



Attachment

21 September 2012

Ms Lynda O'Grady
Chair
Dept of Health and Ageing
Aged Care Financing Authority
GPO Box 9848
Canberra ACT 2601

Dear Ms O'Grady

GOVERNMENT AGED CARE PACKAGE - FEEDBACK ON ACCOMMODATION PAYMENTS DISCUSSION PAPER

Thank you for your letter of 31 August 2012 and the opportunity for our Association to submit feedback on the issues listed in the Accommodation Payments Discussion Paper.

The issues listed for feedback are, we believe, more suited to feedback from Aged Care Service Providers and the Finance Sector rather than consumers. In submitting feedback our Association has taken the liberty of including a number of points (shown in some detail in three Appendices) which, whilst they do not relate directly to the specific issues listed, are, we believe, relevant to the background which should be borne in mind when the matter of accommodation payments is being considered. We have also taken the opportunity of submitting these more broad based comments as we are not aware of any other opportunities our Association will have to comment on matters relating to fees and charges generally under the new aged care arrangements. If there are such opportunities we look forward to pursuing these.

Our Association does not believe it is fair to consumers for accommodation payments to be determined by Government without the Government at least being mindful of the total fees individual consumers will pay under the new arrangements in comparison to current fees and charges. In this regard we believe it is crucial that the Department of Health and Ageing provide a means by which consumer groups are able to advise their members of the extent to which they will be affected by the new fees and charges arrangements depending on their particular financial circumstances. Our understanding is that the Department has agreed to provide such information and we believe it is most important that this be provided as soon as possible.

Our letter to the Minister for Mental Health and Ageing, the Honorable Mark Butler on 19 June 2012 flagged our concern with the likelihood of significantly higher fees for many self-funded retirees under the new aged care package. In that letter we highlighted our concern about the extent and uncertainty of accommodation costs in the future. In relation to this current review by the Aged Care Financing Authority we seek your understanding as to why we have raised a broad range of issues which relate not only to accommodation charges but fees and charges generally. Our Association does have issues of concern to raise in relation to home care services but we thought it would be inappropriate to raise these in this submission.

Our Association's feedback which we put forward for consideration by the Aged Care Financing Authority is summarised as follows:

Accommodation Charges

- a) We are concerned about the lack of information available at this stage in relation to likely accommodation costs (including bonds, the guidelines that will influence their setting and use, and how these might be determined, for residential care) which we believe makes comparison of current to proposed fees and charges very difficult if not impossible. In our view self-funded retirees, under the new arrangements, appear likely to pay considerably more for accommodation than is currently the case. We believe it is very difficult under the new arrangement for most consumer groups including our Association to make meaningful comments on the specific accommodation issues listed for feedback in this Discussion Paper. We do therefore believe it is important that consumer groups be given the opportunity to comment on what is being proposed to Government by the Aged Care Financing Authority before any specific proposals are approved. We understand from ACFA's Interim Guidelines that ACFA's recommendations and supporting information will be placed on the My Aged Care Website within 28 days of it being provided to the Minister. We trust that it will then be possible for consumer groups to make comment on the ACFA recommendations to the Minister before Government decisions are taken on the matter of accommodation charges.
- b) Our understanding is that the publicised extent of the additional maximum daily charge for Accommodation is the difference between the current maximum per annum cost of \$11,859 per annum and the projected maximum of \$18,200 per annum based on 2012 costs. This already shows a substantial increase of \$6,341 or 53% and the fee will increase to \$19,286 in 2014 costs. We are extremely concerned that the maximum costs of accommodation could increase even further in some circumstances which, together with the proposed increase in care fees, would see very substantial increases indeed in the cost of residential care for many consumers.
- c) Residents will be able to pay for their accommodation through a fully refundable lump sum payment or through a periodic payment or through a combination of both. Re the issue of bonds, in accordance with current policies, it would appear that the full value of the home could still be called upon in the determination of bonds under current policies – i.e. under current policies a resident needs only to be left with the equivalent of 2.25 times the basic aged pension when the size of a bond is being determined. Accordingly bonds charged could still be very substantial and in this regard we are seeking information as to how the size of bonds will be determined and how a bond will be treated in terms of an affected consumer's pension entitlements.
- d) Under the new arrangements we note that the family home will only be counted as an asset for means testing purposes for determining an individual's accommodation charge if there is no spouse or protected person living in the home. Where the home is taken into account as an asset in the determination of an individual's accommodation charge it will be included up to a maximum value of \$144,500. We believe it is important to note that the maximum level of assets for a single person before he/she reaches the maximum means test assessment for accommodation costs is only \$144,500 based on 2012 prices less the \$40,500 minimum threshold amount – i.e. the home is, if its value is \$144,500 or more, effectively fully included in the means test for virtually all such single consumers as Australian homes are mainly valued at more than \$144,500. This automatically qualifies the resident to pay the maximum Accommodation charge of \$18,200 per annum based on current values.

