Association of Independent Retirees (A.I.R.) Limited
ACN 102 164 385

14 October 2011

The Hon Mark Butler MP
Minister for Mental Health and Ageing
Suite MG 48
Parliament House
CANBERRA ACT 2600

Dear Mr Butler

Aged Care Services – Productivity Commission Report on Caring for Older Australians

I would like to acknowledge the response received to our letter of 14 September on your behalf from Professor David Cullen, Principal Advisor Strategic Reform Task Force.

Our Association very much appreciates the consultations you are undertaking within the community following release of the Productivity Commission's Report on Caring for Older Australians. Following the attendance of Association members at the Sydney, Regional NSW and other Forums we have taken the liberty of sending this submission to you and would be most grateful if you could take these comments into account in determining your Government's proposed actions in this area.

We would like to preface our comments by saying that the Productivity Commission's Report and recommendations provide excellent opportunities for improvement in the aged care system. The submission set out below covers this Association's areas of concern with the following specific issues contained in the Productivity Commission Report.

SUMMARY OF OUR ASSOCIATION'S CONCERNS

a) The need for additional information at the earliest opportunity to assist consumers in understanding how any proposed fees and charges arrangements will compare to fees and charges currently applying in the aged care system so that they can make a reasonably informed assessment of the overall changes to the existing system that are being proposed.

We would request that this include:

- specifically what services will be included in, and excluded from, the care cost component for Residential and Community Care aged services respectively
- information to give consumers a reasonably clear indication of scheduled prices for care and how these will impact as increases on current care costs
- further information, as to the likely impact on consumers In terms of costs, of the proposed new relationship between accommodation charges and bonds

Our Association would also be concerned with any proposal to adopt an additional co-contribution for care services above the 25% maximum level which is at the focus of the Commission's Report.

**b) The proposed means test arrangements particularly the inclusion of the family home in the assessment of an individual's fees for care services and the all important need for the Government to spell out very clearly a range of effective safeguards which would assist persons affected by any such scheme. These would include adequate safeguards for protected persons,
a draw down limit which preserves a substantial amount of an individual's equity in the home and preferential interest charges along the lines set out in the Productivity Commission's Report.**

c) The proposal that the Government exclude aged care costs from the net medical expenses tax offset , in conjunction with the proposal to introduce a stop loss limit for care costs and our concern that this would be most unfair on many seniors utilising aged care services.

ELABORATION OF OUR CONCERNS

a) The need for additional information at the earliest opportunity to assist consumers in understanding how any proposed fees and charges arrangements will compare to fees and charges currently applying in the aged care system and hence make a reasonably informed assessment of the overall changes that are being proposed.

Our submission in response to the Draft Productivity Commission Report expressed the view that aged persons including fully and partly self funded retirees should not be asked to pay, by way of increases, unreasonable amounts of fees and charges for aged care services provided. We argued that the proposed new funding arrangements in the Draft Report did not provide enough information to enable the likely cost for services for individuals under the draft proposals to be compared to current fees and charges and sought additional information to assist in such comparisons.

The Commission's Final Report does provide considerable additional data on this matter, as well as providing a number of Illustrative Cameos estimating how much a cross section of consumers with varying financial circumstances might be expected to pay for care for particular Community Health and Residential Care aged care services under the new proposals. These cameos are however based on several specific assumptions re the cost of an accommodation charge for residential care ($50 per day) and care costs for Residential Care ($35,000 per annum) and Community Care ($25,000 per annum).

Our Association believes there is still a lack of information in the Productivity Commission Report to allow consumers, in a range of financial circumstances, to adequately compare the current cost of various types and levels of aged care services as per the various fee components against which an individual's assessment is made, to the fees and charges they can expect to pay for similar services as per the proposals in the Report. Indeed the Commission's Report on Page LX1 of Volume One contains a brief section headed "Why a comparison with the current aged care system is not practical".

The Commission proposes that consumers be assessed against a newly introduced means test and pay a co- contribution towards the cost of their care for both Residential and Community Care with the maximum co- contribution payable being 25% of care costs. The Report proposes that an assessment of the needs of older people would be undertaken, approved care service determined and an entitlement of care services including personal and nursing care as well as more specialised services would be approved.

