Australian Government

Department of Health and Ageing

SECRETARY

Dr Ian Holland
Secretary
Standing Committee on Community Affairs
Legislation Committee

Dear Dr Holland

Aged care package of bills inquiry

Thank you for your letter of 14 May 2013 seeking further information from the Department of Health and Ageing (the Department) in relation to the package of Bills currently being considered before the Legislation Committee of the Standing Committee on Community Affairs (the Committee). The Department welcomes the opportunity to continue to provide detail on the proposed changes to legislation to support these important reforms.

The Department, at the request of the Committee, has examined and undertaken analysis on submissions provided by the Taverners Group and the Aged Care Guild. The Department provides the Committee with a detailed response to points raised in the Taverners Group submission. This response has been included at **Attachment 1** for the Committee's consideration.

The Department also provides the Committee with its analysis and response to modelling and assumptions underpinning the modelling undertaken by the Aged Care Guild at **Attachment 2**. Furthermore, the Department provides responses to further questions on notice as prepared by Senator Fierravanti-Wells at **Attachment 3.**

I trust that this information assists you in the inquiry process.

Yours sincerely

Jane Halton PSM
Secretary

23 May 2013

Attachments
1. Response to points raised by the Taveners Group
2. Responses to modelling undertaken by the Aged Care Guild
3. Response to questions on notice – Senator Fierravanti-Wells

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Taverners Group submission

The Committee asked the Department to examine the submission from Taverners Group and respond to points made in that submission.

This submission appears to be of the view that lump sum accommodation payments (referred to as bonds in the submission) are to be capped under the reforms. This is incorrect. The submission also appears to not understand what the legislation proposes in respect of the protection of lump sum payments. The submission then asks a series of questions based on these misunderstandings.

There is no cap on lump sum accommodation payments. This was explained in our second submission (refer Attachment 4 page 6). Rather lump sum payments (known as refundable accommodation deposits) will be able to be charged at any level provided the price has been set in accordance with accommodation pricing guidelines (which the Government has released for public consultation) and any prices above $85 per day (or lump sum equivalent) are approved by the proposed Aged Care Pricing Commissioner.

As also explained in our second submission (Attachment 4 page 7) the legislation does not impose any requirement for private insurance of current accommodation bonds or new refundable accommodation deposits. These lump sum payments will continue to be protected by the existing Bond Guarantee Scheme. This will be reviewed as part of the five year review specified in the Bill.

The submission appears to link issues around protection of lump sum payments with consumer choice. The reforms enabling consumer choice of payment method are not designed to reduce the Government's potential bond liability but instead reflect the policy view that individuals should be able to choose a payment method that best takes into account their own personal circumstances and preferences – a significant and important policy objective of the reforms. In fact modelling by KPMG suggests that the total bond liability may grow as a result of the reforms.

Aged Care Guild Modelling

The Committee asked the Department to examine the modelling from Aged Care Guild and respond regarding the assumptions underpinning, and the outcomes of, that modelling.

The modelling from the Aged Care Guild makes a number of assumptions. The most significant are that it totally ignores the reforms that will allow refundable accommodation deposits (bonds) in what is currently high care, and remove the current cap on daily accommodation prices in high care (currently capped at approximately $33 per day). The analysis in the Guild example/model assumes absolutely no-one will pay a refundable accommodation deposit (bond) in high care. If the Guild example/model is intended to be indicative of the total impact of the reforms on the sector, this assumption would not appear at all realistic.

The Aged Care Financing Authority commissioned independent modelling from KPMG on the impact of the reforms around choice of payment on the aged care sector. A copy of their advice and the KPMG modelling results are attached to this letter.

Unlike the Guild analysis the KPMG modelling also examined the impact of the changes to high care. In summary, the KPMG modelling projected the following impact of the reforms across the sector:

- a $3.4 billion increase in refundable accommodation deposits from new RADs being paid in high care and an increase in provider income of $93 million per year from the removal of high care pricing restrictions; and
- a reduction of $403 million in refundable accommodation deposits in low care and a reduction in revenue of up to $68 million in low care from the removal of retention amounts (though the latter did not account for potential increases in revenue where a combination payment is made. The impact of combination payments was explained on pages 4 and 5 of Attachment 4 to the Department's first supplementary submission.).