- e) Where it is levied. We believe this point is significant in terms of contributing to the severity of the new means test.

It appears that the definition of a “protected person” will not change but we seek confirmation of this as we believe it is crucial that there be certainty for consumers on this point.

- f) Our Association has concerns regarding the specific proposals that provide for a cooling off period for residents moving into Residential care so they can make their decisions as to how to fund their costs easier and without pressure. In our view this policy currently appears to lack detail and as it stands may well still leave the consumer vulnerable.
- f) The matter of an Aged Care Home Equity Scheme as proposed by the Productivity Commission has not been adopted by the Government in its package. There will still be a need for some people to borrow to pay aged care costs and the absence of a Government controlled / monitored scheme where funds can be borrowed at CPI or equivalent rates may well leave those residents vulnerable and needing to turn again to options such as reverse mortgages.

Grandfathering provisions

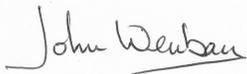
Our Association strongly supports the decision that the Government’s new fees and charges arrangements commence on 1 July 2014 and that there is a grandfathering provision whereby “care recipients as at 30 June 2014 will not be affected by the new fees and charges arrangements while their “current episode of care continues”.

Summary

Our Association would respectfully request that the Aged Care Financing Authority in considering the issue of accommodation payments be mindful of the broader issue of fees and charges increases generally. If it is felt that any of the issues our Association has raised are outside of the terms of reference for this project we would appreciate advice as to how and when we might be able to have them considered by the Authority.

We have set out some information in the attached Appendices to illustrate in more detail the points we have made with regard to the broader context of fees and charges.

Yours sincerely,



John Wenban
National President

Appendix 1 – Additional Comments on fees and charges generally as a background to this issue

Appendix 2 - Scenarios which enable comparisons of fees and charges for self-funded retirees

Appendix 3 - Additional work on fees and charges scenarios for residential care

**ADDITIONAL COMMENTS ON FEES AND CHARGES GENERALLY AS A
BACKGROUND TO THIS ISSUE**

Fees and Charges generally

Information provided by the Department of Health and Ageing based on several scenarios provided by our Association and set out in Appendix 2 gives our Association cause for concern re likely fees and charges increases under the new arrangements. For example, we have particular concern that the cut in point for the maximum care and accommodation fees for Residential Care appears to be unreasonably low at around \$43,450 income per annum for a single retiree who owns his/her own home, with deemable assets of around \$980,350. This aspect of the formula of course has a negative flow on effect for many self-funded retirees.

We are awaiting some further information from the Department of Health and Ageing so that we and other consumer organisations will be able to work out the likely impact on a range of individuals of the Government's cost formula across the board. Department representatives have agreed to provide such information in the form of a ready reckoner or the like. This is in our view crucial and will allow our Association and consumers generally to assess the likely cost implications for singles and couples in varying financial circumstances. In particular we are seeking as much information as possible to be able to relate the Issue of the cut in points at which consumers will pay maximum fees and charges to the impact on a wide range of self-funded retirees with varying financial circumstances.

Using the example of single retirees our Association has put together some information in support of our concern re the nominated cut in points to make maximum payments for Residential Care and we would welcome the opportunity to present this at an appropriate time.

Extra services

We believe it is important with the work to be done on defining and costing extra services in Residential Care and the restructuring to be done in relation to Home Care services that consumers do not lose out in terms of having to pay for more services which are placed outside of the care fees for which some protections would otherwise be provided by the proposed caps and Stop Loss Provision.

In the Government's Report there is reference to a review of specified care and services to be undertaken by the Aged Care Financing Authority in close consultation with stakeholders to support a single set of requirements from 1 July 2014. As we understand it, this review will focus on the types of services that must be provided as a minimum to care recipients. It is proposed to allow two levels of additional services for amenities and hotel services over and above basic specified care and services with no Government claw back from these additional fees. The report goes on to say that all Aged Care Facilities will be able to charge additional fees for amenities such as increased food and entertainment choices. Our Association strongly believes that services which are currently covered by existing fees should not be defined as needing to be purchased as extras under any new arrangements therefore seeing them fall outside of the Stop Loss Provision cap.

Assessable Assets for Means Testing Purposes

Our understanding is that for deeming purposes for the current Income Tested Fee the family home is not included nor is a holiday home and a range of other items in determining Income. Our Association seeks confirmation as to which assets will comprise the list of assessable assets that will be used for the means test and would argue strongly that that list should be no worse off for consumers than is currently the case.

