

AGED CARE SECTOR

RESIDENTIAL AGED CARE FINANCIAL SUSTAINABILITY
AGED CARE TASKFORCE RECOMMENDATIONS (MAY 2024)



AGED CARE TASKFORCE

The Government established the Aged Care Taskforce (Taskforce) to review **funding arrangements** for aged care and develop **options for a sustainable system that is fair and equitable for everyone in Australia**. The Final Report of the Aged Care Taskforce was released on 11 March 2024. (https://www.health.gov.au/sites/default/files/2024-03/final-report-of-the-aged-care-taskforce_0.pdf).

Specifically, the Taskforce was to provide recommendations on:

- **Funding and contribution** approaches to support innovation in the delivery of care
 - A fair and equitable approach to assessing the means of older people accessing residential and in-home aged care, including the scope of income and assets included in the assessment of means
 - Issues and trade-offs for including and excluding different service types in the new in-home aged care program (the service list)
 - Consumer contributions for in-home aged care, and reforms that support a future transition to a single in-home aged care system
 - **Reforms to arrangements for pricing and funding hotel and accommodation costs in residential aged care, including the phasing out of refundable accommodation deposits.**
- The Taskforce Report contained **23 separate Recommendations** in relation to the above terms of reference.

AGED CARE TASKFORCE RECOMMENDATIONS

Recommendation 1: Underpin the Support at Home Program with inclusion and exclusion principles and clearly defined service lists

Recommendation 2: Continue the significant role for government funding of aged care services. A specific tax or levy to fund aged care is not recommended

Recommendation 3: It is appropriate older people make a fair co-contribution to the cost of their aged care based on their means

Recommendation 4: Ensure a strong safety net for low means participants to meet aged care costs

Recommendation 5: Make aged care fees fairer, simpler and more transparent so people can understand the costs they will incur if they access aged care

Recommendation 6: Establish appropriate arrangements to allow older people and providers to smoothly transition to any new arrangements, including grandparenting arrangements for those already in residential aged care and phasing in for home care

Recommendation 7: Establish a fee-for-service model for Support at Home that ensures participants only pay a co-contribution for services received

Recommendation 8: Introduce Support at Home participant co-contributions that vary based on the type of service accessed

Recommendation 9: Continue to focus government funding in residential aged care on care costs, with a significant role for resident co-contributions in non-care components

Recommendation 10: Funding for daily living needs to cover the full cost of providing these services. It is recommended this be composed of the Basic Daily Fee and a supplement

AGED CARE TASKFORCE RECOMMENDATIONS

Recommendation 11: Enable residents and their representative and providers to negotiate better or more daily living services for a higher fee, subject to at least:

- publishing prices and services
- only allowing agreement to higher fees for agreed services to be made after a participant has entered care
- a cooling off period and regular review opportunities to ensure the resident still wants the services and can still use them

Recommendation 12: Following an independent review in 2030, transition the sector by 2035 to no longer accept RADs as a form of payment for aged care accommodation and move to a rental only model, provided that the independent review finds there is improved financial sustainability, diversified and adequate sources of capital to meet future demand and residential aged care is affordable for consumers

Recommendation 13: Require providers to retain a portion of the RAD in the near-term to make an immediate improvement to sector financial sustainability. Base the amount on length of stay, with a cap on the number of years a RAD is subject to retention to protect residents who stay for a long time

Recommendation 14: Review the Accommodation Supplement, including improving incentives to meet the accommodation design principles

Recommendation 15: In addition to the other accommodation recommendations, develop a package of measures to improve accommodation funding, equity between residents and transparency in the near-term. This will help place accommodation income on a long-term sustainable footing and position the sector for the ultimate phase out of RADs

Recommendation 16: Establish appropriate safeguards and incentives to protect access to residential care for supported residents

Recommendation 17: Consider the appropriateness of the current remoteness classification system

Recommendation 18: Continue block funding in thin markets where appropriate and necessary. Consider any other supports necessary to ensure access to care in under serviced markets

AGED CARE TASKFORCE RECOMMENDATIONS

Recommendation 19: Consider ways to encourage providers to develop and scale innovative care models, invest in technology, and conduct research into best practices, including through:

- the recommendations outlined in this report to improve the viability of the aged care sector
- tasking the Aged Care Quality and Safety Commission with supporting innovation by identifying innovative practices and promoting these across the sector

Recommendation 20: Raise awareness of existing financial products that enable older people to utilise their wealth in retirement and provide confidence they can afford future aged care costs

Recommendation 21: Task the Behavioural Economics Team of the Australian Government (BETA) to provide advice on how to encourage people to consider their future aged care needs at an appropriate stage of life

Recommendation 22: Review and streamline financial reporting to government where possible to ensure reporting is genuinely enhancing transparency

Recommendation 23: **Improve communications between the Independent Health and Aged Care Pricing Authority (IHACPA) and providers and participants regarding its pricing advice and decisions, and task IHACPA with:**

- **a review of its pricing in rural and remote areas**
- **costing of the supplement for everyday living**

AGED CARE TASKFORCE

Minister Butler's Comment

- The new rights-based *Aged Care Act* is a once-in-a-generation reform that will put older people at the centre of the aged care system and ensure those who access Government-funded aged care services are treated with respect and have the quality of life they deserve
- It will also support the Government's response to the *Aged Care Taskforce*

Aged Care Reform Priorities (<https://www.health.gov.au/our-work/aged-care-reforms/priorities>)

