AGED CARE TASKFORCE SUBMISSION

31 August 2023

National Seniors AUSTRALIA

Contents

Aged Care Taskforce Submission

Introduction

National Seniors Australia (NSA) welcomes the opportunity to make a submission to the Aged Care Taskforce in response to the proposed principles.

Our response to the proposed principles is drawn from our extensive surveys of older people, a summary of relevant findings is included in Appendix A of this submission. This includes findings from an unpublished survey on the views of approximately 10,000 respondents aged 50 and over conducted by NSA in partnership with Catalyst Consultancy and Research in June 2023.[1]

We support the six principles that have been put forward by the Taskforce. However, we are deeply concerned that aged care funding reform will become politicised if a cautious approach is not taken.

While a recent National Seniors survey showed support among older people for changes to funding arrangements to improve the aged care system this support must not be taken for granted.

There are still significant concerns about quality and safety, which if unaddressed will undermine public support for increased taxes and/or consumer contributions.

We recommend government look carefully at all funding options and have outlined some of these in this submission.

There are multiple ways government could raise additional resources to help pay for reforms, but regardless of which option/s are chosen, these should be increased slowly over time to give people time to adjust. Similar approaches have been adopted in other policy areas, such as the increase in the Superannuation Guarantee and the Age Pension eligibility age, and government would do well to adopt a similar approach in aged care.

The current reform process is an opportunity to make aged care more sustainable, so it meets the needs of current and future generations.

Our efforts should provide a flexible and reliable policy framework and system of practices and structures that are evidence based, take a long-term demographic perspective, and provide dignity, quality of care and safety for older people now and into the future.

Reform Principles

NSA supports the principles put forward by the Aged Care Taskforce. However, we believe these principles should be expanded further. The following section discusses each of the principles before discussing additional principles to be considered.

Principle 1 – The aged care system should enable and encourage participants to remain in their home for as long as they wish and can do so.

National Seniors has long supported a focus on keeping people in their own homes for as long as they are able. This is based on feedback from our members and supporters who tell us time-and-time again they prefer to receive care at home, rather than in a residential aged care setting.[2]

Supporting people to remain in their own home must be the priority – provided adequate support is available.

Government should set out clearly how it will fund home care services and clearly define what government and individuals will pay for.

Home care services exist to deliver support that is not provided by informal carers such as family and friends. The provision of formal care allows informal carers to remain in the workforce but also delivers professional care (e.g., clinical care) that informal carers cannot provide.

Principle 2 – Aged care funding arrangements and their outcomes should be fair, simple, transparent, and sustainable.

Feedback from older people points to an overly complex and confusing system.

NSA supports funding arrangements that are fair, simple, transparent.

As noted above, government must be clear as to which parts of the system they will fund, and which parts require consumer contributions.

NSA also supports the principle that funding arrangements are sustainable. In recent National Seniors survey of 10,000 older people, we found in principle support among most respondents for paying more for care, but only if quality and safety exists.

Principle 3 – Government is and will continue to be the major funder of aged care. Government funding should be focused on care costs. Personal contributions should be focused on accommodation and everyday living costs with a sufficient safety net.

NSA supports the principle that government should continue to be the major funder of aged care.

NSA supports the principal that government funding be focused on care costs with everyday living costs and accommodation subject to means testing and open to personal contributions for those with adequate means.

This will require clarity as to which elements of the aged care system will be classified as “care” related and which services are not.

Regardless of the setting (home or residential), government should fund, at a minimum, core services, such as clinical care, reablement and rehabilitation, personal care, mental health services, dementia support, respite, equipment etc.

Other secondary support services such as accommodation (residential, respite), social activities, transport, home modifications (home care) etc., should be means tested with any personal contributions based on capacity to pay. To be fair, contributions for such items should be proportional to means.

People with limited means should continue to have their accommodation costs in residential care subsidised by the government and look at options for introducing modest reforms to means test rules (see Funding Reform Options below).

To support home based care, renters with limited means should receive additional support to access age friendly housing or meet rental costs if eligible for home care packages.

Principle 4 – Government and participant contributions should be sufficient to provide quality and appropriate care delivered by a skilled workforce, allowing, and encouraging innovation by the health, hospital, and aged care systems.

NSA supports the principle that contributions be sufficient to provide quality care and an appropriately skilled workforce. The issue of appropriately trained workers is a key concern, especially in residential care where there is a need for workers to have skills in nursing, dementia care, and end-of-life care.

Principle 5 – There should be accountability for funding received from government and participants, how it is spent, and the quality of the services provided.

Aged care providers must demonstrate full financial transparency for the public and private funds they receive.

Providers should be fully accountable for the money they receive, regardless of their business structure or accounting arrangements.

Government must establish, maintain, and implement robust accountability processes and encourage a business culture where transparency is not just accepted but welcomed.

