It’s still time to care about aged care

Financial Sustainability Summit

Issues Paper

August 2023

ACCPA
Aged & Community Care Providers Association

About ACCPA

The Aged & Community Care Providers Association (ACCPA) is the national Industry Association for aged care providers offering retirement living, seniors housing, residential care, home care, community care and related services.

ACCPA exists to unite aged care providers under a shared vision to enhance the wellbeing of older Australians through a high performing, trusted and sustainable aged care sector. We support our members to provide high quality care and services while amplifying their views and opinions through an authoritative and comprehensive voice to the government, community, and media.

Our sector serves to make better lives for older Australians, and so do we.

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About the Issues Paper

The Royal Commission into Aged Care Quality and Safety acknowledged that current financing arrangements for aged care are not well designed to support a sustainable system into the future.

Aged care demand is projected to grow at a significantly faster rate than overall Australian Government expenditure in coming years, as a result of projected demographic changes and subsequent demand for aged care services.

Despite a significant uplift of funding to the sector in recent years, it is insufficient to ensure aged care service delivery is sustainable. The current approach to financing the aged care system is heavily reliant on general taxation revenue, continuing to expose aged care to cost control measures in the face of increasing demand and cost pressures. This has created significant financial stress on the aged care system, driven by annual budget cycles and competing fiscal priorities – putting the sustainability, quality, and safety of Australia's aged care system at risk.

Older Australians deserve better.

The Aged and Community Care Providers Association (ACCPA) hosted a Summit at Old Parliament House, Canberra on 1 June 2023, as part of its contribution to the national conversation on the future sustainability of aged care.

Forty-three organisations representing consumers, providers, unions, experts, government bodies and other interest groups, came together in a spirit of cooperation to discuss long-term policy solutions the Australian Government should consider. Senior government officials also attended as observers. Eleven groups subsequently provided general comment or submissions including UnitingCare Australia, Uniting NSW.ACT, DCM Group, OPAN, St Basil's Homes (SA) and Ideagen Complispace.

ACCPA expresses thanks for the time and expertise that has been shared by each organisation.

A range of views were expressed both at the Summit and through written submissions, and these are summarised in this Paper.

More broadly, this Paper is an amalgamation of the collective policy views and perspectives, rather than a common belief held by all organisations. Some will agree on everything written in this paper, while some will have alternative views on particular points.

Nevertheless, we present this Paper to support the national policy debate about how Australia can modernise its aged care system, for the benefit of all.

ACCPA particularly acknowledges and thanks Anglicare Australia, Baptist Care Australia and UnitingCare Australia for their contribution to the organisation of the event.

Executive Summary

The challenge

Australia's population is ageing. More than 4.2 million Australians are currently aged 65 or over, representing 16% of the population.[1] By 2066, that figure will climb to almost a quarter of the national population.[2]

This inescapable reality means that demand for aged care services will continue to increase, while the proportion of the Australian working population decreases.

At the same time, chronic underfunding for aged care services has resulted in an unsustainable sector –negatively impacting the standard of care older Australians receive.

The Royal Commission into Aged Care Quality and Safety confirmed what has been known to many within the industry for decades: a poorly funded aged care sector compromises service delivery and results in substandard care.

Currently, the long-term financial viability of the sector is at risk with the majority of residential aged care facilities operating at a loss. The viability of home and community care providers also continues to trend down, highlighting the unsustainability of current aged care funding.[3] The way Australia funds aged care, which has remained relatively unchanged for decades, needs to be modernised.

The key question is how we balance the fairness of asking older Australians with financial means to make a greater financial contribution to their own care, against the fairness of asking a shrinking percentage of working-age Australians to fund a growing aged care system through their taxes.

Three pillars of aged care funding

Broadly speaking, aged care funding is divided into three categories:

1. **Care.** This includes nursing, personal care and support with daily living tasks, allied health services and medical care, whether in a person's own home or in residential aged care. In both residential and home-based services, these costs are largely funded by government with some means-tested contributions from individuals.
2. **Accommodation (residential care only).** This relates to the cost of providing suitable accommodation in residential services, with funds allocated to the construction and ongoing refurbishment of the room that a resident lives in, as well as the attached infrastructure and communal areas. While the vast majority of Australian households pay for the full cost of their own accommodation and housing, with fewer than 4% able to access subsidised social housing,[4] the government heavily subsidises the accommodation cost of a large percentage of residential aged care residents. This is the area that accounts for the majority of the losses reported by the sector.
3. **Lifestyle expenses.** This includes cleaning, food, laundry, heating, lifestyle activities and travel. In residential care, these items are largely funded by individuals through a daily services fee that is capped at 85% of the pension, regardless of the ability of residents to pay. As this does not cover the cost of delivering these services, the government provides top-up funding for all residents.

1 Australian Institute of Health and Welfare, Older Australians, 28 June 2023, https://www.aihw.gov.au/reports/older-people/older-australians/contents/demographic-profile

2 Ibid.

3 StewartBrown, Aged Care Financial Performance Survey Report, March 2023, https://www.stewartbrown.com.au/images/documents/StewartBrown_-_Aged_Care_Financial_Performance_Survey_Report_March_2023.pdf

4 Australian Housing and Urban Research Institute, What is the right level of social housing for Australia?, 6 July 2022, https://www.ahuri.edu.au/analysis/brief/what-right-level-social-housing-australia#:~:text=In%20the%2040%20years%20between,(from%202021%20ABS%20Census)

Providers can also charge additional fees to residents for hotel-type services, such as better accommodation, food and services, where they receive extra services that are outside, or substantially better than, those required by government.[5] In the context of the numbers of older Australians in residential aged care, these fees are only paid by a small minority of residents.

When thinking about future funding options, we need to consider what Australians believe the government should fund versus what it is reasonable to ask individuals to continue to fund into their old age – if they have the means.

The current funding system

A research report to the Royal Commission into Aged Care Quality and Safety identified that in 2018-19, about 75% of the annual cost of the aged care system was funded by the Australian Government from taxpayer funds, while approximately 20% was paid directly by care recipients themselves through co-payments and means- tested fees.[6] A further 1.1% was paid by state and territory governments, with the remaining 3.8% funded from other sources.[7]

While it is acknowledged that comparing aged care funding models internationally is difficult, the Royal Commission's Final Report found that countries with comparable demographics to Australia spend about twice as much on long term care of older people, as a proportion of GDP.[8]

Australia invests about $30 billion a year, or about 1.2% of GDP, on long term care compared to the OECD average of 2.5%. Denmark, Sweden, the Netherlands and Japan spend more than 3-5% of GDP on long term care.[9]

Future funding options

Increasing government revenue to pay for aged care can be achieved in three principal ways:

1. higher taxation, or a greater proportion or re-prioritisation of existing taxation
2. the introduction of an 'aged care levy', similar to the existing Medicare levy (or an expansion of the existing Medicare levy to include aged care) or a hypothecated levy,[10] and/or
3. the introduction of a new social insurance scheme.

Likewise, increasing consumer payments, or co-contributions, can be achieved in three principal ways:

1. means testing
2. pay as you go, and/or
3. pre-payment.

5 Department of Health and Aged Care, Extra services agreements for residential aged care, 19 August 2022, https://www.health.gov.au/our-work/residential-aged-care/managing-residential-aged-care-services/extra-services-agreements-for-residential-aged-care

6 Royal Commission into Aged Care Quality and Safety, Financing Aged Care Consultation Paper 2, June 2020, p.3, https://agedcare.royalcommission.gov.au/sites/default/files/2020-06/consultation_paper_2_-_financing_aged_care_0.pdf

7 Ibid.

8 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.xi, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

9 Ibid., p.43.

10 The Executive Summary of the Final Report of the Royal Commission into Aged Care Quality and Safety states, 'To increase the sustainable funding for high quality aged care, we both support consideration of the introduction of a levy on taxable income to finance aged care. However, we differ on the optimum design of a levy, particularly about how much of the costs of the aged care system a levy should cover, and the form of a levy, whether it should be hypothecated or non-hypothecated.' Commissioner Pagone recommended a hypothecated levy (Recommendation 138), while Commissioner Briggs recommended an earmarked levy to be based on legislation related to a Medicare levy (Recommendation 144). See Royal Commission into Aged Care Quality and Safety, Final Report – Executive Summary, March 2021, p.164-168, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-executive-summary.pdf

Australia will either need to consider how it sustainably funds aged care in the future, including more funding from both the government and private sources to reach international standards, or accept a lower standard of care for older people than comparable countries and community expectations. Indeed, the Aged Care Financing Authority (ACFA) found that a sustainable aged care system can only be achieved with more co-contributions from older Australians who can afford to make them.[11]

It is important to note that large numbers of older Australians have the financial means to contribute to the cost of the services they need. However, the current system discourages, and in some cases prohibits, them from doing so. The Federal Government's 2020 Retirement Income Review Report found that *"most people die with the bulk of the wealth they had at retirement intact"*.[12]

Over the past 20 years, almost $1.4 trillion has been gifted by Australians in inheritances after they die.[13] This means that older Australians are potentially denying themselves the care they need, in order to pass on an inheritance - despite recent research showing that almost three quarters of Australians are willing to forego a portion of their own inheritance so their parents and grandparents can enjoy the retirement they deserve.[14]

However, if individuals are to be asked to contribute more to their own care, the community will need to consider what should be taxpayer-funded, either from general revenue or other sources such as a dedicated levy, and what should be funded by individuals.

This set of challenges formed the basis for the Aged Care Financial Sustainability Summit held in Canberra on 1 June 2023.

Summit participants considered the benefits and challenges of the options for increased public funding, as summarised in Section 2. They also discussed the possibility of introducing additional forms of consumer co-contributions, and considered the options in terms of equity and sustainability, as shown in Section.

A number of these funding sources were also considered, and recommended, by the Royal Commission into Aged Care Quality and Safety.

11 Aged Care Financing Authority, Submission to Royal Commission into Aged Care Quality and Safety, April 2019, p.4, https://agedcare.royalcommission.gov.au/system/files/2020-09/AWF.500.00197.0002.pdf

12 The Australian Government the Treasury, Retirement Income Review Final Report, July 2020, p.23, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

13 Productivity Commission, Wealth Transfers and their Economic Effects - Research Paper, November 2021, p.36, https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf

14 Ideagen Complispace, CompliSpace Aged Care Funding Report: Towards the Tipping Point in Aged Care Funding, 2023, p.3, https://www.complispace.com.au/funding-report-2023

Key principles

Following the views expressed at the Summit, combined with follow-up submissions, this Paper identifies ten principles for consideration in the design of a sustainable aged care system in Australia:

1. **Independent and person-centred** - maintaining independence as we age is critical and can be central to a person's identity and sense of self; many people wish to age in their own homes and community - the aged care system should prioritise this.
2. **Efficient** – financing systems should be integrated across health and aged care and should consider efficiency in aged care delivery.
3. **Transparent and specific** – it should be clear who is paying for what in the aged care system.
4. **Equitable** – every person in Australia should have access to high-quality aged care, regardless of their location, income or financial means.
5. **Means-tested** – those with financial means should pay for or make a contribution to their accommodation and lifestyle expenses.
6. **Flexible design for First Nations aged care** – there should be an appropriate and tailored funding system for First Nations aged care.
7. **Universal** – the Government should continue to be the primary funder of care.
8. **Future-focused** – the aged care system should aim to support quality into the future, rather than maintaining the status quo.
9. **Guaranteed** – service levels should be guaranteed, including for thin markets, which requires appropriately skilled and supported aged care workers.
10. **Inter-generationally fair** – aged care funding should be designed for the long-term, be predictable and be sustainable.