2024–25 Budget: Reinforcing the foundations that underpin quality aged care

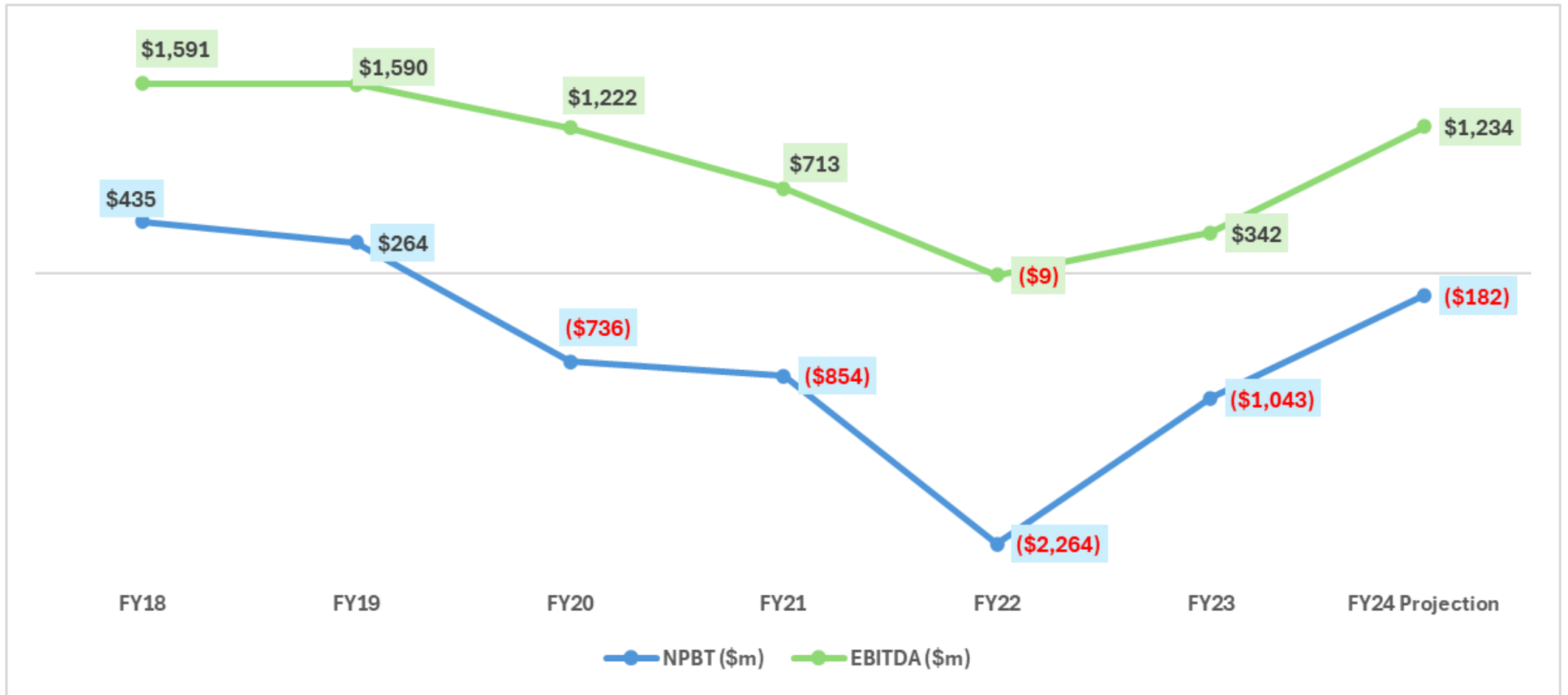
Older people, their families and carers will benefit from a quality aged care system, with faster access to in-home care, a strong workforce and better links between aged care and health systems.

The [new Aged Care Act](#) will put older people at the centre of aged care. It will also support the government's response to the [Aged Care Taskforce](#). These reforms are crucial to create a sustainable sector that delivers high quality care.

We are continuing to consult with older people, their families and carers, aged care providers and worker, and across the aged care sector to ensure there is broad support for reforms to improve the standard of aged care.

AGED CARE SECTOR FINANCIAL SUSTAINABILITY

RESIDENTIAL CARE - SECTOR FINANCIAL PERFORMANCE TREND (\$M)



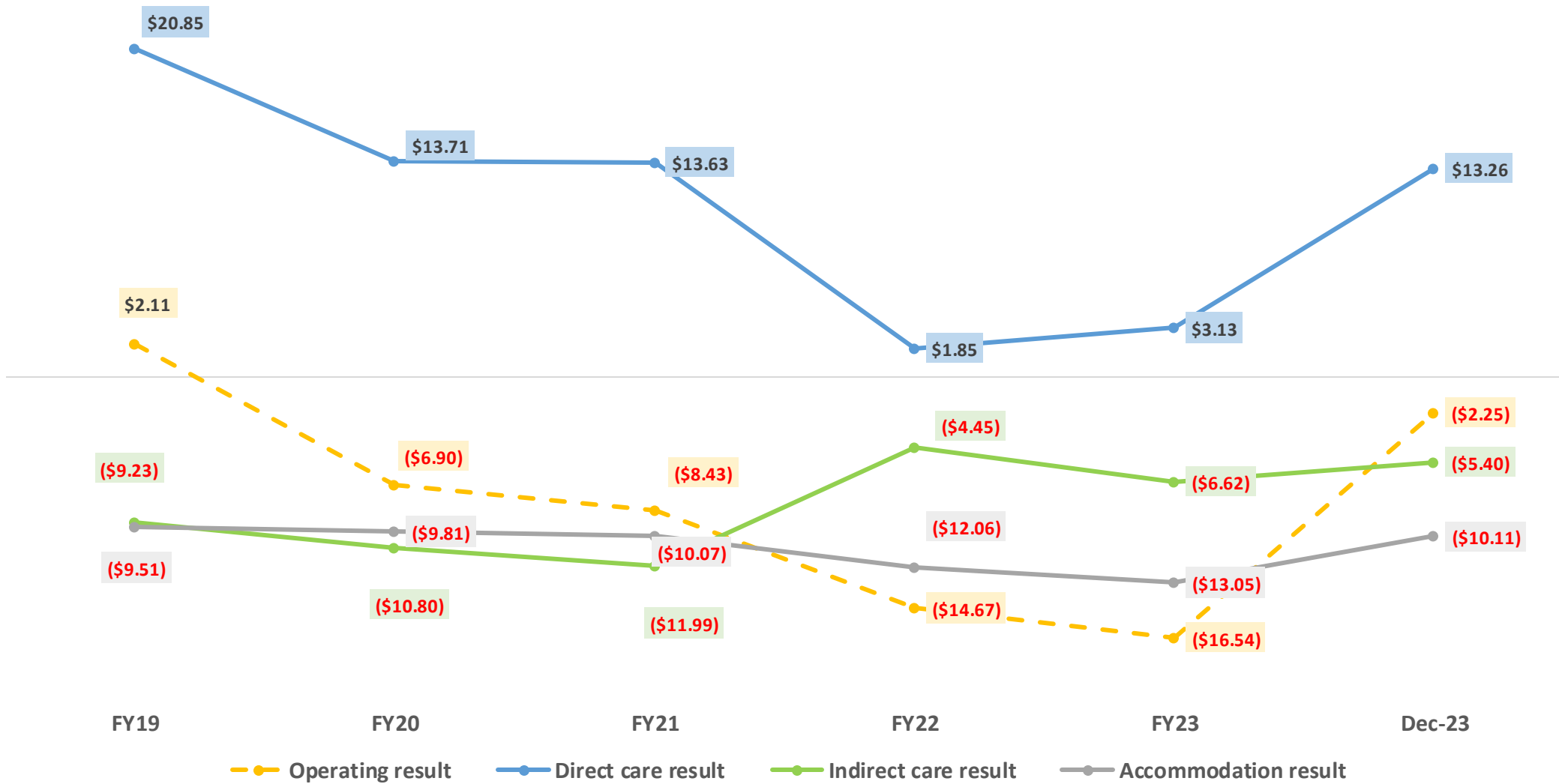
Residential Aged Care Sector aggregate financial performance (all facilities)

NPBT: Net Profit Before Tax

EBITDA: Earnings Before Interest, Tax, Depreciation, amortisation

Source: FY18 to FY22 Department of Health and Aged Care; FY23 StewartBrown estimate; FY24 StewartBrown Projected based on Dec-23 YTD financials.

