

Caring for Older Australians
Productivity Commission
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Submission: Productivity Commission – Inquiry into Aged Care

The aged care industry faces a number of serious challenges which stand to be magnified if current projections of the ageing population and the number of those that will require aged care prove to be true. As noted in The Senate Report 2009, it is anticipated that people aged 85 and over will quadruple over the next 40 years to approximately 1.6m. The ageing population and the rapid growth of demand, particularly in the most resource intensive group (over 85's) will place enormous strain on a service that is already struggling to find a balance between consumer expectations, government regulation and a declining workforce.

With the backdrop of an ageing population and the well documented implications this has on Australia, we understand that part of the scope of this review is to examine the current cost structures and funding arrangements for Aged Care, as well as some proposed alternatives in achieving stated objectives of Quality, Equity, Efficiency, Sustainability and Choice in aged care.

This submission for consideration by the Committee aims to highlight the implications on access and affordability for residents of aged care facilities. In particular from the perspective of understanding implications of changes to aged care cost structures and the relationship between Centrelink/DVA pension. To that end we highlight the need for flexibility when determining fees & charges so as to ensure affordability for our ageing population.

Our submission covers:

1. The current cost structure
2. The proposed changes / options
3. Potential issues of the proposed changes / options

Current Cost Structures

The current government funded aged care cost structures can be summarised as;

Low Care

Accommodation Bond + Daily Care Fee + Income Tested Fee

High Care

Accommodation Charge + Daily Care Fee + Income Tested Fee

Extra Services

Accommodation Bond + Daily Care Fee + Extra Service Fee + Income Tested Fee

Accommodation Bond

The amount that a resident is going to be charged as an accommodation bond is likely to vary from one facility to another and in some cases within the same facility. There are a number of factors that will influence the price set for an accommodation bond; location of the facility, age of the facility, debt from construction or refurbishment, house prices in the local area, the standard of other facilities in the area, the price of accommodation bonds at other facilities, demand for the service, the anticipated level of government funding that will be received for the resident and the resident's capacity to pay.

Since 1 July, 2005 accommodation bonds have been an exempt asset for the purposes of calculating a resident's pension entitlement. The amount of accommodation bond paid by the resident is also no longer a determinant of homeownership for Social Security Assets Testing.

Accommodation Charge

On 20 March, 2008, with the introduction of ACFI the accommodation charge was significantly increased with a two tier cost structure based on a pensioner/non-pensioner assessment. The pensioner rate of accommodation charge (\$19.56) was indexed in line with other aged care fees and charges between 20 March 2008 and 20 March 2010 with all new residents entering post 20 March 2010 paying the equivalent of the non-pensioner rate of accommodation charge (\$26.88).

Supported Residents

Residents with assets below the minimum assets limit, currently \$37,500 cannot be asked to pay an accommodation bond or charge and are referred to as fully supported residents. Residents that have assessable assets greater than \$37,500 but less than \$93,410.40 will pay a calculated amount of accommodation bond or charge. Aged care facilities are expected to meet regional targets for supported residents to continue receiving funding from the government, these targets are based on the Socio-Economic Indexes for Areas (SEIFA). Extra Service Facilities are not required to maintain a ratio of supported residents.

Daily Care Fee

From 20 September, 2009, when significant changes were made to social security pensions, the daily care fee a resident would be asked to pay was assessed based on two separate criteria. The first was whether or not the resident was in permanent residential care prior to 20 September 2009, the second was the level of assessable private income of the resident.

The daily care fees can be summarised as;

Standard Resident (\$38.65p.d) – Full Pensioners and Part pensioners with private income less than \$370.10 (single) or \$352.10 (each, couple)

Phased Resident (\$35.89p.d) – Part Pensioners and Self funded retirees with private income above \$370.10 (single) or \$352.10 (each, couple) who entered care after 20 September, 2009. Phased Residents will have their Daily Care Fee indexed by 1% every 20 March and 20 September until 20 March 2013 when the Phased Resident rate will be equal to the Standard Resident Rate

Protected Resident (\$35.29p.d) - Part Pensioners and Self funded retirees with private income above \$370.10 (single) or \$352.10 (each, couple) who entered care prior to 20 September, 2009.

Non-Standard Resident (\$43.95) – Residents that entered care prior to March 2008 and paid an accommodation bond in excess of the threshold at the time of entry or who did not disclose their financial information to Centrelink.

Income Tested Fees

The daily income tested fee is calculated after a resident enters care and is based on their and (if applicable) their partner's assessable income. Prior to the 20 September, 2009 social security changes the income tested fee threshold was the same for all residents and equal to the full pension plus the allowable to income to receive the full pension.

Income Tested Fee thresholds are now in line with Daily Care Fee Status, as follows;
Standard and Non Standard Resident \$816.50pfn single/ \$798.50pfn each couple
Phased Resident \$746.23pfn single/\$728.23 each couple
Protected Resident \$734.50pfn single/\$716.50pfn each couple

Income earned in excess of the applicable threshold attracts an Income Tested Fee at 41.67c per dollar, capped at \$62.11p.d

Extra Service Fee

Aged care facilities that offer "hotel" type services and accommodation that is "significantly higher than average" can apply to be granted extra service status. The minimum Extra Service Fee is \$12.50p.d but is often significantly higher than this, based on the level of accommodation and services being provided.