Whilst there is considerable comment in the Report on the types of services which might be considered as care related cost items under the care cost category it is in our view unclear specifically what services will be included in, and excluded from, the "care cost" component for Residential and Community Care aged services compared to the services now included in the various categories of fees. This is a very important matter for consumers bearing in mind that care related items which are not included under care costs will need to be paid for separately by consumers and such costs could be substantial.

The Commission recommends that the Government, within two years of a five year implementation period, conduct a public benchmarking study of aged care costs to initially set the scheduled prices as well as introducing the new model of care assessments and service entitlement within that same period. The difficulty here is that until consumers have a reasonably clear indication of the scheduled prices that will apply under any new proposals and what increases this will represent on current care costs we do not believe it is possible for them to assess the likely cost increases which will be payable by consumers under the Commission's proposals. For example - when the Commission's Report says that consumers will have to pay up to 25% of their care costs how can they determine what those care costs will actually be for various levels of service? Provision of this information at the earliest opportunity would be greatly appreciated.

The life time stop loss limit which would apply for any person whose cumulative approved care costs reaches the indicative $60,000 (annually indexed) is in our view a very positive proposal for consumers, assuming of course that the annual indexation increases are reasonable. However, as indicated we remain unclear from the Commission's Report as to the type and items of care costs that would contribute to that limit and what care related costs would be excluded.

To allow consumers to make fees and charges comparisons our Association would also greatly appreciate additional information on the proposed inter-relationship between accommodation charges and bonds. We note that a Provider shall be required to only offer bonds that do not exceed the equivalent of the relevant periodic accommodation charge - yet such fees will not be capped. The Commission's Report uses a specific accommodation charge of $50 per day ($18,250 pa) in its scenarios but this charge and any equivalent bond could be considerably greater than this amount. In contrast the current equivalent of an accommodation charge for Residential Nursing Home Care based on one's assessed income is currently capped at $ $11,818 per annum. Whilst the Report provides for formal monitoring of accommodation prices in Residential care during the transition period our Association would greatly appreciate any additional information in conjunction with any new fees being proposed at the earliest opportunity.

Finally on the matter of care costs our Association notes that the Productivity Commission has based its Illustrative Cameos on a care co- contribution being payable up to a maximum of 25% of care costs for Residential and Community Care services. It does however also explore to a much lesser extent the level of costs which would be involved if an upper co – contribution level of 35% of care costs (not 25%) was introduced. This higher co - contribution would obviously represent significant additional care costs to many consumers compared with the 25% limit and we respectfully submit that Government should not consider introducing this higher level of fees based on the Report whose focus is very much on the implications of the 25% scenario.

b) The proposed means test arrangements particularly the inclusion of the family home in the assessment of an individual's fees for care services and the all important need for the Government to spell out very clearly a range of effective safeguards which would assist persons affected by any such scheme. These would include adequate safeguards for protected persons, a draw down limit which preserves a substantial amount of an individual's equity in the home and preferential interest charges along the lines set out in the Productivity Commission's Report.

Obviously the proposal to include the family home in a proposed new means test is a very sensitive issue and one of concern for many aged persons including our members and it is in our view essential that the Government spell out clearly the details of any proposed arrangement and how consumers' concerns would be addressed and protected in legislation. In this regard our Association has set out hereunder some specific issues which we would request be taken into account in your Government's consideration of this proposal. We do look forward to having the opportunity of commenting on any subsequent proposals when details are available.

In Volume 2 Chapter 8 on page 113 the Productivity Commission proposes a number of features as protections for the consumer re the Aged Care Home Credit Scheme and these features are all felt by our Association to be crucial to the formulation and consideration of any such scheme. Of particular importance, and in our view crucial to any such scheme, are the recommendations that spell out the rights of protected persons in relation to outstanding payments under the scheme.

The Productivity Commission Report discusses and recommends establishing a line of credit against a person's equity in their home. It proposes that the Australian Seniors Gateway Agency would specify a minimum level below which that's person's net equity would not fall by reason of accumulated aged care costs and credit charges being applied as a debt against the person's equity in their home value. In the prelude to its recommendations the Report gives an example of a draw down limit based on 50% of a person's equity share being accessible and elsewhere refers to up to a maximum amount of "say 40 to 60% "being available for draw down to help finance his/her accommodation and care costs. Once such a limit has been reached it is proposed that no further drawdowns would be required, the interest rate should revert to zero and there should be no further loss in home equity.

