Financing aged care

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Summary

This is a submission to the Royal Commission into Aged Care Quality and Safety, made on behalf of consumers.

We share the Commission's position that there should be universal access to aged care for all Australians. Funding should be provided by the nation, with contributions from those able to make them while in aged care.

A monitoring system introduced in 2017 for home care showed high numbers of persons not receiving care. A similar monitoring system is needed for residential aged care.

Quality control by a strong central agency is needed. To reduce costs and fraud, much of this control should be by automated monitoring.

Financial control by a strong central agency is needed to reduce risks of provider failures. The Department of Health is failing in this role.

Financial support for residential aged care should take into account the additional costs of small homes, operating in non-metropolitan areas or meeting specialised needs. Recent proposals need to be reviewed and implemented.

To reduce compliance costs, common supervisory systems should be in place for aged care and NDIS providers. In the long-term, aged care and NDIS funding should be integrated.

1. Challenges in aged care financing

Q1 To what extent should elements of aged care be funded by the individuals who benefit from the care that is provided, and to what extent should they be provided by the state?

Thanks to our natural resources and geographic position, we are a wealthy country, with a promising future. Australia has a strong tradition of caring for the needy, whether poor, sick or aged. We hope this continues. While many will be able to pay for their own care, others will be totally dependent on support from the government.

We share the Commission's position that there should be universal access to aged care for all Australians [1, p28].

There are major quality problems within Australia's residential aged care, which we believe can be resolved through mandated staff levels and automated quality monitoring [2].

A monitoring system introduced for home care in 2017 showed high levels of unmet demand [3], which are gradually reducing. A similar monitoring system should be introduced for residential care, and is likely to show some unmet demand.

We believe that safe home and residential aged care can be available to all, with contributions from those able to help pay for their care, and the balance of the funding from the Commonwealth.

Q2 To what extent should we prepare in advance for future aged care costs versus meeting the costs as they arise?

The consultation paper notes that in 2018 there were 32.5 persons of working age for every person aged 85 or older, and estimates that by 2058 there will only be 14.6 persons of traditional working age per person aged 85 or older. But the average age of entry into residential aged care is growing steadily, as is the capacity of many Australians to continue working beyond traditional retirement ages. Gradual increases in productivity should also reduce the numbers of employed persons required to support persons in aged care.

Australia already has an informal funding system for aged care, arising from the gradual accumulation of wealth through home ownership and compulsory superannuation. Residential aged care is currently only needed for about 3 years on average, so that those with accumulated wealth can afford to contribute substantially to their own care. We believe that this informal funding system needs to be fine-tuned, with greater research on issues such as the maximum amounts individuals are required to pay for care during their lifetimes. We do not think that a formal funding system is appropriate, given that no funding system exists for aged pensions.

One possibility is the creation of a national fund, similar to Norway's, to retain some of the Commonwealth revenue from mineral exports. Such a fund could help maintain social services when our mineral exports decline.

Q3 How are the long-term risks associated with aged care best managed?

From a national viewpoint, aged care is a long-term risk if the proportion of government expenditure required for aged care changes materially. While the numbers of older persons have been increasing, the increasing good health of older people has kept aged care costs

reasonably stable as a proportion of government expenditure. Heart and cancer mortality rates have improved, while dementia has so far proven untreatable. We may thus see higher proportions of persons with dementia in residential care, and longer average stays. We think such long-term problems should emerge only gradually, and be manageable within a co-contribution system.

Control systems are best run by frequent small changes in response to emerging experience, rather than by infrequent major changes.

2. Minimal change

Q4 Does an approach based on a mix of taxpayer funding and co-contributions provide an appropriate basis for financing Australia's aged care needs into the future?

Yes.

Q5 What are the advantages and disadvantages of a levy to fund aged care?

A levy may encourage public acceptance of a tax needed to pay for new public services, or for major improvements to them. For example, an aged care quality levy could be used to pay for greater aged care staffing and quality monitoring.

Q6 If a levy were to be introduced, should it be hypothetical or non-hypothetical?

There seems no point in having a levy if it is not hypothetical. It would be easier to just increase tax rates.

Q7 If there were an aged care levy, should the levy be based on personal income tax or a broader tax base?

An aged care levy might be charged on those most likely to benefit from aged care in the medium term. For example, a levy on capital gains from home sales by older persons might be feasible. In general, the broader the tax base for a levy, the more robust it is likely to prove.

Q8 Should older Australians be asked to contribute more to the cost of their care if they have the capacity to pay? How would this be best achieved?

Yes, by a means test taking into account income and assets, including superannuation.

Q9 Should the current residential aged care means test on the family home be tightened to ensure that taxpayer funds are directed to the most needy?

Yes, but after research on effects of a tightened means test. Even with recent price fluctuations, homes can have large capital gains, particularly for older persons.

3. Social insurance models

Q10 Should there be an hypotheticated levy for aged care?

If there is to be a levy for aged care, it should be hypotheticated.

Q11 What transition arrangements would need to be in place to implement a long-term pre-funded financing arrangement?