There are a number of issues that arise from the current cost structures and funding instrument that impact on a resident's ability to access care and meet their funding needs in an affordable way.

The need for operators to access accommodation bonds can lead to the "cherry picking" of low care residents with the ability to pay higher accommodation bonds. It may be difficult for low care fully supported residents to access care, as operators are subsidised at \$26.88p.d/\$9,811.20p.a for fully supported residents in low care, as well as receiving less government funding due to their reduced care needs. If the facility is able to accept both low and high care residents, and there is sufficient demand for supported beds preference may be given to a high care supported resident.

Similarly, a resident who can afford to pay a low amount of accommodation bond may have difficulty accessing aged care as the combination of the accommodation bond and government funding may be financially unviable to the aged care facility.

Although many difficulties are involved in measuring waiting times they appear to be substantial. In 2007, some 40% of people assessed as needing high care had to wait more than a month before they could access the care they need and around 17% had to wait more than 3 months. Moreover waiting times for care recipients in the lowest income and assets brackets are greater than average, suggesting that providers "cherry pick" the residents with the greatest capacity to pay.¹

The financial flexibility provided to low care and extra service residents, through the accommodation bond is greater than that given to a high care resident in relation to their fees and charges. Low care and extra service residents, through the payment of an accommodation bond, can increase their pension entitlement and reduce their daily income tested fee. This is because the accommodation bond is an exempt asset and is not considered to earn income.

It is also possible for the resident to negotiate different amounts of ongoing fees and charges or to have some (or all) of their ongoing fees and charges deducted from the

¹ "Policy issues in aging" Australian Centre for Economic Research on Health.

accommodation bond paid (subject to agreement between the resident and the aged care provider).

Such flexibility can ensure that the resident is able to make care as affordable as possible, tailoring their financial arrangements to the cost of care as required. The following table shows that since the introduction of rules that enable aged care residents to keep and rent their former home around 9% of low care or extra service residents are meeting this criteria.

Method Payment	2003/4	2004/5	2005/6	2006/7	2007/8
Lump Sum	90.9%	91.8%	91.2%	91.1%	91.0%
Periodic Payment	5.0%	4.5%	3.8%	3.6%	3.0%
Combination	3.0%	3.7%	5.0%	5.3%	6.0%
Not Stated	1.1%	0.0%	0.0%	0.0%	0.0%

(table 16 pg 42 report on operation of aged care act)

High care residents, who are pensioners and paying the full rate of accommodation charge, need to produce more income than is allowable under the Age Pension Income Test (currently \$3,796p.a single and \$6,656p.a combined for a couple) to cover their aged care fees and charges. On the current rate of Daily Care Fee (\$38.65) and Accommodation Charge (\$26.88) pensioners are paying approximately 131% of the full pension in aged care fees and charges.

Payment of the accommodation charge enables residents to keep and rent their former home, with both the asset and income (rent) being exempt from pension and Income Tested Fee calculations.

For pensioners who cannot rent their former home they will need to fund their cost of living through the income from their investments and beyond that utilise their capital. For residents that choose to sell their former home, it is likely that the investment of the proceeds of the sale will cause a greater reduction in pension and a higher Income Tested Fee than if the home were retained. This is because the resident has exchanged an exempt asset for an asset that is assessable under both an assets and income test for pension purposes and the deemed income on the asset will count towards the assessable income for determining the resident's Income Tested Fee.

The payment of the accommodation charge can be particularly detrimental where it is a member of a couple living in aged care. While it is more likely that the first person to move into aged care will be a supported resident, where this is not the case the member living in aged care absorbs 131% of his/her half of the pension.

Residents who choose to move into an Extra Services Facility and pay the Extra Service Fee can have the same issues that arise in resident's paying the accommodation charge, that is, that the generation of income to pay the fees and charges results in a reduction in pension entitlement and an increase in the Income Tested Fee.

This situation is exacerbated by the fact that the Government have a 25% claw back on the extra service fee, which means that the resident is paying a higher extra service fee than is being received by the provider, which in turn creates a higher income tested fee which the Government use to offset their funding of the residents cost of care to the provider. This has a very similar effect as a double tax environment.

The current asset thresholds for Supported Residents, \$36,000 for Fully Supported and \$91,910.40 for partially supported are low relative to the market price of accommodation bonds, creating a gap for potential residents in relation to their assets.

The need for aged care facilities to cross-subsidise residents using accommodation bonds, means that those resident's whose assets are too high to qualify for supported status but are insufficient to meet the "market price" accommodation bond may have difficulty accessing care. In high care this is only an issue for those seeking to be a resident in an extra services facility as the Accommodation Charge is supplemented by the government up to the \$26.88p.d.