Our Association would stress the importance of a specific drawdown limit being included in any formula which is being considered by Government - a draw down limit which preserves a substantial amount of an individual's equity in the home. Indeed our Association believes that any Government proposal to introduce a Home Credit Scheme should actually specify a minimum equity formula below which a person's interest in their home could not fall as a result of the scheme rather than it be left to the discretion of the Gateway. Given the very sensitive nature of the Home Credit Scheme proposal we believe significant attention would need to be given to spelling out administration procedures for such a system at this early stage of policy consideration. In our view consideration should be given as to whether the minimum equity limit should be expressed in dollars or percentage of valuation (or both elements in a formula) and what happens about frequency of valuation (or indexation of the limit if it is set in dollars) Our Association believes it is vital that in considering any proposal involving a draw down limit the situation be avoided whereby movement in house value and accumulated charges might see a person end up with a lower equity than expected where accrual of charges is not stopped because of timing issues in valuations and charges**.**

Provision might also need to be given to enable a person to call for valuation in the event of a severe fall in house prices and call a stop to fees accrual if the equity based on that valuation less the amount drawn was below the minimum equity formula.

The Productivity Commission proposes that interest paid by persons borrowing on their equity under the Aged Care Home Credit Scheme be based on cpi rates. Our Association believes that a preferential rate of interest is essential and the cpi rate would appear reasonable from a borrowing cost viewpoint as at today's rates but consideration should be given to protecting consumers from circumstances where these rates rise significantly as is not uncommon - the cpi has recently been increasing at about 3 per cent per annum but it varies quite a lot from year to year. In this regard we would propose that consumers be given a choice of rates --say the cpi and the Centrelink Deeming Rate whichever is the lowest.

In the Commission's Report the cpi rate is also proposed as the applicable rate for those utilising the Age Pensioners Savings Account Scheme and this would not appear to be a fair rate for those who are depending on it for the accumulation of savings. There may indeed be merit in having two separate sets of rates to cover the two different circumstances.

c) The proposal that the Government exclude aged care costs from the net medical expenses tax offset, in conjunction with the proposal to introduce a stop loss limit for care costs and our concern that this would be most unfair on many seniors utilising aged care services.

In communication with the Productivity Commission our Association stressed our concern with any attempt to exclude aged care costs from the net medical expenses tax offset based on the proposed introduction of a stop loss arrangement to cap the amount of care service fees any person would have to pay.

Recommendation 7.10 of the Commission's Report states that "With a stop loss limit in place the Australian Government should exclude aged care costs from the net medical expenses tax offset". The stop loss limit provision is to be commended. However for a retiree who depends on his/her income to meet such costs the withdrawal of the tax offset may require him/her to sell existing assets, possibly incurring additional taxation costs. According to their data this may well not be compensated by the proposed "stop loss" provision recommendation of the Productivity Commission and would in our view be an unjust additional cost burden for such retirees to meet. Accordingly we would be opposed to this recommendation that aged care costs be excluded from the net medical expenses tax offset.

By way of elaboration, currently a person who is in an aged care facility can claim as a tax offset 20 per cent of costs incurred in excess of $2,000 per annum for costs with the **medical expense offset applying to most of the costs of residential aged care. By way of example for** a single person who has income deeming assets of $700,000 and owns his/her house and is in a nursing home fees payable under the current system would be as follows.

Association of Independent Retirees (A.I.R.) Limited
ACN 102 164 385

	$ per annum
Basic daily care fees	15,089
Income tested daily fees	3,916
Accommodation charges	11,818

Total fees 30,823 less 2000 =28,823 x 20%= $ 5,764 offset

If the person is in fact in an Extra Service Facility and is paying extra services fees of say $50 per day. In lieu of an Accommodation Charge (as the two fees do not apply at the same time) he/she would pay $37,255 per annum fees and receive a tax offset of $ 7051.

Transition Arrangements

Our Association endorses the emphasis that the Productivity Commission has placed on the provision of appropriate grandfathering arrangements to be implemented in the transition to any new system of fees and charges and we would argue for these to be as responsive as possible to the circumstances of affected consumers.

We would be grateful if the above points could be considered and we would welcome the opportunity to discuss these issues with you and provide any additional information you might require. If you or your office would like any further information please contact the A.I.R. Secretariat at 02 6290 2599 or email info@independentretirees.com.au

Yours sincerely

John Wenban

John Wenban
National President

National Secretariat PO Box 329 Deakin West A.C.T 2600 Tel:02 62902599 Fax: 02 62901580