Principle 6 – The residential sector should have access to sufficient, and new, capital to encourage the development of new accommodation and upgrades to existing accommodation.

Ensuring there is adequate investment in the construction and refurbishment of residential aged care accommodation is critical to meet future demand.

While National Seniors supports home based care, we acknowledge many will need to enter residential care settings to access the appropriate level of care. This is especially important for people requiring dementia care, end-of-life care, and other specific complex supports.

Funding models should encourage the development of small-scale residential care homes (as recommended in the Royal Commission into Aged Care Quality and Safety) and homes that meet specific needs, such as dementia care and end-of-life care.

It is disappointing that much needed projects, such as the proposed community-based dementia village in Heathcote, have been scrapped, due to funding uncertainty. These projects need funding certainty to ensure older people have care options, especially in rural and regional areas where it is difficult to deliver home and residential care services.

Other considerations

National Seniors believes there is scope to expand the principles to ensure the funding reforms meet the needs of existing and future aged care recipients.

These include the following:

- Changes to taxes or consumer contributions should be introduced or increased incrementally and closely evaluated to ensure they are fit-for-purpose and do not cause undue financial burden, e.g., like the way the superannuation guarantee or the Age Pension eligibility age have been slowly increased over time. An incremental approach is good public policy and will reduce fears that this will place undue burden on taxpayers and care recipients.
- A life-course actuarial approach should be taken to support long-term sustainable, quality aged care funding that:
    - ensures generational fairness.
    - recognizes changing patterns of wealth accumulation and release.
    - works towards extending and spreading the contributory approach to aged care to savings mechanisms and/or taxation arrangements across the life course.
- Financial literacy around aged care and health care planning in older age must be significantly improved and woven explicitly into broader financial retirement planning, including in the advice provided to retirees by superannuation trustees.[3,4]

Funding reform options

The government has signalled an interest in using consumer contributions and/or tax and transfer changes to improve the financial sustainability of the aged care system.

Consumer Contributions

Recent National Seniors research found a primary reason older people retain their capital in retirement is to meet future health and aged care costs. This implies a level of acceptance of consumer contributions.

While consumer contributions already exist in home care and residential care there is a question as to whether the current settings are fair or efficient. Older people may be reticent to support consumer contributions unless there is adequate transparency and/or price controls.

National Seniors regularly hears complaints from older people that the prices, fees, and charges associated with home care are unreasonable. If government increased consumer contributions without adequately controlling prices, this would undermine confidence in the system.

The current system of consumer contributions is confusing and must be simplified if government seeks to increase the level of contributions.

Removing the Basic Daily Fee attached to Home Care, for example, could remove some of the confusion, provided the means test was adequately calibrated.

Aged Care Levy

National Seniors surveys have consistently shown strong support for introducing an aged care levy to fund aged care reforms among older people (see Appendix A). This implies seniors may view aged care as a public service, which could undermine support for funding models that include consumer contributions.

The Aged Care Royal Commission recommended a levy be introduced. Both Commissioners argued the mechanism for collecting the levy would be an increase in the existing Medicare Levy.

Increasing the Medicare Levy would impose higher taxes on income which would come from employees. However, this would be consistent with the way aged care social insurance contributions are levied in other countries.

Alternatively, it may be possible to apply a levy to superannuation, either by quarantining future increases in the Superannuation Guarantee or by imposing a levy as a tax on superannuation income.

A levy applied to the super guarantee would be like the Medicare Levy in that it would disproportionately impact employees and would have the additional impact of reducing superannuation balances in the future.

A levy applied to income from superannuation would reduce impacts on employees and minimise the impact on super balances. It would also align contributions with increasing age and wealth ensuring a level of progressivity.

Aged Care Insurance

Consumer contributions could be enhanced by introducing some form of aged care or Long-Term Care (LTC) insurance. This could be introduced as an alternative to or to complement levies or other tax changes.

Public and private aged care insurance schemes are a feature of aged care systems in other countries and they complement public funding. Germany and Japan have mandatory schemes where all citizens contribute.

In Germany, an aged care insurance scheme has existed since 1995. Benefits are funded by mandatory contributions from employee's income, with retirees also required to contribute from their income. People can choose to opt-out of the public scheme but must pay into a private insurance scheme. Supplementary private cover can be purchased.

Japan introduced a social insurance scheme in 2000. All people aged 40 and over must contribute and people over 65 can access benefits if they meet the criteria. Half of all aged care funding comes from insurance and the other half from general revenue.

Government could adopt a mandatory insurance model similar to other countries to ensure adequate coverage to meet future care costs. One option is to attach premiums to superannuation.

A compulsory aged care insurance scheme attached to superannuation received strong support in a recent National Seniors survey of 10,000 older people (see Appendix A).