Conclusion

Australia needs to urgently modernise its aged care funding model. This is particularly critical given Australia's population will progressively age over the next 20 years, and the parallel expectation in the community to improve the quality of care and supports older Australians receive.

While funding alone will not solve all of the problems in aged care, the current financial situation makes solving those problems impossible.

This Paper identifies ten principles for consideration when designing a new funding model for aged care funding should be transparent, efficient, equitable, means-tested, include flexible design for First Nations aged care, be universal, future-focused, guaranteed, inter-generationally fair, and support independence.

As per Summit participant views, this Paper proposes that the Federal Government continue to be the primary funder of care services – as they are for Australians throughout their lives through the NDIS, Medicare and the public health system.

People should not be treated differently simply because they are over the age of 65, regardless of whether they are still living in the community or in a residential aged care home. However, for those who can afford it, there should be consideration of increased consumer co-contributions in aged care for accommodation and lifestyle expenses, which people have funded throughout their lives.

We can no longer put off the structural reforms needed to ensure older Australians receive the care, dignity and quality of life they need.

Section 1 – The Challenges

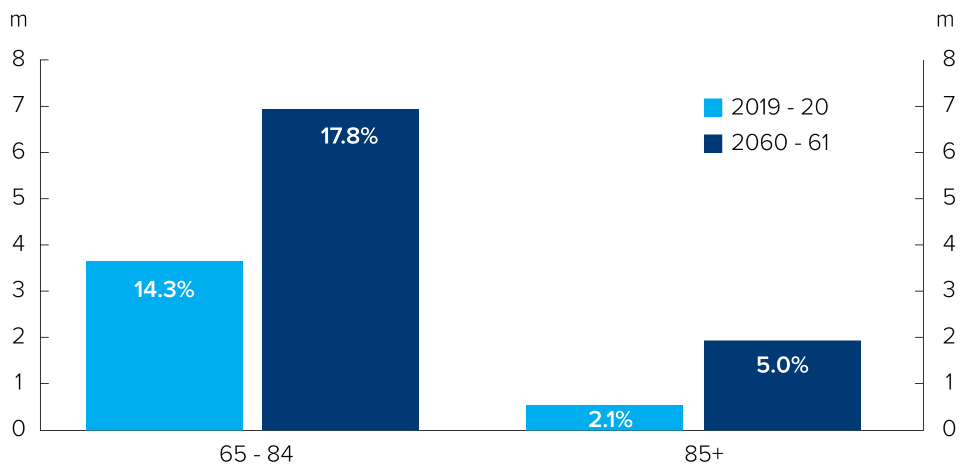
According to The Treasury's 2021 Intergenerational Report, Australia's *"greatest demographic challenge is the ageing population"*, as a result of increasing life expectancies and falling fertility rates.[15]

From 2019-20 to 2060-61, the number of people aged 65 and older will double to 8.9 million.[16]

Within 40 years, 23% of the population will be over 65 years of age, up from 16% in 2019-20.[17]

In addition, the number of people aged over 85 will more than triple to 1.9 million,[18] while the number of centenarians will increase by a factor of six, from 6,400 to 40,900.[19]

Figure 1: Older Australians by level and share of population (Source: The Commonwealth of Australia)[20]



Source: ABS National, state and territory population, September 2020, and Treasury

15 The Treasury, 2021 Intergenerational Report, June 2021, p.29, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf
16 Ibid.
17 Ibid.
18 Ibid.
19 Ibid.
20 The Treasury, 2021 Intergenerational Report, June 2021, p.30, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

Figure 2: Population age pyramid[21]

Source: ABS National, state and territory population, September 2020, and Treasury

1.1 Fewer working-age taxpayers

In coming decades, the ageing population will reduce the proportion of working-age taxpayers in Australia. Forty years ago, there were 6.6 working-age people for every Australian over the age of 65. Three years ago, this had fallen to 4 and is forecast to fall even further to 2.7 within 40 years.[22]

Labour force participation is expected to decline from a record high of 66.3% in March 2021 to 63.6% by 2060-61.[23] This is due to the increasing proportion of older people in the population, which is likely to only be partially offset by projected increases in labour force participation by women and older people.[24]

As identified in the 2022 Population Statement, *"As the population ages, there will be a larger percentage of older Australians relative to the people of working age. This presents long-term economic and fiscal challenges similar to those faced in most comparable countries"*.[25]

The combination of population changes, reduced labour force participation alongside productivity challenges, is projected to slow annual productivity growth over the next 40 years to 2.6%, as compared to 3.0% over the past 40 years.[26]

This smaller proportion of working-age Australians will be impacted by increasing budgetary pressure for taxpayer funding across a range of areas, including health and aged care among many others.

21 The Treasury, 2021 Intergenerational Report, June 2021, p.30, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

22 The Treasury, 2021 Intergenerational Report, June 2021, p.31, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

23 The Treasury, 2021 Intergenerational Report, June 2021, p.viii, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

24 Ibid.

25 Australian Government Centre for Population, 2022 Population Statement, 2022, p.18, https://population.gov.au/sites/population.gov.au/files/2023-01/population_statement_2022_0.pdf

26 The Treasury, 2021 Intergenerational Report, June 2021, p.viii, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

1.2 Life expectancy and care

In Australia, men's life expectancy at birth is expected to increase from 80.9 years in 2018to 86.8 years by 2061, while women's life expectancy at birth is expected to increase from 85.0 years to 89.3 years during the same period.[27]

According to the *2021 Intergenerational Report*, increasing rates of dementia will be a significant health challenge for Australia over the coming years – which will have a significant impact on both the health and aged care systems.[28]

The Australian Institute of Health and Welfare estimates that there were 401,300 people in Australia with dementia in 2022.[29] This number is expected to increase significantly to 849,300 by 2058 due to the combined effects of population growth and the ageing population.[30] Dementia is more prevalent amongst women, with women accounting for almost two thirds of people in Australia with dementia.[31]

The Royal Commission into Aged Care Quality and Safety also made a series of recommendations related to improved support and funding for palliative and end of life care across the aged care system.[32]

Together, these point to an increasing need and assurance for the Australian community of long-term funding to meet care needs as we live longer.

1.3 Long-term funding challenges

The Royal Commission into Aged Care Quality and Safety uncovered stories of substandard care, elder abuse, systemic problems and chronic underfunding of aged care.

Aged care providers are struggling with understaffing and critical financial pressures, with the majority of residential aged care homes operating at a loss.[33] The system, in its current form, is simply unsustainable.

A report from the Grattan Institute suggests that if the Royal Commission's recommendation for a rights-based aged care system is implemented, aged care spending will need to grow from 1.2% of GDP in 2021 to more than 2.5% of GDP by 2061.[34]

Furthermore, The Treasury's 2021 Intergenerational Report forecast that *"Aged care spending is projected to nearly double as a share of the economy by 2060-61. This is largely driven by demographics over the next decade, after which non-demographic factors become the predominant drivers of growth."*[35]

While taxation has historically provided the majority of aged care funding in Australia, there will be fewer working-age taxpayers in future to continue to fund the system as currently designed, just as the cost of delivering these services is set to substantially increase.

27 The Treasury, 2021 Intergenerational Report, June 2021, p.27, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

28 Ibid.

29 Australian Institute of Health and Welfare, Dementia in Australia, 23 February 2023, https://www.aihw.gov.au/reports/dementia/dementia-in-aus/contents/summary

30 Ibid.

31 Ibid.

32 Royal Commission into Aged Care Quality and Safety, Final Report – List of Recommendations, including Recommendations 35, 37, 58, 60, 70, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-recommendations.pdf

33 StewartBrown, Aged Care Financial Performance Survey Report, March 2023, https://www.stewartbrown.com.au/images/documents/StewartBrown_-_Aged_Care_Financial_Performance_Survey_Report_March_2023.pdf

34 Grattan Institute, Back in black? A menu of measures to repair the budget, April 2023, p.33, https://grattan.edu.au/wp-content/uploads/2023/04/Grattan-Back-in-Black-1.pdf

35 The Treasury, 2021 Intergenerational Report, June 2021, p.xii, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

1.3.1 Economic growth projections

Over the next 40 years, growth in the Australian economy is forecast to slow to 5.0% per year, as compared to the previous 40 years of 7.0% per year.[36]

Further, real Gross National Income (GNI) per person will fall from an average increasing annual rate of 1.8% (over the past 40 years) to 1.3% (over the next 40 years).[37] This will potentially adversely affect living standards in coming decades.

1.3.2 Australian Budget projections

The *2021 Intergenerational Report* found the Australian Budget will be in deficit for the next 40 years, while gross debt is projected to climb to 40.8% of GDP in 2060-61, after reaching a low of 36.8% in 2047-48.[38]

Government spending is projected to rise from approximately 26% in 2010-11 to 27.7% of GDP by 2060-61, driven by an ageing population and the demands of health, aged care, the NDIS and individual payments.[39]

These changes to the health of the Australian Budget will make it progressively harder to meet the ever-growing cost of aged care.

1.4 Workforce challenges

Australia's aged care providers are struggling to maintain competitive salaries and conditions, when compared to other sectors, with staff leaving the industry in unprecedented numbers due to poor pay, stress, and increasingly burdensome administration requirements and red tape. While the recent 15% increase on minimum award rates for eligible aged care workers is welcome, it is yet to be seen whether the increase will have the desired effect on staff retention and attraction. It also does nothing to improve wages for those staff who are not covered by the increase.

