Our input to the Royal Commission into Aged Care Quality and Safety

Aged Care Gurus

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As the Principal of Aged Care Gurus, Rachel was invited to contribute to the Commissioner for Senior Victorian's submission to the Royal Commission into Aged Care Quality and Safety.

Aged Care Gurus appreciate the opportunity to do so, as we believe that the aged care system has failed many senior Australians and providers alike for many years. By participating in the Royal Commission in this way we have contributed to the important ongoing process of industry improvement, in line with the core principles of our business. We were pleased to see our ideas reflected in many of the commission's recommendations.

You can read our submission extracts below (blue column), together with the related recommendations (white column) or, our full submission here, or the full list of recommendations here.

Considerations for designing a new system

- What is the **vision** for the aged care system? The system must be designed to be agile and responsive to advances in healthcare and assistive technologies. More importantly, it must address the needs and wishes of older people. The context for many discussions regarding cost is the large number of Australians estimated to require aged care, particularly residential care, by 2050. There needs to be investment to develop alternative strategies to support people at home. Of particular importance is the need for investment in early intervention and prevention strategies.
- What is the **system** we are trying to pay for? We cannot design a financing approach for an aged care system that is fair, meets people's needs and is sustainable if we have not yet settled on what that system itself looks like.
- What do we mean by **high quality**? Quality means different things to different people so what one person considers to be a satisfactory or a high-quality standard can vary markedly from the views of someone else. It should already be clear from Royal Commission hearings and submissions that different service providers and older people and their advocates define quality quite differently. Until there are clearly defined standards with objective and quantifiable measures, identifying the quality of a system will remain a problem.
- What are the **responsibilities** of providers to meet the assessed needs of older people? We need to acknowledge that rarely do people choose to enter the aged care system, rather it is because they are no longer able to meet their own needs without assistance. The *Specified Care and Services* need to be updated with a focus on clarifying responsibilities of providers to meet all the needs of residents. This needs to be done in conjunction with clarification of the respective roles of the aged care, health and disability systems. The lack of clarity with respect to these arrangements delays access to the care and supports needed by some of our most vulnerable Australians.

These considerations are largely incorporated into *Recommendation #1: A new Act.*

It certainly embraces a vision for the new system, and a fresh, more recipient-centred view of provider responsibilities.

The recommendations as a whole set out a new system, and specific measures of quality that will need to be incorporated as each part of the system is designed in detail.

Principles to underpin the design of a fairer system

To support development of a better aged care system that is appropriate to the needs and wishes of all Australians, it is proposed that the following principles should underpin the design of a new financing approach for aged care:

- **High quality** means people accessing aged care services that are person-centred, appropriate to their needs, promote their health and wellbeing, including supporting them to maintain their social relationships and community connections, and are delivered by appropriately skilled and trained staff. Most importantly, quality needs to be judged from the perspective of the person utilising those services.
- **Respect and dignity** means that people are supported to make their own decisions about the care and services they receive, can exercise choice even where this entails a level of risk (or are afforded the dignity of risk), are able to make their own choices and are actively consulted so their views and experiences are considered in the design and delivery of services.
- **Equity** means that services are targeted towards the people with the greatest needs for those services and that access to services is facilitated for those who need them, regardless of race, culture, language, gender, economic circumstance or geographic location to help those recipients to enjoy the same rights as all other people in Australia.
- **Transparency and accountability** means that people accessing aged care services receive information regarding their rights, mechanisms for making complaints, the fees and costs as well as the standard of care and services they receive in a format that is understandable and accessible to them. Service providers are responsible for the outcomes of people utilising the service and they must act with integrity and openness, respond to concerns raised by or on behalf of the people using the services and, most importantly, protect the health and wellbeing of the recipients of aged care services.
- **Sustainability** means that services are affordable and appropriate to the needs of people that require them, that resourcing is sufficient to achieve desirable outcomes and funding is enough to incentivise development of diverse aged care services that are efficient, and avoid duplication and waste while maintaining a high quality standard of care and support.
- **Responsive and innovative** means that the system is flexible and able to respond to the wishes of older people regarding the setting, location and types of services they receive through integrated approaches to care and support services that incorporate innovative approaches and technologies.
- **Streamlined and accessible** means the system is seamless and simpler to navigate, without barriers that prevent people from accessing the services appropriate to their needs when they require them.

Overall, the system that is required is one in which people can access the services they need without delay, with costs and quality standards that are transparent and providers that are accountable and responsive to the needs of people using their services and who will work with them to innovate and drive efficiencies that will enhance sustainability without compromising agreed standards. To achieve these goals fundamentally the system needs to be less complex. The role of the Commonwealth Government is to provide the environment in which that can occur and to ensure the system is fair and equitable.

