



9 May 2013

Dr Ian Holland
Secretary
Senate Community Affairs Committee
Parliament House
Canberra

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Dear Dr Holland

**Aged Care (Living Longer Living Better) Bill 2013:
Senate Committee on Community Affairs Hearing - response to question on notice**

At the Senate Committee Hearing on 29 April 2013, I was asked a question on notice by Senator Fierravanti-Wells regarding the submission by Kalyna Care, Victoria. The submission comments on what Kalyna regards as the inequity in the comparative assessment of care fees between two people of the same means: one receiving care at home (Mrs Jones) and the other in residential aged care (Mrs Smith). The Senator asked me to provide some comments as to my agreement with Kalyna's assertions.

Below are my detailed calculations of the fees, which show that Mrs Smith's fees would actually be higher than stated in the Kalyna submission. The results highlight the significant difference in fees between care in a residential facility and care in one's own home. Of course, the cost of providing residential care services is much higher also because of the capital costs involved, labour costs, meals, laundry etc. However, as raised in our joint submission with Eldercare and Resthaven, we believe the different treatment of assets between residents who sell their home and those who do not is inequitable and will likely result in a shift away from lump sum accommodation payments in favour of daily payments. This would have a significantly negative financial effect on providers of residential aged care.

The Productivity Commission recommended a fairer means test within and across both residential care and home care and we continue to support its recommendations.

Mrs. Smith – calculation of means tested fee and accommodation payment for residential care (2012 prices)

The **total assessable income free area** is \$22,701
The **asset free area** is \$40,500
The **value of the family home** is capped at \$144,500 if not sold
The **first asset threshold** is \$144,500
The **second asset threshold** is \$353,500
The **maximum Accommodation Supplement** is \$50 per day
The **annual cap** is \$25,000

Mrs Smith has sold her home and opted to pay a refundable accommodation deposit of \$350,000.

Assets

Proceeds from	
sale of home:	\$350,000
Investments:	<u>\$200,000</u>
Total:	\$550,000

Income

Part-Pension:	\$17,120
Investments:	<u>\$ 8,000</u>
Total:	\$25,120

Care Fee Calculation

1. Income Tested Amount

Total assessable income =	\$25,120	
\$25,120 - \$22,701	=	<u>\$ 2,419</u>
Annual (50% of excess)	=	\$ 1,209.50
Daily (divided by 364)	=	\$ 3.32

(a)

2. Asset Tested Amount

Total assessable assets =	\$550,000	
\$550,000 > \$353,500		
2% of difference between assets and 2 nd asset threshold	\$ 3,930	
1% of difference between 2 nd asset threshold & 1 st asset threshold	\$ 2,090	
17.5% of difference between 1 st asset threshold & asset free area	\$ 18,200	
Annual amount	\$ 24,220	
Daily (divide by 364)	\$ 66.54	(b)
Means Tested Amount	\$ 69.86	(a) + (b)
Care subsidy reduction (\$69.86 - \$50)	\$ 19.86	
Means tested care fee	\$ 19.86	
Standard resident contribution payable irrespective of means (85% of age pension)	\$ 42.21	
Total daily care fee	\$ 62.07	
Total annual care fees (x 364)	\$22,593.48	

NB If Mrs Smith chose to keep her home and rent it out, only \$144,500 of its value would be included in the means tested care fee calculation and the rental income would be exempt. Her care fee would be \$51.02 a day or \$18,571.28 a year (which approximates Kalyna's calculation).

Agreed accommodation payment (Refundable Accommodation Deposit)	\$350,000
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Alternatively, Mrs Smith could pay a daily accommodation payment of \$73.27 (based on a Maximum Permissible Interest Rate of 7.62%)

Mrs. Jones – calculation of income tested care fee for home care (2012 prices)

The **income free area for a single person** is \$22,701

The **income threshold for a single** is \$43,186

The **first cap** is \$13.74 (being the daily calculation of a \$5,000 annual cap)

The **second cap** is \$27.47 (being the daily calculation of a \$10,000 annual cap)

Income

Part-Pension:	\$17,120
Investments:	<u>\$ 8,000</u>
Total:	\$25,120

If the care recipient's total assessable income exceeds the income free area but not the first income threshold (\$43,186 for a single), the income tested care fee is equal to the lowest of the following:

- the sum of the basic subsidy amount for the care recipient and all primary supplements for the care recipient;
- 50% of the amount by which the care recipient's total assessable income exceeds the income free area (worked out on a per day basis); and
- the first care fee cap (i.e. \$5,000 per year or \$13.74 per day).

Care Fee Calculation

Total assessable income	= \$25,120
\$25,120 - \$22,701	= <u>\$ 2,419</u>
Annual (50% of excess)	= \$ 1,209.50
Daily (divided by 364)	= \$ 3.32

Basic daily care fee payable irrespective of means (17.5% of age pension)	\$ 8.69
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Total daily care fee	\$ 12.01
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Total annual care fee (x 364)	\$ 4,371.64
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In summary, Mrs Jones would pay \$4,371.64 a year for care in her own home; and Mrs Smith would pay \$22,593.48 a year in residential care, plus paying a refundable deposit of \$350,000 or a daily accommodation payment of \$73.27.

It should be noted that the difference in fees payable by all residents and all home care recipients accounts for \$12,201.28 while the difference in means tested/income tested care fees (in the examples) is \$6020.56.

Yours sincerely

David Kemp
Chief Executive's Advisor