Currently, there are280,000 residential aged care workers across the country, and around 191,000 older Australians receiving high-needs care in communal residential facilities.[41]

Up to 139,000 or 50% of residential aged care workers may be planning to leave the sector in the next three years, due to low pay and over-work.[42]

1.5 International funding comparisons

The Royal Commission into Aged Care Quality and Safety compared Australia's aged care system with selected other countries including Argentina, Brazil, Canada, Denmark, Germany, Indonesia, Japan, Republic of Korea, Mexico, the Netherlands, New Zealand, Poland, Russia, Singapore, South Africa, Sweden, Switzerland, Thailand, the UK (England), United States of America (USA) and Vietnam.[43]

36 The Treasury, 2021 Intergenerational Report, June 2021, p.viii, ix, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

37 Ibid

38 The Treasury, 2021 Intergenerational Report, June 2021, p.69, 78, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

39 The Treasury, 2021 Intergenerational Report, June 2021, Chart 7.2, p.90-91, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

40 Ideagen Complispace, CompliSpace Aged Care Funding Report: Towards the Tipping Point in Aged Care Funding, 2023, p.8, https://www.complispace.com.au/funding-report-2023, citing Ideagen Complispace, Aged Care Workforce Report, 2022, https://www.complispace.com.au/workforce-report-2022

41 Ideagen Complispace, Aged Care Workforce Report, 2022, p.8, https://www.complispace.com.au/workforce-report-2022

42 Ibid.

43 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.viii, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

It found that low-to-middle income nations from South-East Asia, Central America and Sub-Saharan Africa have a lower proportion of older people and a significantly lower GDP per capita than Australia. These countries have less developed long-term care (LTC) systems and rely heavily on informal care which is generally funded by families out-of-pocket. In some countries, legislation states that family members have the responsibility for providing LTC for older people – while government-funded LTC is only available to older people who have limited financial resources and who do not have family.[44]

In contrast, all citizens in Russia are guaranteed social support under the constitution, with home care services the most commonly used. Adult children are responsible for caring for parents with disability and must also cover additional costs. Foster families can be engaged to deliver social services to older people who live alone and require nursing care.[45]

The Royal Commission's review found that Poland, Singapore and the USA had the lowest levels of access based on means testing, as well as the greatest reliance on consumer spending in both home and residential care. While care recipients in these countries can choose providers and have an entitlement to care, government expenditure is comparatively low (e.g., Poland 0.4% of GDP, USA 0.6% of GDP).[46]

The review found that although England and Canada had the lowest level of access, they only had a mid-level reliance on consumer spending. Publicly-funded care is limited by means testing, with limits on care based on the available budget. In England and Canada, an estimated 1.4% of their GDP was spent on aged care – noting that this figure may not include expenditure provided as cash benefits.[47]

Of the countries considered in the review, half (including Australia) fell into a category with the highest scores for access and mid-to-high-level reliance on consumer spending. Access to services was not constrained by government budgets.[48]

Despite care being highly accessible for older people in these countries, they still rely on some level of consumer copayment.[49]

On average, countries in this category spend 2.5% of GDP on LTC, while Australia only spends approximately 1.2% of GDP.[50]

44 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.ix, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

45 Ibid.

46 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.x, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

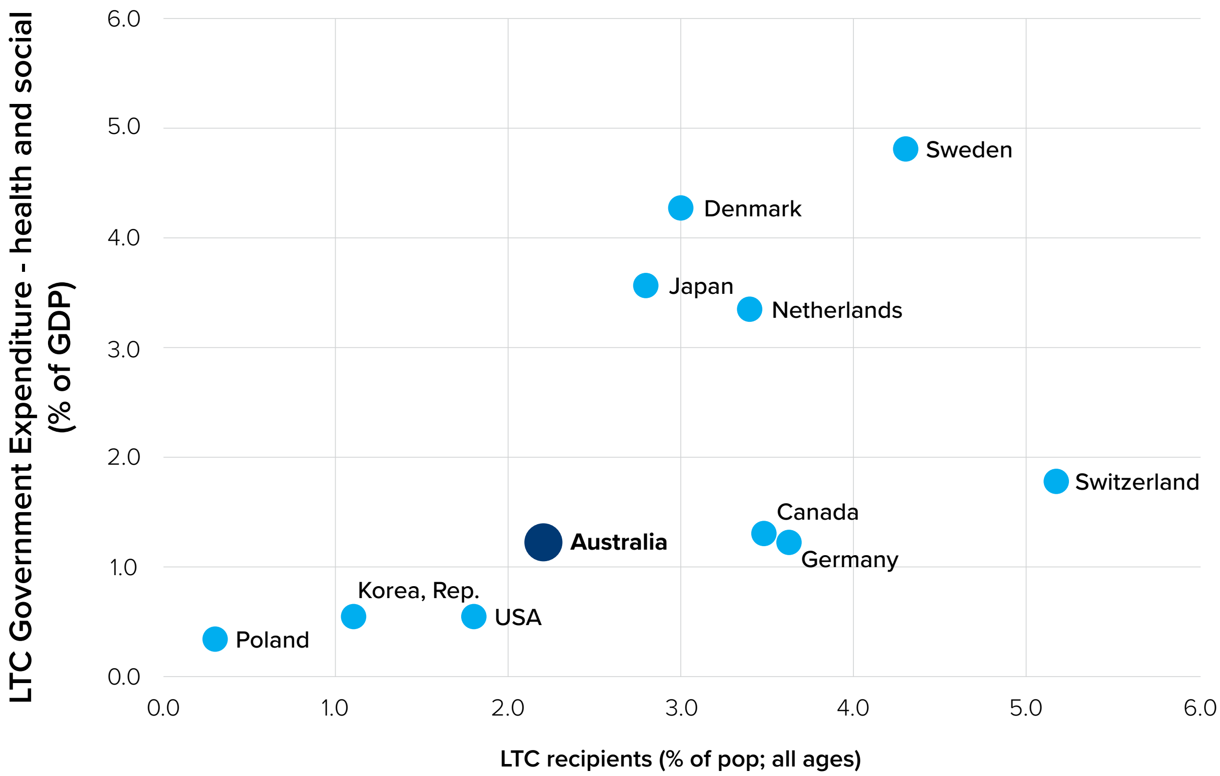
47 Ibid.

48 Ibid.

49 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.xi, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

50 Ibid.

Figure 3: Government expenditure on Long term care (LTC) for older people against LTC recipient (all ages)
(Source: Royal Commission into Aged Care Quality and Safety)[51]



Source: LTC recipient data and government expenditure data extracted on 6 May 2019 from https://stats.oecd.org/index.aspx?DataSetCode=HEALTH_STAT.

Furthermore, while the study noted the difficultly of making international comparisons regarding the quality of integration of LTC systems with the health system, it noted there is some evidence which suggests the health and social care systems in Australia may not be as well coordinated as those in similar nations.[52] In this context, the study noted an opportunity for better integration of the LTC system with the healthcare system to improve the way in which chronic diseases, including dementia, are managed.[53] This interface will be increasingly relevant to funding of the aged care system in Australia, particularly as the prevalence of dementia is expected to rise.

According to the OECD, Australia has the highest proportion of people aged over 80 who live in communal residential aged care facilities, when compared to 10 other countries (Figure 4).[54]

While the causes of this are uncertain, some factors that lead to lower levels in otherwise similar countries such as Canada, may include greater levels of spending on home-based services with a greater emphasis on enabling independence; a higher proportion of older people living with family members once they require care; and higher levels of welfare and health services which may serve to keep people living independently for longer.

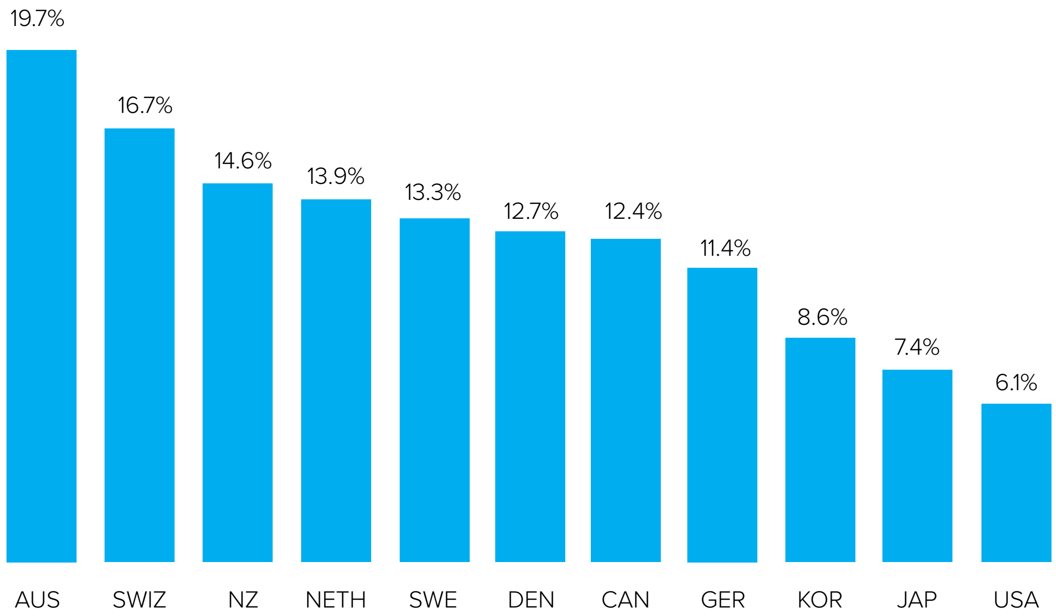
51 Ibid., p.109.

52 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.xiii, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

53 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.xiv, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

54 Ibid.

Figure 4: Percentage of population aged 80 and over living in institutions (Source: Royal Commission into Aged Care Quality and Safety)



Source: Data extracted on 6 May 2019 from OECD.Stat https://stats.oecd.org/index.aspx?DataSetCode=HEALTH_STAT. *Note: It is unclear whether or not care recipients in skilled nursing facilities in the USA are included in these data.*

Section 2 – Summary of Summit Deliberations

The Summit considered a range of important issues as part of a national conversation on long-term and sustainable funding for aged care.

Introductory observations from COTA Australia CEO Patricia Sparrow highlighted the perspective of the consumer in the conversation around funding and financing of Australia's aged care system, with comments such as: *"I'm prepared to pay more if I can afford it. But only if the quality is better, it's clear where the money is going and there are strong protections in place".*

In addressing this perspective, it was also put forward that the challenge for Government and the sector is to:

In addressing this perspective, it was also put forward that the challenge for Government and the sector is to:

- create a service guarantee
- improve quality through the reform process
- embrace transparency at all levels
- ensure quality and regulatory systems protect individuals and address issues
- keep the system fair and affordable for all (not just pensioners or the wealthy).

Following this, Summit attendees considered two aspects of sustainability – financial (who is delivering this system) and fiscal (who is paying for this system).

