



PRODUCTIVITY COMMISSION'S DRAFT REPORT: CARING FOR OLDER AUSTRALIANS Q & A

The following questions and answers have been prepared by ACAA and ACSA in order to provide further clarity about how the 'new' system proposed in the Draft Report would operate in practice. The Productivity Commission (PC) was consulted on the answers.

QUESTION 1:

In the key points of the Overview in the draft report it states that older Australians would "choose between paying a daily charge or an equivalent bond (lump sum) for the accommodation costs of residential care – with both aligned to the real cost of accommodation."

How does the PC consider the new system of accommodation daily charges and lump sum payments for both supported and non-supported residents would operate under the proposed changes in the Draft Report?

Answer:

All non-supported residents

The PC is proposing that each provider set their own accommodation charge for all non-supported residents. As occurs in other markets, providers would generally set charges which generate a reasonable rate of return, taking into account their costs, the amenity of the accommodation and its positioning in the relevant market. Charges could also vary for different accommodation standards in a facility.

It is proposed that all providers be required to offer a periodic accommodation charge, and for that charge to be published. Providers could also choose to offer a bond option, but the value of the bond would need to be the equivalent, at the time, to the periodic accommodation charge. It would also need to be published.

The PC recognises that a number of residents remain in a facility for more than 12 months. There would need to be a mechanism for a periodic review of the charge, and for the bond to reflect a risk premium. Views are sought on these issues.

The PC is aiming to create a situation where the forms of accommodation payments are equally attractive to care recipients and providers, and that they reflect the value of the accommodation rather than a person's capacity to pay. The proposed Australian Pensioners Bond Scheme attempts to neutralise the distortions arising from the Age Pension asset test treatment of equity released from the sale of the primary place of residence.

With the proposed abolition of low and high care on entry, all new residents (on their entry into a facility) would be covered by the system described above.

The PC would propose that the Australian Aged Care Regulatory Commission (AACRC) monitor all accommodation charges and bonds, and monitor any attempt to introduce undue complexity into the charging schedules. Re-regulation would remain an option.

Supported residents

The PC has retained, in the draft report, the current definition of a supported resident.

Under the draft report proposal, based on an assessment of reasonable costs, the new AACRC, would make a transparent recommendation to the Commonwealth Government on the level of the supported resident payment payable to providers. The actual payment level would be set by the Government. [The PC is seeking views on what would be included in \(and excluded from\) the AACRC's cost estimates, including the treatment of land.](#) Rural and remote area costs, and significant cost distortions in other regions, would need to be taken into account.

In the draft report the PC proposed that the supported resident accommodation payment be based on a room shared by two people with a shared ensuite. The standard must balance the desires of older people, the benefits to some of sharing a room and the cost to the community. Views are sought on the appropriate balance.

In the first two years, the PC proposes that the accommodation payment for supported residents be progressively increased, as an interim step until the AACRC is established. However, the Commission does not see merit in the payment increasing for current lower standard accommodation, but seeks participants' views on such an approach.

Although not explicitly dealt with in the draft report, the PC proposes that fully and partially supported residents would be allowed to use the Government supported resident accommodation subsidy as a part payment toward more expensive accommodation. In such circumstances, the care recipient or their families would be responsible for funding the difference between the accommodation charge set by the provider and the supported resident accommodation subsidy payable on behalf of the care recipient.

Fundamental difference between supported and non supported residents

The PC is proposing the basis for setting accommodation charges for non-supported residents is fundamentally different. For non-supported residents, the accommodation charge will be a market determined price, which each provider will set themselves. The 'cost' of accommodation is simply one of the factors providers would consider in arriving independently at their charge is correct. The phrase 'aligned to the real cost of accommodation' is intended to convey the meaning that, in the more competitive environment proposed by the Commission, market forces are likely to drive these independently set accommodation charges towards the efficient cost of supply for that accommodation. However, while market prices are envisaged for accommodation of non-supported residents, the AACRC would monitor the public posted prices to ensure that price gouging did not occur (for example, in areas where effective competition might be lacking).

In regard to supported residents, the accommodation charges will be proposed by the AACRC based on an assessment of average reasonable costs for each region, and the AACRC will recommend subsidies for supported residents based on this estimate of average cost. It is worth noting that these average costs would in the view of the Commission include an allowance for a reasonable rate of return on investment for the provider.

QUESTION 2:

In that case, could the PC clarify the following statement that appears in Stage 1 of the Draft Implementation Plan: "require residential aged care facilities to set accommodation charges consistent with the cost of supply." (p.460)

Answer:

Providers would set their own accommodation charges for non-supported residents. The cost of supply would be one of the factors providers would consider in arriving independently at their price. Other factors, as set out in answer to Question 1, would also feature in each provider's setting of accommodation charges.

It is proposed that the AACRC would monitor accommodation charges and bonds to identify providers who were seeking to use their market power to the disadvantage of their clients.

QUESTION 3:

How will the amount of an accommodation lump sum (bond) be determined under the PC's proposals?

Answer:

The PC has proposed that an accommodation lump sum (bond) should be provided as an optional alternative to the daily accommodation charge. It would need to be equivalent, at the time of entry, to the periodic charge.

