CATHOLIC HEALTH
Australia

Aged Care Update

10 June 2015

Access by supported residents to residential aged care

The Aged Care Financing Authority (ACFA) has been asked by Minister Fifield to provide advice by 31 December 2015 on cost neutral mechanisms to ensure access by supported residents, including reviewing the supported resident ratio. The ACFA has issued a **discussion paper** and **data book** to support a public consultation process that is currently underway.

In effect, the ACFA is inviting comment on the two main policy instruments designed to ensure access by financially disadvantaged older people needing care. That is:

- accommodation supplements paid by the government to providers on behalf of individuals who cannot meet all, or part of, their accommodation costs (supported residents), including a higher supplement paid to facilities that have more than 40% supported residents; and
- supported resident ratios in each aged care planning region which mandate the minimum number of supported residents facilities must have in their resident profile.

Accommodation supplements for supported residents

A combined income and assets test is used to determine whether a resident qualifies for supported resident status. Under the current test, a single person qualifies if their annual income is under $64,132 or their assessable assets are under $157,051.

A resident who has a ‘protected person’ living in his or her former residence, such as a partner or dependent, generally also qualifies as a supported resident because the former residence in such circumstances is not an assessable asset.

The Government sets the level of payment (accommodation supplement) service providers receive for each supported resident, with the share paid by the Government and the resident varying in each case depending on each individual’s assessable income and assets. Non-supported residents meet the full cost of their accommodation.

The maximum payment a provider receives for a supported resident is currently $52.39 per day for those living in newly built or significantly refurbished facilities, and $34.20 per day for those in other facilities. However, facilities with 40% or less of supported residents have the accommodation supplement reduced by 25%. These rates apply uniformly across Australia.

At 30 June 2013, 44% of non-extra service residents were classified as supported residents. Of these, the Productivity Commission has estimated that about 30% are home owners with a 'protected person' living in the resident's former home.

Some 33% of facilities are consistently below the 40% threshold; 36% are consistently above the threshold; while the rest fluctuate over and under the threshold as they juggle their admissions.

As at 30 June 2014, over 60% of non-extra service facilities had a supported resident ratio greater than 40%. Supported residents are found in similar proportions in the for-profit, not-for-profit and government sectors, with each sector's resident profile having 42%, 44% and 49% supported residents respectively.

Regional supported resident ratios

As well as the requirement for facilities to have more than 40% of residents classified as supported residents in order to receive the maximum accommodation supplement, providers are also required to maintain a minimum proportion of supported residents in each facility.

These proportions, expressed as supported resident ratios, vary across regions (from 16% to 40%). The ratios were calculated having regard to regional socio-economic data, including the number of full pensioners, home ownership, persons over 70 and the wealth of people living in a particular region.

All regions have been comfortably exceeding their regional supported resident ratio, and over 90% of services are exceeding their regional ratio.

Significant penalties (reductions in ACFI payments) apply for non-compliance, but no record could be found to show that the penalties have ever been applied. There is anecdotal evidence that this regulation is not actively administered by the Department of Social Services.

Why does the system provide for supported residents?

Successive governments have developed features in the aged care system with the objective of overcoming barriers to accessing services. The importance of this objective has been confirmed by the recently endorsed Aged Care Statement of Principles, which includes the protection of consumers through strong safety nets, and the provision of affordable services when and where people need them.

The reduced payments for facilities with 40% or less supported residents and the supported resident ratios can be viewed in this context. Of course there are many other policies also aimed at this objective, including setting uniform care prices under ACFI across Australia for residents with the same care needs; not requiring people of lesser means to contribute to their care costs; capital grants and viability supplements in certain markets that would not otherwise attract the investment required to build aged care homes; and making place allocations conditional on admitting certain categories of people.

It is noteworthy that these policies have been introduced in an environment where the supply of places is rationed according to a population based formula, and where the need for services often exceeds availability. Without regulation, these circumstances would allow service providers so inclined the opportunity to choose residents who maximise revenue.

This matter is particularly relevant in the case of accommodation revenue. While prices for care and living expenses are set by government and are uniform across Australia, this is not the case for accommodation. Under the current arrangements, the government sets the price it is prepared to pay service providers to accommodate supported residents, but the price paid by non-supported residents is negotiated between the provider and the consumer, ie. the price is effectively market-based.

It is plain to see, therefore, that in a supply constrained environment, a material gap between what the government is prepared to pay for a supported resident and what non-supported residents are being charged would be an incentive for some providers to favour non-supported residents. Equally, an inadequate accommodation supplement would be a disincentive for providers to build services for supported residents.

It is also the case that in a supply deregulated system, access to residential services by the financially disadvantaged would be compromised if the accommodation supplement was insufficient to support investment in services for this target group.

Some history

The 25% reduction in the accommodation supplement and the regional supported resident ratios owe their origin to the 1997 reforms, a major element of which involved changes to accommodation payment arrangements to secure future investment in new and refurbished infrastructure. The Bill for these reforms included:

- The introduction of a daily accommodation supplement for supported residents (known at the time as concessional and assisted residents) of $5 per day per resident;
- The extension of accommodation bonds to high care so that bonds would apply across all residential care; and
- The setting of regional supported resident ratios to help ensure access by financially disadvantaged consumers in an environment of constrained supply of places where there would be the potential for providers to favour bond payers, whose numbers would increase under the reform Bill.