In the likely 65-year period between entry to the workforce and entry into aged care, major changes can occur in key assumptions such as the differentials between fund earning rates and wage assumptions. Any value in pre-funding exists to reduce the effect of what might be large increases in service costs on a proportionally reduced tax-payer base. Regular reviews on any initial plan would be needed to react to changing circumstances.

Q12 Would a compulsory social insurance scheme for aged care provide more certainty about the availability of financing for future aged care needs?

Aged care benefits could be provided through a broader social insurance scheme covering other benefits, such as aged pensions. Australia does not have such a social insurance scheme, and the major changes inherent in such a scheme are unlikely to be acceptable here.

Q13 If there were a social insurance scheme, should this be provided through a government provider or should there be a competitive market for social insurers?

Insurers would find it very difficult to make reasonable assumptions about the frequency, cost and timing of claims, and large profit margins would be needed to compensate them for this uncertainty.

Q14 What regulatory arrangements would need to be developed to govern the behaviour of aged care insurers and protect the insurers of consumers?

Given the very long periods over which contributions would be accumulated to fund aged care benefits, private insurers would develop very large assets and liabilities. Rigorously enforced prudential standards would be needed, together with guarantees to potential benefit recipients to cover insurer failures.

4. Private insurance and financial products

Q15 Should private insurance be adopted to finance the Australian aged care sector?

No. The very long periods before benefit payments create great uncertainty for insurers, and require high capital and high profits on that capital. Insurers and reinsurers are increasingly reluctant to accept long-term risks, particularly where these risks include potential government policy changes.

Q16 How should the risks of private insurance be managed?

The risks are too high too safely manage.

Q17 What additional specific regulatory mechanisms around private insurance arrangements might be required to protect the interests of consumers?

Rigorously enforced prudential standards, together with guarantees to potential benefit recipients to cover insurer failures.

Q18 Is there merit in considering private "gap" insurance for certain aspects of aged care?

Given the added uncertainty inherent in "gap" insurance, even higher profit margins would be needed.

Q19 Should tax deductible gift arrangements be extended or modified for aged care?

Thanks to various government incentives, a great deal of capital has come into aged care, both from residents and entrepreneurs. There does not appear to be a major place for tax-deductible gifts.

5. Combinations of financing mechanisms

Q20 Should Australia continue with a mixed approach to financing aged care?

Yes.

Q21 Is there a case for developing different financing arrangements for different elements of aged care?

Australia has a system for funding residential care, which has complex provisions for residents with different income and asset levels. There is another funding system for home care. The challenge is to integrate and improve these systems, so that they provide high quality care to all who need it, at the lowest possible cost to government.

There is a strong need to improve the present financing arrangements, and attract new capital into aged care. Objective quality standards, strictly enforced, are needed to remove the cowboy image of some operators. Overseas models, especially from Europe, should be looked at.

Objective financial standards, strictly enforced, are needed to attract long-term investment capital and avoid provider failures. Many for-profit providers currently have high debt to capital ratios, and thus high failure risks [3]. While the guarantee fund exists to refund deposits with failed providers, this can be very slow in operation.

Q22 Are there opportunities to adopt new financing arrangements in combination with existing arrangements?

In a nationally funded scheme with contributions by some individuals, there may be room for new financing arrangements meeting specific needs. There are currently no legislative bars on such arrangements, and no tax incentives to encourage them. We should encourage new ideas.

Q23 What would be the best mix of financing schemes for aged care?

The present mix of national and individual funding, but with higher contributions from those able to make them.

6. Implementation and transition issues

Q24 What would be the best way of financing an immediate improvement in quality for aged care services?

The most immediate need is for more staff, with appropriate qualifications. The Commission has heard horrifying examples of poor care, and there should be no great public resistance to a small increase in general taxation to pay higher subsidies to residential care providers. At the same time, it should be made clear that providers will have to supply much greater volumes of health data about residents, preferably automated and fraud-proof. Several years of emerging data may be needed to establish appropriate mandatory staff levels and data reporting mechanisms.

At the same time as subsidies are increased, much stricter controls should be introduced over provider financial reporting [5]. Some providers are taking advantage of present weak reporting requirements to divert funds to associated entities, and thus understate their reported profits.

Commonwealth subsidies for residential aged care should take into account the additional costs of small homes, operating in non-metropolitan areas or meeting specialised needs. Recent proposals [6] need to be reviewed and implemented. Many of these homes receive better consumer experience responses, and have lower COVID-19 infection rates.

Q25 What transition arrangements or dependencies need to be considered when considering changes to long-term aged care financing?

To reduce supervisory and compliance costs, common supervisory systems should be in place for aged care and NDIS providers. Providers working within the NDIS are also working in aged care, and having one government agency to deal with would be more cost effective. The NDIS system has similar problems to the aged care system, and the care regime and standards should be the same. Also, clients should be treated equally. There should not be an advantage or disadvantage to a person in either the NDIS or aged care sector.

Financial responsibility for the NDIS is currently shared between the states and the Commonwealth, with complex results [1 p17]. In the long-term, aged care and NDIS funding should be integrated.

Minor system changes can and should be made frequently. But older persons should be given 5 to 10 years notice of major changes, so that they can adapt their financial

arrangements. Aged care providers may also need 5 to 10 years notice, so that they adapt or get out of the industry.

References

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