The growth in demand for aged care may partly be offset by improvements in health status and reductions in severe and profound age-specific disability rates. For people aged 65 years and over, severe and profound age-specific disability rates provide a useful guide to the proportion of older people likely to require aged care services.

In recent years, there has been considerable debate about the implications of increased longevity for morbidity and disability. Some argue that improvements in

health and medical care will compress morbidity into a shorter period at the end of life. Others consider that increased longevity will be accompanied by an expansion of morbidity in the later years of life. Another view is that the overall prevalence level of diseases may increase, but the average severity of diseases may decrease due to a reduction in the rate of disease progression (see AIHW 2006d and OECD 2006a).

The OECD (2006a) has cited work suggesting that a country's transition from one morbidity regime to another will depend on the relative size of four factors:

- an increase in the survival rates of sick people that would result in an expansion of morbidity
- control over the progression of chronic diseases that would lead to a subtle equilibrium between the fall in mortality and the increase in disability
- an improvement in the health status and health behaviour of future cohorts of old people that would result in a compression of morbidity, and eventually
- the emergence of very old and frail populations that would result in a new expansion of morbidity.

Although age-specific disability rates appear to be falling in a number of developed countries, the evidence is not clear cut (see, for example, PC 2005b). The underlying patterns are obscured by data inadequacies, changing definitions, shifting attitudes to disability, new and varying methods of diagnosis, and inexplicable differences in trends across countries with similar living standards.

The Hogan Review (2004) pointed to a growing body of evidence in the United States showing falls in disability rates among older people and observed that countries such as France, Italy, Belgium, the Netherlands and Switzerland also appeared to be experiencing declining disability among the elderly.

The OECD (2007) has recently assessed disability trends in 12 countries. It found evidence of a decline in disability among people aged 65 and over in only five countries (Denmark, Finland, Italy, the Netherlands and the United States). Three countries (Belgium, Japan and Sweden) reported an increasing rate of severe disability among older people during the past five to ten years while two countries (Australia and Canada) reported a stable rate. Evidence for the United Kingdom and France was inconclusive.

In Australia, the AIHW (2006d) considered the evidence on ‘health expectancy’ in its study *Life Expectancy and Disability in Australia 1988 to 2003*. This work suggests that most of the recent gain in life expectancy was spent with disability, much with a severe or profound core activity limitation.

Looking to the future, there are reasons to believe that disability rates are likely to decline:

- Socioeconomic improvements, including rising incomes and wealth, are among the strongest predictors of declines in disability rates (see, for example, Redfoot and Pandya 2002). On average, the future aged will almost certainly be wealthier and have higher incomes than the current aged (see below).
- As in the past, technological improvements and continuing medical advances are likely to lower age-specific disability rates over the next 40 years. The Commission’s report *Impacts of Advances in Medical Technology in Australia* (PC 2005c) identified Australia’s ageing population as a key factor influencing these developments, in part, because of the increased need to treat chronic diseases.
- There is also the possibility of health improvements through better illness prevention and disease management. As part of its study of the *Potential Benefits of the National Reform Agenda*, the Commission (PC 2006) found the proportion of ‘avoidable’ chronic diseases resulting from lifestyle behaviour changes, detection and early intervention varied from around 75 per cent for some mental disorders to around 3 per cent for some types of musculoskeletal conditions.² Although this study focused on persons of working age, the effects of health promotion and disease prevention is also applicable to older people.

That said, there are concerns about the extent to which the increased prevalence of obesity among younger age cohorts may affect disability rates among the future elderly. The prevalence of obesity has been rising in Australia over at least the past 20 to 30 years (AIHW 2008b). Obesity is a risk factor for many debilitating health problems including respiratory difficulties, chronic musculoskeletal problems, cardiovascular disease, type 2 diabetes, certain types of cancer and gallbladder disease. The OECD (2006b, p. 79), in commenting on obesity trends in member countries, has observed that:

Rising disability rates among the future elderly could wipe out recent reductions in disability among today’s elderly, who have benefited from reduced exposure to disease, better medical care, and reduced smoking. Appreciating that these are studies on

² The Commission (PC 2006) examined six chronic diseases — mental illness, type 2 diabetes, cardiovascular diseases, cancer, serious injury and musculoskeletal conditions.

American citizens, the trend appears global in nature, and there is no compelling reason why the trend in other western countries should diverge.

While there is still much uncertainty about the magnitude of any future reductions, the Hogan Review (2004) judged that age-specific rates of severe and profound disability among older people are likely to decline moderately in the future.

In its recent work the Commission, like the Hogan Review, has assumed a 0.25 per cent annual decrease in the relevant age-specific disability rates (and conducted sensitivity testing assuming no change, and higher reductions in disability) (PC 2003, 2005b). This work has highlighted that even relatively modest reductions in disability rates among the aged can potentially have a significant impact on the number of people requiring residential care.

Overall, the Commission remains of the view that in coming decades, reductions in age-specific disability rates are likely to only partially offset the effects of population ageing and increased longevity. This view is consistent with a key finding from the OECD's (2007, p. 7) assessment of recent trends in disability:

... it would not seem prudent for policy-makers to count on future reductions in the prevalence of severe disability among elderly people to offset the rising demand for long-term care that will result from population ageing. Even though disability prevalence rates have declined to some extent in recent years in some countries, the ageing of the population and the greater longevity of individuals can be expected to lead to increasing numbers of people at older ages with a severe disability.