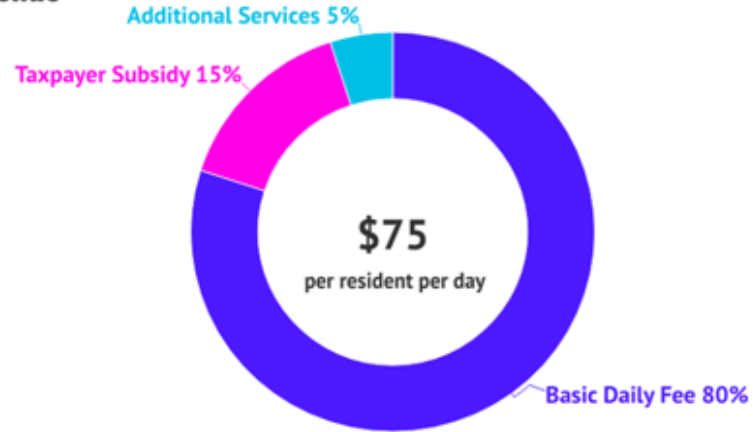
RESIDENTIAL CARE - FINANCIAL PERFORMANCE TREND (\$ PBD)



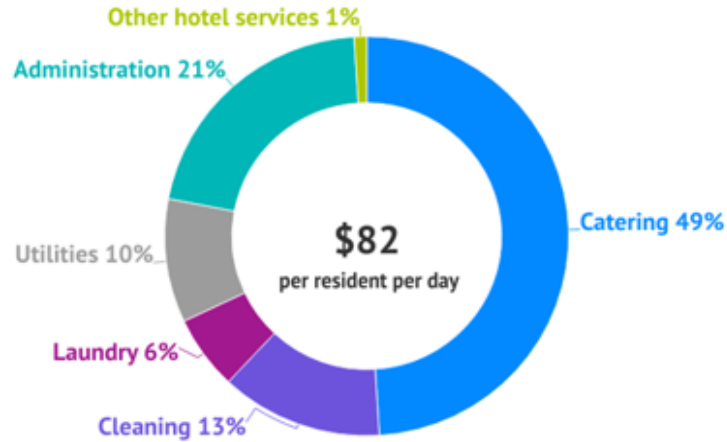
FUNDING FOR RESIDENTIAL AGED CARE DAILY SERVICES

Everyday Living

Revenue

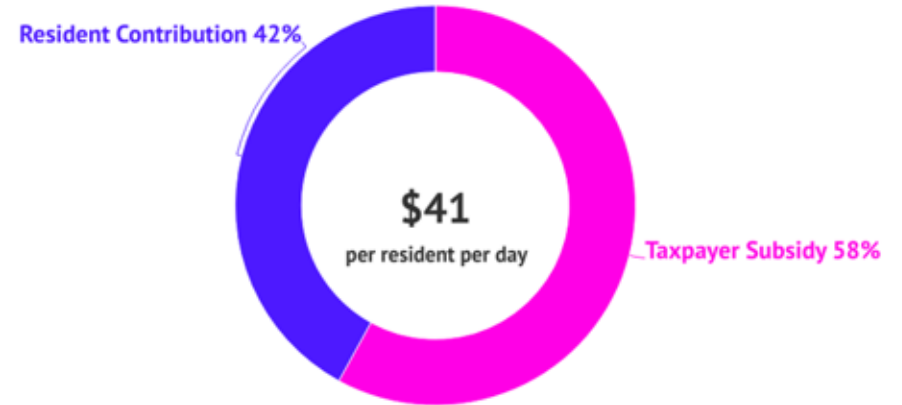


Expenses

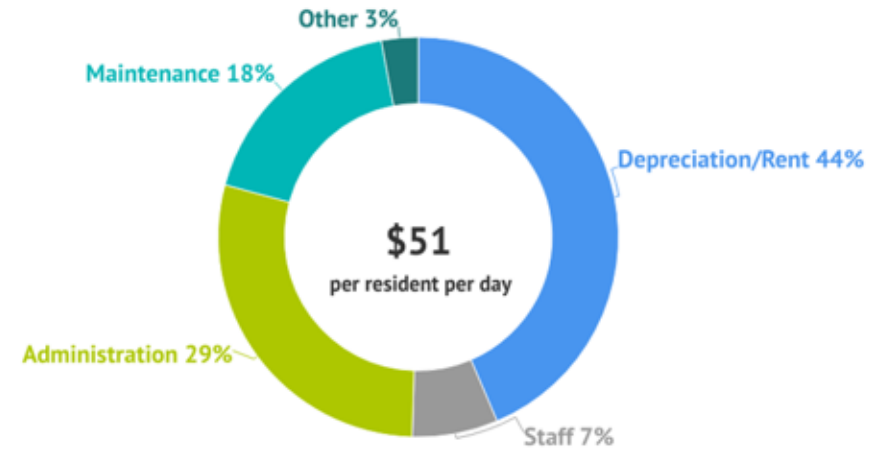


Accommodation

Revenue



Expenses



FINANCIAL IMPACT OF TASKFORCE RESIDENTIAL RECOMMENDATIONS

Recommendation 10: Funding Everyday Living services to cover the full cost

Everyday living cost	\$80 per day
Basic Daily Fee (all residents)	\$61 per day (85% of single pension) <i>(excludes additional services)</i>
Everyday living supplement	\$19 per day *
• Supported residents	\$19 per day paid by taxpayer subsidy
• Non-supported residents	\$19 per day paid by resident
Benefit (additional revenue)	\$8.08 per bed day (average additional revenue)
Annualised sector benefit	\$568.9 million pa (after phasing in period)

Recommendation 13: Retention of percentage of RAD (3% pa over maximum 5 years)

Accommodation (RAD) price \$400k	\$12,000 pa (\$32.88 per day)
Accommodation (RAD) price \$500k	\$15,000 pa (\$41.10 per day)
Accommodation (RAD) price \$650k	\$19,500 pa (\$53.42 per day)
Accommodation (RAD) price \$750k	\$22,500 pa (\$61.64 per day)
Benefit (additional revenue)	\$9.06 per day (average additional revenue)
Annualised sector benefit	\$637.9 million pa (after phasing in period)

