Submission to the Office of the Inspector General of Aged Care

2025 Report on Implementation of Recommendations of the Royal Commission on Aged Care Quality and Safety

From:

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Focus of submission on financing

This short submission focuses on two Royal Commission recommendations on financing the aged care system:

Recommendation 138: Productivity Commission investigation into financing of the aged care system through an aged care levy (Commissioner Pagone).

Recommendation 144: Introduce a new earmarked aged care improvement levy (Commissioner Briggs).

Both these recommendations aimed to generate increased revenue for the aged care sector and to spread the cost over a wide segment of the population. Neither was accepted by the Commonwealth Government. At the same time, a number of other recommendations calling for increased spending that were accepted were presumably contingent on increased revenue from a levy.

The rejection of the two financing recommendations alongside the acceptance of the spending recommendations would have resulted in a budgetary shortfall. To avoid this outcome, revenue is instead to be generated by increased user charges in line with the proposals of the Aged Care Funding Taskforce that reported in 2023. Formalisation of these charges in the Aged Care Act 2024 show them to be complex for providers and older individuals.

Although revenue from user charges has no doubt been modelled, no information has been made publicly available on the basis of the Taskforce proposals or subsequent measures taken by the Commonwealth. For transparency of the proposed charges, information is needed on estimates of the capacity of older Australians to pay these charges, the annual revenue to be generated and the share of all finance to come from increased user charges vis-a-vis Commonwealth funding. Without this information, it is not possible to monitor the outcomes of the new user charges that have been formalised in the Aged Care Act 2024 and are to take effect from July 1, 2025.

The prospect of revenue shortfalls

In the event that the user charges fail to generate sufficient revenue and impose hardship on older Australians in need of care, further consideration of alternative financing methods is called for. User charges are at best likely to be a marginal addition to revenue and expected revenue may not be realised to the extent that incomes and assets of older Australians have been overestimated in projections. Insufficient account appears to have been taken of three factors:

1. Data for the total population aged 65 and over as reported by the Taskforce masks major differences in wealth over the older age from age 65 to age 85 and over, and between men and women. Age 84 is now the average age of admission to residential care and the majority of community care users are over this age; the majority of all aged care users are women.
2. Wealth declines with ageing. In 2021, the Association of Superannuation Funds of Australia reported that fully 80 percent of those who died over age 60 had no superannuation left four years before death; few would have any left by the time they came to use any aged care service close to the end of their life. Home ownership and housing assets also decline over the age range in conjunction with changes in household composition and familial wealth.
3. Volatility and uncertainty in wider economic and social conditions mean that higher incomes and assets among cohorts of recent retirees are likely to diminish substantially over the two decades until they are likely to need aged care. Rather than relying on this narrow population group for revenue, a system that draws on a much wider population base is required.

Reconsideration of aged care financing options

Both of the financing schemes recommended by the Royal Commissioners had a number of limitations, but no formal reasons have been given by government or by the Aged Care Taskforce for rejecting them or other levy options. No responses have been made to several proposals for levy based arrangements put forward in submissions to the Aged Care Taskforce and in consultations on the draft Aged Care Act 2024. Concerns about intergenerational equity appear to have been one reason for rejecting a levy, but they were on outdated experience in the UK which has little relevance to Australia and its unique superannuation system. Little attention has been given to the successful social insurance arrangements in European countries and most notably in Japan which are more applicable to Australia.

Intergenerational equity can be addressed by approaches that incorporate transfers of wealth within and between all generations. We have advanced such an approach based on a levy on the earnings of superannuation funds, applied to superannuation balances above a defined threshold, and from say age 40 and continuing into retirement. Our approach was published in the Australian Journal of Social Issues in 2021 and reiterated in a submission to the Aged Care Taskforce (both attached).

User charges are likely to have adverse consequences on aged care quality on two counts. First, older Australians may be deterred from accessing aged care if they feel they will not be able to meet user charges, regardless of whether they will in fact have to pay. The complexity of means testing of different components of care are daunting. Second, to the extent that providers able to secure higher revenue from user charges will mostly be located in higher socio-economic areas, the emergence of higher quality of services in these areas could see relative and absolute declines in quality in localities that are not able to raise more revenue from user charges from low income local populations.

The 2025 Progress Report provides an opportunity for three measures to be taken to address the prospect of a funding shortfall and other problems emerging with increased reliance on user charges:

1. That more public information be made available on the projected revenue for aged care from all sources.
2. That the Inspector General, in conjunction with the Independent Pricing Authority on Health and Aged Care, monitor revenue from different sources against projections, report on revenue from user charges flowing to providers by localities at regional level and investigate the effects of disparate revenue on quality of care services.
3. That the Productivity Commission, together with the Australian Government Actuary, be commissioned to investigate options for an aged care levy linked to superannuation, to provide a third pillar of aged care funding alongside government funding and user charges.