The Hansard covering the Bill's debate records a concern by Senators that providers who care for a large number of supported residents, and had less access to bonds, would not be able to generate enough funding to maintain building quality over time under the $5 supplement that the government was proposing. Strong representations in this regard were made by the Uniting, Anglican and Catholic Churches – representations that were favourably received by the then Democrats.

After negotiations with Democrat Senators Woodley and Lees, the Government agreed to revised arrangements that not only increased the accommodation supplement, but also provided an incentive for providers who, it was assumed, would mainly be religious and charitable, to build facilities for supported residents.

Hansard records that under these arrangements, the government "will provide for a $7 per day concessional resident supplement for those facilities that cater for up to 40% of concessional residents. Facilities which have over 40%, these being primarily religious and charitable operators who pursue a mission to care for the financially disadvantaged, will receive $12 a day for each of their concessional residents".

The clear inference that can be drawn from this arrangement is that services with less than 40% supported residents would be expected to tap into the expanded pool of bond payers to support the viability of their services. That is, there would be a hidden 'tax' on non-supported residents to make up for the lower accommodation revenue from the supported residents, resulting in reduced costs to the Budget. The other unlikely inference is that all supported residents would be accommodated in services with more than 40% supported residents.

Developments since the 1997 reforms

As it happens, the legislation extending bonds to high care was quickly repealed, and bonds were replaced by an accommodation charge set at the same level as the maximum supported resident supplement. This removed any incentive for providers to favour bond payers over supported residents in high care. The objective of incentivising providers to accommodate and invest in services for supported residents remained in play.

Ironically, with the re-introduction of bonds in high care as a result of the 2012 reforms, the position has reverted to what it was when the 40% threshold was introduced. However, a complementary measure in the 2012 reforms was a 56% increase in the accommodation supplement for supported residents living in newly built or significantly refurbished homes. The maximum accommodation supplement for a supported resident in a service with more than 40% supported residents is now $19,487 per annum compared with $12,483 for a supported resident in other facilities.

So today we have the two policies – the 40% threshold and the regional ratios – continuing to operate in parallel. One was designed as an incentive for providers to build facilities for financially disadvantaged people and the other mandated that, in a supply constrained environment, a certain proportion of available places in non-extra service facilities are to be reserved for supported residents.

Where to now?

The question now is whether these two mechanisms in tandem are still relevant in the current policy and operating environment; whether they have a place in a system modelled on the Aged Care Statement of Principles; or are there alternative mechanisms to ensure the same objectives are met.

The ACFA discussion paper invites us to review the current arrangements in terms of their effectiveness, efficiency and appropriateness, **but with the proviso that any changes must be budget neutral**.

Effectiveness (successful or capable of producing a desired result)

The proportion of supported residents in residential aged care services has remained within a narrow band for many years and the regional supported resident ratios are being comfortably met. This suggests that, even within a rationed system and before the recent increase in the accommodation supplement, access by supported residents was being achieved.

The question is whether regional supported resident ratios and paying providers 25% less for not exceeding the 40% threshold are responsible for these outcomes.

It seems very unlikely that the regional ratios had much bearing on provider behaviour and the outcome because the ratios are being comfortably achieved with minimal or no real regulatory oversight. The ease with which the ratios are achieved is because the pool of supported residents is swelled by the inclusion of home owners with 'protected persons', whereas the regional ratios are based on socio-economic data of disadvantage which would exclude most home owners.

The impact of the 25% discount is harder to discern.

It is reasonable to expect, however, that a 25% incentive paid to facilities with more than 40% supported residents would have been an attractive proposition in some circumstances as it would have put accommodation revenue closer to the cost of supply. That said, even though it would not be possible for all providers to exceed the 40% threshold, the fact that supported residents are such a large proportion of the market suggests that many non-extra service providers would have had to factor into their plans a percentage of supported residents consistent with the socio-economic circumstances of their market. This is borne out by the fact that the overwhelming majority of non-extra services are caring for supported residents (Chart 3 of the data book). This dynamic will become more the case as supply approaches demand as a result of the planned increases in the overall service provision ratio.

But this outcome came at the expense of bond paying residents living in facilities with less than

40% supported residents who have had to make up the shortfall in accommodation revenue due to the reduced payment received for supported residents. Providers can model the relationship between bond levels and proportions of supported residents to arrive at the optimum resident profile for their market that would maximise accommodation revenue, and manage admissions to achieve that resident profile. Such an approach is necessary because the amount of accommodation revenue for providers is based on the proportion of a category of resident rather than reflecting the cost of supply.

It is also worth noting that even with the 25% incentive, the years leading up to the 2012 reforms saw a stalling in overall investment in new and refurbished non-extra service homes because the accommodation supplements and the accommodation charge set by government were proving increasingly insufficient to justify investment for services for either supported or non-supported residents.