In this way consumers will be able to exercise choice about whether to pay a daily charge, a lump sum or some combination. And, as noted above, all new residents would be covered by this proposed scheme, due to the abolition of low and high care entry definitions.

In the draft report, the Commission does not specify how periodic payments are to be converted to a bond-equivalent, although the intention is that it would be based on the interest rate, with the interest earnings equating to the periodic charge. Views are sought on the appropriate rate of interest to be used (and whether it should be based on an independently published rate).

Example 1 – Daily Charge of \$45 – Index Rate of 5.0%

\$45 per day equals **\$16,425 per annum** and to earn this amount at 5% per annum would require a **bond of \$328,500**

Example 2 – Daily Charge of \$60 – Index Rate of 6.5%

\$60 per day equals **\$21,900 per annum**, and to earn this amount at 6.5% per annum would require a **bond of \$336,923**

Note: The accommodation charges and interest rates in the above examples are purely illustrative. Charges will be determined by each provider as described in the answers to questions 1 and 2, and the method of determining the interest rate, and how it will be varied has not been decided.

The Commission considers that for long term residents, there could be scope for the daily charge to increase at regular intervals, with sufficient notice being given to residents (similar to rental contracts for other forms of accommodation). For an accommodation bond, however, the amount would be set at entry and the resident would be protected from increases. [The Commission is seeking views on how providers might set a risk premium as part of the bond.](#)

QUESTION 4:

How will the lifetime stop-loss limit operate?

Answer:

The proposed stop-loss limit would apply to people's co-contributions towards Government subsidised aged care services that relate to the care component only. It would not apply to accommodation and everyday living expenses.

The PC is proposing in the draft report that the level of an individual's co-contribution would be between 5 per cent and 25 per cent of the cost of their approved aged care services, depending upon their capacity to pay as assessed by the proposed comprehensive means test.

However, to protect individuals exposed to high costs of care over an extended period, the Commission proposes an upper limit (a stop-loss limit) on their co-contribution to care costs. When the limit is reached the government would pay 100 per cent of the cost of their approved care needs from then on.

The stop-loss limit would be transparently recommended by the proposed AACRC and set by the Government. Based on assumed co-contributions for care ranging from 5 per cent to 25 percent, a stop-loss that covers the top 10 percent of contributions would need to be set at around \$60,000. As an example, older Australians requiring close to the highest level of care (in the order of \$50,000 to \$60,000) and who were paying the highest assumed co-contribution of 25 percent would take around five years to reach the stop-loss limit.

QUESTION 5:

The increase in availability of care packages will enable more people to receive higher levels of care in their homes. Whilst this will support people's ability to exercise choice over where their care is delivered, what approach does the PC envisage to balance the ability of people to remain in their home beyond any point where care needs may exceed the available level of support?

Answer:

The PC has proposed that a Gateway Agency would provide a range of services including information, assessment and care coordination. In addition, the PC has proposed that Australian governments should fund an

expanded system of aged care consumer advocacy services to assist people choose the most appropriate care and the setting in which that care is delivered.

The proposed assessment process would be continuous, responding to the changes in a person's care needs over time. Built into the system would be a recognition that, beyond a certain point, and particularly in the absence of a capable informal carer or other continuous care and support, a person could only be provided with safe, quality care in a residential aged care facility. A person may not accept the advice to move to residential care, but the PC proposes that the maximum subsidy available for community care would apply in these circumstances, with the person being responsible for privately providing the balance of costs for continuous care and support.

QUESTION 6:

How will the price be set for the standard level of accommodation which the Government will fund for people who do not have the means to fund their own accommodation?

Answer:

As set out in the answer to Question 1, the AACRC would transparently recommend to Government an appropriately daily accommodation payment for supported residents based on the average cost of providing a particular basic standard of accommodation. The AACRC, when it recommends this payment, would be expected to take into account all costs involved in the provision of accommodation including a reasonable return on investment for the aged care providers and regional variations in costs.

It will be the responsibility of the Government to set the daily accommodation payment for supported residents, taking into account the recommendation from the AACRC.

QUESTION 7:

How will funding for accommodation apply where aged care providers solely offer accommodation to supported residents?

Answer:

Providers will be able to choose whether they offer accommodation solely to fully and partially supported residents or to some combination of supported and non-supported residents (or even trade their supported resident quota).

The answers to Questions 1 and 8 provide further information.

QUESTION 8:

The PC has proposed that providers would be obliged to make available a proportion of their accommodation for supported residents, with the proportion being set on a regional basis. However, the obligation would be tradeable between providers in the same region.

How would this work in practice?

Answer:

If, for example, a particular region had four facilities with a total of 248 beds, and the supported resident target for that region was 25% of the total number of beds, then in total 62 supported resident places would need to be provided in that region across the four facilities.

However, if one facility in the region wished to cater for a higher ratio of supported residents, while another catered for those with greater means to pay for their accommodation, the former facility could choose to take on the obligation the latter, provided the overall target for the region was met. The two providers would negotiate a mutually acceptable arrangement. The transfer of the obligation would need to be registered with the AACRC. It is expected that the PC's final report would spell out further details in relation to this process, including a possible agreement by the AACRC to the proposed transfer. A system of tracking and verification would also need to be in place to ensure the required number of supported places in each region was continuously being met.