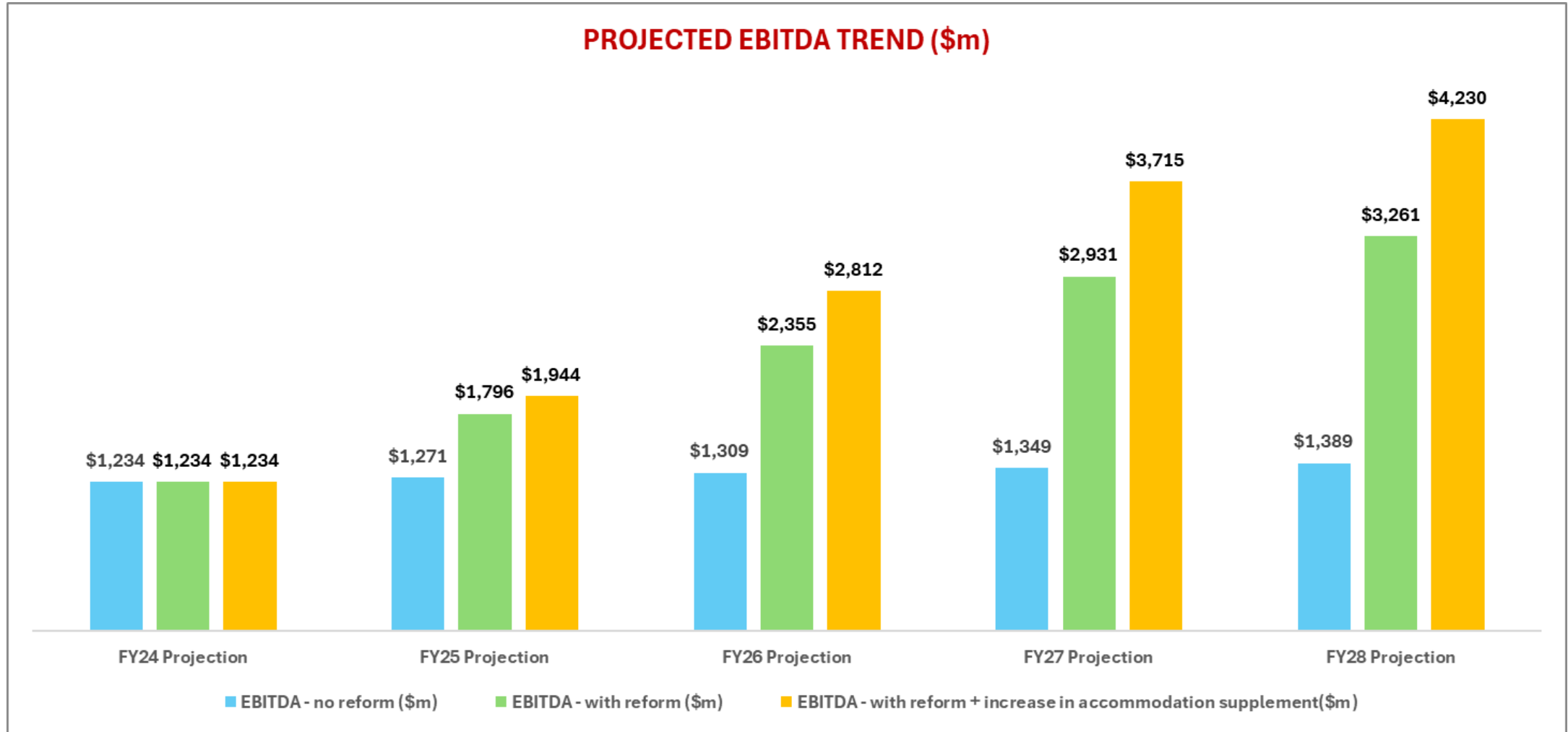
Recommendation 14: Increase Accommodation Supplement

Accommodation price \$450k	\$98.63 per day
Current maximum accommodation supplement	\$66.94 per day
Benefit (additional revenue)	\$11.99 per day (average additional revenue)
Annualised sector benefit	\$844.5 million pa (after phasing in period)

Maintain MPIR (Weighted Average Cost of Capital) at minimum 8% pa

Annualised sector benefit	\$602.7 million pa (after phasing in period)
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RESIDENTIAL CARE - FINANCIAL PERFORMANCE PROJECTION TREND



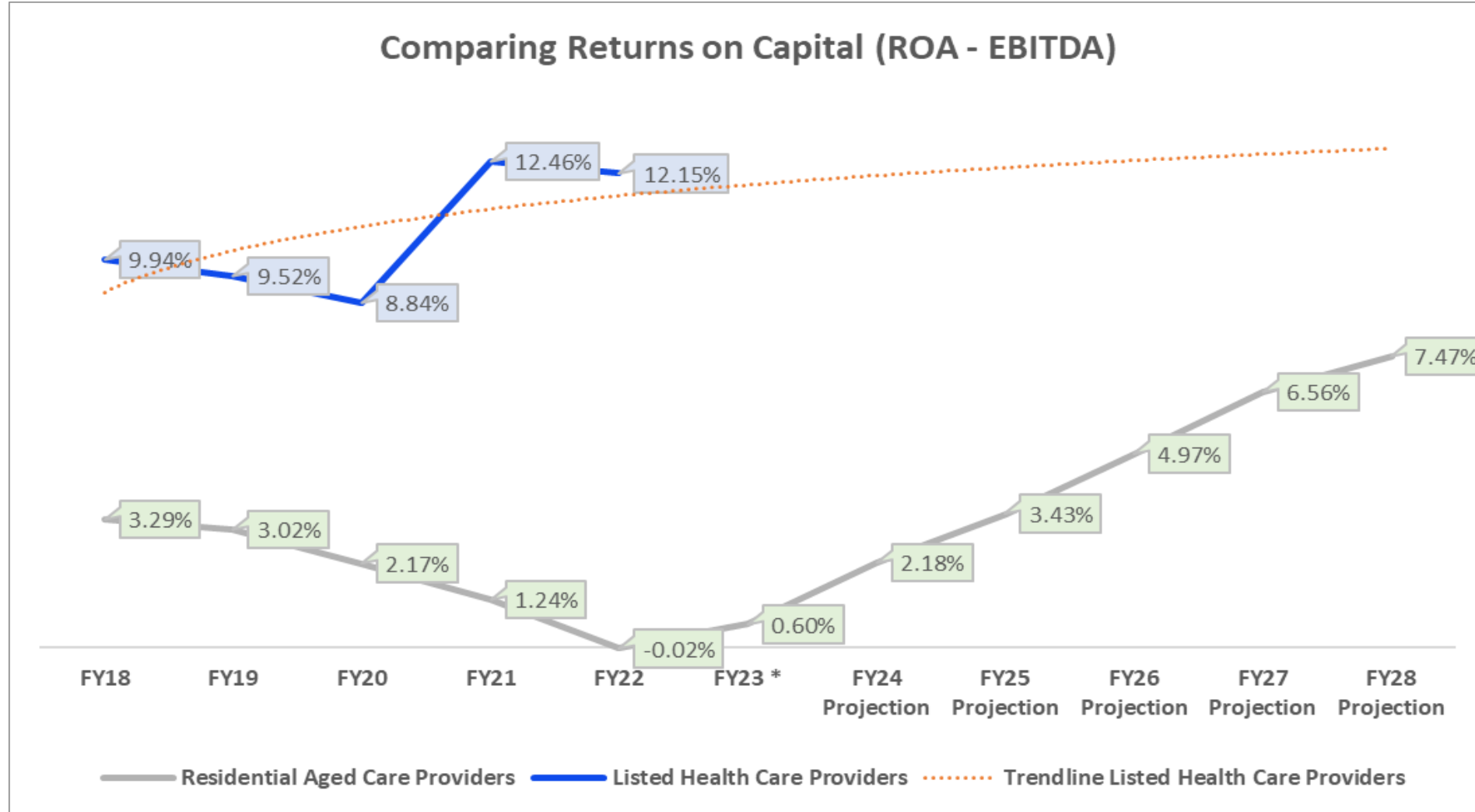
Residential Aged Care Sector aggregate financial performance (all facilities)