Alternatively, government could adopt a private aged care insurance approach using tax and transfer incentives/penalties to induce people to contribute. Older people could be given favourable treatment from asset test rules, as has been provided for funeral bonds and annuities, to encourage take up or tax disadvantages as is applied to private health insurance.

The Family Home

The family home should not be included in means testing for home care services, except for home modifications. In these instances, government should promote the Home Equity Access Scheme as an appropriate means to fund modifications if the person does not have funds available otherwise.

In the residential aged care setting, means testing for accommodation costs should consider a percentage of the value of the family home (except where a dependent still resides).

Currently, the amount of the home that is assessable under the means test is $193,219.20. Rather than use a limit, this should be applied as a percentage of the value of the home e.g., If the it was set at 25% a home valued at $500,000 would have $125,000 and a home worth $1,000,000 the amount assessable would be $250,000.

The current limit approach unfairly disadvantages those with a home of limited value (e.g., regional homeowners, apartment owners). By using a percentage of the home value this creates a level of progressivity in the system. This is much fairer.

Government may also consider whether the two-year exemption from including the home in the means test and whether the current timeframe is appropriate.

APPENDIX A: KEY RESEARCH INSIGHTS AND SELECTED NSA RESEARCH FINDINGS

We offer the following high-level insights of aged care funding from our surveys of older people.

- To a large extent, many (if not most) do not appear to understand the complex funding arrangements in the current system[5].
- There is strong support for a safety net for those who cannot afford aged care (83.2%[6]).
- There is strong support for full financial transparency by aged care providers in the use of public and private funds (82.5%[7]).
- Older people report a willingness to contribute financially for aged care, but only for those with the capacity to pay (61.9%[8]). This result has been replicated in a prior NSA survey (80%[9]).
- Most support public consultation on funding reform (64.4%[10]).
- Older people prefer improvements to aged care funded from general revenue (59.6%[11]).
- A majority of older support the principle that government will have to raise revenue via taxes and user charges to pay for aged care reform (56.5%[12]).
- When asked how government should pay for aged care reforms:
  - Older people's strongest preference is for a levy on taxable income (44.3%[13]). This sentiment was replicated in a prior NSA survey (32.7%[14]).
  - There is equally strong support among older people for a compulsory insurance scheme attached to superannuation to pay for aged care (37.7%[15]).
  - Along with a levy and a super insurance scheme, older people also support a superannuation savings scheme with money set aside for an individual's potential aged care costs (37%[16]).
  - There is very limited support for increasing taxes on superannuation to pay for aged care reform (13.6%[17]).
- The support for using savings to pay for aged care found in our recent survey (see above) has been replicated in previous surveys.
  - A recent survey found that many (especially those with higher wealth) were already preserving capital to pay for health and aged care[18].
  - A survey conducted in 2010 found strongest support for a Healthy Ageing Savings Account to pay for aged care when compared to other approaches (58%[19]).
  - However, most have not planned financially for aged care, with those who are older, with higher education or greater wealth more likely to have done so[20].
- Interestingly, despite their being strong support for using savings, survey results show limited support for increasing consumer contributions for those with the capacity to pay (27.5%[21]). This result has been replicated in a prior NSA survey (7.8%[22]).
- There is very limited support for charging user contributions for clinical care among older people (16.5%[23]).

- There is some support among older people for including the full or partial value of the family home in the residential aged care means test (40.4%), however there is a slightly higher proportion that do not support such a move (44.6%)[24].

Findings from 2023 unpublished data

The following questions were part of a yet to be published Retirement Living survey targeted at people aged 50 and over administered by NSA in partnership with Catalyst in June 2023.[25]

Question1: Do you support in principle the idea that government must raise additional revenue through taxes and user chares to fund aged care?

