

Turrumurra 2074

23 January, 2011

Jill Irvine
Inquiry into Caring for Older Australians
Productivity Commission
GPO Box 1428
Canberra City 2601

Dear Ms Irvine

Draft Report

One of the key points listed on page 133 of the Draft Report states: "The public expenditure burden could also be lessened by requiring higher co-contributions from care recipients who can afford to pay".

The words "who can afford to pay" conjure up images of, on the one hand, a person who has always been rich because he/she was born into wealth, and, on the other hand, a person who is poor because, despite working hard, he/she remained an "Aussie battler" all their life. But such neat juxtapositions are rarely the case.

My mother was born into the working class, worked and saved hard all her life, lived in a fibro house but, because of her and my father's frugal lifestyle, ended up with a house and land worth about \$700,000. At age 84, she sold the house and bought a villa in a retirement village. She carefully invested the balance left over from the sale of the house. At age 87, she sold her retirement villa and moved into a hostel, for which she had to lodge a bond of \$450,000, plus pay virtually all of her pension to the hostel. She died at age 88.

Another close relative was born into sheep-grazier landed wealth, attended an exclusive private school as a child, and lived in a federation brick house in one of Sydney's most desirable suburbs. In the 1970s she sold her federation house and moved into a home unit, then into another house, then into a town house, and then into a retirement village. Because of impulsive buying and selling, on each transaction she lost a lot of money. She then moved into a hostel. Her bond for her hostel room was \$120,000, based on what was left of her once considerable assets.

So, applying the rule "who can afford to pay" means that a frugal and sensible person pays more for aged care than a foolish person.

Applying the rule "who can afford to pay" also means that a frugal and sensible person pays more for aged care than a person who deliberately liquidates their assets so as to qualify for aged care at no cost. Thus, for example, an 80-year old person could "blow" all their wealth on a round-the-world trip on the QE2 and then, aged 82, put his hand out for free aged care.

As a former public servant who, at one stage of his career, had to administer a means test (for subsidised water rates), I know first-hand how complicated, expensive-to-administer and inherently unfair a means test is. A means test is evil. It distorts the way people organise their affairs. It encourages dishonesty. It leads to unfairness.

So why are you proposing to tighten the already unfair means test for aged care?

Instead of a means test for aged care, there should be compulsory insurance for aged care. Upon reaching the age of sixty, every Australian should be required to insure himself for aged care. The payment should be made through the tax system. If a person is not paying tax, they should not pay the insurance premium but, upon qualifying for the Aged Pension, that person should start to pay the premium. If the premium is significant, which I suspect it would be, the premium must still be paid.

Such an insurance scheme would be a fair user-pays scheme. Older people would pay for their aged care, not the younger generations who are already over-taxed so as to pay Aged Pensions to older, luckier generations.

I write as a 61-year old who has a full-time retirement job but who also has three adult children who work hard but are finding it impossible to buy a house in Sydney.

Yours faithfully

Douglas Brown