EBITDA - no reform: EBITDA based on current funding settings

EBITDA - with reform: EBITDA with reforms (*recommendations #10 and #13*)

EBITDA - with reform plus increased accommodation supplement: EBITDA with reforms (recommendations #10, #13 and #14)

RESIDENTIAL CARE EBITDA RETURN ON ASSETS (ROA) PROJECTIONS



Source:

Listed Health Care Provider - ASX

Residential Aged Care Providers - FY18 to FY22 Department of Health and Aged Care; FY23 StewartBrown estimate; FY24

StewartBrown Projected based on Dec-23 YTD financials; FY25 and onward StewartBrown Projected based on FY24 forecast and Taskforce Report ([recommendations #10, #13 and #14](#))

ADDITIONAL DAILY CONTRIBUTIONS FROM RESIDENT PERSPECTIVE

	Current		Proposed	
	Supported	Non-Supported	Supported	Non-Supported
Direct Care				
AN-ACC (taxpayer subsidy)	100%	96%	100%	96%
Means-Tested Care Fee <i>(no change to current funding)</i>	0%	4%	0%	4%
Everyday Living				
Basic Daily Fee	\$ 61	\$ 61	\$ 61	\$ 61
Supplement (taxpayer subsidy)	\$ 11	\$ 11	\$ 19	\$ -
Supplement (resident) <i>(increases revenue to \$80 per day)</i>	\$ -	\$ -	\$ -	\$ 19
Accommodation				
Supplement (taxpayer subsidy)	\$ 67	\$ -	\$ 98	\$ -
Daily Accommodation Payment (DAP)	\$ -	\$ 126	\$ -	\$ 126
Refundable Accommodation Deposit (RAD)	\$ -	\$ 57	\$ -	\$ 57
RAD 3% additional retention	\$ -	\$ -	\$ -	\$ 45

* Accommodation price \$550k x 8.38% / 365 days

** Accommodation price \$550k x 4.75 term deposit rate x 79% (after tax rate) / 365 days (opportunity cost)

*** Accommodation price \$550k x 3% / 365 days

HOME CARE - CONSUMER CONTRIBUTIONS

LOW

	Clinical care	Independence and safety	Everyday Living (up to cap)
Full pensioners	Free	Free	5%
Part pensioners	Free	5%	10%
Self-funded retirees	Free	10%	20%

MEDIUM

	Clinical care	Independence and safety	Everyday Living (up to cap)
Full pensioners	Free	5%	10%
Part pensioners	Free	10%	20%
Self-funded retirees	Free	20%	40%

HIGH

	Clinical care	Independence and safety	Everyday Living (up to cap)
Full pensioners	Free	10%	20%
Part pensioners	Free	15%	40%
Self-funded retirees	10%	30%	60%

Approximate Percentage of Funding by Service List

Clinical Care	10.3%
Independence and Safety	76.9%
Everyday Living	12.8%

Service List 1: Clinical Care

Definition: Specialised clinical services for an older person to maintain or regain functional capacities in support of independent and safe living. To be delivered by a qualified professional within the scope of their practice or by an aged care worker under supervision.

Service List 2: Independence and Safety

Definition: Support delivered to older people to help them manage instrumental activities of daily living that they cannot complete independently and safely due to disability or age-related decline or functional impairment. This would be delivered via a variety of professions, such as aged care workers.

Service List 3: Everyday Living

Definition: Support to assist older people to keep their home in a livable state in order to enable them to stay independent in their homes.

The following table provides estimates of the amount of annual consumer contributions from the proposed contributions options. The estimates include a low, medium and high option to present members with a range of contribution levels based on the pension status and the type of service. It is estimated that the current consumer contribution frameworks in the CHSP and HCP will generate approximately \$498 million in 2025/26.

	25/26 (\$m)	26/27 (\$m)	27/28 (\$m)	28/29 (\$m)	29/30(\$m)
Current level	498.2m	520.5m	545.2m	570.5m	598.2m
Low option	327.6m	344.4m	361.2m	378.4m	396.3m
Medium option	965.7m	1,014.7m	1,063.9m	1,114.4m	1,167.0m
High option	1,759.4m	1,848.8m	1,938.4m	2,030.4m	2,126.1m

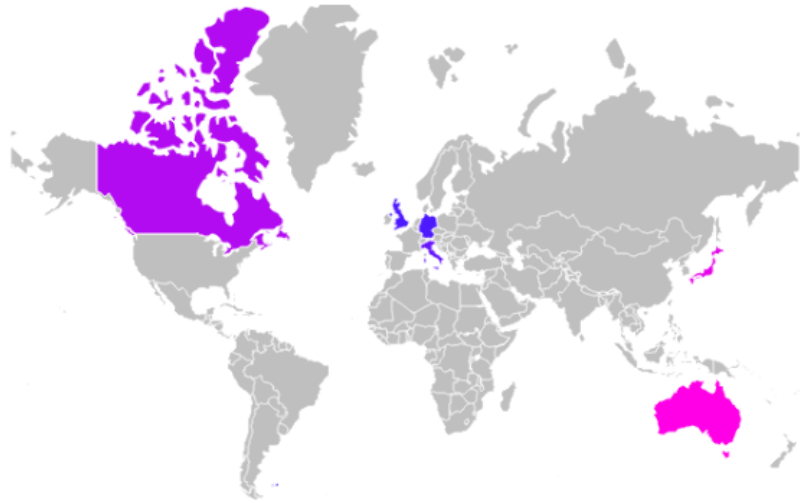
FINANCIAL IMPACT OF TASKFORCE HOME CARE (HCP) RECOMMENDATIONS

HCP Funding Level	BDCF	Participants
Level 1	\$11.22	14,255
Level 2	\$11.87	107,489
Level 3	\$12.20	85,909
Level 4	\$12.53	56,507
		264,160
Basic Daily Care Fee (BDCF)	\$12.08	
Current BDCF (<i>2% of HCP funding</i>)	\$1.53	
Difference (BDCF not recouped)	\$10.55	\$ per day
Annualised increased BDCF	\$1,017,448,114	\$ per annum