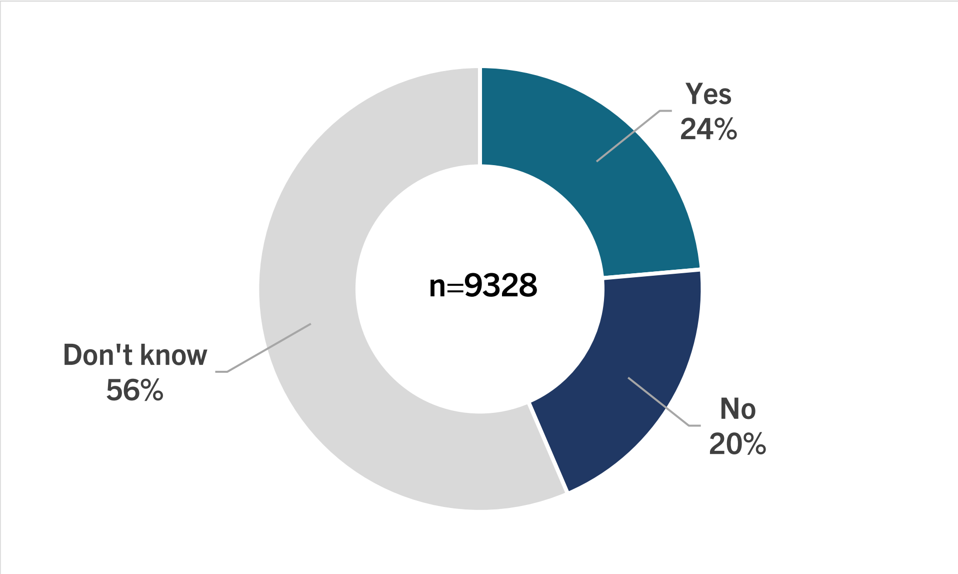


Figure 1 Proportions supporting principle of government raising funds through taxes and user charges for aged care

Question 2: Which of the following mechanisms should be used to raise additional funds for aged care? You can choose more than one.

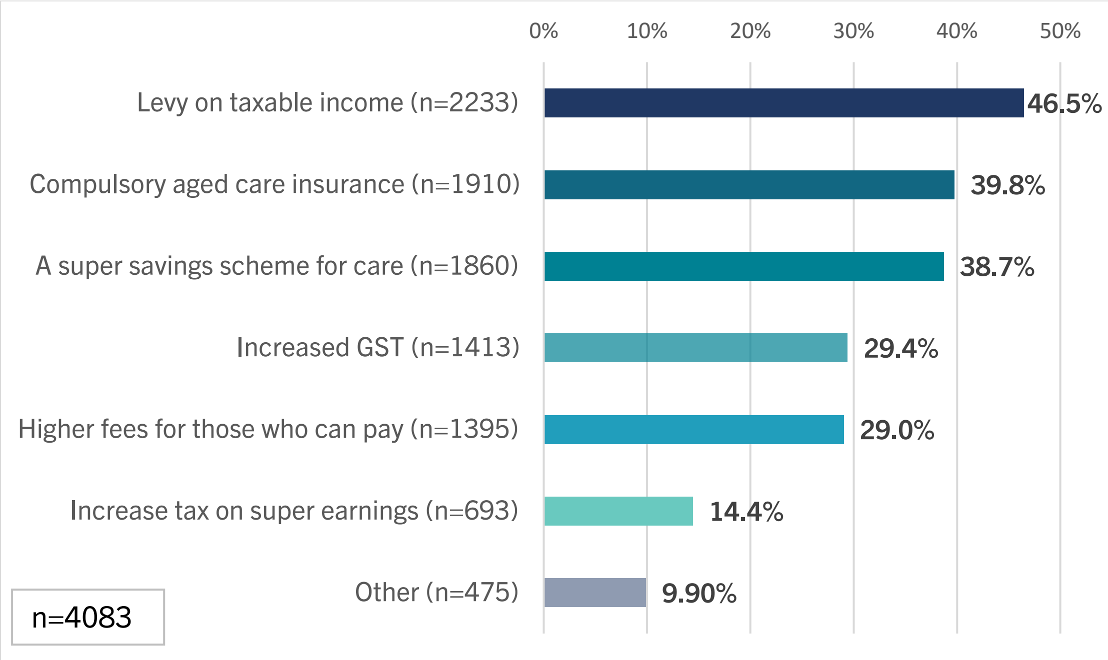


Figure 2 Proportions nominating each proposed funding mechanism.

Question 3: Which of the following principles should guide aged care funding reform?