The principles we proposed can be seen in many of the recommendations, particularly:

- *Recommendation #8: A new aged care program* – designed to be more ***streamlined, accessible*** and ***equitable.***
- *Recommendation #9: Meeting preferences to age in place* – clearing the waiting list for home care packages, and allocating funding and services in ways that are ***responsive, sustainable, transparent, accountable, equitable*** and ***high quality.***
- *Recommendation #20: Planning based on need, not rationed* – proposes a funding approach that is ***equitable, respectful, supportive of dignity, sustainable, responsive, streamlined*** and ***accessible.***
- *Recommendation #82: Immediate changes to the Basic Daily Fee* – proposes a boost to fees from 1 July 2021, on condition that providers report on, and accept ***accountability*** for, ***high quality*** services.

Home Care Packages – limitations in the current model

"Not being able to get a home care package means access is often then from a crisis after a hospital admission."

"There is a disconnect between the assessment of needs and the support available through the care package when one finally becomes available."

[Quotes from participants at the Consumer and Carer Workshop]

As the Royal Commission has heard, in 12 months more than 16,000 people died waiting for a home care package. For others, a lack of access to supports has resulted in premature entry into residential aged care. Rationing of supply of packages is out of step with demand and with community preferences, denying people access to supports that may allow them to stay home. This impacts quality of life, particularly for those without family or friends to help fill the gap.

For those who are allocated a package, there are differences in the type and level of care people can access across providers and depending where they live. The system is overly complex, lacks transparency and is not designed in a way that protects the older person or to encourage consistent high quality and value for money. In addition, there are broader questions about whether funding is equitable when compared to residential aged care.

Transparency

For many the expectation of home care is that you simply "order in" the care you need. In reality accessing a home care package is a test of patience, resourcefulness and forensic accounting. You need patience during the long waits for assessment and for care to start; resourcefulness in finding services, volunteers and family members to fill in the gaps; and forensic accounting to determine whether or not you are getting a good deal.

Administration and case management are services that providers must deliver; without them the package doesn't operate. But they are tasks that are largely invisible, making it difficult to know what is really involved and easy for unscrupulous operators to gouge their customers. I have seen a Level 4 home package provided by a not for profit organisation which had an administration fee of 52%. That equated to more than $28,000 per year to co-ordinate $26,000 of care.

How much care the person can receive with the net funding will depend on where they live, the type of care and services they receive and who provides it.

Care providers who employ care staff have a vested interest in using their own staff to provide care and services which in theory has the potential to offer economies of scale. In practice, consumer choice is often restricted to the services (and rostering availability) of the employed carers with an hourly rate for the services that is far greater than the cost of wages (and on costs) to the provider. It is not uncommon for wages (and on costs) to be around $30/hr while the cost charged to the consumer is $55/hour or more.

Current **Home Care Package limitations** are tackled head-on by the recommendations. Disparity of funding for people receiving care based on whether they remain at home or move to residential aged care service is removed by *Recommendation #89: Maximum funding amounts for care at home.* Transparency and affordability are the focus of both *Recommendation #93: Standardised statements on services delivered and costs in home care,* and *Recommendation #96: Fees for care at home.*

Affordability

A significant concern is the home care package fee structure. Older people are expected to contribute towards the cost of their package which includes a basic daily fee based on the level of package and an income-tested care fee which is calculated by Centrelink.

The costs association with a home care package can result in affordability issues for low income pensioners. As the following case study of Jill shows, the basic daily fee can amount to 15 per cent of annual income, even without considering expenses associated with daily living or any other supports older people might require but cannot access through their home care package. It is possible that older people may not be able to afford the fee contribution which in turn may become a barrier to accepting a package.

At the time people are seeking additional supports, daily living is becoming more challenging. It should not be assumed that people have capacity, or advocates to assist them, to actively seek and understand the choices available to them. If an expert is required to assist someone to successfully navigate the system, then by definition, it is failing to meet the needs of all. A simpler and more user-friendly system together with a higher standard of accountability and transparency is required to safeguard the interests of senior Australians.

Case Study

Affordability of Home Care Package fees for full pensioners

Jill has a home worth $500,000, $50,000 in the bank and $10,000 in personal assets. She receives the full age pension. Jill is receiving a Level 3 Home Care Package.

