

WHO SHOULD PAY AND WHAT SHOULD THEY PAY? ISSUES PAPER

- In 2008-09 total direct government expenditure on aged care services was around \$10.1billion. 2/3 (\$6.5billion) for residential care with the balance for community care and assessment and information services.
- Around 70% of residential care is provided by government subsidy.
- Average annual subsidy was \$40,100 in 2008-09 (\$48,550 for high care and \$17,750 for low care)
- Those who can contribute to their care and accommodation via basic daily fees; income tested fees; asset tested accommodation payments; extra service fees and additional services fees.
- Entrants into high care pay accommodation charges; those entering low care or those receiving extra services in high care can be asked to pay an accommodation bond.
- Bonds – Providers can deduct monthly retention amounts for up to 5 years (60 months) and derive income from the investment of the bond.
- Accom. Charges – levied at a daily rate and continue from admission to discharge regardless of how much time expires.
- In 2008-09:
 - The average accommodation charge for new residents was \$19.35 per day
 - The average bond agreed with a new resident was \$212,958 (DoHA 2009)
- The income from bonds and charges is intended to meet capital costs and retire debt related to residential care.
- The average bond is now 3.5 times that in 1998. In real terms bond value increased around 9.5% annually between 1998 and 2008-09.
- Beyond the adequacy of the current schedule of fees and charges there has been much debate about the efficiency, equity and sustainability of aged care funding arrangements. These include:
 - The regulatory restrictions on accommodation bonds
 - The method of indexing care subsidies
 - The absence of a well-defined benchmark of care against which costs and funding levels can be assessed
 - The adequacy of funding for care provided in rural and remote settings
 - The effectiveness of the provision of 'extra service' and the incentives facing providers and consumers.

Questions:

- Is it more difficult for families to service the accommodation charge than to pay a bond?
- What is the impact on pensions if a person is unable to pay a bond but rather has to pay a charge?
- What are the constraints in the current system for a person who has been in a low care setting (paid a bond) and now wishes to move to an Extra service place? Is this fair?

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- How appropriate are the current accommodation user charges in residential care (including the regulatory restrictions on accommodation bonds for high care residents)?
- Do accommodation bonds act as a disincentive to access appropriate care?
- What has been the effect of allowing payment for extra services?
- What changes, if any, should be made to user contributions to the cost of accommodation for residential care?
- How might the public and private exposure to the financial risks associated with aged care costs be best managed? Should it be a mixed model with a dominant taxpayer funded component (as currently applies), or a system that relies more heavily on consumer contributions underpinned by a financial safety net?
- If an additional funding mechanism is considered appropriate, should it be for all aged care costs or for particular components of aged care costs?
- How important is the provision of choice for older people requiring care?
- Are there components of aged care which older people value more highly than others?
- Is there any evidence which suggests that the provision of greater choices may have resource implications?
- Should subsidies that “follow” approved clients be paid to providers directly or should consumers be given the choice of receiving such payments first to promote a greater capacity to exercise choice?
- What are the critical funding implications and concerns arising at the interface of the aged care system with the disability and hospitals systems?
- Are current subsidies sufficient to provide adequate levels of care?
- What are the minimum benchmark levels of care in each service area and how should they be adjusted over time to meet changing expectations?
- What are the most appropriate methods for adjusting public funding or insurance arrangements to keep pace with cost increases and changes in any care benchmark, while providing incentives to increase efficiency and productivity?

Box 4 Residential aged care fees and charges

Residents in Australian Government subsidised residential aged care can be asked to pay fees as a contribution towards accommodation costs, living expenses and the cost of their care. A resident may be charged:

Basic daily fee — all residents in aged care, including respite residents, can be asked to pay a basic daily fee as a contribution towards accommodation costs and living expenses like meals, cleaning, laundry, heating and cooling. The maximum basic daily fee for permanent residents entering an aged care home on or after 20 September 2009 is 84 per cent of the annual single basic age pension.

Income tested fee — residents in permanent aged care with total assessable income above the maximum income of a full pensioner are asked to pay an income tested fee (in addition to the basic daily fee) as a contribution to the costs of care. The amount they pay depends on their income and the level of care they require.

Accommodation charge — residents with assets in excess of \$37 500 who require high level care may be asked to pay an accommodation charge. The charge increases to a maximum of \$26.88 per day for residents with assets of \$93 410.40 or greater.

Accommodation bonds — residents with sufficient assets who require low level care or who enter an extra service high care place may be asked to pay a bond. The bond amount and payment arrangements are negotiated between providers and residents. However, residents cannot be charged a bond which would leave them with less than \$37 500 in assets. The aged care provider can deduct monthly amounts, called retention amounts, from the bond for up to five years and derive income from the investment of the bond. The Australian Government sets the maximum retention amount, currently \$299.00 a month (this amount is fixed at the rate applying at the date of entry). The balance of the bond is refunded to the resident or their estate on leaving the facility.

Lump sum accommodation bonds paid by residents in aged care homes are exempt from the pension assets test. A resident's former home is exempted from the pension assets test for two years for people entering residential care (and longer if the person's partner is living at home). If a resident's former home is rented out to pay some or all of a periodic payment, the former home and the rental income are exempt for as long as a periodic payment is made.

Extra service charges — for the provision of a higher standard of accommodation services and food (where extra service applies to residents occupying extra service places).

Additional service fee — where the resident requests or agrees to additional services (such as newspapers and hairdressing).

Source: DoHA (2010).