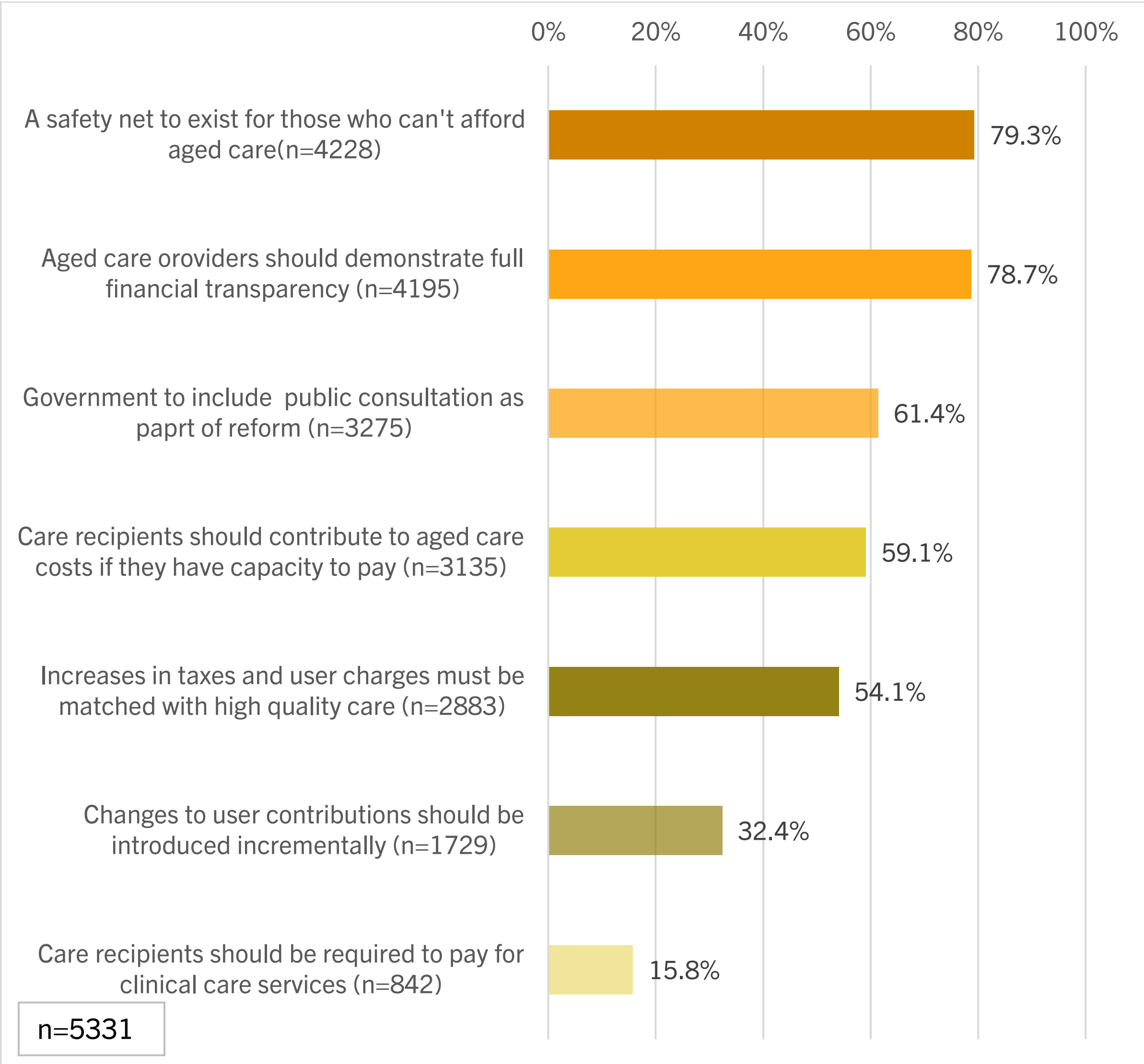


Figure 3 Proportions supporting each proposed aged care funding reform principle.

Question 4: For people entering residential care should the full value of the home (primary residence) be included in the means test to assess accommodation costs (unless a partner or dependent is still living there)?

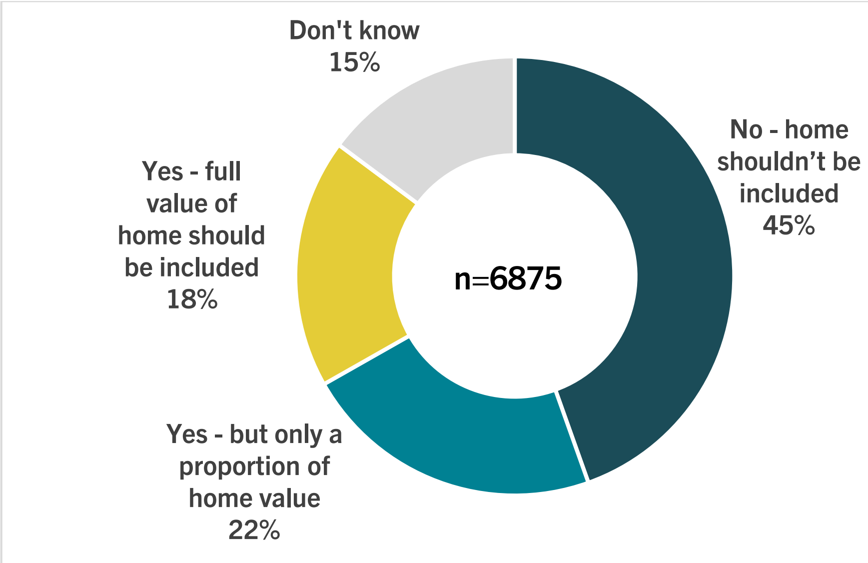


Figure 4 Support for inclusion of the home in the means test for residential care accommodation costs.

Findings from 2022 data

The 2022 National Seniors Social Survey included a question addressing the importance of saving for aged care and health care, compared to other priorities for saving. Findings were published in the report "*The evolution of retirement income: A 2022 snapshot*" [26].