Jill's Financial Position	
Assets	
Home	$500,000
Bank Account	$50,000
Personal Assets	$10,000
Total	**$560,000**
Income	
Interest @ 2% p.a.	$1,000 p.a.
Age Pension	$25,552 p.a.
Total	**$25,552 p.a.**
Home Care Package	
Basic Daily Fee	$3,825 p.a.
Income Tested Care Fee	$0
Total Cost of Aged Care	**$3,825 p.a.**
Cash Flow	**$21,727 p.a.**

The cost of the home care package is around 15 per cent of Jill's total annual income, depending on her living expenses she may not be able to afford this contribution.

While the means testing arrangements often refer to the amount of income tested care fee someone will pay towards their home care package based on whether they are a pensioner or self-funded retiree, the assessment is solely based on income so it is possible for a pensioner to pay a higher income tested care fee than a self- funded retiree with substantial assets if the self-funded retiree does not have a higher level of assessable income.

Disparity between Home Care and Residential Aged Care Funding

In home care the amount of funding provided for someone's care is based on the level of package they receive. There are 4 levels of package with level one receiving the lowest level of funding at $8,928/year and level 4 receiving the highest at $51,808/year

In residential aged care the funding model is more complicated with the resident's care needs classified as either nil, low medium or high in 3 care domains: activities of daily living, behaviours and complex healthcare creating up to 64 different funding outcomes. Under this model the lowest level of funding for a resident is $0 per year and the highest is $81,446 per year.

In home care there is a supplement for people with dementia/cognitive care needs and in both home care and residential aged care there are supplements for people who require oxygen and enteral feeding.

When you crunch the numbers on the funding models it becomes clear that people living in residential aged care receive more funding than those receiving home care.

At the ultimate amount the funding for someone receiving a home care package is just over $192/day while the care funding for someone (potentially the very same person) in residential aged care is around $256, that's more than 34 per cent additional funding for your care based on where you live.

Similarly the converse can also occur, a person with dementia may receive a higher amount of funding through a level 4 package (with the dementia supplement) than an aged care facility can receive through the Aged Care Funding Instrument (ACFI).

These disparities in funding raise a number of questions, including why the funding arrangements are different, whether it creates a necessity for some people to enter residential aged care when if the funding was the same they could afford to stay at home and whether the funding, particularly as it relates to dementia behaviours restricts access to residential aged care for some.

The recommendations make a point of separating fees for care at home, including respite care, from fees for domestic assistance, social supports, assitive technology and other costs. This may assist with some of the pricing anomalies that we draw attention to in the issue of disparity and in the affordability case study for Jill, below. It will all depend on the details of the implementation.

Our vision is of a system that offers older Australians a true choice between receiving care at home and moving into residential aged care. In the current situation, too many are forced to move into residential care because they cannot access sufficient government funding, or cannot afford the user contributions.

Residential Aged Care – Low Means Residents

A low means resident is someone whose combined income and assets fall below a threshold to qualify for full or partial subsidisation from the Commonwealth in meeting the costs of their accommodation and care. Partially subsidised low means residents may pay their accommodation contribution through a Daily Accommodation Contribution (DAC), Refundable Accommodation Contribution (RAC) or a combination.

As the following case studies demonstrate, the fees for two low means residents can differ drastically. Importantly, proportional increases in fees are not necessarily associated with a proportional increase in assets. Low means residents may be expected to pay very different fees as a result of the way the combined income and assets test operates. This may leave some residents in the position of never being able to afford to pay their residential aged care service in full and create a liability beyond what some older people can afford.

The case studies highlight the deficits in the current approach, but it is worth noting that only minimal personal expenses were taken into account in these case studies. For many residents medical expenses, personal expenses and additional services charges (imposed by many services) were not taken into account. The cost of living in residential aged care will cause some older people to be in considerable financial distress. The inability to afford basic necessities has a significant impact on a person's dignity and wellbeing.

The case studies highlight the broader anomalies and the impacts on low means residents includes:

- People of low means who have assets or income above the lower threshold can be required to pay an accommodation contribution that significantly exceeds their means.
- The Market Price of the bed does not cap what a low-means resident can pay, meaning it is possible that their price may be above the market price.
- If the proportion of low means residents in the home increases from below 40 per cent to above 40 per cent, then their cost may rise as it is linked to the Accommodation Supplement.
- The fee paid by low means residents can increase if the service obtains a Significant Refurbishment determination to qualify for the higher rate of Accommodation Supplement.
- Low means residents can be left with no resources to pay for other aspects of their care such as medications, customised aids or equipment, or buy new clothes, maintain a phone so they can remain connected with friends or family, or buy a small gift for a grandchild.
- Under the current system, it is the people with limited means that have the least certainty regarding their fees.
- Protections designed to leave all residents with a minimum amount of assets are transitory at best, being limited to 28 days.