SCENARIOS WHICH ENABLE COMPARISONS OF FEES AND CHARGES FOR SELF-FUNDED RETIREES

Introduction

The following scenarios are presented for the purpose of comparing current fees and charges for various single/married retirees with fees and charges which would apply under the new arrangements. In these cases the assets from which their income is determined, through deeming, are counted in the means test together with the income itself.

Several scenarios were put to the Department of Health and Ageing and, in each case, information was kindly provided from the Department. These scenarios were drawn up to allow comparison between current fees and charges and the likely fees and charges under the Government's aged care package. Full copies of the scenarios provided by the Department are available and have been reformatted for presentation purposes.

NB In each of these scenarios the comparisons are based on the consumer paying a charge/periodic payment now and in the future for accommodation. No bonds are involved. They also assume that the accommodation charge where used under the new scheme is capped at \$18,200 per annum at today's values, not the subsequent higher charge of \$19,286 per annum.

Scenario 1)

Single self-funded retiree on an income of \$60,000 per annum owns own home, valued at \$500,000 (with no spouse or protected person) with financial assets of \$1,348,200 from which the income was deemed. He/she has other assets valued at \$75,000. Person needs residential aged care (low care) which costs \$23,000 per annum to provide.

	Current costs	Proposed Fees
Basic Fee	\$15,364	\$15,364
Care Fee	\$15,542	\$23,000
Accommodation Fee	<u>\$11,859</u>	<u>\$18,200</u>
Total	\$42,765	\$56,564

Increase overall of 32.2 per cent in fees and charges

Scenario 2)

Single self-funded retiree on an income of \$80,000 per annum owns own home, valued at \$500,000, (with no spouse or protected person). He/she has financial assets of \$1,792,444 from which the income was deemed and other assets valued at \$100,000. Person needs residential aged care (low care).

	Current costs	Proposed Fees
Basic Fee	\$15,364	\$15,364
Care Fee	\$23,000	\$23,000
Accommodation Fee	\$11,859	<u>\$18,200</u>
Total	\$50,223	\$56,564

Increase overall of 12.6 per cent

Note that the care cost to the resident in both the above cases is capped at \$23,000 pa.

Scenario 3)

A married couple – the husband is on an income of \$36,000 per annum and owns half of the couple's other assets valued at \$40,000 in his case needing residential care (high care - \$55,100 pa) The wife in the same financial situation remains in the home which they own and needs CACP type package (\$13,400 pa). The couple's income is deemed from \$1,624,800 worth of jointly held financial assets.

Partnered status	Partnered
Annual private income (combined or couples)	\$ 72,000
Assessable non-housing assets (combined for couples)	\$1,704,800
Housing assets (combined for couples)	\$ 500,000
Income (each member of the couple)	
Pension income	\$ NIL
Total income	\$36,000

Wife in Home care

	Current costs	Proposed costs
Basic fee	\$3,163	\$3,163
Care fee	<u>0</u>	<u>\$5,000</u>
Total	\$3,163	\$8,163

Husband in Residential Care

	Current costs	Proposed costs
Basic fee	\$15,364	\$15,364
Accommodation Payment	\$11,859	\$18,200
Care fee	<u>\$ 5,736</u>	<u>\$18,952</u>
Total fees	\$32,959	\$52,516

Comparison

	Current costs	Proposed costs
Basic Fee	\$18,527	\$18,527
Accommodation	\$11,859	\$18,200
Care fee	<u>\$ 5,736</u>	<u>\$23,952</u>
Total fees	\$36,122	\$60,679

This is an increase of 67.9 per cent in fees and charges

Scenario 4)

Elderly couple own their home and have other assets of \$100,000. Both need to go into aged care - one high care and one low care. Combined Income is \$70,000 pa deemed from \$1,580,356 in jointly held financial assets.

The models assumed that cost of care is:

High care	\$ 55,100
Low care	\$ 23,000

Partnered status**Partnered**

Annual private income (combined for couples)	\$ 70,000
Assessable non – housing assets (combined for couples)	\$1,680,356
Housing assets (combined for couples)	\$ 500,000

Note: the treatment of the house will depend on the timing of entry into care. If the couple enter at the same time the house will be treated as an assessable asset (to the value of \$144,500 each). If they enter at a different time the house will be excluded for one member of the couple (as it is occupied) and included (to the value of \$144,500) for the member of the couple entering later.

