

SUBMISSION TO PRODUCTIVITY COMMISSION'S INQUIRY

INTO AGED CARE NEEDS

**INTRODUCTION :** This submission is confined to the "Accommodation Bond". This is one of the payments made to providers by those liable, upon entry to residential low level (hostel) aged care or to high level nursing care in an "extra service" facility.

The Bond is not payable by every person entering the above mentioned care facilities, but only by those who, in official parlance, "can afford to do so" (letter of 27.7.10 to me from the Dept. of Health & Ageing).

A Bond is not required from many/most pensioners and others on low financial means though some of these persons may be required to pay an alternative, namely an "Accommodation Charge" and/or an Income-tested Fee.

An essential characteristic of the Bond is that its amount has no direct alignment to the nature and cost of the space being occupied or shared by the aged care resident ie whether the bedroom and bathroom are single, small, large, old/new, etc and whether communal facilities are minimal, spacious or luxurious (but bearing in mind that compliance with some minimum standards must be observed and that the Bond amount may be somewhat influenced by some of the features mentioned, including the geographic locality of the aged care residence).

The absence of a direct alignment of the Bond with the nature and cost of the space is incongruous and unfair.

A second essential characteristic of the Bond for those deemed liable to pay it, is that in official parlance: "the legislation allows aged care providers to ask new residents to pay a bond if they have sufficient assets to do so, but the size of the bond and the method of payment are matters between the resident and provider" (letter to me of 22.6.10 from the Minister for Ageing).

Unfortunately, the two parties to this "negotiation" are unequal in most cases and therefore cannot be expected to arrive at a fair arrangement. The applicant for residence is a person who has been classified by the regulatory body, ACAT, as being qualified for residence on medical or other relevant grounds. The applicant could be desperate for accommodation, may have little or no alternatives within the locality close to family or friends. Since providers are usually/often reluctant to disclose the bond amount prior to discussion and investigation, and do not publish the amount for all to see, the applicant is usually unaware of options. This prevents the applicant from being properly informed for a "negotiation".

Even if in some circumstances, the applicant has a relative or friend to assist or represent, it is unlikely that a representative would be as competent and informed as an experienced providers' representative.

I therefore conclude that the official parlance of the amount of Bond being a "matter between the resident and provider" is unreal and generally lacking in truthfulness.

A third essential characteristic of the Bond stems from regulations introduced as part of the 2010-11 federal Budget, namely:

"clearly articulating in the Aged Care Act 1997 that accommodation bonds can only be used for capital works, debt reduction and certain financial investments; requiring approved providers to disclose to residents and the department, how their accommodation bond funds are to be invested; and regulating what accommodation bonds can be used for in such a way that allows for criminal penalties for misuse of accommodation bonds" (DH&A letter to me of 27.7.10).

The above-mentioned amendments may well have flowed from severe criticism of the Bond system published in an earlier Report of the National Audit Office. The Govt. also has a guarantee scheme against providers' default or insolvency

I would conclude from the above that "Bonds" are an inefficient means of financing capital outlays and investments because (1) the greatest proportion of each bond is repayable to the resident within a relatively short time and therefore cannot be relied upon to fund long term capital needs; (2) that providers may be induced to be overly dependent upon a sufficient flow of replacement funds coming from new residents, whereas there is no certainty that new applicants will be liable for Bonds; (3) staff of providers may not be financially qualified to handle the rigor of the 2010-11 legislative requirements; (4) that the demanding of Bonds tends to be an extortion in many circumstances; and (5) it causes distortion of acceptance for accommodation away from those in most need and towards wealthier persons.

A fourth characteristic of the Bond is that it is generally a relatively large amount and there is no known precedence in Australia for such a demand. Presently in the northern regions of Sydney for example, the minimum Bond would be for \$300,000+. Since applicants are invariably sick or confused persons with no political clout, the Bond scheme is discriminating and taking a unique and significant advantage of these persons.

A typical situation is where an applicant entering aged care residency, leaves a family home vacant (for rent or sale). Ipso facto and irrespective of other assets, income, or family circumstances and preferences, the applicant is deemed liable to pay a Bond.

A fifth characteristic is that any personal preferences or family circumstances of the applicant have no bearing on the demand for \$300,000+ for a Bond.

A desperate applicant of whom I am aware, nearing his nineties and very ill, left his house vacant to enter a hostel but had no family able to sort his possessions and dispose of unwanted items. It was nearly a year before the house was repaired, emptied and available for rent or sale. The pensioner- applicant had almost no assets other than

the house and had to seek an expensive bank loan to cover the accumulated interest on the Bond amount payable to the provider.

A sixth characteristic is that in official parlance, "residents can negotiate with the aged care home to make periodic payments and so avoid the need to make a lump sum bond payment up front. The amount of periodic payment would be determined by a notional value of the bond which would otherwise be paid up front" (Minister's letter).

Unfortunately, the interest rate on the notional Bond is officially set at a high level, making periodic payments a prohibitive alternative in most circumstances, making nonsense of the Minister's suggestion of a reasonable alternative.

In short the Bond system is:

Unfair;

An extortion upon sick and disabled;

Is a unique and excessive extortion ;

Ignores personal preferences and family circumstances, and *is an inefficient form of capital financing;*

Leaves a desperate applicant without a reasonable financial option, or alternatively, without residential aged care accommodation.

At a later time, I may make a submission on an alternative to Bonds as a means of financing aged care.

I am intending to seek assistance from an academic in a social work department who may be able to survey the experience of applicants for aged care, and to gauge a balanced view on the conclusions I have drawn above.

In this event, would the Commission have funds and be prepared to finance such a survey ?

~~J~~ McAuley 21.11.10