Pulling these trends together

In combination, these trends suggest that over the next 40 years the community will need to provide aged care services to a much larger cohort of older Australians (both in absolute and relative terms). However, in looking out over this period considerable uncertainties remain. As the Commission has emphasised, notwithstanding the importance of the past in shaping Australia's future demographic structure, different assumptions about future mortality rates, fertility rates and net migration can produce significant variations in demographic scenarios (PC 2005b). This point is underscored by differences between the first and second intergenerational reports, with Treasury (2007, p. 11) noting that:

Several developments since IGR1 are projected to continue into the future and will have an impact on both the size and average age of the Australian population. Mortality rates have fallen more rapidly than anticipated in IGR1, tending to raise slightly the average age of the projected population. Higher-than-anticipated fertility rates and changes to Government policy encouraging greater numbers of skilled migrants — who are younger on average than the resident population — tend to lower slightly this

average age. Taken together, these changes have led to a projection of a significantly larger and slightly younger population than in IGR1.

These uncertainties about the future extent of population ageing suggest a need for ongoing monitoring of demographic trends and the development of flexible policy approaches. In this regard, the *Charter of Budget Honesty Act 1998* commits the Australian Government to preparing an intergenerational report at least every five years. This will provide a mechanism for assessing the long-term fiscal sustainability of current government policies (including aged care), in light of reassessments of past demographic projections.

3.2 Growing diversity among older Australians

While demographic projections provide a useful indication of the *number* of older people likely to require aged care in coming decades, this is clearly not the whole story. Another key influence on the future demand for aged care is the growing *diversity* among older Australians in terms of their care needs, backgrounds, preferences, incomes and wealth. Arguably, we do not currently have as good an understanding of the likely implications of this growing diversity for aged care services as we do of the changing demographics.

As revealed by the AIHW (2007e, p. 2) there is already considerable diversity among older Australians:

The health, family circumstances, physical abilities, economic circumstances and service needs of an average 65 year old are likely to be very different from those of a 90 year old. In addition, there is a considerable diversity of backgrounds and a variety of lifestyles, living arrangements, family circumstances and cultural, social and religious practices. Finally, the health status, activity and interaction with social and government systems that contribute to the health and welfare of Australians vary widely.

However, a key finding of this study is that, in several respects, older Australians are likely to be even more diverse in the future. As explored in chapter 5, this trend has important implications for the range and mix of aged care services that will be demanded by older Australians. Like demographic change, growing diversity will place the aged care system under increased pressure.

More diverse care needs

One consequence of increased longevity is that the pattern of diseases people suffer and die from changes. The gains in life expectancy among older Australians over

the last 30 years have arisen from declines in mortality for some diseases, particularly heart disease and stroke. However, as more people live to older ages, the prevalence of chronic illness increases markedly. In addition, increased longevity is associated with the increased prevalence of co-morbidity (people living with two or more diseases at the same time). This changing pattern of disease is creating greater diversity in the care needs of older people. Further, among the 'old old', it is giving rise to new challenges in caring for frailer people with more complex and demanding care needs.

Evidence of the effect of increased longevity on the pattern of disease among older people is provided by AIHW (2007e) analysis of the leading causes of death for the aged. This reveals some important differences among different age cohorts. For example, in 2004:

... the top 12 causes of death for persons aged 65–74 years included pancreatic cancer, cirrhosis of the liver (men) and ovarian cancer (women). At ages 75–84 years, deaths from dementia and related disorders become relatively more important, and influenza and pneumonia appear in the top 12 causes of death for the first time. For those aged 85 years and over, influenza and pneumonia become relatively more important and deaths from kidney failure appear in the top 12 causes of death. (AIHW 2007e, p. 59)

There is a strong link between ageing and chronic diseases, such as cardiovascular disease, osteoarthritis, cerebrovascular disease, chronic kidney disease, chronic obstructive pulmonary disease, colorectal cancer, diabetes and osteoporosis (AIHW 2006b). These diseases are often associated with prolonged illness (sometimes leading to other health complications), functional impairment and disability. As such, they give rise to quite specific and varied care needs among older people.

Growing attention is being given to the implications for aged care of the increased prevalence of neurodegenerative diseases. For example, over a decade ago, Broe and Creasey (1995, p. 57) observed:

... an emerging and increasing cause of this increased morbidity in advanced old age is the group of disorders which dominate geriatric medicine: confusion, incontinence, immobility and falls. Underlying this group of morbidity producing syndromes of old age are the neurodegenerative diseases; Alzheimer's disease, Parkinson's disease and cerebellar atrophy.

And, more recently, the AIHW (2006b, p. 3) has argued:

As the Australian population ages and people survive longer with cancer and chronic diseases of the circulatory and respiratory systems, dementia and related neurodegenerative disorders are likely to become more prevalent and have a greater impact on the health and wellbeing of older Australians.

The challenges for the aged care and health systems associated with dementia are becoming more apparent. Dementia is a progressive condition characterised by the impairment of brain functions, including language, memory, perception, personality and cognitive skills. The AIHW (2007e, p. 86) has observed that:

In older people, dementia is more likely than other health conditions to be associated with severe or profound limitations in self-care, mobility and communication, is more likely to be the main health condition resulting in disability, and is very likely to be associated with multiple health conditions.