Professor Mike Woods, an expert in health economics and aged care from the Centre for Health Economics Research and Evaluation (CHERE) at UTS, presented on relevant data and observations for both financial and fiscal sustainability.[55]

2.1 Session 1 – Financial sustainability

In addition to a presentation on the continuing decline in the viability of delivering residential and in-home care, Professor Woods set out a summary of the potential funding mechanisms for the aged care system, and their relative advantages and disadvantages, as presented in Figure 5 below.[56]

Figure 5: Advantages and disadvantages of alternative taxpayer funding options (Source: based on University of Technology Sydney)[57]

Financing system	Potential mechanisms	Advantages	Disadvantages
Pre-funded	Levy Social insurance	Over time, the generation raising the funds, will be the generation using the services Supports risk-pooling	Resource allocation risk for as future aged care costs may be under or over-funded Reliance on complex actuarial models and assumptions

55 University of Technology Sydney, Sustainability of the Aged Care Sector: Discussion Paper, 2022, https://opus.lib.uts.edu.au/bitstream/10453/158194/2/UARC_Sustainability%20Discussion%20Paper.pdf and UTS Ageing Research Collaborative (UARC), Australia's Aged Care Sector: Mid-Year Report 2022–23, 2023, https://opus.lib.uts.edu.au/bitstream/10453/170529/2/UARC_Aged%20Care%20Sector%20Mid%20Year%20Report%202022-23.pdf

56 University of Technology Sydney, Sustainability of the Aged Care Sector: Discussion Paper, 2022, p.58-59, https://opus.lib.uts.edu.au/bitstream/10453/158194/2/UARC_Sustainability%20Discussion%20Paper.pdf

57 Ibid., p.57.

Pre-funded		Supports some assurance for taxpayers on use of funds for aged care	Complexity in administration and administration required to manage funds Risk of future governments altering funding arrangements Challenge with intergenerational equity for current working age generation wearing the transition burden
Pay-as-you-go	Consolidated Revenue (general taxation) Levy (pay-as-you-go) Social insurance (pay-as-you-go)	Simple and clear Flexible, as funds are raised and adjusted as required, avoiding over or under funding Consistent with social values that every generation supports the aged care costs of its elders	Risk of demographic change in the dependency ratio Potential issues with intergenerational equity, depending on each generation's economic conditions and the welfare and tax settings of the time, as well as their opportunities to accumulate wealth Risk that future generations are potentially less willing to contribute Risk that priorities and capacity of governments may change over time
Post-funded	Public debt	Simple to administer and allocate resources due to known funding requirements	Potential adverse effects interest and credit availability Intergenerational equity issues, with future generations repaying debt and interest Risk that future generations are potentially less willing to contribute Risk that priorities and capacity of governments may change over time

Following the presentation in Session 1, Summit participants were asked two questions:

1. What role can taxation, levies and social insurance play in the long-term financial sustainability of the aged care sector?
2. What are the benefits and outcomes, and risks and barriers to each policy lever for aged care consumers, providers and the broader community?

In summary, for sustainable taxation, there was an appetite for continuing taxation, for a levy (if it is well designed) and (to a lesser extent) a social insurance scheme for future generations.

Fundamental tenets to sustainable taxation included the need to articulate costs and value. Identifying value-adding expenditure ("What are essential versus avoidable costs?") and better defining care ("What exactly are we funding?") will be imperative going forward. Clear underpinning concepts also emerged, including:

- transparent: aggregate both at a system level and for individuals receiving care
- acceptable social licence and supported politically
- long-term, inter-generational, predictive
- timely funding that is available when we need it
- progressive and pooled, ensure access for all
- efficient and administratively simple.

Levies were seen as straightforward, transparent and progressive if implemented in a similar way to the Medicare levy. It was noted that a possible way forward could be a 'care economy' levy – which could include Medicare, aged care, disability, veterans and early childhood care.

Social insurance was considered to be most applicable as a long-term solution for future generations and could be incentivised and designed as an extension to the superannuation guarantee scheme.

Other considerations included a system that facilitates prevention and reablement and recognises the universal right to healthcare (irrespective of age). Concepts of fairness and equity were also raised (including for those without the financial means to pay), as well as ensuring the design of a system that funds according to assessed need and does not ration care.

Alternative suggestions included an inheritance tax, particularly for superannuation if it is not used for retirement as intended. There was also discussion regarding the possibility of additional superannuation contributions (beyond current, general contributions) specifically for aged care.

2.2 Session 2 – Fiscal sustainability

Professor Woods presented on current trends regarding aged care funding and provided options to improve sector viability. These include means-tested care fees for residential care, basic daily fees and income-tested fees for home care packages, and consumer fees for CHSP services.[58]

Figure 6: Trends in consumer fees by aged care program 2020-21 (Source: Professor Mike Woods)[59]

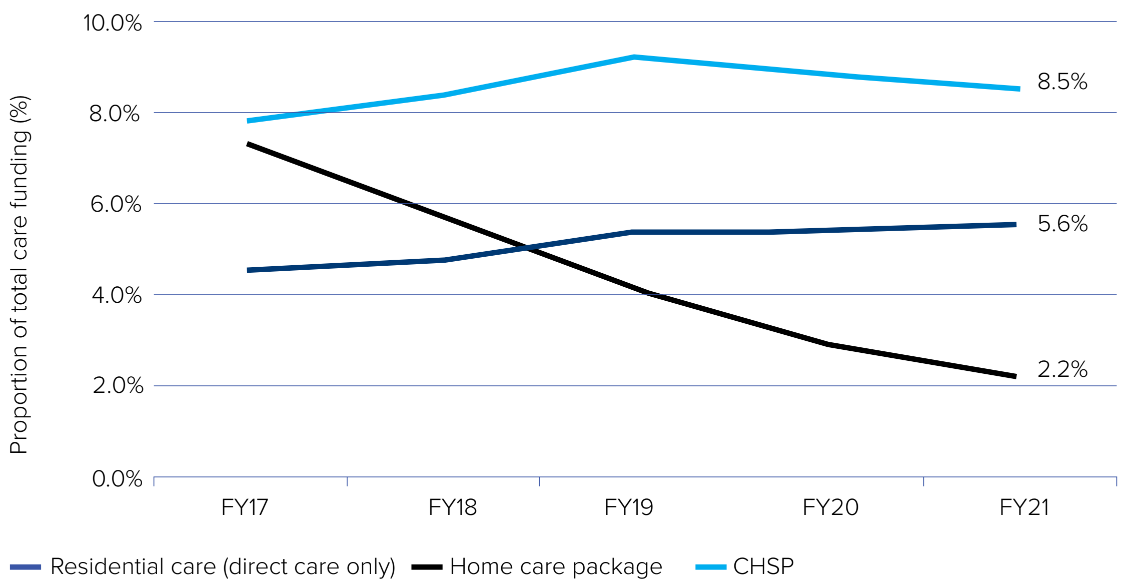
Aged care program	Trends
Residential direct care:	■ means-tested fees are now plateauing below 6% of total (as per Figure X)
Home care packages:	■ fees steadily falling (currently at 2.2% of total) ■ underutilised packages, competition, Basic Daily Fee not collected, income-tested fees low.
Commonwealth Home Support Program (CHSP):	■ not mandatory, but has the highest collection levels of consumer contributions

58 UTS Ageing Research Collaborative (UARC), Australia's Aged Care Sector: Mid-Year Report 2022–23, 2023, p.60, https://opus.lib.uts.edu.au/bitstream/10453/170529/2/UARC_Aged%20Care%20Sector%20Mid%20Year%20Report%202022-23.pdf

59 Professor Mike Woods, University of Technology Sydney, Presentation to ACCPA Financial Sustainability Summit, 1 June 2023.

Figure 7 depicts current consumer contribution rates, by program, proportionate to the total provider payments for 2020-21.[60]

Figure 7 – Consumer contributions to care funding, by program (Source: UTS Ageing Research Collaborative)[61]



Professor Woods outlined options for consideration to improve viability including:

1. introducing mandatory means- or income-tested fees
2. raising the annual and lifetime caps for contributions to care costs
3. applying variable subsidy levels:

- higher subsidies for health and personal care
- lower subsidies for domestic and other support

Additionally, Professor Woods presented on components of the aged care system that might be appropriate for reform, and issues for Summit attendees to reflect on.

Figure 8 – Everyday living: a personal expense (Source: Professor Mike Woods)[62]

Everyday living losses are a long-term trend:	■ providers are losing $7.37 per resident, per day ■ taxpayer-funded direct care has traditionally been used to cross-subsidise the shortfall ■ the Basic Daily Fee is pegged to the pension and CPI, but costs are up by 9.8% for 2022 ■ greater clarity is needed on permissible additional services guidelines.
Possible design criteria:	■ maintain safety net tied to Age pension (with indexing) ■ maintain current relative level of taxpayer funding ■ increased Basic Daily Fee to level for those who can afford to pay.
Mechanisms for achieving the surplus:	■ redistribute Hotelling supplement to fund a safety net raise Basic Daily Fee for those with higher income/wealth ■ clarify and facilitate voluntary additional services.

60 UTS Ageing Research Collaborative (UARC), Australia's Aged Care Sector: Mid-Year Report 2022–23, 2023, p.60, https://opus.lib.uts.edu.au/bitstream/10453/170529/2/UARC_Aged%20Care%20Sector%20Mid%20Year%20Report%202022-23.pdf

61 Ibid.

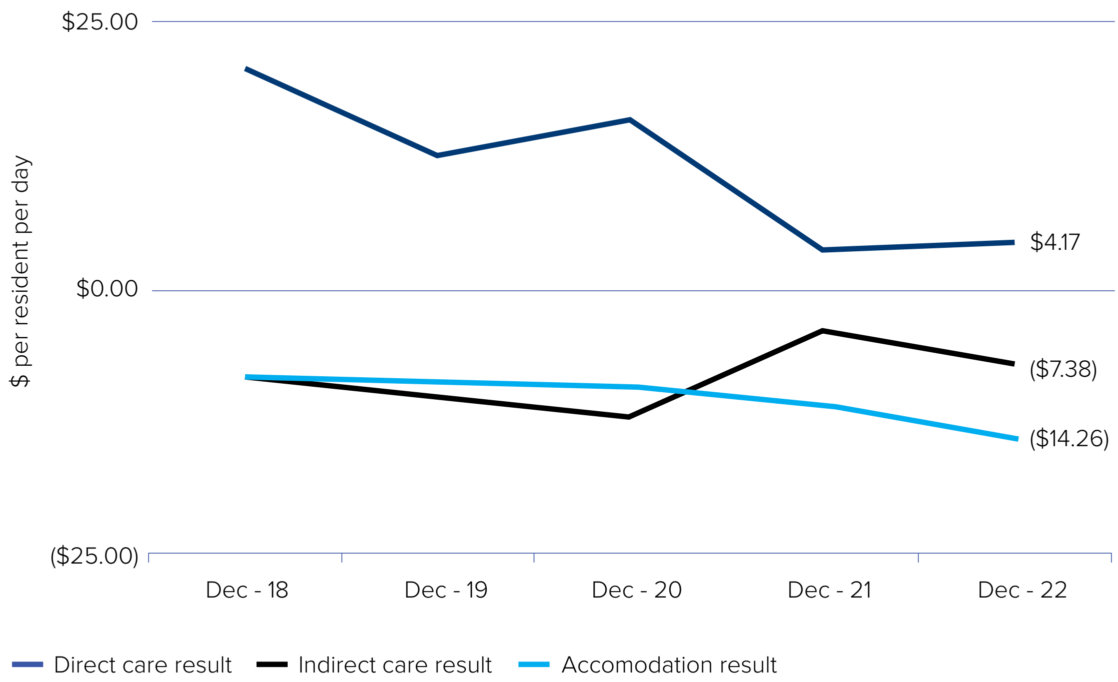
62 Professor Mike Woods, University of Technology Sydney, Presentation to ACCPA Financial Sustainability Summit, 1 June 2023.