(Income / each member of the couple)

Pension income	\$ NIL
Total income	\$35,000

Member of a couple who enters first

	Current costs	Proposed costs
Basic fee	\$15,364	\$15,364
Accommodation Payment	\$11,859	\$18,200
Care fee	<u>\$ 5,320</u>	<u>\$18,207</u>
Total fees	\$32,543	\$51,772

Member of a couple who enters second, or when both enter at the same time

	Current costs	Proposed costs
Basic fee	\$15,364	\$15,364
Accommodation Payment	\$11,859	\$18,200
Care fees	<u>\$ 5,320</u>	<u>\$21,097</u>
Total fees	\$32,543	\$54,662

Summary

	Current costs	Proposed costs
Basic fee	\$30,728	\$30,728
Accommodation payment	\$23,718	\$36,400
Care fees	<u>\$10,640</u>	<u>\$39,304</u>
Total fees	\$65,086	\$106,432

This is an Increase of 63.5% in fees and charge

Conclusions

- 1) For the two single self-funded retirees on \$60,000 and \$80,000 pa respectively their fees and charges, assuming no bonds are involved, would increase by 32.2 per cent and 12.6 per cent respectively. However in both scenarios their fees for lower care are capped at \$23,000 per annum.
- 2) For the two couples with moderate combined incomes of \$70,000 and \$72,000 per annum the increases would be very substantial – well over 60 per cent in each case. The much higher care fees are noted.

In all cases above, the assumption is that the maximum accommodation cost will not exceed \$18,200 based on current values – it is noted that the amount indicated in the Government’s papers in 2014 terms is \$19,286 pa. An increase in accommodation charges will make all these comparisons worse, possibly much worse.

The Department of Health and Ageing in its scenarios made reference to bonds (which will continue as a payment option) but these are of minimal use for our comparative purposes as there are currently no guidelines to determine the likely extent of such bonds. However, in accordance with current policies, bonds which are levied could still be very substantial. Bonds paid under current arrangements are not included as deemable assets for determining care fees and presumably this would not change. **However we would like to confirm this situation.**

APPENDIX THREE

ADDITIONAL WORK ON FEES AND CHARGES SCENARIOS FOR RESIDENTIAL CARE

The following notes are a result of work done within our Association. As with all our assessments we would welcome any advice if it is felt that they are in any way inaccurate.

Comparison of current and proposed means testing formula

The following information compares the level of income and assets one would need to have to pay the maximum fees for Residential Care - High Care - under current and future means tests.

Current Scheme

Currently a single person reaches the maximum income tested fee of \$24,470 pa when they are assessed as having an income of \$81,428 pa from Income producing assets of \$1,824,378. At that level of income and assets he/she would pay.

Income tested fee	\$24,470
Basic daily fee	\$15,224
Accommodation fee	<u>\$11,892</u>
Total fees	\$51,586

Under the proposed new scheme a single person (with a home) reaches the maximum fees payable when his/her income is \$43,447 pa from deemed assets of \$980,356 – much earlier indeed (approximately 50% of income and assets required to achieve current fee maximum).

Income above is based on current deeming rates of 3% per annum up to \$44,600 assets and 4.5% per annum above that - i.e. based on \$980,356 this gives \$43,447 per annum.

New Scheme

Under the new scheme it is our understanding that we have the Basic Daily Fee of \$15,224 plus the income and assets based fee which is applied to Accommodation and Care fees.

Income

Income	\$43,447
Threshold	<u>\$22,701</u>
Excess over Threshold	<u>\$20,746</u>

Income based fee 50% of excess = \$10,373

Assets

First \$144,500 @ 17.5%	\$18,200
\$144,500 - \$353,500 @1%	\$ 2,090
\$353,500 - \$980,356 @2%	\$12,537

The total income and asset amount would be \$10,373 (income) plus \$32,827 (assets) = \$43,200 maximum available for contribution to accommodation (max \$18,200) plus care (max \$25,000) - a total of \$43,200

Summary of comparison of current and future fees at income and asset levels which give maximum new fees.

As above, a single person with financial assets of \$980,356 (plus a home) generating \$43,447 per annum income in Residential Care would **currently** pay the following fees and charges:

Income tested fee	\$ 8,644
Accommodation	\$11,892
Basic daily fee	<u>\$15,224</u>
Total Current Fees	\$35,760

Under the new arrangements, as per our calculations, he/she would pay the following fees and charges:

Care Fee	\$ 25,000 (maximum capped)
Accommodation	\$18,200 (indicative maximum but not capped)
Basic daily fee	<u>\$15,224</u>
Total New Fees	<u>\$58,424</u> up by 63% on current fees

The above comparison assumes that the maximum accommodation charge is \$18,200 pa (bearing in mind that the maximum amount proposed for 1/7/2014 is in fact \$19,286 pa without any other specific increase being approved).

The realisation of the new scale of fees cutting in at much lower levels of income and assets show that there is a risk of consumers incurring greater increases in cost if the accommodation fee component escalates.

Our Association has substantial concern regarding the issue of the new cut in point for Residential Care as well as Home Care although the latter is not dealt with in this submission. We have not dealt with these concerns in any detail in this submission but would welcome the opportunity to do so.