Proposed Changes/Options

Access Economic were commissioned by a consortium of church affiliated residential high care providers (representing approximately 40% of the aged care market) to:

- use accepted investment analysis methodologies to review current Australian Government regulation and pricing arrangements for the development of new high care residential facilities, relative to costs; and
- Explore options for reform and the policy and financial implications of the options from a government, provider and care recipient perspective, including consideration of access issues for disadvantaged groups.

Five broad criteria were used to evaluate policy options, the main criterion and the focus of the analysis being "industry sustainability". The four other criteria were; 1. fiscal sustainability (with no change from current forward budget projections), 2. efficiency, 3. consumer choice in standard of care relative to budget 4. method of financial contribution and 5. equity ie, access for the disadvantaged – comprising health equity (the most chronically disabled), socioeconomic equity (the least well off financially) and demographic equity (those that may be marginalised due to age, gender, ethnicity/culture or location).

The 5 options provided were;

1. Increase in the Accommodation Charge (only)
2. Increase in the Accommodation Charge and the Accommodation Supplement
3. Uncapping the Accommodation Charge; and
4. Introducing flexibility for the (a) increased or (b) uncapped Accommodation Charge to be paid in a variety of forms, including as a daily charge (rent), refundable lump sum or a charge against the resident's estate.
5. As per Option 4 but with an increase in the Accommodation Supplement.

The following scorecard evaluates each option with respect to each of the evaluation criteria.

Relative to current	Industry Sustainability	Fiscal Sustainability	Efficiency	Consumer Choice	Equity
Option 1	✓	✓	•	✓	✓
Option 2	✓	✗	•	✓	✓✓
Option 3	✓✓	✓	•	✓	✗
Option 4a	✓	✓	•	✓✓	✓
Option 4b	✓✓	✓	•	✓✓	✗
Option 5a	✓	✗	•	✓✓	✓✓
Option 5b	✓✓	✗	•	✓✓	✓✓

Potential Issues of Proposed Changes/Options

The potential issues/risks associated with the proposed cost structures from the resident's ability to access and afford care are outlined below.

Under options 1,2 and 3 – any increase to the accommodation charge without an increase in the income test threshold for pension and income tested fee purposes would mean that resident's would need to generate more income than is currently needed to meet the cost of care, potentially exacerbating the negative impact on pension entitlement and income tested fees faced under the current structure.

Based on current daily care fees and pension entitlement, if resident's were asked to pay an accommodation charge of \$35.20p.d the cost of aged care would be approximately 147% of the full single pension, and the same percentage as half of a couple separated due to illness. If the accommodation charge of \$45.44 were payable the cost of care would be approximately 168% of the full single/half of an illness separated couple pension.

In the event that the former home was not retained and rented, generating exempt income, this would require the resident to generate \$8,668.25 p.a above the single pension income threshold, resulting in a reduction in pension of 50c per dollar. The resident would also exceed the income tested fee threshold (\$816.50pfn) by \$9,463.74p.a, incurring an income tested fee at 41.67c per dollar.

If the accommodation charge paid by the resident and the accommodation supplement paid by the government are not equal to the amount being received by the facility for all residents, discrimination of the "middle class residents" (like we currently see with low accommodation bonds) may occur. Where the accommodation charge is uncapped, effectively charging what the market will bear I would expect to see a widening of the gap of the "middle class".

Particularly in the case of pensioner couples, any increase to the accommodation charge without a change to supported resident asset thresholds, income tested fee threshold and pension thresholds or amounts is likely to result in a reluctance to move one member into care and likely to create a greater reliance on CACP's.

Under options 4 and 5, where the resident is given the flexibility of payment by a daily charge, refundable lump sum or charge against their estate the flexibility may afford the resident higher pension entitlement and a reduced cost of care (through the reduction of the income tested fee).

Resident's with high levels of income that cannot be controlled/manipulated, those who can generate the income through exempt rent from their former home and those that are comfortable reducing capital (rather than generating income) may choose to pay the daily charge which in turn may have tax benefits.

For resident's who intend to sell their home, thereby creating an assessable asset from an exempt asset may choose to pay the lump sum. A charge against the estate is most likely to be an option for residents who do not want to sell the former home or who want to maintain a certain level of assets whilst in care to provide income/capital as required. In such circumstances the family should be aware of the charge and that there may be a negative equity in the event that the value of the house falls during the period of care.

Conclusion

Flexible payment options for residents and a viable funding model for operators are essential in enabling residents access to the care of their choice and the ability to meet the costs associated with the move to aged care in the most affordable way. The impacts of changes to resident fees and charges need to be considered in light of not just the resident but their spouse, particularly where that person is not in need of care.

Any changes to aged care cost structures and the underlying funding model need to consider likely gaps in meeting the cost of care and the potential impact on a resident's ability to access the care of their choice. While it is imperative that the financially disadvantaged are given access to care, it is also important that we don't shift the bracket of financial disadvantage to the middle class.

The delivery of a policy framework that upholds the values of equity, efficiency, sustainability, quality and choice is vital in ensuring access and affordability of aged care services in Australia.