Figure 9: Accommodation: safety net and market rents (Source: Professor Mike Woods)[63]

Accommodation: safety net and market rents	
Accommodation losses are a long-term trend:	■ providers are losing $14.26 per bed day for December 2022. ■ taxpayer-funded direct care surplus has traditionally been used as cross-subsidy ■ potential opportunities for reform involving RADs and DAPs.
Distortions increasing:	■ RADs are out of balance with property market ■ In 2022, national median house prices rose by 12.0%, RAD values rose by 3.2% ■ Median RAD values in all regions (including metro) were below the $550,000 threshold for approval ■ MPIRs produce distorted relativities between RADs and DAPs ■ length of stay is declining, while DAP preferences are increasing reducing access to capital.
Options to achieve surplus:	■ retain the safety net by raising level of supported resident accommodation supplement ■ for non-supported residents, focus on rents at market rates, raise the RADs threshold value requiring approval by IHACPA, and permit providers to offer RADs at a discounted value.

As can be seen depicted in Figure 10 below, historically residential aged care has earned considerable margins from direct care, whilst indirect care and accommodation have resulted in losses, noting the scope for reform to support future sustainability of the sector.[64]

Figure 10 – Average net result of residential aged care services, by service area (Source: UTS Ageing Research Collaborative)[65]



63 Professor Mike Woods, University of Technology Sydney, Presentation to ACCPA Financial Sustainability Summit, 1 June 2023.

64 UTS Ageing Research Collaborative (UARC), Australia's Aged Care Sector: Mid-Year Report 2022–23, 2023, p.19, https://opus.lib.uts.edu.au/bitstream/10453/170529/2/UARC_Aged%20Care%20Sector%20Mid%20Year%20Report%202022-23.pdf

65 Ibid.

Following the presentation in session 2, Summit participants were asked two questions:

1. What role can consumer co-contributions – including means testing, pre-funded financial products, and pay as you go – play in ensuring an equitable and sustainable aged care system?
2. What principles should underpin consumer co-contributions?

For sustainable consumer co-contributions, there was common ground that they should have an increased role – with further dialogue needed on key elements, including products such as loans, insurances and superannuation.

There was broad acknowledgement that there needs to be a differentiation between healthcare, and additional service and living costs. While healthcare was considered to be a universal right, regardless of age, it was acknowledged that additional services and living costs could be the focus of consumer contributions.

As with sustainable taxation, central principles commonly discussed included designing a system that is transparent, future-focused, simple and consistent.

When discussing funding arrangements for sustainable and quality aged care, participants broadly considered the role of taxpayer funding and consumer contributions in three key areas:

- **Health care -** health related costs (including patient assessment, development of care plans, wound management, and administration of medications) should be borne by the government
- **Care -** care related costs (including daily living activities, transport, personal care needs, and assistance)[66] should be a mix of government and consumer funding
- **Accommodation and living -** accommodation and living related expenses (comprised of accommodation and lifestyle)[67] should be supported by consumer contributions for those with means.

It was also broadly agreed that if increased consumer co-contributions are to be implemented, the following principles should be applied:

- **Boundaries.** Ensure aged care consumers do not pay more for healthcare than other age groups.
- **Means testing.** Ensure it is 'fit for purpose' and aligned with other forms occurring elsewhere (for example Centrelink); carefully define treatment of assets (such as superannuation and the home); and consider relationship with taxation.
- **Equity.** Ensure there are safety nets that are effective and fair and that those with specific needs are accounted for in the design.
- **Service levels.** Define and support a base level access guarantee (including for thin markets).

Other funding model design considerations included the need to address investor risk tolerance and appetite to invest in aged care, as well as provider margins, covering future cap-capital expenditure and properly funding and enabling innovation. It was noted that banks and the financial services industry, including superannuation funds, should be part of the conversation and system planning as major current or potential investors in the sector.

Further, the influence of cost of living in home care was identified as a factor for consideration, as well as the ways in which consumer co-contributions might apply in home care, including an administratively efficient system.

Finally, in terms of funding model design, state and federal tax systems should be explored, including the role of stamp duty which deters older people from downsizing to smaller, age-appropriate accommodation and also the interactions with the pension system.

The Summit's initial 'headline' conclusion was that a blend of taxpayer and consumer funding is required for future sustainability.

Further detail of Summit discussions can be found at Appendix A.

66 Department of Health and Aged Care, Care minutes and 24/7 registered nurse responsibility guide, p.21-23, https://www.health.gov.au/sites/default/files/2023-06/care-minutes-and-24-7-registered-nurse-responsibility-guide_0.pdf

67 Independent Health and Aged Care Pricing Authority, About extra service fee approvals, https://www.ihacpa.gov.au/aged-care/about-extra-service-fee-approvals

Section 3 – Future Funding Choices

3.1 Public funding

In 2020-2021, the Australian Government invested $23.6 billion on aged care. This included $14.1 billion invested into residential care and $7.7 billion invested into home and community care.[68]

However, public spending is under significant pressure caused by the need to adequately fund other critical services, including health care, defence, social housing and the NDIS, along with interest on accumulated government debt, which has increased drastically as a result of COVID-19.

The UTS Ageing Research Collaborative (UARC) has projected that government spending on aged care will reach 1.5% of GDP in 2023–24, more than a decade earlier than the 2021 Intergenerational Report predicted.[69]

With an ageing population comes a declining proportion of taxpayers, which (when combined with participation and productivity challenges) is projected to see Australia's growth decline over the next forty years.[70]

To increase government funding for aged care, three broad options were put to attendees of the Financial Sustainability Summit:

1. taxation
2. levies
3. social insurance.

Participants observed that these broad options are not mutually exclusive and that a combination of general taxation, levies and social insurance should be explored as part of the funding solution.

1. Taxation

General taxation is the current source of government funding for aged care in Australia. No specific, hypothecated taxes to fund aged care exist at this time – meaning that all funding is derived from general government revenue. Taxation has enabled spending on aged care to increase from almost 0% of GDP in the early 1960s to around 1% of GDP by 2020.[71]

The simplest mechanism to increase government funding is to increase the amount of general revenue directed to aged care, either through increases in taxes such as income tax, company taxes or GST, or through decreasing expenditure on other areas of government services.

The attraction of this approach is that it is simple, can be implemented quickly and shares the responsibility of aged care funding across the community. It is also administratively efficient and progressive.

However, with a declining proportion of working-age taxpayers, any further reliance on income tax could put pressure on the system, and raises challenging questions about inter-generational inequity.[72]

In addition, Royal Commissioner Briggs found "the problem with the current arrangements is not the nature of the financing arrangements or the way in which funds destined for aged care are collected, but the clarity and transparency of the arrangements for allocating those funds".[73]

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68 Department of Health and Aged Care, How much does aged care cost?, 19 August 2022, https://www.health.gov.au/topics/aged-care/about-aged-care/how-much-does-aged-care-cost

69 UTS Ageing Research Collaborative (UARC), Australia's Aged Care Sector: Mid-Year Report 2022–23, 2023, p.52, https://opus.lib.uts.edu.au/bitstream/10453/170529/2/UARC_Aged%20Care%20Sector%20Mid%20Year%20Report%202022-23.pdf

70 The Treasury, 2021 Intergenerational Report, June 2021, p.viii, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf

71 Royal Commission into Aged Care Quality and Safety, Financing Aged Care Consultation Paper 2, June 2020, p.15, https://agedcare.royalcommission.gov.au/sites/default/files/2020-06/consultation_paper_2_-_financing_aged_care_0.pdf

72 Professor Mike Woods, Time to Care, Presentation to ACCPA's Financial Sustainability Summit, 1 June 2023.

73 Royal Commission into Aged Care Quality and Safety, Final Report – Executive Summary, March 2021, p.167, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-executive-summary.pdf

2. Levies

Aged care in Australia could potentially be supported by an earmarked aged care levy.

Levies are not new in Australia. Examples include the Medicare Levy, the Temporary Budget Repair Levy, the Air Passenger Ticket Levy and the Passenger Movement Charge.[74]

Most Australian income taxpayers are required to pay 2% of their income to the Medicare levy, on top of their marginal tax rate, with reductions for those who earn the least and those who receive the government pension.[75] Income from the levy helps sustain Australia's universal health system, although it does not cover the entire cost.

Royal Commissioner Briggs recommended a 1% 'aged care improvement levy' on all taxpayers, but did not consider it necessary to hypothecate this levy.[76] Royal Commissioner Pagone recommended a 'hypothecated aged care levy', imposed through the tax system, possibly financing an Aged Care Fund over a 30 year horizon.[77]

Substantial benefits exist for an aged care levy, including its simplicity, transparency and progressive nature, meaning wealthier Australians pay a higher amount than those on lower incomes.

The Royal Commission was told that benefits of designated levies include:[78]

- **Accountability and trust.** As hypothecated taxes are directed to a specific fund, they provide taxpayers with assurance about how their taxes will be used.
- **Transparency.** Hypothecated taxes can help to inform taxpayers about the cost of services, thereby enabling them to have more informed views about whether there is an appropriate balance between tax burden and the services provided.
- **Public support.** Hypothecation can help to generate public support for tax increases if taxpayers believe the service which will benefit from the earmarked tax is valuable, in contrast to increases in income tax which are generally harder to explain and more likely to be unpopular.

Notwithstanding the above, there are concerns that designating a specific aged care levy may create a false perception that it would be sufficient to cover all aged care needs, when in reality it would likely only meet a proportion of the total cost of the aged care system. This is similar to the current Medicare levy which does not raise enough revenue to pay the full costs of the Medicare system.

