

**PRODUCTIVITY COMMISSION
INQUIRY INTO AGED CARE
CARING FOR OLDER AUSTRALIANS**

**POST DRAFT REPORT
SUBMISSION FOR PUBLIC HEARING**

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Ageing Matters

RETAINING THE OPTION OF AGED PERSONS ACCESSING ENHANCED ACCOMMODATION CHOICES BY ELECTING TO PAY ADDITIONAL AMOUNTS THROUGH BOND “DRAWDOWNS”.

Preamble

Note: An interest rate of 9% pa is used below, being close to the current Maximum Permissible Interest Rate (MPIR) used for periodic payment calculations. Significantly lower interest rates would not provide for an amount to be received equivalent to interest on debt or return on equity that would allow providers to achieve a similar financial outcome whether a resident chose to pay a lump sum bond or pay a periodic payment.

This submission has similar outcomes at many interest rates.

The submission would also have similar relevance if little of no co-payment was applicable in an individual's circumstances.

The Recommendation

Currently, an Extra Services Amount (ESA) is set by an Approved Provider to have regard to a service providing above-average levels of accommodation, food and/or services. This fee is paid by persons wishing to access these above-average items. This additional fee can often be \$60 or \$70/day or more. This additional fee can be to reflect almost exclusively the cost of above-average accommodation, with minimal additional outlay by the provider for above-average food and services.

A \$70/day ESA is \$980/fortnight. In addition, a retention of \$3690pa is received on most bonds for the first five years of tenure as a further contribution to accommodation costs.

A typical bond in many capital cities is around \$400,000pa. A common house value may be \$450,000. Typical bank interest income on the remaining \$50,000 (after payment of the bond) may be around \$3,000pa or \$115/fortnight. This is well below the \$980/fortnight needed to pay the ESA.

Many providers allow residents to withdraw the \$980/fortnight ESA from the lump sum bond they have paid. This \$980/fortnight is \$25,000 pa. This could be withdrawn for more than 15 years without exhausting the lump sum balance. Few residents would be with a service for as long as 15 years.

Note: The DoHA holds details of annual balances of all individual resident bonds. These details document the widespread use of this method of reduction in bond through withdrawal of ESA.

This practice of drawing down both the ESA and the retention from the lump sum enables persons to access levels of accommodation in excess of what they could otherwise afford by paying a lump sum and basic daily fee alone and enhances consumer choice.

As noted above, a major component of the ESA can be to cover the cost of above-average **accommodation**. It is noted that the cost of provision of above-average food and services is recommended by the Productivity Commission to be subject of direct charging to a resident on a “user-pay” basis instead of an ESA.

The PC Draft Recommendation 6.4 is to abolish retentions and confine the options for accommodation payments to a choice of a periodic payment, a lump sum or a combination of the two. Further, the PC Draft Report recommends that the bond be equivalent to a grossed-up periodic payment.

It is recommended that an additional option be considered for those people who wish to pay a lump sum. This option is that part of the periodic payment can be withdrawn from the lump sum, with the concurrence of both parties. This option is quite different to having a part lump sum and part periodic payment option where the periodic payment is paid separately. Our recommended option allows superior accommodation to be accessed by pensioners who have little or no income once a lump sum has been paid.

If a resident were to pay the interest (as a periodic payment) on \$400,000 plus pay both the \$70/day component of above-average accommodation and the current \$3690pa retention component from an Australian Pensioner Bond that received only CPI interest and was reduced by the maximum

\$12,000pa co-payment recommended by the PC, then the \$450,000 net assets could be reduced by the sum of \$36,000 pa (interest on \$400,000); plus \$25,000 pa (\$70/day above-average accommodation payment); plus \$3690pa retention component; plus \$12,000pa (recommended maximum co-payment) = \$76,690pa. This \$76,690pa would exhaust the \$450,000 asset base at a rate so high a resident may have strong concerns they would “outlive” their assets. Even with a 3%pa CPI-type return on the Australian Pensioner Bond balance, the total bond could be expected to be exhausted in just seven years.

This “drawdown” of “ingoings” is a standard feature of most Australian retirement village contracts though Deferred Management Fees (DMF’s) or Exit Fees. These DMF’s have allowed our retirees to access an enhanced quality of retirement accommodation otherwise unaffordable to them.

The current standard situation of many persons being able to withdraw their ESA (or partial periodic payment) plus the standard retention from their lump sum, allows pensioners of limited “additional” assets and income to access the above-average accommodation of their choice through “drawdowns” of their lump sum. It is recommended that the PC recommendations allow this to continue.

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