Importantly, as recognised by the AIHW (2007c, p. 93) dementia gives rise to quite complex and diverse care needs:

The disabling impact of dementia means that people with severe or advanced dementia may require a variety of assistance, including help with activities of daily living (ADLs) related to basic self-care (e.g. bathing, dressing, toileting, getting in and out of bed, continence and feeding). Even those with mild or moderate dementia may require assistance with instrumental activities of daily living (IADLs) central to independent functioning in the community (such as light housework, laundry, meal preparation, grocery shopping, outside mobility, travel, money management, and telephoning).

The number of Australians with dementia is expected to increase considerably in coming years. For example, Access Economics (2005a) has estimated that the number of people with dementia will increase from around 220 000 to over 730 000 between 2007 and 2050. This will have significant implications for the provision of both residential and community care. In 2003, around three quarters of people aged 65 years or more reporting dementia lived in cared accommodation (including residential care) (AIHW 2007c). In analysing the future of community care, Allen Consulting (2007, p. 30) has argued that the increasing prevalence of dementia among older people will mean that a greater proportion of community care clients ‘will have very complex needs, raising the average cost per client of delivering community care’.

As with other chronic illnesses, there may be scope to delay the onset of dementia and reduce age-specific incidence rates by altering modifiable risk factors such as the level of physical and cognitive activity (Nepal et al. 2008).

There is also a growing demand for palliative care to be an integral part of aged care services. The World Health Organization (WHO 2004) has observed that traditionally, palliative care has mostly been offered to people with cancer, partly because the course of this illness is more predictable and thus easier to recognise and plan for the needs of patients and their families. Reflecting this, palliative care is often viewed as only relevant to the final few weeks of life. In contrast, the WHO argues that, given the likelihood more older people will be living with the prolonged

effects of chronic illness, there is a need for forms of palliative care that provide support over many years and also allow for an unpredictable time of death.

In relation to depression, while its prevalence is similar across age groups, it is somewhat less in persons aged 65 years and over (AIHW 2006b). However, older people may be at risk of depression for a variety of reasons, including: an increase in physical health problems; chronic pain; side-effects from medication; death of a spouse or family member; social isolation; injury through falls; and significant changes in living arrangements, such as moving from independent living to a residential setting (Beyondblue 2008).

Estimates of the prevalence of depression among older people living in the community vary widely from less than 1 to 35 per cent (cited by Frazer, Christensen and Griffiths 2005). They tend to be higher for people living in residential care facilities, with estimates ranging from 30 per cent of low care residents to around 50 per cent of high care residents (Hammond Care Group 2004). Like other chronic illnesses, depression can be expected to increase the diversity of care needs among older people, for example through its interaction with existing medical conditions.

Increased longevity is also associated with a rise in the prevalence of co-morbidity, which is often associated with functional impairment. An AIHW (2006b) analysis of chronic diseases found that while almost 10 per cent of children aged 0–14 years had three or more long-term conditions, this proportion increased to more than 80 per cent for those aged 65 years and over. A recent study by Walker (2007, p. 206) observed that:

... the vast majority (83 per cent) of 60 + – year – olds with three or more conditions had at least one NHPA [National Health Priority Area] disease, and thus could be considered seriously ill.

These trends point to the likelihood of Australia's aged care system having to provide care to an increasing number of frail clients with more complex and demanding needs. This will have significant implications for the delivery of aged care services. For example, in the area of community care it suggests there is likely to be an increasing demand for services at the higher-end of the care spectrum to help bridge a potentially widening gap between the level of care some older people will require and the level of care that informal carers are capable of providing. It is also likely to bring into sharper focus the need to improve the effectiveness of interfaces between the aged care and health systems, to ensure that older people have an acceptable quality of life (chapter 4).

More diverse backgrounds

Australia's population of older people from culturally and linguistically diverse backgrounds is growing faster than that of other older Australians (box 3.2). Over coming decades, this growth is likely to be particularly pronounced for those aged 80 years and over, the cohort who are the biggest users of formal aged care services. Further, as different ethnic groups begin to move into older age cohorts in substantial numbers at different times, reflecting post-war immigration patterns, there will be greater diversity among the largest ethnic groups that makeup Australia's elderly overseas-born population (Rowland 2007). As the Ethnic Communities' Council of Victoria (2008, p. 3) argues, these developments 'will require culturally and linguistically responsive, flexible and consumer oriented age care services'.

These developments are likely to increase and extend the demand for culturally appropriate aged care services. This is in the context of current concerns about the ability of culturally and linguistically diverse older Australians to access aged care services. For example, the Department of Health and Ageing (DoHA 2007f, p. 2) has found that:

Older people from culturally and linguistically diverse communities are not accessing aged care services commensurate with their proportion of Australia's ageing population. This is evidenced by their under-representation in the use of residential aged care services.