It is also important to design any levy in such a way that it does not create inequity. In particular, a flat percentage rate, applied to all taxpayers, would disproportionately impact those on the lowest incomes. This would potentially add to issues of generational inequity, as younger people on the lowest incomes would be asked to fund aged care services. Similar to the Medicare levy, a new levy could include reductions or exemptions for those earning the least, to address this issue. Other criteria could also be explored such as age restrictions similar to those which apply to the Medicare Levy Surcharge.[79]

74 Royal Commission into Aged Care Quality and Safety, Financing Aged Care Consultation Paper 2, June 2020, p.16, https://agedcare.royalcommission.gov.au/sites/default/files/2020-06/consultation_paper_2_-_financing_aged_care_0.pdf

75 Australian Taxation Office, What is the Medicare Levy, 27 July 2023, https://www.ato.gov.au/Individuals/Medicare-and-private-health-insurance/Medicare-levy/What-is-the-medicare-levy-/#:~:text=The%20Medicare%20levy%20helps%20fund,your%20spouse's%20income%20and%20circumstances

76 Royal Commission into Aged Care Quality and Safety, Final Report – Executive Summary, March 2021, p.167, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-executive-summary.pdf

77 Royal Commission into Aged Care Quality and Safety, Final Report – Executive Summary, March 2021, p.165, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-executive-summary.pdf

78 Royal Commission into Aged Care Quality and Safety, Financing Aged Care Consultation Paper 2, June 2020, p.18, https://agedcare.royalcommission.gov.au/sites/default/files/2020-06/consultation_paper_2_-_financing_aged_care_0.pdf

79 Australian Taxation Office, Paying the Medicare Levy Surcharge, 30 June 2023, https://www.ato.gov.au/Individuals/Medicare-and-private-health-insurance/Medicare-levy-surcharge/Paying-the-medicare-levy-surcharge/

3. Social insurance

Social insurance would be paid throughout someone's career and drawn down if needed later in life. It would address fears that many people have about care costs in later life rapidly exhausting their life savings. By making contributions to a pooled fund mandatory, social insurance schemes enable long-term risks to be shared.[80]

However, difficulties with implementing a new system are a significant drawback, along with the time needed for it to generate the revenue required to close the aged care funding gap.

The potential for a social insurance scheme covering aged care was considered by the Productivity Commission in 2011.[81] The Productivity Commission concluded that *"the opportunity to smooth the higher costs associated with the bulge of baby boomers has largely passed"*.[82]

3.2 Co-contributions

3.2.1 The role of co-contributions

The role of consumer co-contributions is an important consideration for a sustainable aged care funding model.

In 2019, the Aged Care Financing Authority (ACFA) found that a sustainable aged care system in Australia can only be achieved with more co-contributions from the older Australians who can afford to make them.[83] Those who cannot afford to pay should continue to be supported by government funding, just like any other age group in Australia.

ACFA found that consumers who can afford to do so, 'have a responsibility to contribute to their care costs' in areas like accommodation and everyday living, such as they have done throughout their adult lives.[84] Furthermore, ACFA's report found the sector will fail to get better at serving older Australians unless there is an increase in co-contributions for housing and lifestyle expenses.[85]

One of the fears that is often raised in discussions about increased contributions is that they will not be affordable for consumers, reducing access and availability of appropriate aged care. However, the Federal Government's 2020 Retirement Income Review Report found that *"most people die with the bulk of the wealth they had at retirement intact"*.[86]

Such analysis and findings suggest there is scope for increased consumer co-contributions as part of the Australian aged care system, for those with means.

3.2.2 Wealth

The Reserve Bank of Australia found that between 2004 and 2015-16, growth in household consumption was supported by strong growth in asset prices, particularly for older households.[87]

80 Royal Commission into Aged Care Quality and Safety, Financing Aged Care Consultation Paper 2, June 2020, p.23, https://agedcare.royalcommission.gov.au/sites/default/files/2020-06/consultation_paper_2_-_financing_aged_care_0.pdf

81 Productivity Commission, Caring for Older Australians, Report No. 53, 2011, p.121, https://www.pc.gov.au/inquiries/completed/aged-care/report/aged-care-volume2.pdf

82 Ibid.

83 Aged Care Financing Authority, Attributes for Sustainable Aged Care – a funding and financing perspective, 2019, p.5, https://www.health.gov.au/sites/default/files/documents/2019/11/acfa-report-on-attributes-for-sustainable-aged-care.pdf

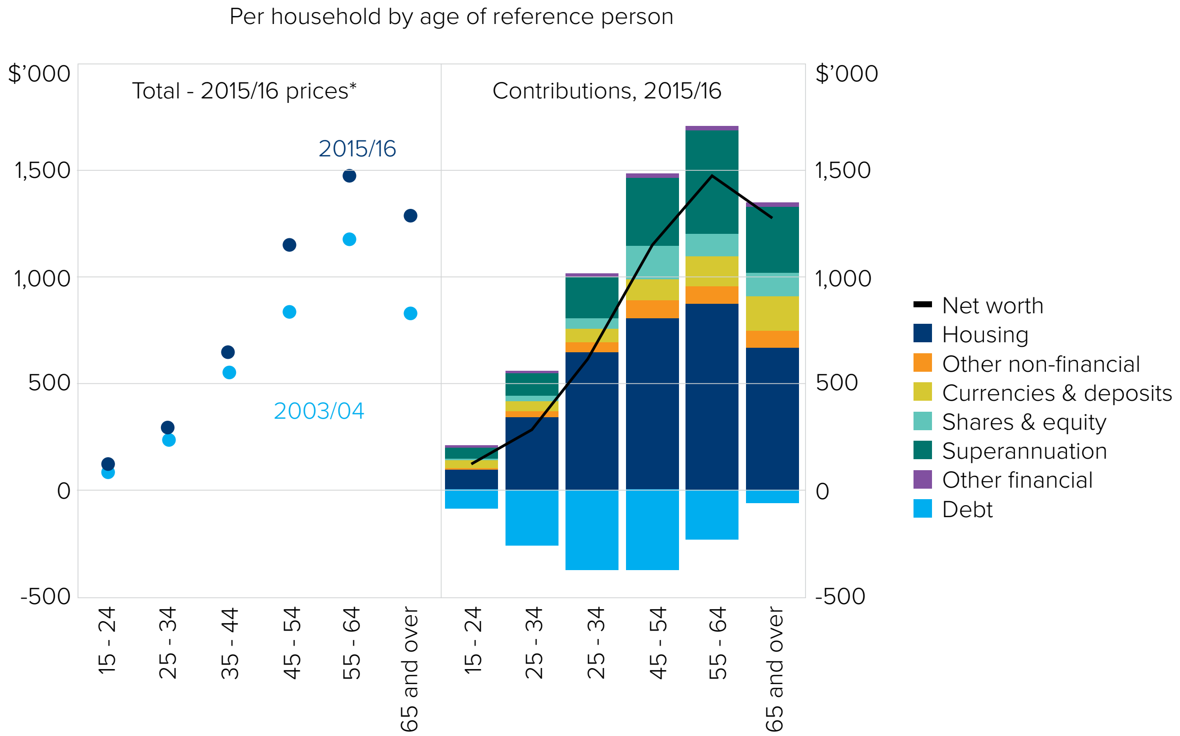
84 Aged Care Financing Authority, Attributes for Sustainable Aged Care – a funding and financing perspective, 2019, p.4, https://www.health.gov.au/sites/default/files/documents/2019/11/acfa-report-on-attributes-for-sustainable-aged-care.pdf

85 Aged Care Financing Authority, Attributes for Sustainable Aged Care – a funding and financing perspective, 2019, p.5, https://www.health.gov.au/sites/default/files/documents/2019/11/acfa-report-on-attributes-for-sustainable-aged-care.pdf

86 The Treasury, Retirement Income Review - Final Report, July 2020, p.23, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

87 Reserve Bank of Australia, Demographic Trends, Household Finances and Spending, Graph 10, https://www.rba.gov.au/publications/bulletin/2020/mar/demographic-trends-household-finances-and-spending.html#:~:text=The%20average%20wealth%20of%20households,the%20increase%20in%20their%20consumption

Figure 11: Net Wealth by Age (Source: Reserve Bank of Australia)[88]



*Deflated to 2015/16 prices with the aggregate consumption deflator   Source: ABS; RBA

The estimated aggregate value of wealth transfers in Australia between 2002 and 2018 was approximately $1.5 trillion, which included both inheritances and gifts.[89] The average recipient of an inheritance is 50 years of age, receives about $125,000 in inheritance, is around their peak earning capacity and established in a home.[90] Further, the aggregate annual value of wealth transfers has more than doubled between 2002 and 2018, as Australians have accumulated larger amounts of wealth, with more than $120 billion transferred in 2018 alone.[91]

At the same time, Australia spends about half the GDP of comparable countries on aged care, the equivalent of around $30 billion per year.[92]

3.2.3 Attitudes to inheritance

In 2021, the Productivity Commission found that Australians are passing on more wealth than ever to their children, and grandchildren, due to the combined effects of rising housing values and increasing superannuation balances.

Australia's $3.5 trillion superannuation system[94] is the fourth largest retirement saving scheme in the world and is forecast to reach $5 trillion by 2034.[95]

88 Ibid.

89 Productivity Commission, Wealth transfers and their economic effects - Research Paper, 2021, p.36, https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf

90 Productivity Commission, Wealth transfers and their economic effects - Research Paper, 2021, p.4, https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf

91 Ibid.

92 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long Term Care of Older People - Research Paper 2, January 2020, p.xi, https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf

93 Productivity Commission, Wealth transfers and their economic effects - Research Paper, 2021, p.2, https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf

94 Association of Superannuation Funds of Australia, Super Statistics, https://www.superannuation.asn.au/resources/superannuation-statistics#:~:text=Total%20superannuation%20assets%20were%20%243.5,and%20September%20quarters%20of%202022

95 The Treasury, Your Future, Your Super – Reforms to make your super work harder for you, October 2020, p.12, https://treasury.gov.au/sites/default/files/2020-10/p2020-super_0.pdf

At a time when transfers of wealth from one generation to the next are higher than they have ever been, community attitudes are starting to change.

A recent report by Ideagen CompliSpace found that almost three quarters of Australians are willing to forego an inheritance to enable their older relatives to enjoy the retirement they deserve.[96]

Over half of those surveyed believed older people themselves should fund aged care (55%), followed by taxpayers (24%) and families (22%).[97] This indicates that 77% of respondents believed that Australians and their families have a responsibility to pay for aged care.[98]

Only a third (38%) of survey participants believed that older people should sell their home to cover the cost of their aged care.[99]

3.2.4 Spending and inheritances

There are multiple factors contributing to older Australians' reluctance to spend their own money on their care needs in retirement:

- **Fear of running out of money.** Older Australians are typically good net savers, largely in anticipation of aged care and health needs or other unexpected costs. The Productivity Commission found that Australians accept a lower level of wellbeing or accommodation in retirement to maintain this wealth.[100]
- **Sanctity of the family home.** Many older Australians have benefitted from the rising value of their family home yet prefer not to access the wealth locked up in it, by either selling it and moving to a smaller property or taking out a 'reverse mortgage'. The Treasury's 2020 Retirement Income Review found that family homes in Australia are underutilised sources of wealth that could support and enable better living standards in retirement.[101] Further, the existing housing assets test may be insufficient as it excludes the vast majority of the value of the average family home.[102]
- **Maintained superannuation balance.** Older Australians view superannuation, which was made compulsory by the Australian Government in 1992, as a way of building capital, the proceeds of which they can use to support themselves in retirement. However, there has been a reluctance to draw down the capital itself to boost the standard of living for aged care, even when required.[103] Since retirees are not drawing down on their capital, large chunks of super tax concessions are inflating the size of inheritances as the taxation benefits provided to people when they make superannuation contributions may not be entirely reversed if those savings are passed onto the next generation.[104]
  - the Retirement Income Report also found that there are a range of contributing factors to low retirement drawdown rates, including prescribed minimum drawdown rates on superannuation. Prescribed minimum drawdown rates anchor behaviour and reinforce a tendency to conserve superannuation savings – despite the fact that retirees would benefit from this consumption.[105]

