THE AGED CARE ANNUITY
WHAT IS IT AND HOW DOES IT WORKS

Background

Residential aged care operators from both the private and not-for-profit sectors are calling on the Government to review the funding arrangements which currently apply to high-care nursing home facilities.

Specifically, the current arrangements cap the maximum amount a provider can charge a resident in relation to their accommodation (known as an accommodation charge) at $26.88 per day. This is irrespective of whether a resident is accommodated in a single room with en-suite or multi-shared accommodation.

In relation to residents with insufficient means to pay the accommodation charge, the Government pays this amount to the provider on their behalf.

The aged care industry, supported by the findings of a number of independent reports, argues that this amount is insufficient to support the development of new high care facilities or the refurbishment of old building stock. This has led to a significant reduction in the number of new high-care facilities being built and the real likelihood that there will be insufficient supply of good quality high-care facilities to meet the need of a growing ageing demographic.

Conversely, operators of low-care hostel facilities have access to accommodation bonds (refundable lump sums) which are predominantly uncapped and can be set at an amount commensurate with the quality of the accommodation. These refundable accommodation bonds can be paid as a lump sum (for which the operator can keep the interest earned during the resident's stay, plus a small retention) or as a daily fee (in effect the interest and retention equivalent).

The capital income stream achievable through refundable accommodation bonds applicable to low-care hostels is significantly higher than that achievable through the capped accommodation charge applicable to high-care nursing homes. As such, development of new low-care facilities and the refurbishment of old building stock has progressed steadily and kept up with demand.

Capital income options for high care nursing homes

Despite refundable accommodation bonds working successfully in the low-care hostel sector for many years, to date the Government has steadfastly refused to introduce refundable accommodation bonds in high-care nursing home facilities.

Recognising the Government's position, the Aged Care Association of Australia (ACAA) has suggested a number of alternative funding models to boost the capital income stream available to high-care providers. These include a significant increase or potential uncapping of the accommodation charge, subject to appropriate safety net provisions.

Consumer choice

ACAA believes that the consumer should be given choice in terms of how they fund the payment of the accommodation charge.

For example, the payment of a refundable lump sum may be an attractive option for those with the means to do so. Currently, any amount paid as an accommodation bond in relation to low-care hostel facilities is exempt from both the asset and income assessment in relation to the aged pension. The same could apply to high-care nursing home residents who elect to fund the accommodation charge either wholly or in part by a refundable lump sum.

Finance + Public Administration Committee
Aged Care Inquiry 13/03/09 Tabled Document
Aged Care Association Australia

The Aged Care Annuity

In conjunction with an increased or uncapped accommodation charge, ACAA believes that consumers should be able to purchase an Aged Care Annuity (effectively a refundable lump-sum) from the provider for an amount of their choice. This annuity would be government guaranteed and provide the same pension benefits as currently exist in relation to accommodation bonds.

The Aged Care Annuity would attract a predetermined interest return, either agreed between the provider and the resident or, alternatively, at a rate set by the Government at the time of entry.

The aged care provider would off-set this interest return against the resident's accommodation charge. In this way, depending on the size of the annuity purchased, a resident could potentially reduce their accommodation charge to zero, with the understanding that, upon departure, the full value of the annuity is returned to either themselves or their estate.

Below is a practical example of how this may work. For the purpose of this example, it is assumed that the accommodation charges range from $48 per day for a single room to $24 per day for shared accommodation. The interest rate applicable to the Aged Care Annuity is assumed to be 8.76% (the current maximum interest rate applicable to accommodation bonds).

	Daily Accommodation Charge			
	with no Annuity	with $50,000 Annuity	with $100,000 Annuity	with $200,000 Annuity
Single Room	$48.00	$36.00	$24.00	Nil
Shared Room	$24.00	$12.00	Nil	

Daily Accommodation Charge reduces by $12.00 for every $50,000 paid as an annuity (i.e. effective interest rate 8.76%).

Finally

There are, of course, many options that may be considered in relation to using the Aged Care Annuity as a way of funding accommodation charges. For example, it could extend to potentially fund the resident's daily care fees in addition to just the accommodation charge. It is also worth considering whether there could be an amount of retention applied to the value of the annuity at the point of refund to further assist the provider with capital funding.

ACAA is keen to explore the concept of an Aged Care Annuity and the various options with Government as there is clearly a potential benefit for both the provider and the consumer.