All of this together suggests that it is the adequacy of the accommodation supplement for supported residents that matters, not so much the incentive.

Efficiency (achieving maximum productivity with minimum waste and expense)

Economics would tell us that the most efficient mechanism for ensuring that there are no financial barriers for financially disadvantaged people accessing residential care, and for there to be sufficient investment to cater for need, is for the Government to pay market-based prices for accommodation of a suitable quality on behalf of supported residents.

This approach is also entirely consistent with a key principle of the Aged Care Statement of Principles which provides for aged care funding to be market-based.

It is also the conclusion drawn by both Professor Warren Hogan in his Review of Pricing Arrangements in Residential Aged care and the Productivity Commission in their report Caring for Older Australians. Both recommended full funding of the accommodation supplement and removal of the 40% threshold.

However, it is noteworthy that the Productivity Commission’s recommendation was made in the context of their primary recommendation for the phased removal of service rationing. An aged care system in which the supply of places is limited by supply constraints, and there is the potential for a material gap between market-based accommodation prices for non-supported residents and the supported resident accommodation supplement, has to raise concerns about access by financially disadvantaged consumers.

This begs the question as to whether the current accommodation supplement for new and significantly refurbished homes is sufficient to foster further investment in services that would admit supported residents. The initial evidence suggests that investment is picking up in response to the recent reforms, but it is early days. Also, there is currently no published data on prices being charged for accommodation for non-supported residents in different regions, which are likely to be different from the published maximum prices.

Appropriateness (suitable or proper in the circumstances)

Another issue that arises is what constitutes suitable building quality and whether the community would tolerate different building standards and amenity reflecting capacity to pay.

The former can, and is dealt with, through building codes. With regard to the latter, the system already recognises extra service facilities and there are services that target the most disadvantaged. As well, providers will continue to respond to the expectations of their market when planning their services. The ability now for providers to set different room prices within a facility also allows greater flexibility in meeting consumer expectations.

Implications of the budget neutrality proviso

Removal of the regional supported resident ratios would have no implications for the Budget. However, changes to the 40% threshold are likely to have implications for the Budget and for providers. For example, removal of the 25% reduction and applying the current maximum accommodation supplement to all supported residents is roughly estimated to increase Budget outlays by between $40 million and $50 million per annum.

The Budget neutrality proviso, therefore, substantially limits the options for change.

One option to offset the additional cost of setting the same price for all supported residents would be to shave the current maximum accommodation supplement. However, this would be a retrograde step when assessed against the objective of encouraging the increased investment in new and significantly refurbished facilities that will be needed, and is likely to be detrimental to access by supported residents.

Another option would be to increase the threshold thereby making fewer facilities eligible for the maximum accommodation supplement. However, this would have a similar detrimental impact on access for the target group and perpetuate the negative attributes of the current two tiered payment arrangements.

Conclusion

The most effective and efficient means of ensuring access to residential aged care services by supported residents, and to encourage investment in services, is for Government to set accommodation supplements that reflect the full cost of building accommodation that meets regulated standards.

This approach would remove the red tape associated with administering incentive payments in an already very complex payment and user contribution system, including the administrative cost for many providers of juggling admissions to maximise accommodation supplement revenue and achieve consistency in cash flow. It would also increase equity for consumers by reducing the extent of cross-subsidisation in the system.

The above approach would be most effective in a deregulated supply market. In a situation of constrained supply which is mostly still the case today, and in the medium term, its effectiveness would partly depend on whether there is a material difference between the value of the accommodation supplement and accommodation payments by non-supported residents, and the extent of the gap between supply and demand.

However, trend data on access since the recent reforms is not available. This includes data on accommodation prices paid by non-supported residents and the impact of the phased increase in the overall supply of places.

It is also the case that extending a market-based accommodation supplement across all supported residents would increase Budget outlays at an inopportune time in the economic and budgetary cycle.

Balancing the above considerations, it would seem that the best course at this time would be for the Government to signal the intention to remove the 40% threshold in the medium term in conjunction with moves for the phased removal of service rationing and achieving a better balance across supply and demand and market-based accommodation prices for supported residents.

This would also enable the cost to the Budget of removing the 40% threshold to be included in a broader reform package, including fairer contributions by those who can afford to pay. A possible starter already identified by the Productivity Commission would be to review the concessions under the current means testing arrangements for home owners with 'protected residents'.

In the meantime, there is little justification for continuing with regional supported resident ratios. As previously recommended by Catholic Health Australia in the context of reducing unnecessary regulation, the legislation concerning regional ratios could be repealed, with minimal - if any - impact on access.

Comments welcome

Catholic Health Australia would welcome comments on the subject of access by supported residents, and in particular the matters discussed in this article. Please provide your comments by emailing Nick Mersiades at **nickm@cha.org.au**.

Disclosure Statement: The author of this Update, Nick Mersiades, is a member of the Aged Care Financing Authority. The opinions in this Update should not be read as being an expression of the views of the Aged Care Financing Authority.

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