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96 Ideagen Complispace, CompliSpace Aged Care Funding Report: Towards the Tipping Point in Aged Care Funding, 2023, p.3, https://www.complispace.com.au/funding-report-2023

97 Ideagen Complispace, CompliSpace Aged Care Funding Report: Towards the Tipping Point in Aged Care Funding, 2023, p.9, https://www.complispace.com.au/funding-report-2023

98 Ibid.

99 Ideagen Complispace, CompliSpace Aged Care Funding Report: Towards the Tipping Point in Aged Care Funding, 2023, p.16, https://www.complispace.com.au/funding-report-2023

100 Productivity Commission, Wealth transfers and their economic effects - Research Paper, 2021, https://www.pc.gov.au/research/completed/wealth-transfers; The Treasury, Retirement Income Review, 2020, https://treasury.gov.au/publication/p2020-100554

101 The Treasury, Retirement Income Review - Final Report, July 2020, p.23, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

102 Aged Care Financing Authority, Report on Attributes for Sustainable Aged Care, October 2019, https://www.health.gov.au/resources/publications/acfa-report-on-attributes-for-sustainable-aged-care

103 The Treasury, Retirement Income Review - Final Report, July 2020, p.19, 23, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

104 The Grattan Institute, The story of inheritances in Australia – and why it needs to change, 20 August 2019, https://grattan.edu.au/news/the-story-of-inheritances-in-australia-and-why-it-needs-to-change/

105 The Treasury, Retirement Income Review - Final Report, July 2020, p.415, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

106 Association of Superannuation Funds of Australia, Australian retirees face accelerating price pressures, 21 March 2023, https://www.superannuation.asn.au/media/media-releases/2023/media-release-21-march-2023

While the Association of Superannuation Funds of Australia (ASFA) has reported that retirees need to spend more to achieve and maintain a comfortable standard of living, this is due to non-discretionary price increases - such as food and health costs.[106]

3.2.5 Three funding options

To increase funding from service user or resident co-contributions, three broad options were put to attendees at the Financial Sustainability Summit:

1. means-testing
2. pay as you go
3. pre-funding.

As per taxpayer-funded options, it was observed that these broad options are not mutually exclusive and that a combination of means testing, pay as you go, and pre-funding is likely required.

1. Means-testing

If designed well, means testing can be an equitable way for individuals to contribute to the cost of the services they require, without reducing access. In a means testing regime, people receive the same quality and quantity of service regardless of their ability to pay, retaining fairness and equity.

Means testing is currently used to assess contributions towards both residential and home-based services. For example, means testing for home care services is based on assessed annual income and for those earning between $28,974.40 and $56,035.20 care fees are capped at $5,879.85 for part-pensioners. For non-pensioners, whose assessed annual income is above $67,794.94, the cap is $11,759.74 (March 2022 rate).[107]

However, the amounts that can be charged are limited by legislation and regulation and have not kept pace with the increased costs of service delivery. Questions over inclusion of the family home in the assets test would need to be resolved, as its value is currently capped at $193,219.20, regardless of its true value.[108]

2. Pay-as-you-go

Under a 'pay-as-you-go' model, individuals could choose to pay for services as and when they need them. This is similar to the current additional services regime, whereby residents can choose to pay extra for services or items which either fall outside the specified care and services that providers must provide, or are of a substantially higher quality. This is most common in relation to services such as food and lifestyle activities.

This type of approach could be used to broaden the types of service that providers can offer to residents or service users on a fee-for-service basis. Providing health care costs are excluded, pay-as-you-go is a simple and easily understood model, where individuals pay for the service levels they want and need as required.

Pay-as-you-go would introduce greater competition into the market between providers, helping drive innovation

107 Department of Health and Aged Care, Financial Report on the Australian Aged Care Sector 2020-2021, p.188, https://www.health.gov.au/sites/default/files/documents/2022/11/financial-report-on-the-australian-aged-care-sector-2020-21-financial-report-on-the-australian-aged-care-sector-2020-21.pdf

108 Department of Health and Aged Care, Schedule of fees and charges for residential and home care from 1 July 2023, p.1, https://www.health.gov.au/sites/default/files/2023-06/schedule-of-fees-and-charges-for-residential-and-home-care_0.pdf

and increased service levels. However, without clear consumer protections that ensure aged care services are provided regardless of ability to pay, individuals may begin self-rationing the support they need to save money, which would risk undermining their health and quality of life. This is already being seen in home care where a proportion of recipients are assessed for a package but are reluctant to spend their full funding for fear of it running out.

3. Pre-funded

Pre-funded consumer contributions cover a variety of different options. These could be either voluntary, compulsory or incentivised.

One option may be through changes to the compulsory superannuation system that includes all Australian workers. The Superannuation Guarantee was introduced in 1992.[109] Initial mandatory contributions were 3% for most employers, however these have progressively risen to 11%, and are due to rise again to 12% by July 2025.[110]

An example of a voluntary scheme could be realised through enabling superannuation funds to offer products that allow tax-efficient saving for aged care. For example, it could be established through changes to the tax treatment of funds which are withdrawn as a lump sum specifically to pay residential aged care accommodation costs. An alternative could be a compulsory saving approach for which a proportion of superannuation guarantee contributions is ring-fenced to pay for aged care costs. However, it was noted that this could disadvantage those retirees who never require aged care, or who need only limited supports.

An example of an incentivised model can be seen in the health system, whereby people are incentivised to maintain a health insurance policy through the use of a government rebate that covers up to approximately 30% of the cost of a qualifying policy.[111] There is also the use of a disincentive whereby people who choose not to take out a policy may be required to pay a Medicare Levy Surcharge.[112] Such a model could be used to incentivise people to save specifically for their aged care needs earlier in life, either through the superannuation system or other specialised products.

The possible downsides in these approaches are that they are likely to be complex, and would require changes to legislation in other areas such as insurance or superannuation, particularly if they required changes to the tax treatment of savings or tax-based incentives. They would also not apply to those without superannuation accounts or with limited ability to save.

109 Australian Prudential Regulatory Authority, Superannuation in Australia: a timeline, https://www.apra.gov.au/superannuation-australia-a-timeline#:~:text=1992,estimated%20to%20be%20%24148bn

110 Australian Tax Office, The super guarantee rate is increasing, 16 June 2023, https://www.ato.gov.au/Business/Small-business-newsroom/Lodging-and-paying/The-super-guarantee-rate-is-increasing/#:~:text=If%20you%20need%20help%20to,to%2012%25%20by%20July%202025

111 Australian Taxation Office, Income thresholds and rates for the private health insurance rebate, 1 April 2023, https://www.ato.gov.au/Individuals/Medicare-and-private-health-insurance/Private-health-insurance-rebate/Income-thresholds-and-rates-for-the-private-health-insurance-rebate/

112 Australian Taxation Office, Paying the Medicare levy surcharge, 30 June 2023, https://www.ato.gov.au/Individuals/Medicare-and-private-health-insurance/Medicare-levy-surcharge/Paying-the-medicare-levy-surcharge/

Section 4 - Key Principles for Consideration

Following group discussions at the Summit regarding taxpayer-funded and consumer co-contribution options, combined with subsequent submissions provided, the following principles have been identified. These 10 principles should underpin a viable and sustainable aged care system now and into the future.

Care has been taken to ensure these principles represent the broad views expressed by Summit attendees, although some may not agree with all principles listed below.

Principle 1 **Independent and person-centred**	Maintaining independence as we age is critical and can be central to a person's identity and sense of self.[113] Many people wish to age in their own homes rather than entering residential care. The aged care system should prioritise this. People should not be forced into residential care because of a lack of home-based options, or because of inadequate funding to enable independence, or respite if needed. Residential care is significantly more expensive than home-based care, which means that investing in home-based services – that keep people independent for longer – is in the interests of both individuals and the government.
Principle 2 **Efficient**	The government's financing of aged care and health care should be integrated over time, to achieve a system that delivers what is in the best interests of individuals, rather than providing perverse incentives to push people into settings or services which are inappropriate for their needs. Any related funding or administrative mechanisms, including those involving consumer co-contributions, should be appropriately and efficiently managed by the Government.
Principle 3 **Transparent and specific**	Aged care funding (from both public and private sources) should be easy to understand, with clarity about what is being funded and by whom.
Principal 4 **Equitable**	Every Australian should have access to high-quality aged care, regardless of their location, income or financial means and be based on assessed need. The system should account for the different and changing care requirements of the Australian population and meet the complex needs of vulnerable people and diverse groups, including LGBTIQ+ communities, care leavers, veterans, people with mental illness, those who are homeless or are older people with disability. Consideration should be given to those who are also vulnerable to inequality due to lower (on average) resources in older age (such as women).

113 Royal Commission into Aged Care Quality and Safety, Summary of the Final Report, p.9, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-executive-summary.pdf

Principle 5 **Means-tested**	Those with the means to do so should be asked to pay, or partly pay, for those expenses they have paid for their entire lives. That includes accommodation and lifestyle expenses. For those without the financial means, the government should pay for accommodation and lifestyle expenses, just as it does for other groups requiring support in society, such as through the NDIS. Consideration should be given to amending the asset inclusion rules for aged care – including capital and retirement savings/investments. The superannuation system is designed to fund retirement. Its intention is to provide an income during retirement, enabling people to remain financially independent as they age. Older Australians should be encouraged to spend their superannuation on retirement costs, which is the result of their hard work over their lifetimes, to continue living their best lives as they age. The use of the superannuation system for funding of aged care costs should be further explored, including a ringfenced scheme.
Principle 6 **Flexible design for First Nations aged care**	There should be an appropriate and tailored funding system for First Nations aged care, with sufficient flexibility for person-centered and community-led services, culturally safe and trauma-informed mainstream services, and improved access.[114] First Nations people are eligible for aged care services from 50 years of age (or 45 years for those who are homeless). Any future funding model will need to acknowledge their unique aged care needs and will need to accommodate for the varying levels of needs/services in a range of locations, and the increased cost associated with those services, including training and providing culturally safe, trauma informed and healing aware care.
Principle 7 **Universal**	The Government should continue to be the primary funder of care, regardless of age or where people live. Access to free or subsidised health and care services should not stop when Australians reach 65 years of age and should not cost individuals any more than other age groups.
Principle 8 **Future-focused**	Reforms to the aged care system should be focused on the future. Whatever model is agreed upon, it should aim to support quality into the future, rather than simply maintaining the status quo. A clear understanding of what constitutes high quality and holistic aged care for all, regardless of means, will help define how it is costed, funded and delivered – including consideration of thin markets. Clinical care should include allied health care, nursing and medical care, delivered by multidisciplinary teams, in line with Royal Commission recommendations.[115] Rehabilitation and restoration to support older people to remain independent, including support of chronic conditions, should also be a central focus of the aged care system

114 Royal Commission into Aged Care Quality and Safety, Final Report Recommendations, Recommendations 47 – 53, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-recommendations.pdf

115 Royal Commission into Aged Care Quality and Safety, Final Report – List of Recommendations, including Recommendations 25, 35, 38, https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-recommendations.pdf

Principle 9 **Guaranteed**	Service levels in aged care should be guaranteed, including for thin markets such as in regional areas and for culturally and linguistically diverse groups. Appropriately skilled staff, with associated mandatory benchmarks for accommodation, everyday living, personal care and healthcare are a critical enabler of good quality care. Funding should accurately capture the costs of the desired service level and should ensure there is support for workers to: ■ meet any mandatory qualification standards ■ have access to ongoing accredited training and professional development as required ■ have fair wages and wage increases that reflect the value of the work they perform, their expertise and the care needs of those they support. Budgets should include other workforce development costs that assist in attraction and retention of workers.
Principle 10 **Inter-generationally fair**	Aged care funding should be designed for the long-term, be predictable and be inter-generationally fair. Public funding levels should be sustainable for governments both now and into the future, to reduce the risk of un-planned changes and reductions to funding. Individuals should continue to contribute to the costs of their services into their older years if they can afford to – in a way that remains generationally fair. Younger people should not be asked to shoulder the burden for delivery of services to people with the means to pay for those services.