Approximately 2000 respondents answered the question "Why do you want to maintain the capital of your savings?", by selecting one or more of the following options:

- to pass onto beneficiaries.
- to cover unforeseen costly medical or health needs.
- in case it is needed to financially assist family members.
- don't know prefer not to say.
- other.

(Note while aged care was not specifically offered as an option, it could be extrapolated to have been thought of as part of medical or health needs.)

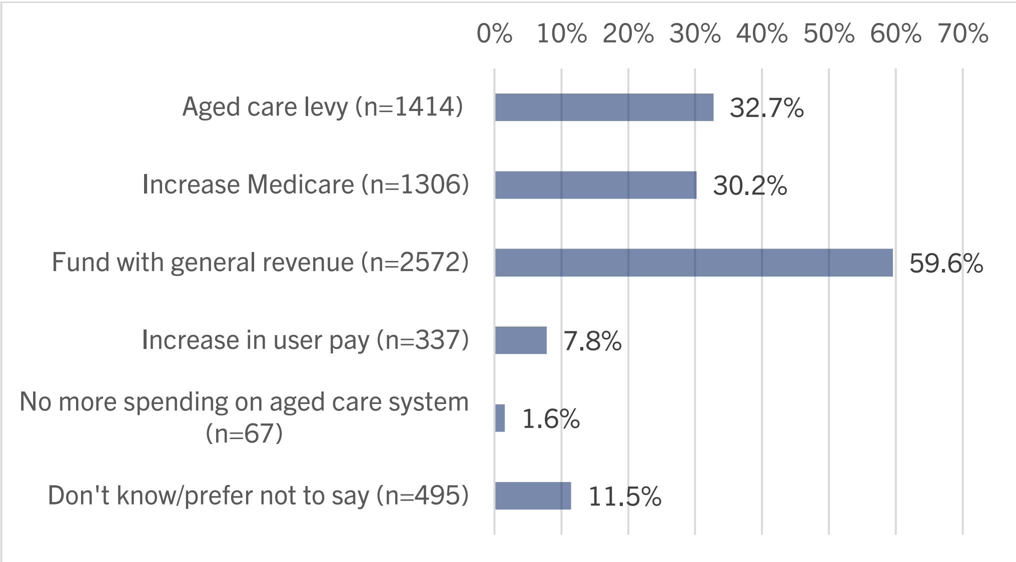
The main reason for maintaining capital, selected by 84% of respondents, was to cover medical and health needs. The next priority was for passing on to beneficiaries, which was only selected by 41%.

A forthcoming National Seniors and Challenger report will provide further insights into respondents' financial priorities for retirement. Once again, affording aged care and medical costs was rated highly, coming in as the second most important financial priority.

Findings from 2021 data

The 2021 National Seniors Social Survey included the following two questions and findings were published in the report "*Planning for aged care costs: Hesitancy, ignorance and denial*".[27]

We asked respondents "How do you think the federal government should pay for improvement in the aged care system?" The percentages in the figure below represent the proportions of respondents selecting each payment options (n=4319)



Note: The low willingness in this survey by respondents to increase user contributions may be explained by people possibly feeling it is not their responsibility to pay for fixing (improving) something that shouldn't be so significantly broken in the first place. Further, it is possible that sentiments toward aged care in general are likely to be negative and disengaged in this survey given its proximity to the findings of the Royal Commission in Aged Care Quality and Safety, and the negative experiences of some people living in residential aged care through the early years of the COVID-19 pandemic. In addition, see the discussion in this briefing in Changing the Frame section on the language of 'user pays'.

Are older people planning and saving for their own aged care?

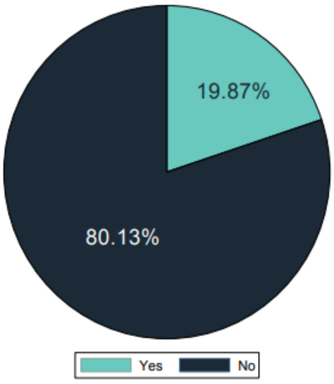
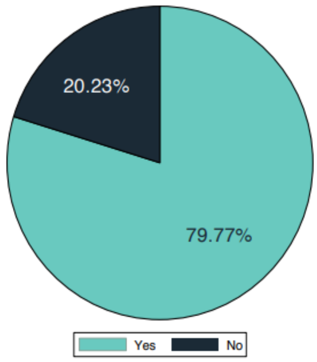
In 2021, we also asked respondents "Have you financially planned for aged care costs?"

Previous findings from 2018 (see figures below) indicated people's willingness to contribute according to capacity to pay but 2021 survey results showed very few people had planned for doing so, noting:

- one third had thought about aged care costs but only 14% said they had planned for them,
- being older, having higher education, greater wealth and not receiving the Age Pension were independently associated with planning.