Older people from culturally and linguistically diverse backgrounds share with the broader aged population many characteristics associated with the need for aged care (such as increasing need associated with advancing age). However, Howe (2006, p. 26) argues that cultural diversity adds two broad dimensions to the need for aged care:

First, culture imbues these characteristics with meanings that differ from Australian mores to varying degrees — by way of attitudes to the elderly and especially towards older family members; in expectations of family caregiving and especially the roles of women; and in beliefs about health and disability. Second, culture brings with it a wide variety of beliefs and practices that affect propensity to use care services, most notably associated with religion, but also in behaviour and preferences, such as diet and forms of address.

The provision of culturally appropriate aged care services recognises the benefits to the quality of life of older people of being able to maintain continuity with life patterns established at younger ages (Rowland 2007). It also recognises that different cultural backgrounds and social circumstances can give rise to attitudes and expectations that may not always be met by mainstream aged care services.

Box 3.2 **AIHW projections of culturally and linguistically diverse groups**

In 2001, the Australian Institute of Health and Welfare (AIHW) produced a range of projections showing the likely growth in the proportion of older people from culturally and linguistically diverse backgrounds. These show:

- Between 1996 and 2026, the number of older people from these backgrounds is projected to increase from 392 800 to 939 800 — a 139 per cent increase over the 30 year period.
 - Over this period, the proportion of older Australians from such backgrounds is expected to increase from 17.8 to 21.2 per cent.
- Growth in the population from these backgrounds is even more pronounced in the 80 plus age group. In 1996, there were 64 000 people aged 80 plus from such backgrounds, while in 2026 this number is projected to reach 269 600, an increase of 321 per cent. In comparison, the Australian-born population is expected to increase by 90 per cent over the same period.
 - Over this period, the proportion of people aged 80 years and over from these backgrounds is expected to increase from 13.2 to 25.2 per cent. Thus, by 2026, one in four people aged 80 and over will be from these backgrounds.
- A number of linguistic groups will exhibit pronounced growth rates within the total aged population at different stages across the next 30 years:
 - Between 1996 and 2011, growth rates are projected to be particularly high in the Italian, Greek, Cantonese and Maltese-speaking populations aged 80 and over, and in the Croatian, Arabic and Spanish-speaking populations aged 65 and over and 80 and over.
 - Between 2011 and 2026, growth rates are projected to be particularly high in the Vietnamese, Filipino and Mandarin-speaking population aged 65 and over, and in the Spanish and Croatian-speaking populations aged 80 and over.
- Geographically, a number of states (in particular, Victoria) are likely to have relatively higher growth in culturally and linguistically aged populations over time.
 - In 2011, Victoria is projected to have the most diverse older population, with 30.8 per cent of its older population being immigrants from these backgrounds. This is followed by the Australian Capital Territory (26.6 per cent), the Northern Territory (25.9 per cent), New South Wales (24.2 per cent), Western Australia (20.7 per cent), South Australia (20.6 per cent), Queensland (11.6 per cent) and Tasmania (7.9 per cent).
 - In 2026, Victoria is again projected to have the most culturally and linguistically diverse population (28.3 per cent). This is followed by New South Wales (26.0 per cent), the Australian Capital Territory (23.9 per cent), the Northern Territory (21.9 per cent), Western Australia (18.2 per cent), South Australia (16.1 per cent), Queensland (10.5 per cent) and Tasmania (6.0 per cent).

Source: Gibson et al. (2001).

Clearly, language plays a vital role in all aspects of the care and treatment of older people (FECCA 2007). However, the provision of culturally appropriate care also recognises differences between clients in terms of their belief systems, socioeconomic status, geographic location, histories, family and support systems, and life experiences relative to the broader community. Aged and Community Services Australia (ACSA 2007a, p. 1) has observed:

The best quality aged care is designed around the unique and complete needs of the individual. People from any particular ethnic or cultural group are different from one another: values, opinions and family practices may differ, English proficiency varies, settlement experiences and their lives in Australia have affected them differently. ‘Culture’ is not a separate need, it is integral to all aspects of care and support provided.

An example of the importance of culturally appropriate aged care to the quality of life of older people concerns the care of people suffering from dementia. Studies show that the language most recently acquired is lost first for people with dementia (Access Economics 2006). When this occurs, carers need to be able to communicate with patients using the person’s first language.

Of course, culture and language are dynamic and the special nature of the needs of older members of culturally and linguistically diverse communities will be shaped by their experiences in Australia as well as their cultural background. However, in reviewing the literature in this area, Howe (2006, p. 26) observes:

Rather than finding that those needs associated with cultural and linguistic diversity will diminish over time, the studies reviewed here indicate that the nature of this need will become increasingly diverse in future. Convergence to Australian norms in some areas will run alongside maintenance of different cultural norms in others, and there will continue to be variations in the mix and pace of change between different CALD [culturally and linguistically diverse] communities.

Over coming decades, there will also be a growing demand for culturally appropriate aged care services among Indigenous Australians. According to a report by the Steering Committee for the Review of Government Service Provision (SCRGSP 2007a, p. 11) *Overcoming Indigenous Disadvantage: Key Indicators 2007*:

The most recent estimates indicate that life expectancy at birth is 59 years for Indigenous males compared with 77 years for males in the total population, and 65 years for Indigenous females compared with 82 years for females in the total population.

Life expectancy at age 65 for Indigenous males is 11 years compared with 18 years for males in the total population; and 12 years for Indigenous females compared with around 21 years for females in the total population (ABS 2007c).