Conclusion

Australia needs to urgently modernise its aged care funding model. This is particularly critical given our population will progressively age over the next 20 years, coupled with the parallel expectation in the community that the quality of care and supports older Australians receive must improve.

While funding alone will not solve all of the problems of aged care, the current financial situation makes solving those problems impossible.

In line with the views of participants at the Summit, this paper identifies ten principles for consideration when designing a new funding model for aged care – it should be transparent and specific, efficient, equitable, means-tested, enable flexible design for First Nations aged care, be universal, future-focused, guaranteed, inter-generationally fair and support independence.

In line with the views of Summit attendees, this paper proposes that the Federal Government continue to be the primary funder of care services – as they are for Australians throughout their lives through the NDIS, Medicare and the public health system.

People should not be treated differently simply because they are over the age of 65, regardless of whether they are still living in the community or in a residential aged care facility. However, for those that can afford it, there should be consideration of increased consumer co-contributions in aged care for accommodation and lifestyle related expenses, as people have done throughout their lives.

The financial sustainability of the sector has reached a critical stage. We can no longer put off the structural reforms needed to ensure older Australians receive the care, dignity and quality of life they need and deserve.

Appendix A – Summit Roundtables

Session 1 – Financial sustainability

Figure 12: Benefits and challenges of taxation, levies, and social insurance

	Taxation	Levies	Social insurance
Benefits	■ Immediate impact on sustainability, with more funding to support a quality aged care system ■ Requires no new governance system or costs ■ Ability to fairly distribute funding raised through general taxation (progressive) ■ Sharing the burden of aged care funding across society ■ Taxation already increases annually (bracket creep)	■ Progressive if implemented in a similar way to the Medicare levy ■ Provides transparency regarding aged care taxpayer funding ■ The Medicare levy could be converted into a "care economy levy", including Medicare, aged care, NDIS, and childcare ■ Straight forward	■ Long term solution for future generations ■ Desirable if progressive, means tested and assets tested ■ Addresses societal fears of "running out of money" for retirement ■ Provides a clear articulation of cost and benefit ■ Could be related to extending the super guarantee scheme and incentivised
Challenges	■ A reducing taxpayer base as the population ages ■ Subject to government of the day and politically sensitive ■ Overreliance on personal income tax ■ Hard policy to sell to the general public ■ Increases the burden on tax contributions ■ Intergenerational inequity ■ Taxation is not as progressive as it once was ■ Competing with other social purposes ■ Opaque as to where general taxation revenue goes	■ Issues regarding the acceptance by the public ■ Potential perception that the Medicare levy should already cover these costs ■ Experience with Medicare levy is that it doesn't actually fund the full cost of Medicare ■ Potential for a growing number of levies (e.g. an NDIS levy) ■ Potential perception that the levy should pay for all of aged care ■ Imposition on working age people who may not need aged care	■ Value proposition to younger generations ■ A long lead time for the solution to become effective ■ Requires social license ■ Equity challenges for those on lower incomes ■ Potential for "cherry picking" older people who are insured ■ A new system that will require additional costs ■ Challenges if not compulsory ■ Need to avoid another wealth creation tool

General comments

In addition to 'benefits and challenges', a range of issues were discussed regarding taxation, funding, the role of superannuation, transparency, sustainability and universal healthcare, including:

- A broader conversation in Australia about tax reform and funding more generally, including the proportion of tax paid versus the contributions and explanation around the purpose of levies, taxation and insurance.
- The need for the aged care system to be fair and equitable for everyone, not just those who can afford it.
- The need to ensure that the funding is new funding, not minimising government spend.
- An inheritance tax, particularly as it relates to superannuation – given superannuation is intended to be used for retirement and superannuation contributions are subject to lower taxes.
- The need to focus on value adding expenditure, not just funding to meet increasing compliance costs.
- Additional superannuation contributions beyond current contributions, to be used specifically for aged care (note this would be separate to general superannuation).
- The need for transparency regarding taxation (in whatever form it takes), so that the general public has clarity on where taxpayer funding is directed.
- The concept of prevention and re-enablement, whereby aged care sustainability is improved through better resource allocation to preventive activities – with a focus on wellness, not illness.
- The principle that taxpayer funded healthcare should not stop when you are 65 and that the healthcare system should provide public health for everyone, regardless of age or where they live. This should not be a two-tiered system – healthcare is a universal right.

Session 2 – Fiscal sustainability

Figure 13: Role of consumer co-contributions and potential principles

Potential sources of funding for aged care consumers	Equity factors	Sustainability factors	Other factors
Means-testing	■ Treatment of house asset/s ■ Consistency of means testing ■ Cross subsidising lower income ■ Flexible basic daily fee – same service but higher rate for people who can pay ■ If designed well, can be more equitable ■ Current system does not have vertical equity ■ No horizontal equity in home care and residential care ■ Recognise different means and capacity to pay and a fit-for purpose test ■ Means test only for accommodation/hotel and social, personal needs (i.e. not care)	■ Unlikely to be sustainable unless increase in AN-ACC ■ Increasing revenue as reduction in number of supported clients (% on aged pension) ■ Increasing expectations of care needing to be met ■ Gap between minimum care and individuals' expectations ■ Guarantee regarding funds – increase funding versus increase in quality ■ Overhaul of implementation (home and super) ■ Asset and income test ■ Centrelink (not fit for purpose, needs dramatic change)	■ Need for sufficient access for those who can't afford to pay ■ Rethinking coherence with pensions means testing ■ More appropriate to contribute if not for health and personal care
Pay as you go	■ Consumer protections needed ■ Provider preferences on intake an issue ■ More flexibility needed ■ Requires level of literacy ■ Need a safety net ■ Equity issue - only for people who can afford it	■ Allows provider to match cost with revenue ■ Provides sustainable/ planned revenue ■ Family expectations – family members don't want extra money spent ■ Transparency between what is paid and what is received ■ Lift caps ■ Unsure how many people would take up this mechanism ■ Isn't this what superannuation is supposed to be?	■ Providers can compete on services ■ Meet changing consumer demands and needs ■ People avoiding care ■ Value of people contributing to own care

Pre-funded	■ Maintain current supported resident provisions ■ Depends on superannuation balance ■ Thin markets – is it value for money where there are no services ■ Not appropriate in home care ■ Will people avoid care? ■ Consideration of renters ■ Wealth management 'insurance' policy ■ Avoidance of a two-tiered system ■ Women vulnerable to inequality due to lower (on average) resources in older aged	■ Likely to help sustainability ■ The role of RADs and whether it should all be re-funded ■ Provider paid in real time ■ People save for rainy day (especially healthcare) ■ May not be financially viable – who will need how much care? ■ Questions as to who carries risk? Providers or the Government? ■ Can it be mandated? ■ Possible role of private health insurance ■ Acknowledgement that less people will own homes in the future (renters) ■ Consumer expectations ■ The need for maintenance of degrading facilities	■ Explore links to superannuation ■ Explore RADs retentions ■ Politically unpalatable ■ Potential risks for older people who are self-funded and use private services provision outside the aged care system
Other	■ Are additional services voluntary? Super Equity Release – wealth release ■ Loan scheme – asset rich and cash poor	■ Likely to help sustainability ■ Apply deferred management model ■ Large impact on balance sheet ■ People will pull out of estate	■ Loan schemes repaid out of inheritance ■ Client expectation: not expecting refund of 100% ■ Discussed quarantining aged care amount – probably not practical ■ Accommodation payment reform needed ■ Basic daily fee – deregulate with guaranteed basic level

Open comments on principles that should underpin consumer co-contributions

In addition to the specific options identified above, a range of issues were discussed regarding care, possible deregulation, the role of wealth-generating assets, clear communication, equity and transparency, including:

- The concept of consumer contributions for accommodation and living expenses, which is usually paid for by people throughout their lives and could or should continue to be paid for by consumers as they age, provided there are taxpayer supports for those who can't afford it.
- Whether there is a standard or minimum level of high-quality care for all that is government-funded, or whether there should be a cap and means test.
- The need for funding models to address investor risk and appetite, as well as provider margins, covering future capital expenditure and innovation. It was noted that banks and the financial services industry should be part of the conversation and system planning.
- Consideration of room pricing thresholds and basic daily fee deregulation (separate to care costs).
- Determining the appropriate percentage of consumer contributions.
- The need to educate the public regarding paying for care and the distinction between taxation and consumer co-contributions.
- Clear and consistent communication and terminology (e.g., accommodation as compared to care), and the need for providers to justify use of co-contributions.
- Recognition that in-home aged care is impacted more by cost of living than residential care.
- The need for all assets to be on the table for discussion (especially superannuation) as part of discussions.
- The need to look at how state and federal tax systems work (e.g., stamp duty when downsizing as well as further explore the interaction with the pension system).
- Co-contributions driving innovation.
- The need to recognise that occupancy rates and sustainability are dependent on workforce supply.

Appendix B – Further reading

UTS paper: Sustainability of the Aged Care Sector: Discussion Paper

Ideagen CompliSpace: Towards the Tipping Point in Aged Care Funding 2023 Re port

StewartBrown: Presentation for ACCPA Financial Sustainability Summit by Grant Corderoy, Senior Partner

UTS Ageing Research Collaborative (UARC): Australia's Aged Care Sector Mid-Year Report 2022-23

ACCPA

Aged & Community Care Providers Association