Findings from 2017 data

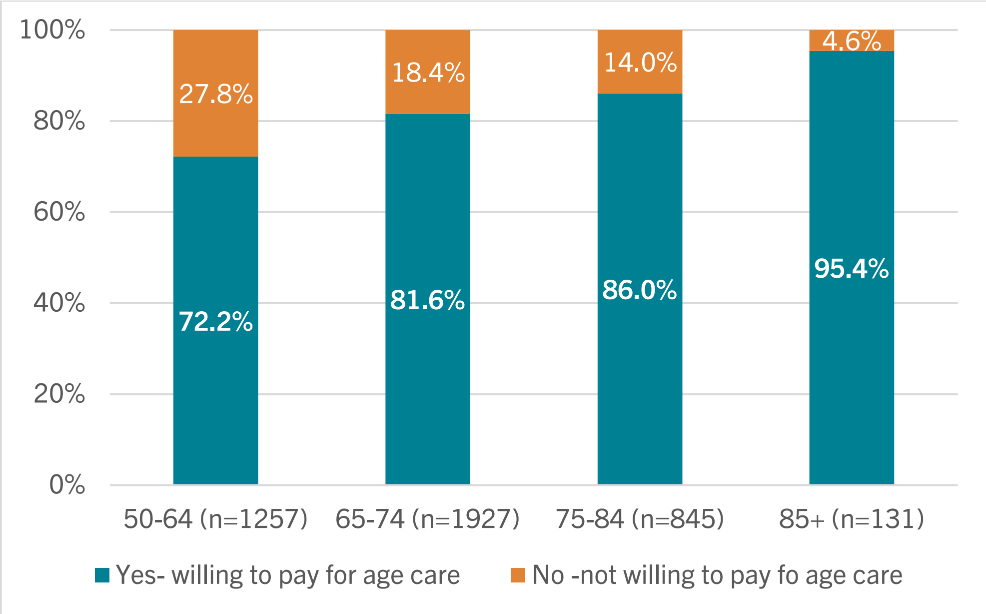
The 2017 National Seniors Social Survey asked respondents the following questions and the findings were published in the 2018 report "*You don't know what you don't know:* The current state of Australian aged care service literacy".[28]

Question: "Do you understand how consumer contributions for aged care are assessed?" (n=5083)	Question: "Are you prepared to pay for your own aged care in line with your capacity to pay?" (n=5083)
	

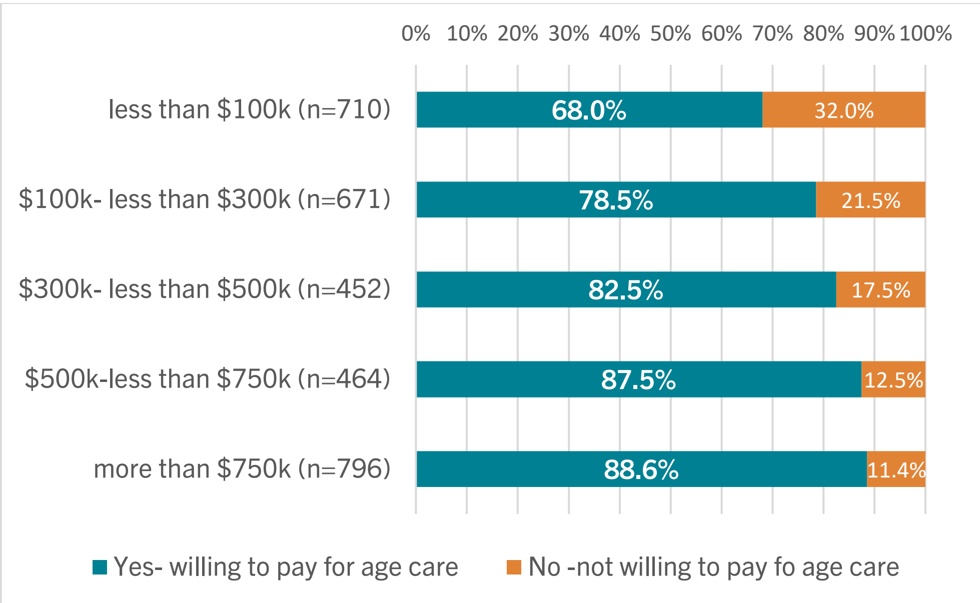
These figures show although 80% of people were willing to contribute to their aged care costs, 80% also did not understand how consumer contributions were assessed.

We conducted further analysis of the 2017 data to assess whether willingness to contribute varies by age group and wealth, noting wealth includes all savings, investments but not the home or other assets. Unpublished findings presented by the figures below show in 2017, willingness to pay differed by age group and savings levels, but with high levels of willingness across all the age groups surveyed.