In December 2007, COAG committed to closing the gap in life expectancy between Indigenous and non-Indigenous Australians within a generation (COAG 2007). Among other things, this can be expected to: increase the future demand for aged care services by Indigenous people; significantly alter the timing of the need for access to these services (that is, Indigenous people will be more likely to access aged care services at older ages than is currently the case); and re-shape the service interfaces between aged care and broader health, disability and community welfare systems.

Meeting the needs of a larger cohort of older Indigenous people for culturally appropriate aged care services will draw into sharper focus many of the existing challenges associated with service delivery in this area. For example, Cotter, Anderson and Smith (2007, p. 89) have noted that:

Providing culturally appropriate care is not cheap. A Western Australian study of an Aboriginal health service found that for every dollar spent on services that might be deemed equivalent to mainstream, there were 75 cents spent on ‘culturally secure’ aspects of care. ... Indigenous aged care providers face other challenges to viability. Many are small organisations serving small populations, so there can be difficulty achieving economies of scale and sharing infrastructure across a range of services. The majority of residents are financially disadvantaged, reducing the ability of services to raise capital through accommodation bonds. Together, these factors build a case for resource allocation to Indigenous aged care in line with greater need and the real costs of service delivery.

More generally, policy makers will continue to face the challenge of developing flexible models of care that can deliver services to culturally and linguistically diverse recipients in urban, regional, rural and remote locations; ensure there is adequate and easily accessible information available about aged care services; and ensure aged care workers have appropriate linguistic skills and adequate training in providing culturally appropriate care.

Changing preferences and expectations

There is growing policy interest in the extent to which the progressive entry of the ‘baby boom’ generation (those born between 1946–65) into the age cohorts of the over 65 year olds will be the catalyst for a change in the preferences and expectations of older Australians.³ Of itself, there is nothing new about this process of generational change. As noted by Kendig and Duckett (2001, p. 2):

³ The ABS (2003) defines the baby boomer generation as being from 1946 to 1965 (inclusive). Baby boomers are a sizeable cohort, accounting for almost 5.4 million Australians or around 27 per cent of the population in 2006. Thus, there is also an absolute numerical impact on the future demand for aged care services from the baby boomers.

... each of the successive groups entering old age bring with them a legacy arising from the historical circumstances of their childhoods, when they formed core values and orientations, and the economic and social opportunities and constraints faced in the course of their adult lives.

However, there appears to be a wide-spread expectation that the values and attitudes the baby boomers will bring with them into older age are sufficiently different from previous generations as to have a potentially transformational effect on the provision of aged care services. Compared to previous generations, it is not uncommon for baby boomers to be characterised as being more individualistic, liberal, assertive and having weaker family ties due to higher rates of divorce and separation. During the course of their adult lives, baby boomers have also become habituated to having a wider choice in the goods and services they consume.

Typical of this kind of view, Hamilton and Hamilton (2006, p. 1) argue:

The size of the boomer generation, along with their radical demands, saw them emerge as the most important generation of the second half of the twentieth century and they have become accustomed to setting the social and cultural agenda in the West. ... the boomers 'reshaped many social norms, including family composition and living arrangements, assisted by enhanced contraceptive choices, secularisation, and the women's movement' ... and have a reputation for maintaining their cultural and social influence through the decades as they age. Thus, they have progressively redefined marriage, parenthood, middle age and menopause and are now turning their attention to old age and retirement.

The preferences and expectations commonly attributed to baby boomers can reasonably be expected to accentuate some existing trends in the provision of aged care.

Many older people, including those with a disability or chronic illness, do not need, nor seek, support in their day-to-day living (chapter 2). For those that do, it has been consistently observed that most, whether in Australia or overseas, desire autonomy, self-reliance and independent living arrangements. This usually translates into a preference for remaining in their own homes for as long as possible, with appropriate care support as required. For example, Anglicare Australia (2007, p. 15) has noted:

There is no doubt that, given a choice, the majority of people will choose to remain living in their own home with support rather than moving to a residential facility.

Catholic Health Australia (CHA 2007b, p. 13) has similarly observed that ‘clients have an increasing expectation that they will be supported at home longer and that higher levels of care needs will be met’.

The trend towards delaying entry into residential care for as long as possible is being supported by a broadening of the housing options available to older people. Over the last two decades there has been significant growth in retirement villages and other forms of assisted living accommodation. Moreover, there is growing diversity in the ‘life style’ options offered by these forms of accommodation, extending to recreational facilities, social activities and varying levels of integrated care. These developments offer older people the option of ageing in place within a community environment, with access to community care programs and, in some cases, a range of care services offered by the organisations managing these forms of accommodation.

The trend towards more diverse housing options is likely to continue, with McFee (2007, p. 8) noting a number of interesting developments in the United States:

NORC [Naturally Occurring Retirement Communities] is a term describing neighbourhoods or buildings in which a large segment of residents are older people. The ultimate goal of NORC is to help transform communities which are ageing naturally, into good places to grow old — communities that support healthy, productive, successful ageing and respond with calibrated supports as individual’s needs change.

A very recent trend also in the US is the emergence of Intentional Communities where groups of older people with similar interests pool their resources and provide purpose built adaptable housing.