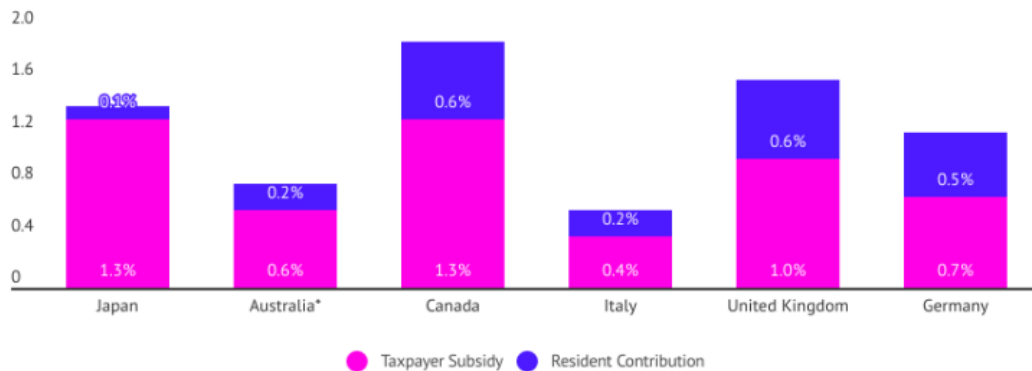
SUMMARY AND QUESTIONS

RESIDENT'S CONTRIBUTION FOR CARE SERVICES COMPARISON BY COUNTRY

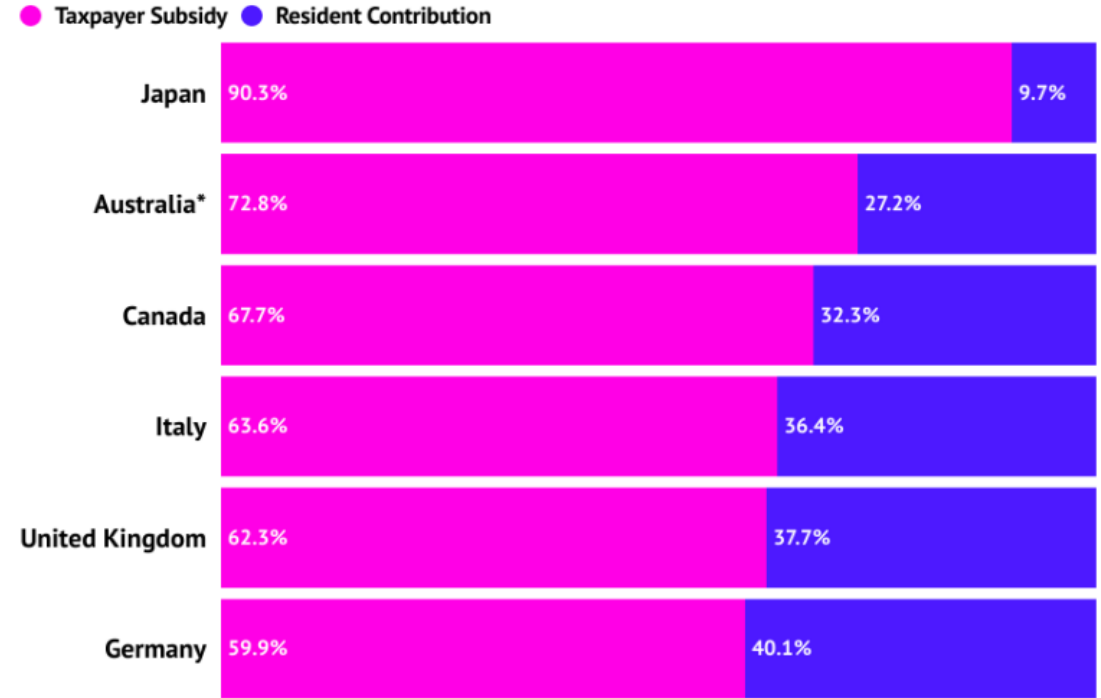
Government spending vs out of pocket payments in OECD Countries



Government spending vs out-of-pocket payments of total in-patient expenditure as % of GDP



Government spending vs out-of-pocket payments of total in-patient expenditure by country (OECD 2020)



Source: OECD Health Statistics 2020 & Financial Report on Aged Care Sector 2021-22

*Australian Data derived from Financial Report on Aged Care Sector FY22. This data does not include long-term inpatients in hospital care.

**OECD data includes long-term care (health) services provided in a health care facility (Both Hospital and Aged Care Facilities)

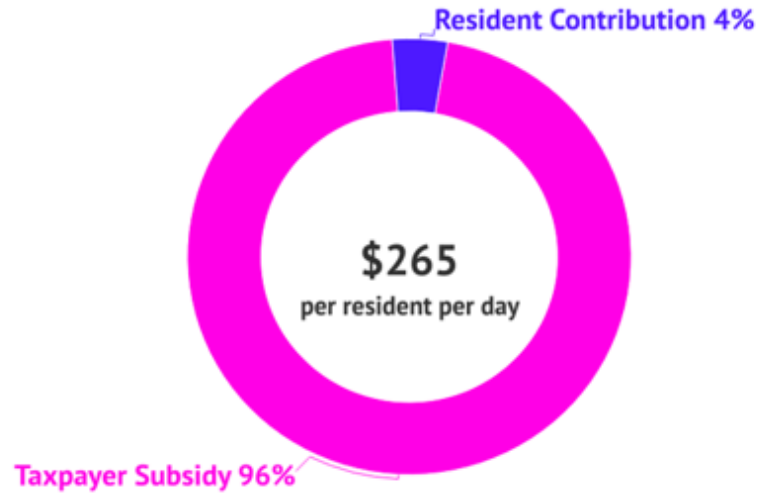
**OECD data usually includes nursing and personal care, accommodation and indirect car

**Taxpayer subsidy includes government schemes, social health insurance, compulsory private insurance and compulsory medical savings accounts

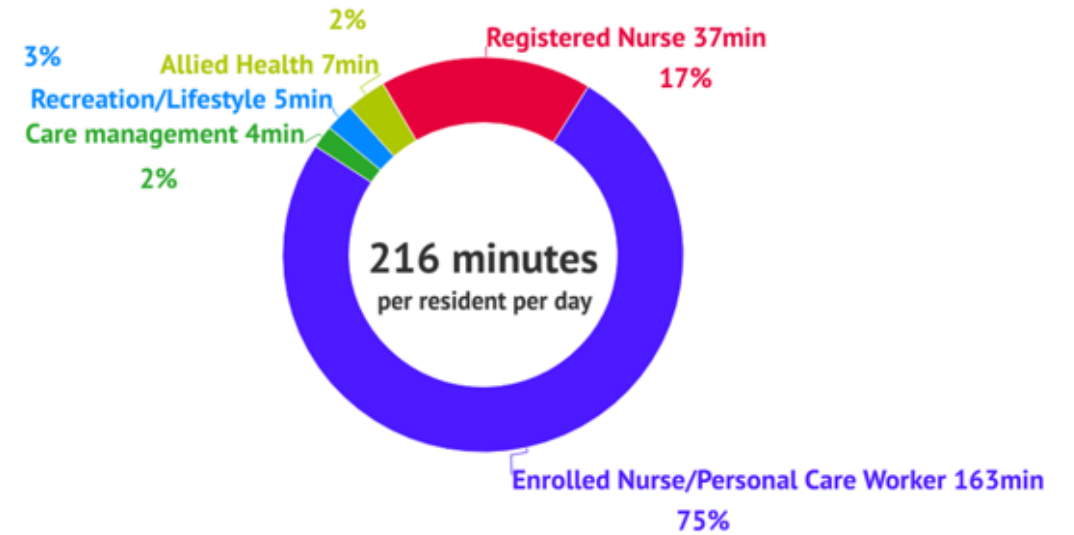
**Residential contribution usually includes individual expenditure derived from savings or income and voluntary health care payment schemes