Willingness to contribute to age care costs according to age-group (2017 data)

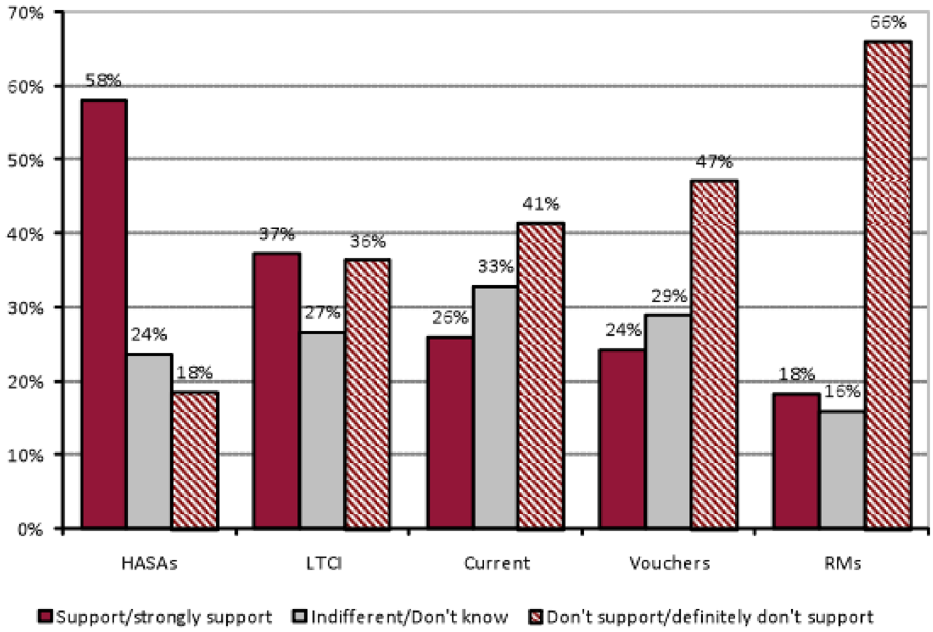


Willingness to contribute to age care costs according to wealth (2017 data)



Findings from 2010 data

The following figure is from a 2010 National Seniors Australia and Access Economics report assessing the viability of different funding options for aged care.[29]



Note: HASA = Healthy Ageing Savings Account, LTCI = Long Term Care Insurance, RM = Reverse Mortgages

Endnotes

[1] National Seniors Australia & Catalyst July 2023. Unpublished data.
[2] Orthia L., Hosking D. and McCallum J. (2022) "As close to home as possible": Older Australians' hopes and fears for aged care. Canberra: National Seniors Australia.
[3] Op cit. Hosking, D., Minney, A. and McCallum J. 2021.
[4] Op cit. Op cit. Hosking, D., Minney, A. and McCallum J. 2022
[5] Rees, K., Maccora, J. & McCallum, J. 2018. Hope for the best, plan for the worst? Insights into our planning for a longer life. Brisbane: National Seniors. P4.
[6] Op cit. National Seniors Australia & Catalyst Australia 2023
[7] Op cit. National Seniors Australia & Catalyst Australia 2023
[8] Op cit. National Seniors Australia & Catalyst Australia 2023
[9] Op cit. Rees, K., Maccora, J. & McCallum, J. 2018.
[10] Op cit. National Seniors Australia& Catalyst 2023
[11] Hosking, D., Minney, A. and McCallum J. 2021 Planning for aged care costs: Hesitancy ignorance and denial. Canberra: National Seniors Australia and Challenger.
[12] Op cit. National Seniors Australia & Catalyst 2023
[13] Op cit. National Seniors Australia & Catalyst 2023
[14] Op cit. Hosking, D., Minney, A. and McCallum J. 2021.
[15] Op cit. National Seniors Australia & Catalyst 2023
[16] Op cit. National Seniors Australia & Catalyst 2023
[17] Op cit. National Seniors Australia & Catalyst 2023
[18] Hosking, D., Minney, A. and McCallum J. 2022. The evolution of retirement income: A 2022 snapshot. Canberra: National Seniors Australia and Challenger
[19] National Seniors Australia and Access Economics 2010. Future of Aged Care in Australia. National Seniors Australia 2010.
[20] Op cit. Hosking, D., Minney, A. and McCallum J. 2021.
[21] Op cit. National Seniors Australia & Catalyst 2023.
[22] Op cit. Hosking, D., Minney, A. and McCallum J. 2022.
[23] Op cit. National Seniors Australia & Catalyst 2023.
[24] Op cit. National Seniors Australia & Catalyst 2023.
[25] Op cit. National Seniors Australia & Catalyst 2023.
[26] Op cit. Hosking, D., Minney, A. and McCallum J. 2022.
[27] Op cit. Hosking, D., Minney, A. and McCallum J. 2021. P14.
[28] Op cit. Rees, K., Maccora, J. & McCallum, J. 2018.
[29] Op cit. National Seniors Australia and Access Economics 2010.