Aged Care Gurus submission to the Senate Standing Committee on Community Affairs in response to Aged Care Living Longer Living Better Legislation Reforms

The Living Longer Living Better Reforms aim to address a number of issues raised by the Productivity Commission's Enquiry and subsequent "Caring for Older Australians" report on Aged Care in Australia.

The "Caring for Older Australians" report included a number of recommendations:

- Aged care services would be phased from a rationed amount to an entitlement system
- An Aged Care Gateway would be established to assist people in providing information, assessments and care co-ordination
- The family home be included in determining a resident's capacity to contribute to their cost of aged care
- Establishment of a government sponsored home equity release plan, known as the Australian Aged Care Home Credit Scheme, to enable to meet the cost of care without being forced to sell the family home.
- Establishment of an investment vehicle for the proceeds of the family home, known as the Australian Pensioner Savings Account, to enable people to maintain the same level of exempt assets when choosing to sell their home to meet the cost of care
- Care recipients will need to contribute between 0-25% of their care costs up to a maximum of $60,000

The government's Living Longer Living Better reforms;

- Include the value of the family home up to $144,500 in the means testing arrangements
- Maintain exemption of the family home when a "protected person" is living there
- Created an Aged Care Gateway to assist people in accessing the care they need
- Establish a pricing authority, the Aged Care Financing Authority, to establish appropriate pricing levels and criteria by which prices will be set
- Established user contribution measures for community care packages and aged care residents
- Removed the establishment of a government backed equity release scheme
- Removed the establishment of the pensioner savings account

The Living Longer Living Better reforms cover both community care and residential aged care, the types of care services people will be able to access and the financial structures under which they will be able to pay for them. The major financial change to community based care will be the formalisation of the means testing arrangements. Care recipients whose income exceeds $22,701 will be levied an income tested care fee at 50c per dollar, up to $5,000p.a for part pensioners and those with equivalent levels of income or $10,000 for self-funded retirees.

There are two major changes to financial arrangements relating to residential aged care, the first relates to how a resident pays towards the cost of their accommodation, the second relates to how a resident contributes towards the cost of their care. In both cases a comprehensive means test will be applied. The formula for the comprehensive means test will ensure that the current anomalies whereby resident's with low levels of assets but high levels of income don't contribute towards their cost of accommodation but do contribute towards their cost of care and those with low levels of income but high levels of assets don't contribute towards their cost of care but do contribute towards the cost of their accommodation are overcome.

The formula for the comprehensive means test will be:

- 50c per dollar of income above $22,701p.a plus
- 17.5% of assets between $40,500 and $144,500 plus
- 1% of assets between $144,500 and $353,500 plus
- 2% of asset in excess of $353,500

The resident's contribution will be the total of the income tested amount plus the asset tested amount minus the accommodation supplement ($50). An annual cap of $25,000 (or the cost of care) will be applied but there will be no daily set maximum.

A **3** Tiered pricing structure will be established for accommodation payments.

Tier 1 will be capped at the government set maximum for accommodation supplements. This equates to $50 per day or a lump sum of $238,845.

Tier 2 will be accommodation payments above Tier 1 but not greater than $85 per day or a lump sum of $406,037. The lump sum and daily charge equivalent will be indexed annually (the indexation measure is yet to be determined). ACFA will be responsible for examining the threshold annually and reporting a review after 3 years.

Tier 3 will be accommodation payments above the Tier 2 threshold. Prices will require government approval and will be established based on set criteria.

- The Maximum Permissible Interest Rate (MPIR) will be used to determine the lump sum daily charge equivalent.

Potential Issues for residents and aged care operators

The cost of care for residents is likely to go up. The current accommodation charge payment of $33.29p.d creates a cost of care (when added to the basic daily care fee) of 135% of the full pension, an accommodation charge of $52.84p.d will mean a cost of care of 169% of the full pension. Obviously accommodation payments of $85p.d or more are even more unaffordable to pensioners.

The daily charge and lump sum equivalent are based on the Maximum Permissible Interest Rate (MPIR). A potential consequence of this is that if interest rates go up the lump sum amount will go down and vice versa. For example, when setting the price tiers the MPIR was 7.62% which meant that $85 daily charge equated to a lump sum amount of $406,037. The current MPIR is 7.24% which means that the lump sum equivalent of $85 would be $428,522. If we assumed that interest rates dropped and the MPIR was 6.24% the equivalent lump sum would increase to $497,195. Conversely if interest rates increased and the MPIR used was 10.24%, and the daily charge was $85, the lump sum amount would reduce to $302,978.

The comprehensive means testing arrangements will mean that most residents will make a contribution towards their cost of care. Residents won't be able to generate the income they need to cover the cost of care without exceeding the income threshold of $22,701p.a. If they choose to cover their cost of accommodation by lump sum bond the payment of an accommodation bond in excess of $144,500 (with no other assets or income) will automatically place the resident in to a position of needing to pay a care contribution.

Residents who sell their home to pay an accommodation bond will need to give careful consideration to the impact on their pension entitlement and ongoing cost of care. Payment of an accommodation bond that is less than the sale proceeds from the home is likely to result in a reduction in pension and an increase in the care contribution. Conversely residents who use assets outside the home are likely to increase their pension entitlement and reduce their liability to pay a care co-contribution.

While it is clear that the protection measure on assets for a resident's capacity to pay will still exist ($43,000), it is unclear whether a resident can be asked to make a contribution toward their accommodation that is greater than their capacity to do so, i.e. through a daily charge where the assets are insufficient to meet a lump sum payment. If this is the case then a protection measure that applies to both assets and income should be considered to ensure that residents are not being charged more than they can afford.

Clearly residents and their families will need expert advice to determine how much to pay, the way in which to pay and the knock-on effects to pension, tax, the cost of care, cash flow and their estate planning wishes. This was recognised in the Living Longer, Living Better Report which stated "Consumers will be encouraged to access financial advice about their aged care costs from qualified advisors with expertise in aged care financing". However, details of how resident's and their families would access this advice are still unclear.

Rachel Lane MFP
Principal

Aged Care Gurus P/L

W: www.agedcaregurus.net.au

P: Suite 4/190 Bay St

Port Melbourne Vic 3207

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