Taken together these trends add further weight to the view that, over coming decades, the demand for community care is likely to be stronger than that for low care residential places.

Along with a desire to remain at home, there is overseas evidence — for example, in the United Kingdom and the Netherlands — that older people’s preferences for support appear to be moving towards the use of formal rather than informal care, that is towards the services offered by professional aged care providers rather than those supplied by family and friends (Hogan Review 2004). In Australia, McCallum (2003) has cited evidence suggesting that almost 60 per cent of people aged 70 years or over would prefer to receive formal care in their own home in the event they were unable to care for themselves, compared to 28 per cent who would prefer to receive residential care. Around 5 per cent would prefer to be taken care of by their family at home.

The trend towards greater use of formal aged care services is likely to strengthen in coming years, to the extent that baby boomers may have a stronger preference to remain independent and exercise autonomy in their decision-making. For example, in commenting on the preferences of baby boomers in the United States, Yee (2005, p. 3) has observed that:

The idea of instilling a sense of guilt and obligation as a motivation to provide supportive care for the older generation over an extended number of years is denied among most boomers, who foresee a lifetime of independent decisions for themselves. ... Adult children of this modern age are more likely to be well-trained negotiators with their parents and [on] behalf of their parents who need care. At the same time, parents may be less willing to accept the care offered by their adult children if it means compromising their own preferences.

Baby boomer preferences in this area are also likely to be influenced by the availability of informal carers (such as children, other family members and friends) (chapter 6). Among other things the future availability of informal carers will be shaped by changes in: the number of children per household; the proximity of children to their elderly parents; and the willingness and capacity of children to care for their elderly parents. For example, over a decade ago, de Vaus (1996, p. 21) in analysing the complexity of how children in Australia view their responsibilities to elderly parents observed:

In promoting an aged care policy that relies on adult children providing support and care for elderly parents due attention must be given to the fact that demographic changes mean that such carers will not necessarily be available and, even if available, they may not see it as their responsibility to provide the level of care required.

The view that, baby boomers are likely to have a stronger preference for independent living is also supported by the results of a recent survey conducted by Fujitsu Australia and New Zealand (2007) (box 3.3). For example, in the Fujitsu survey of baby boomers, which focused on those aged 58 to 61, four out of five respondents indicated a high or very high preference for independent living. As part of this study, the Commission also sought the views of several aged care providers who confirmed these expectations and preferences of baby boomers in relation to aged care services (box 3.4).

Clearly, the desire for greater choice is going to be a key influence on Australia's aged care system over coming decades and is discussed in chapter 5.

However, there are three important caveats. First, baby boomers are a heterogeneous group and there are obvious dangers in making broad generalisations about their values, attitudes and preferences. Second, the attitudes and preferences of baby boomers *in old age* are likely to be influenced by a broad range of factors including their health and disability status, affluence, changing family structures

and support networks and the sustainability of different models of care in the medium to long term. Finally, any generational shift in attitudes and preferences among older people could be expected to have a stronger and more direct effect on the provision of aged care services if Australia had a more market-oriented aged care system. Australia's highly centralised and somewhat 'standardised' aged care system means that such changes need to be accommodated through adjustments to existing institutional, planning and regulatory arrangements. Thus, in the absence of changes to existing policy settings, any changes to better accommodate the needs and preferences of users of aged care services would have to be communicated through the political process rather than relying on market-based signals to adjust the allocation of resources.

Box 3.3 The Fujitsu survey

In July 2007, Fujitsu Australia and New Zealand conducted a national online survey of 1291 people focusing on those aged between 58 and 61 (78 per cent of respondents). Respondents were in geographically diverse locations and the survey was neutral in terms of the gender of respondents (51 per cent male and 49 per cent female). Key results included:

- 36 per cent of respondents were already retired while another 37 per cent planned to retire at or before the age of 65
 - 27 per cent indicated they did not plan to retire until the age of 70 or older
- 50 per cent of respondents owned their own house while 28 per cent had a current mortgage, but 22 per cent were renting
 - 20 per cent of respondents thought they would not be in a position to buy into accommodation in 10 years time and would have to continue renting
- 80 per cent of respondents said they preferred independent living, with this preference apparent even for people with significant health problems and an associated high dependence on health services
- a strong preference was also shown for independent or solo accommodation as opposed to communal or centralised facilities
- 92 per cent nominated privacy as a high or very high priority; and
- those baby boomers who have experience of aged care facilities rate them poorly and based on this, 40 per cent feel their accommodation choices will be limited.

Source: Fujitsu Australia and New Zealand (2007).

