Senate Community Affairs Committee

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

SOCIAL SERVICES PORTFOLIO

Budget Estimates 2013-14, 5/6 & 7 June 2013

Question: E13-211

OUTCOME: 4: Aged Care and Population Ageing

Topic: Accommodation Payments - Retentions

Type of Question: Hansard Page 81 (and separate table with scenarios), 5 June 2013

Senator: Siewart

Question:

Some of the comments in the overview (following the scenarios in the table) probably need additional information included…I would appreciate if you could take on notice any other comments.

Answer:

The overview that follows the two scenarios is not realistic in that it compares two people with significantly different wealth and does not account for the time value of money, or consider means testing for care fees.

In relation to accommodation payments and the time value of money, the person in scenario one and the person in scenario two have both paid the same amount for their accommodation, the equivalent of $60 per day. They have, however, paid it in different ways.

The person in scenario one has paid by a combination of refundable accommodation deposit (RAD) and daily accommodation payment (DAP), with the DAP drawn down from the RAD. The person in scenario two has paid entirely by RAD.

To suggest that the person in scenario two has paid less money because they end up with the same amount that they started with does not take account of the fact that they have given up the use of that money for the intervening period.

They have chosen to pay their $60 per day by foregoing any earnings on that capital amount.

In scenario one, the person has paid a smaller lump sum, therefore the value of the earnings that they are foregoing is less, and this is topped up by drawing down from the lump sum so that it equals the agreed $60 as per the equivalence formula. The cost is the same.

In relation to care fees, the means tested care fee payable by each of the care recipients given in the example varies on the basis of their income and assets.

Unlike the current arrangements where it is a person's income only that determines their income tested care fee, for new entrants on or after 1 July 2014 it will be both a person's income and assets that determines their contribution to their care costs. This is intended to address the current anomaly where income rich but asset poor care recipients pay for their care but not their accommodation, and asset rich but income poor care recipients pay for their accommodation but not their care.

Considering the examples, the care recipient in Scenario 1, irrespective of how they choose to pay for their accommodation would not be asked to pay a means tested care fee. Based on their means, their means tested care fee would be too low (0.29 cents per day) and would be set to zero.

The care recipient in Scenario 2, irrespective of how they choose to pay for their accommodation, can be asked to pay up to $2,088 per annum in means tested care fees based on March 2013 prices.

By not considering the means tested care fee payable, the example does not accurately reflect each person's contribution to their residential aged care fees and charges.

The example is also based on an unusual assumption that two people with different wealth would choose to pay the same amount for their aged care accommodation, when it is highly likely that they would make different choices as they have most likely done throughout their life.