AN-ACC FUNDING MODEL FOR RESIDENTIAL DIRECT CARE SERVICES

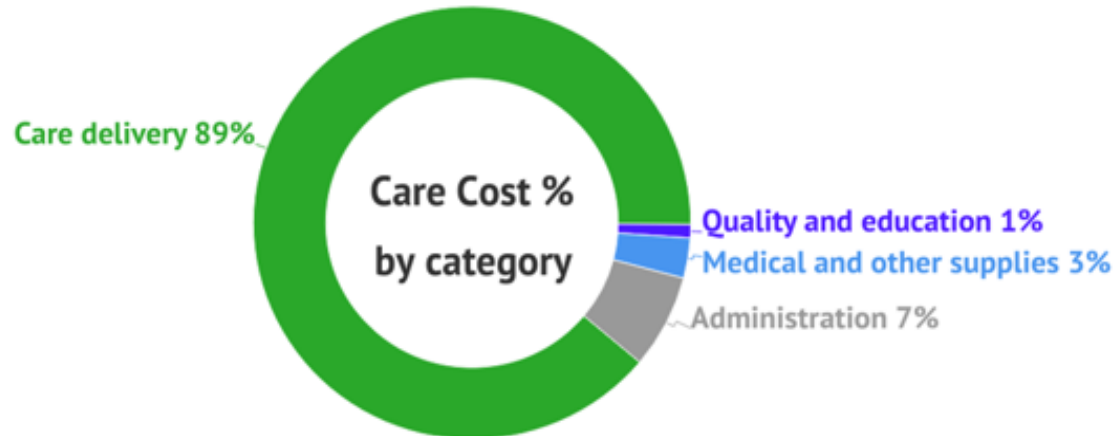
Care Revenue



Care Delivery



Care Cost



INCREASE EVERYDAY LIVING (HOTEL SERVICES) FEE BASE

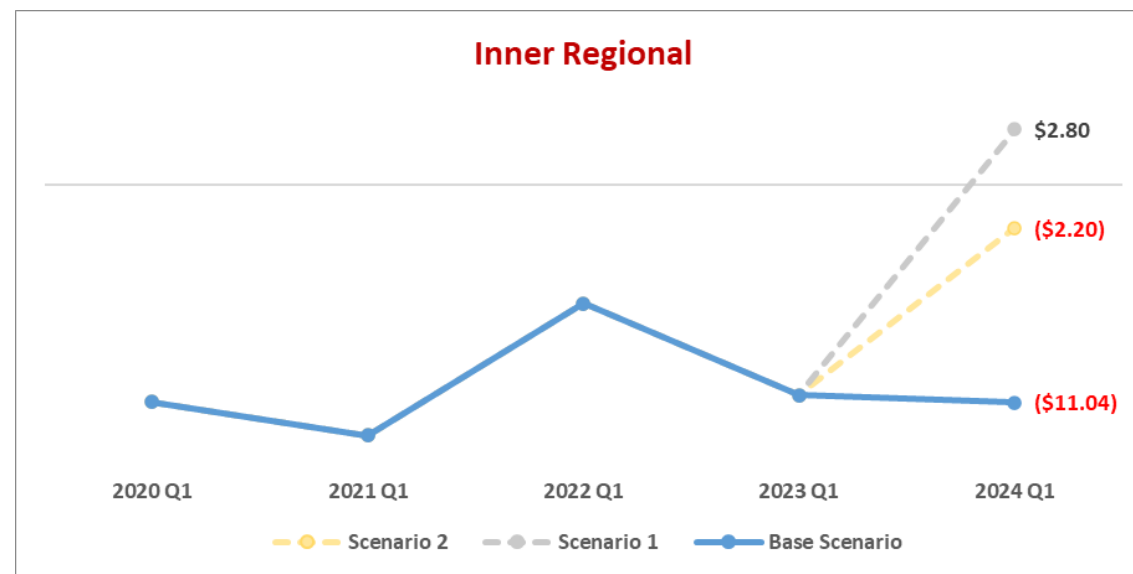
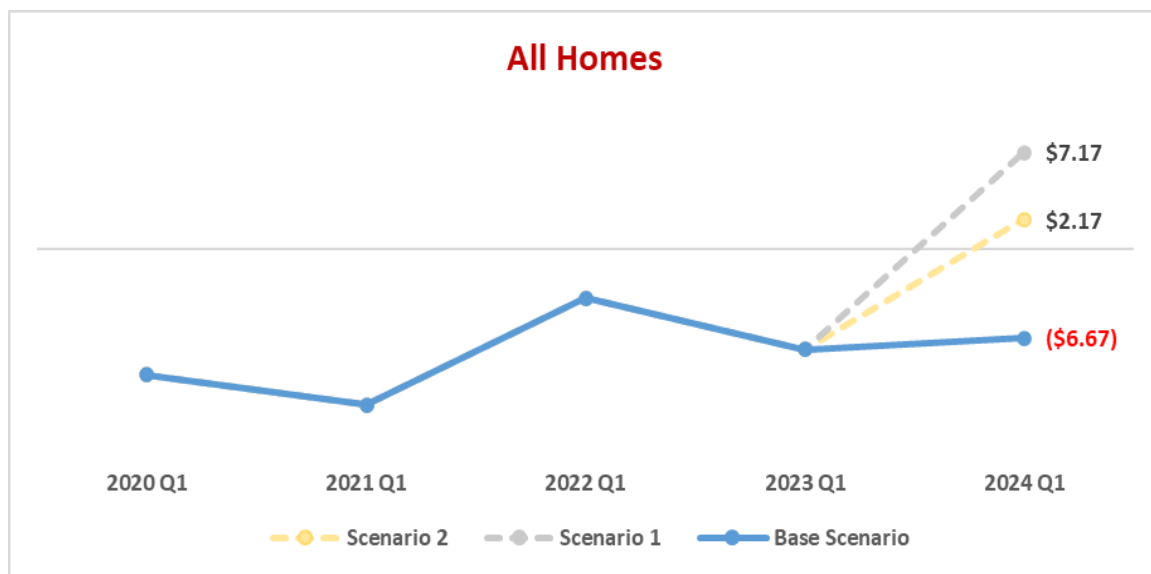
Annual additional income from non-supported residents for Everyday Living Services

Assuming hotelling supplement envelope will be fully funded for supported residents, while non-supported residents will pay BDF + the equivalent amount for hotelling supplements