Box 3.4 **Comments received by the Commission as part of this study**

In the course of conducting this study, the Commission invited a number of aged care providers and peak bodies to comment on the likely future care preferences of the baby boomer generation. Comments included:

Mercy Aged Care:

... already the baby boomer generation have very high expectations for their parent's care – expectations which often cannot be met under the current system. Their requests on behalf of their ageing parents can be extrapolated to their own future care preferences. They will be prepared to pay extra to receive services of superior quality, they will demand greater choice, and they will want to tailor-make services to meet their individual needs. This will be especially true in community based services. They will use their inherent assertiveness and considerable consumer power to challenge and shape service design. They will expect to maintain a high level of influence and will expect to be involved in all decision-making processes. They will not accept paternalistic policy and will expect to be able to change the rules to meet their needs. (Mercy Aged Care 2007, p. 1)

Catholic Health Australia:

The prevailing view is that the 'baby-boomers' will be more demanding, will expect services to be available when they need them, will expect them to be built around and tailored to their individual needs and will want the choice of where their care is delivered, in their own home or in a residential aged care service. They will want to stay at home as long as possible. They will want a range of different types of residential aged care facilities, will be prepared to pay more for their accommodation, but will expect better services and greater choice. (CHA 2007a, p. 1)

IBIS Care:

It is anticipated that baby boomers will ensure that the service they receive is of high quality and is flexible enough for them to remain at home for as long as possible. They consider nursing homes as palliative care units and in the majority will pay for services to enable them to stay at home... they will expect one provider for all their needs as they do not want the hassle of coordinating services. (IBIS Care 2007, p. 2)

TriCare:

The expectation of baby boomers, who are currently placing their parents in extra service, is likely to be far greater than the current preference of their parents who came to maturity during the second World War and Great Depression. Baby boomers have extended their asset base from ownership of property to the acquisition of substantial superannuation investments. This has provided them with increased personal wealth and a greater capacity to exercise choice over standards, service and location in retirement. (TriCare 2007, p. 5)

Diverse trends in income and wealth

Baby boomers are not only likely to have different attitudes and preferences than previous generations, they are also expected to enter retirement with higher levels of income and wealth (on average) with which to leverage the aged care services they want.

Indeed, the baby boomers are estimated to live in the wealthiest households in Australia, with each baby boomer in 2004 on average having a net worth of around \$381 000 compared to an average for all Australians of about \$292 500 (AMP and NATSEM 2007).⁴ The distribution of wealth has been shifting towards older Australians since the mid-1980s and these trends are expected to continue over the next few decades. Kelly (2002) estimated that between 2000 and 2030, the real average family wealth of older Australians will grow at a significantly faster rate than the rest of the population, with the share of total family wealth for those aged 65 and over increasing from around 22 to 47 per cent.

However, as revealed by AMP and NATSEM (2007), this overall picture of increased affluence among older Australians masks considerable diversity:

- Almost three-quarters of people in the 45–64 years age group carry a combined total debt of around \$150 billion. The average debt per household is about \$59 000. However, the impact of debt needs to be assessed having regard to total assets.
- The average personal net worth of the wealthiest one-quarter of baby boomers is \$910 400, while the least wealthy one-quarter of baby boomers have an average personal net worth of \$68 300.

It means that the poorest one-quarter of baby boomers possess 4.4 per cent of the group's net worth while the wealthiest one-quarter enjoy 60 per cent of the boomers' \$1 648 billion net worth. (p. 18)

- Around 40 per cent of the baby boomers current net worth is held through home ownership. Wealth disproportionately held in the family home can create problems when money is required for day-to-day retirement living expenses.
- Some 40 per cent of all 'one parent with children' baby boomers are in the poorest wealth quartile. 'Lone male' and 'lone female' are also over-represented in the poorest quartile. Conversely, 'couples' are over-represented in the rich quartiles and under-represented in the poorest quartile.

The effect of this distribution towards people in couple households being wealthier than people in single parent households, allied with the large number of couples in the age group, sees more than 92 per cent of the wealth of the boomer group being controlled by couple households. (p. 19)

Australia is currently making an important transition to its income support and retirement system directed at lessening the reliance on government funded aged

⁴ In the AMP and NATSEM (2007) study 'net worth' is defined as being the sum of the value of their assets — the family home and its contents, other property, money invested with financial institutions, shares, superannuation, vehicles, own incorporated business (net), and other assets — minus any debts.

pensions, towards a greater emphasis on people self-funding their retirement needs through superannuation. However, when the Superannuation Guarantee Charge was introduced in 1992, the oldest of the baby boomers were already in their mid-40s. It is therefore not surprising that the AMP and NATSEM analysis shows a significant proportion of baby boomers will have only limited means to self-fund their retirement, including any future need for aged care.

Some groups in the community are likely to be particularly vulnerable. For example, Anglicare Australia (2007), has pointed out that some older women may not have accumulated much superannuation because they have been raising families and hence, had less time and/or reduced incomes with which to save.

Commentators are also drawing attention to the implications of these developments for other areas of social policy such as housing. This recognises the importance of security of housing accommodation for the delivery of community care. The AMP and NATSEM analysis shows that 20 per cent of households headed by a baby boomer do not own or are buying their own home. While the Fujitsu survey (2007, p. 16) found that:

... more than 20 per cent of baby boomers will not have the financial resources to remain living in their own homes and will require affordable rental retirement accommodation.

That said, the AMP and NATSEM (2007, p. 1) analysis also shows that many baby boomers are saving hard for retirement noting that:

Baby boomers put twice as much each week into their superannuation as those who are aged under 45, although this is still less than one-third of the weekly amount baby boomers currently spend on entertainment and recreation.

Further, the youngest of the baby boomers are now aged in their mid 40s, and still have another twenty or so years potentially in the workforce. In this context, it is worth noting that the analysis also shows some significant increases in workforce participation rates over the last ten years, particularly for older Australians aged 60–64 years. Moreover, the Simplified Superannuation reforms introduced in 2007 will increase the purchasing power of superannuation based savings as Australians aged 60 years or more are now eligible to draw tax free income from these contributions.

