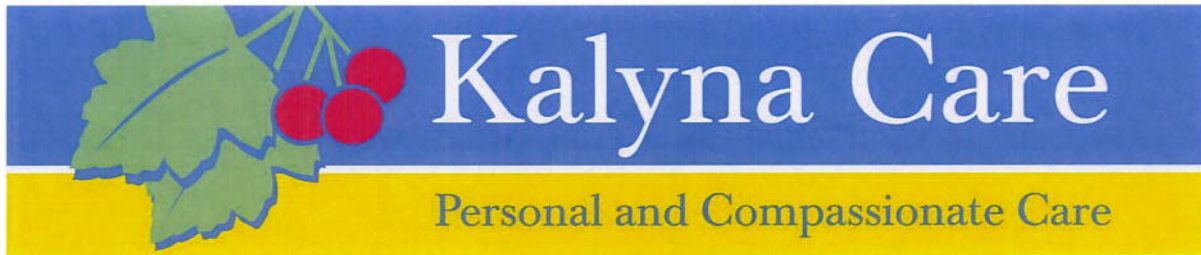


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18<sup>th</sup> April 2013

Professor Peter Shergold AC  
Chair  
Aged Care Reform Implementation Council  
Canberra  
ACT 2600

Dear Professor,

At a recent briefing of by the Department of Health and Ageing in Melbourne, the new Aged Care reforms were detailed in respect to the new means testing for people coming into residential aged care.

The Department representatives showed a model which did not detail the method of calculation for accommodation and charges and therefore answer questions raised by the aged care Providers present. I would suggest that this part of the implementation seems unclear and confusing as can be demonstrated by the example and questions listed below. This example is taken from what will be a practical experience and is designed so that the implementation of the Aged Care reform can be fully understood.

#### The Example:

Mrs Smith (who lives alone) has to enter a residential facility and she has a house valued at \$350,000 and a cash asset of \$200,000 which was left to her by her deceased husband (life insurance monies).

In regard to the published "rules" surrounding Mrs Jones entry into a residential facility the Department of Health and Ageing has released the following information:

"For people with income or assets above these thresholds, the maximum means tested contribution is (thresholds in 2012 prices):

- 50 per cent of income above the income threshold Plus
- 17.5 per cent of the value of assets between \$40,500 and \$144,500 Plus
- 1 per cent of the value of assets between \$144,500 and \$353,500 Plus
- 2 per cent of the value of assets above \$353,500.

The maximum means tested contribution is distributed first toward the resident's accommodation payment until the **full cost of accommodation is paid and then toward their care fee. The care fee cannot exceed the cost of care.**

An annual cap of \$25,000 on care fees will protect residents with higher than average care fees. A lifetime cap of \$60,000 will protect all care recipients who receive care for a longer than average period of time. Contributions that residents may have made as recipients of Home Care packages will be taken into account in calculating lifetime care expenditure".

It is understood that the value of Mrs Smith's house will be capped at \$ 144,500 for the purposes of valuing her assets upon coming into residential care for means test purposes.

Therefore, her assessment under the means test would be as follows:

50 per cent of her income above threshold – this would be equal to around \$ 2,500 based on current interest rates.

17.5 per cent of the value of her house as an asset– this is equal to \$18,200 per year as payment.

1 per cent of the value of her assets of \$ 200,000 – this is equal to \$ 2,000 per annum.

The total amount payable by Mrs Smith would therefore be - \$ 22,700 per annum, which would be under the cap of \$25,000 per annum.

The confusion and lack of detail in regard to how these payments are to be treated comes from the following statement made by the Department of Health and Ageing:

“The maximum means tested contribution is distributed first toward the resident’s accommodation payment until the **full cost of accommodation is paid and then toward their care fee.**”

Given that Mrs Smith will be able to choose to pay a refundable deposit or an accommodation payment for her accommodation the following are questions that need clarification, please:

### The Questions:

- 1 If Mrs Smith decides to pay \$350,000 as a refundable deposit will this satisfy the threshold of the \$144,500 and the provider can show that the full cost of accommodation has been paid (or deemed to have been paid)?
- 2 Therefore, if this is accepted to satisfy the full cost of accommodation then the only amount that would be calculated towards her cost of care would be the \$2,500 from her income and \$2,000 from her 1 per cent of assets above the \$144,500. This would leave a deduction of \$4,500 per annum from the aged care Provider’s ACFI payment towards her care and she would be charged this by the aged care Provider, as is the current case of income tested fee?
- 3 Can you please confirm the above.
- 4 In the case where Mrs Smith wants to pay an accommodation payment and is charged \$50 per day, will this be taken to satisfy the requirement of full cost of accommodation (which is equal to the \$18,200 as stated above) and the only amount that would be calculated towards her cost of care would be the \$4,500 per annum?
- 5 Can you please confirm the above.
- 6 Will the \$350,000 held by the aged care provider be exempt for Mrs Smith in regard to her Centre Link pension payments?
- 7 What if Mrs Smith sells the house for \$350,000 and decides to pay the accommodation payment of \$ 50 per day. Will this asset (\$350,000 less the amount she is paying monthly for the accommodation payment) affect her pension and also be reviewed in terms of her payment under the aged care means test? Considering that she has turned a \$ 144,500 asset into a \$350,000 one.
- 8 What would happen if Mrs Jones decided to pay (and the aged care Provider agreed) only \$40 per day towards her accommodation payment? Therefore, leaving \$10 per day under the limit set by the formula. Would this \$10 per day or \$3,650 per year then be deducted from her cost of care, which would be added to the \$4,500 per annum amount above as a cost of care to her?
- 9 Can you please clarify this.
- 10 There are now a series of questions that follow on from these in terms of a mixture of payments where Mrs Smith may pay an amount (say \$200,000) as a refundable deposit and an amount as an accommodation payment (say \$30 per day). There is any number of combinations that will occur under the above scenario, as each person’s circumstances will be different.

What comes from each of these questions is the need to clarify how the new financial system will work for consumers and aged care Providers.

Whilst it is understood that this detail may not have yet be worked out, it does however affect the operation of the current legislation that is passing through parliament.

As an aged care Provider these details are important in order for us to prepare for the upcoming changes.

I seek your response to the above questions and look forward to hearing from you in the near future, thank you.

Kind regards

**Mark Sheldon-Stemm**  
**General Manager/Company Secretary**