Australian Unity

Supplementary Submission to Senate Community Affairs Committee

Inquiry into the Aged Care (Living Longer Living Better) Bill 2013

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INTRODUCTION

On 1 May, 2013, Derek McMillan, Chief Executive Officer – Retirement Living, Australian Unity, appeared before the Senate Community Affairs Committee ("the Committee") to give evidence at the Inquiry into the Aged Care (Living Longer, Living Better) Bill 2013.

In the course of this evidence, which outlines a number of concerns regarding the direction the proposed legislation is taking, Senator Concetta Fierraventi-Wells requested Australian Unity to examine the scenarios proposed in Submission 2 to the Inquiry (Kalyna Care), and report back to the inquiry with my opinion on their efficacy.

The issue of asset-testing imposing additional care contributions as raised in the Kalyna Care submission compounds the concerns raised in the submission from ANZ Bank (Submission 95). As a provider of aged care accommodation and services, Australian Unity agrees with the premise of both of these submissions: that the legislative changes proposed will result in a dramatic behavioural change amongst incoming residents of residential aged care facilities, which will consequently adversely affect the accommodation bond balance of all providers. Not only does this diminish the principal source of capital for the sector but it will also require a rapid and significant increase in bank funding to operators to fund the repayment of outgoing residents accommodation bonds.

The Committee is strongly urged to seek financial modelling of the impacts of these changes on incoming residents, outgoing residents, the viability of existing residential facilities and the financing of new facilities before finalising its recommendations on the legislation.

KALYNA CARE SUBMISSION

I have reviewed the Kalyna Care submission and the proposed legislation and agree with the thrust of the submission. The proposed legislation generates a difference between the contributions an individual must make to their care costs depending on whether they are an occupant of an aged care residence or receiving care in their own home.

That difference should not exist on two grounds. Firstly, just like the family home, a residential aged care facility is the primary residence of that person. It is difficult to discern any policy justification for two people with similar incomes and assets contributing different amounts to the cost of care solely on the basis of their accommodation setting.

Secondly, rather than separate the accommodation and care costs so that residents and their families have more choice and control, the use of asset thresholds in the manner proposed and its susequent effect on pension entitlements and care co-contributions clearly directs residents in the way in which the assets of a resident are used.

ANZ SUBMISSION

There is, in my view, a serious issue with the changing of arrangements around accommodation bonds, and the capping the value of the family home at $144,500 in assessing a person's assets and income levels to determine their care co-contribution.

As this value is significantly below the mean market value of accommodation in Australian capital cities, it will act as a disincentive for older people to sell their home when moving into residential care and fund their care through a Daily Accommodation Payment.

The effect is two-fold.

First, it will lower the bond pool on which operators rely to fund new construction projects. It is this equity provided from individuals (not financial institutions) that has given banks the comfort to lend sufficient funds to build much-needed new residential aged care facilities, especially in the inner suburban areas, where there is much demand from older people yet little supply.

Second, any meaningful reduction in the balances held of refundable accommodation deposits for existing facilities will inevitably require significantly more bank funding, the volume of which could be several billion dollars per year over the next few years. Is this funding supportable by the operating performance of aged care facilities, many of which are operated by not-for-profit and community organisations? Or even available in today's financial market?

To further test the soundness of this policy, one could envision the state of affairs in 5 years post-implementation. At this time, with daily accommodation payments representing, say, 75% of all accommodation payments we could see upwards of 100,000 vacant private dwellings in sought-after inner city and middle-ring areas. This will occur because aged care residents will chose to retain their family home while also residing in aged care facilities in order to limit co-contribution costs. The consequence of lowering housing supply is higher prices, putting homes in these areas beyond the reach of many families.

Australian Unity agrees with ANZ that these changes must be fully modelled and analysed, and the consequences of the likely shift in individual preference from Refundable Accommodation Deposits to Daily Accommodation Payments be fully understood before the Committee finalises its recommendations.