The wealthiest one-quarter of baby boomers will have considerable wherewithal to purchase aged care services. As discussed in more detail in chapter 5, this purchasing power is expected to have a significant influence on the desired type and range of aged care services — strengthening existing trends towards higher quality services and greater choice.

However, it is notable that the wealth of many baby boomer households is predominantly in the form of home ownership. When these people retire, it may be a case of being ‘asset rich’ but ‘income poor’. This is likely to further encourage financial product innovations, such as reverse mortgage schemes, that enable older people to draw on the equity in their home to fund their day-to-day needs in retirement, including for aged care services (chapter 4).

Overall, this picture appears consistent with Treasury projections of the number of people receiving full, part and no age pensions⁵ (table 3.5). 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. This change in the extent to which those of pension age rely on government funded age pensions reflects the increasing value of individuals’ superannuation and other private assets and income.

Table 3.5 Projections of people receiving full, part or no pensions^a
Persons of pension age

	2007	2017	2027	2037	2047
Number persons receiving:	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Full pension	1.53	1.86	2.09	2.40	2.57
Part pension	0.69	1.19	1.88	2.45	2.92
<i>Total receiving a pension</i>	2.22	3.06	3.97	4.86	5.49
No pension	0.55	0.78	1.18	1.50	1.69
Total	2.78	3.84	5.15	6.35	7.18
People receiving full and part pensions (% of total number of pensioners)	%	%	%	%	%
Full pension	68.8	60.9	52.6	49.5	46.8
Part pension	31.2	39.1	47.4	50.5	53.2
Total	100.0	100.0	100.0	100.0	100.0
People receiving pensions and no pensions (% of those of pension age)	%	%	%	%	%
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

^a Includes the age pension and similar payments to veterans and war widows.

Source: Department of the Treasury, unpublished modelling results (2007).

⁵ Including the age pension and similar payments to veterans and war widows.

In sum, it appears highly likely that, on average, baby boomers will benefit from higher income and wealth levels than previous generations. Even so, the impacts of increased affluence on the demand for aged care services are complex. On average, a more affluent elderly population in the coming decades is expected to contribute to a reduced likelihood of disability and an increased likelihood of the elderly staying at home for as long as possible with support from family and/or community care. Increased financial autonomy will also make community care more tenable, allowing some older people to buy more care services to support them in their own homes or permitting them to reside in retirement villages or assisted living apartments for a longer period of time.

However, this assessment clearly does not apply to all. Disparities in income and wealth will sharpen the differences in the demand profile of the aged, resulting in a dual challenge for the aged care sector of providing improved services for high income/wealth users, while continuing to provide quality aged care services to those older people who are reliant to varying degrees on government income support.

Further research is needed

While this section points to growing diversity among older Australians, further work is needed to assess the relative importance of different influences and emerging developments to isolate, with greater confidence, their overall implications for the provision of aged care services. There is also a need to integrate this information more fully with what we know about the changing demographics.

Some of the trends discussed above are likely to put Australia's aged care system under greater pressure and require relatively more policy attention. A major challenge is the social implications arising from the increasing diversity in incomes and wealth of older Australians, which is likely to give rise to a growing demand for greater 'product' differentiation in aged care services. However, as discussed in the following two chapters, some aspects of current regulatory and institutional settings constrain the ability of providers to respond to changing client needs and preferences, thereby exacerbating the tensions associated with moving away from Australia's somewhat 'standardised' service offerings. Beyond this, further analysis would be desirable to help inform the community about the choices it faces in seeking to ensure that older Australians receive appropriate aged care services.

3.3 Availability of aged care services

As the preceding section highlighted, over the next 40 years there is likely to be a burgeoning demand for aged care services which will be even more heterogeneous in nature than is currently the case. Ultimately, how the demand for aged care services manifests and the care mix develops will, in part, be shaped by how aged care providers respond to these pressures. As in the past, the policy framework for aged care services will obviously have a key determining influence. In effect, developments on the demand-side of the aged care ‘market’ are creating pressure for the supply-side of the ‘market’ to be more flexible, responsive and efficient.

The remainder of this study considers several emerging challenges on the demand and supply-sides of the aged care market and impediments to change. As part of this, the study identifies ways in which current institutional, financing and regulatory arrangements may be impeding the aged care sector becoming more responsive and efficient. This is in the context of evidence indicating that there is already unmet need for aged care services in the Australian community, which is taken up in the next chapter. However, the Commission has not considered as part of this mix, the adequacy or otherwise of government funding levels for aged care services, which is clearly beyond the scope of this informational study.

As outlined in chapter 2, Australia’s aged care policy framework is underpinned by objectives of equity, efficiency, sustainability, quality and choice. The remaining chapters consider how the pressures associated with population ageing and growing diversity among older people are likely to challenge policymakers in trying to ensure Australia’s aged care system meets these objectives over the next 40 years. Integral to this changing policy landscape are the tradeoffs the community will continue to have to make between these objectives, including deciding on where to draw the line between public and private financing of these services (particularly in view of the cost pressures outlined in this chapter).