The KPMG modelling suggests that there may be a movement of around 33% from bonds to daily payments in low care based on a pure financial consideration of the choice by the individual. This is significantly less than the 60% assumed by the Guild. The KPMG modelling also suggested those most likely to shift are those with small bonds meaning the value impact on providers would not be as substantial. The KPMG modelling took into account financial considerations, including the impact of the aged care means testing arrangements.

The KPMG modelling highlights the significant benefits to the sector from the reforms to high care, which industry has long championed. The Government intends to monitor the impact of the reforms and seek ongoing advice from ACFA on the impacts of the reforms on the sector generally and on different parts of the sector.

Additional questions on notice from Senator Fierravanti-Wells

The Committee asked the Department to respond to further questions on notice prepared by Senator Fierravanti-Wells.

1. Issues raised in correspondence from the Aged Care Guild

Our response to the Guild correspondence and modelling is provided at **Attachment 2**.

2. *Impacts of the reforms on different types of providers*

The KPMG modelling report assessed the impact of the reforms on high care and low care and extra service providers.

In summary, the KPMG modelling projected the following impact of the reforms across the sector:

- a $3.4 billion increase in refundable accommodation deposits from new RADs being paid in high care and an increase in provider income of $93 million per year from the removal of high care pricing restrictions; and
- a reduction of $403 million in refundable accommodation deposits in low care and extra services and a reduction in revenue of up to $68 million in low care and extra services from the removal of retention amounts (though the latter did not take into account potential increases in revenue where a combination payment is made. The impact of combination payments was explained on pages 4 and 5 of Attachment 4 to the Department's first supplementary submission.).

The KPMG modelling suggests that there may be a movement of around 33% from bonds to daily payments in low care based on a pure financial consideration of the choice by the individual. This is significantly less than the 60% assumed by the Guild. The KPMG modelling also suggested those most likely to shift are those with small bonds meaning the value impact on providers would not be as substantial. The KPMG modelling took into account financial considerations, including the impact of the aged care means testing arrangements.

The ACFA noted in its advice to the Minister that a range of non-financial factors will also affect an individual's choice of payment, including estate planning considerations as well as the desire to simplify arrangements and personal affairs.

The ACFA also noted in its advice to the Minister that the reforms may impact residential aged care providers differently given the variability in provider characteristics and that the precise impact on providers will depend on their individual capital structures, their profitability, their business models and their capacity to adapt to changes within the sector. The ACFA also noted in its advice that it will monitor the impacts of the reforms including consideration of how the reforms impact on different providers with different funding and operational structures.

3. *Modelling to support position that increase in bonds in high care will offset any reduction in existing bonds*

The modeling undertaken by KPMG as referred to above and attached to this submission estimates an increase in bonds in high care of \$3.4 billion and an increase in revenue of \$93 million compared to an estimated decrease in bonds in low care of \$403 million and a decrease in revenue of \$68 million in low care (not accounting for a potential increase in revenue from combination payments).

4. *Additional information and breakdown on the number of high care, low care and extra service places and how they are impacted by the reforms.*

For some aspects of this request the Department does not hold data at the specific level of breakdown required. However, we can provide the following information to assist in understanding the principal issue of the number of new high care places where a refundable accommodation deposit may be paid.

To assist in consideration of this issue the Department is able to provide the following information:

- There were 184,570 total operational residential aged care places at 30 June 2012. Of these 93,311 are high care places.
- The allocation of operational places reflects expected and past demand for high care and low care places.
- In terms of residents in care at 30 June 2012 there were 11,305 residents in an extra services place. Of these 10,018 were high care. 93% of residents in extra services are estimated to pay a bond.
- There were 65,140 bonds held with a value of \$13.1 billion at 30 June 2012.
- There were 17,607 new bonds paid in 2011-12 with a value of \$4.4 billion.
- Neither the current nor proposed legislation restricts the ability to charge a bond (RAD) by room type.
- Under the proposed legislation it is not a matter for the provider to determine if they wish to offer a RAD for a particular room or to a particular resident based on wealth – rather it is a choice for the consumer based on their circumstances and preferences.

The KPMG modelling indicates a potential increase in bonds (refundable accommodation deposits) in high care of \$3.4 billion in a year and a potential decrease in new bonds in low care and extra service of \$0.4 billion. The KPMG modeling reflected an estimated 20,166 individuals entering high care and 19,519 individuals entering low care and extra services using 2011-12 data (not including residents eligible for the full Government accommodation supplement).