	Permanent	Respite	
Residents at RACF	185,127		Jun-23 data
Residents at RACF permanent equivalent	185,127	7,774	192,901
Supported rate	45.72%		
Hotelling supplement	\$10.82		Weighted average for Sep-23 quarter
Hotelling supplement for supported residents only	\$24.66		(A)

Non-supported residents + respite residents	108,259	(B) (54.3% of permanent + 100% of respite residents)
Non-supported residents daily contribution to hotelling supplement	\$2,669,655	(C) = (A x B)
Annualised additional income stream from non-supported residents	\$974,424,193	Increased Consumer Contribution (C x 365 days)

Overall it will be an average \$13.84 pbd increase in revenue (at facility level)



Base Scenario: Everyday Living (Hotel) Result (\$ pbd) (Sep-23 YTD)
Scenario 1: No additional expenditure on everyday living services
Scenario 2: \$5 pbd additional expenditure to provide more diversity

ACCOMMODATION PRICING MODEL REFORM

DAP (\$ pbd) if MPIR was capped at minimum of 8% pa (rather than variable rate)

Scenario	MPIR	DAP uplift proportion	All Homes	Major Cities	Inner Regional	Rural & Remote
MPIR averaged at 5.07% (three year average)	5.07%		\$16.57	\$17.19	\$15.42	\$14.78
If MPIR remains 8% pa (representing actual cost of capital)	8.00%	58%	\$26.13	\$27.12	\$24.32	\$23.32

Uplift in revenue			All Homes	Major Cities	Inner Regional	Rural & Remote
If MPIR remains 8%			\$9.56	\$9.93	\$8.90	\$8.53

The above table demonstrates the increased historical financial effect if the MPIR was set as a minimum of 8% per annum cap (representing the Cost of Capital) rather than being set against interest rates (average MPIR was 5.07% over the last three years). Current MPIR is 8.38%

Accommodation supplement - increased to be in line with DAP

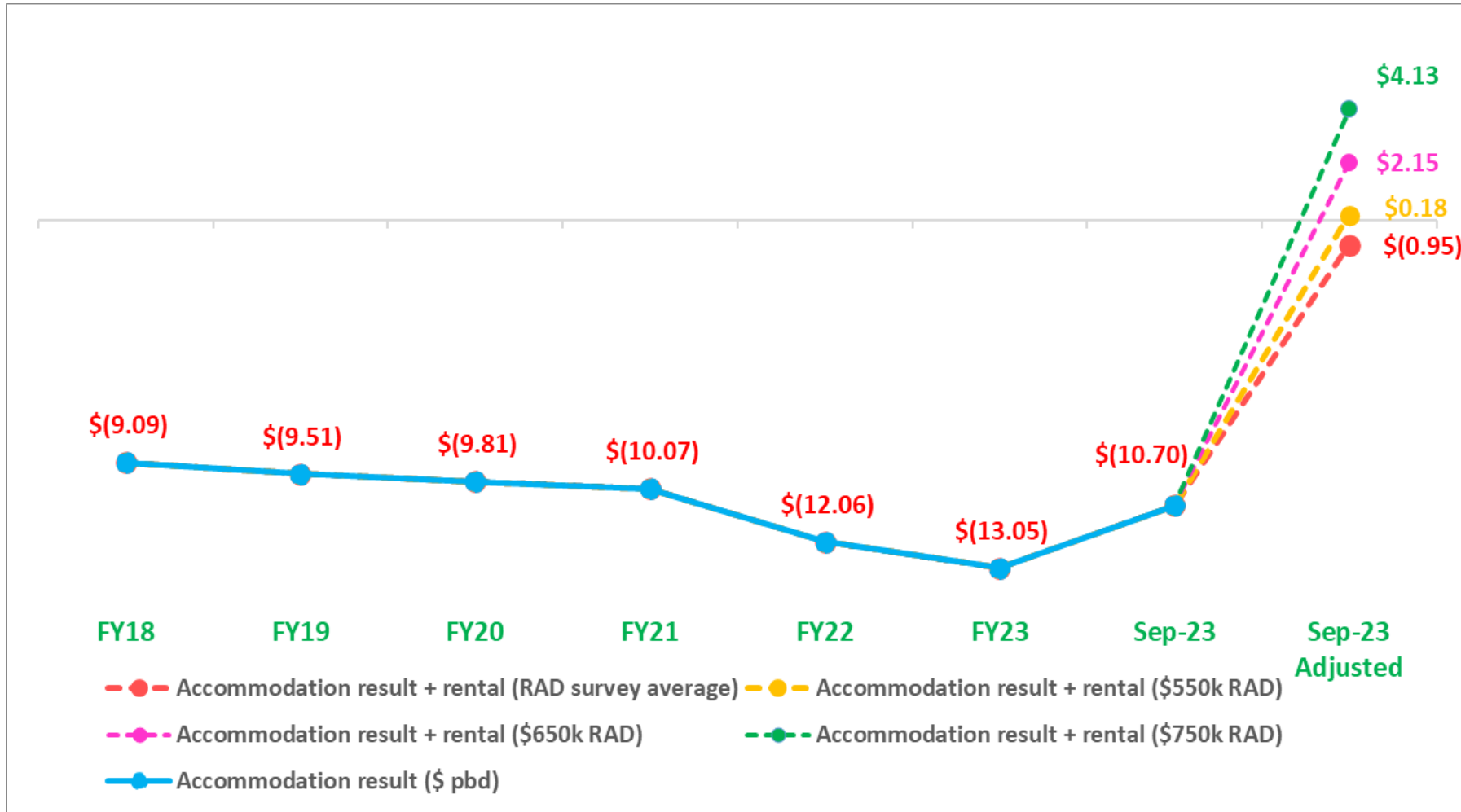
RAD	MPIR	Supplement
450,000	8%	\$98.63

	All Homes	Major Cities	Inner Regional	Rural & Remote
Maximum Accommodation Supplement per Supported and Respite resident	\$98.63	\$98.63	\$98.63	\$98.63
Average Accommodation supplement per supported resident/respite resident	\$53.73	\$54.14	\$53.05	\$52.67
Difference	\$44.90	\$44.49	\$45.58	\$45.96

Estimated Supported and Respite Resident days	A 33,732,012	B
Estimated additional funding	\$1,514,426,493	A x B
Estimated additional funding (discounted 5% for partially supported residents)	\$1,438,705,168	(A x B) * .95%

The above table represents the potential additional revenue if the Accommodation Supplement for supported residents was based on a RAD price of \$450,000 with an MPIR of 8%. Based on a supported/partially supported resident ratio of 45% this would represent \$1.438 billion additional subsidy (being an overall average of \$20.73 pbd)

FINANCIAL EFFECT OF A RENTAL COMPONENT OF A RAD



The above table demonstrates the financial effect of having a deferred rental portion for RADs based on 35% of the DAP equivalent for RADs received and with various RAD price scenarios. The actual Accommodation results (deficits) for FY18 to FY23 and Sep-23 YTD are shown separately