Continued overleaf...

There are currently many inequities in resident contributions for residential aged care, on which we provided detailed information, with numerous case studies. These have received significant attention, and are the focus of at least three recommendations.

- *Recommendation #97: Fees for residential aged care – ordinary costs of living*
- *Recommendation #98: Repeal co-contributions for care component of funding in residential care*
- *Recommendation #99: Reform of means testing for accommodation charges.*

We have concerns, however, that people who could afford to do so will not be required to make any co-contribution towards the cost of their care. Contribution caps seem likely to remain: this would potentially further reduce the liability of wealthy people to pay (when they clearly have the means to do so) and place a greater burden on the tax payer.

- Measures intended to incentivise providers to accept low means residents can have perverse outcomes on the fees they pay due to the way the combined income and assets test operates, and the application of the Maximum Permissilble Interest Rate (MPIR).

Incentives to accept low means residents

While many people believe "if I don't have any money, I won't get into residential aged care" this is simply not true. There are funding incentives for providers to accept low means residents. These include the requirement to meet a minimum ratio of "low means" residents and a 25 per cent funding incentive for having 40 per cent or more low means residents.

It is counterintuitive, but a low means resident paying nothing towards the cost of their accommodation can be more valuable to an aged care home than a resident paying $1 million, depending on where the facility sits with their ratio. Since the introduction of the Living Longer, Living Better (LLLB) reforms we have seen the Maximum Permissible Interest Rate (MPIR) reduce from 6.69 per cent p.a to the current historical low of 4.10 per cent p.a. As the MPIR has reduced we have seen a growing number of people whose cost of aged care accommodation would be less as a market price payer than as a low means resident.

The reducing MPIR provides a greater incentive for aged care homes to change the ratio of low means residents. If the home meets the new or refurbished building standards but has a ratio less than 40 per cent low means residents, the most they can receive (on the current MPIR) is $43.64/day or $388,502 as a lump sum from a low means resident. If they can meet the 40 per cent ratio they can receive $58.19/day or $518,033 as an equivalent lump sum. This may be very attractive, especially if their market price is below $518,000.

Such a change in the home's funding doesn't just impact what new residents can pay, it can also impact on existing residents. A resident who moved in June 2018 and is currently paying a DAC of $43.64/day could find that their cost jumps up to $58.19 per day – as a lump sum their cost would increase by just over $92,000 from $276,059 to $368,100.

Case Studies

Low Means Resident (fully subsidised)

Shirley is moving into aged care on 4 August 2020.

Shirley has $10,000 in the bank, $500 personal assets and receives the full Age Pension of $944.30 per fortnight.

The cost of Shirley's aged care accommodation contribution is $0 as her assets are below $50,500 and her income is below $27,840.80/year.

Shirley's Financial Position		
Assets		
Bank Account	$10,000	
Personal Assets	$500	
Total	**$10,500**	
Income		
Interest @ 2% p.a.	$200 p.a.	
Age Pension	$24,552 p.a.	
Total	**$24,752 p.a.**	
Accommodation Contribution	**DAC (Annual)**	**RAC (Lump Sum)**
	$0	$0
Basic Daily Fee	$19,071 p.a.	
Personal Expenses	$3,650 p.a.	
Total Cost of Aged Care	**$22,721 p.a.**	
Cash Flow	**$2,031 p.a.**	

Low Means Resident (partially subsidised)

Jack is moving into residential aged care on 4/8/2020.

Jack has $95,000 in the bank earning 2 per cent p.a. and $5,000 in personal assets, he receives the full Age pension of $24,552/year.

Jack has a number of options regarding how he pays for his aged care.

- **Pay by DAC:** If Jack meets his cost of care by daily payment, then his cost of aged care will be $76.05 per day ($23.80 DAC + $52.25 Basic Daily Fee).
- **Pay by RAC:** Jack must be left with $50,500 in the first 28 days of entering aged care, meaning he could pay up to $49,500 as a lump sum when he enters aged care, effectively offsetting the 4.10 per cent interest on this amount. Jack's daily accommodation contribution would be adjusted to $18.24/day.
- **Top up RAC:** After the initial 28-day period Jack could pay as much as he wishes towards his Refundable Accommodation Contribution (RAC). If Jack paid an additional $30,000 towards his RAC, his DAC would further reduce to $14.87/day.

	Pay by DAC	Pay Max RAC on entry	Top up RAC (after 28 days)
Assets			
Bank Account	$95,000	$45,500	$15,500
Personal Assets	$5,000	$5,000	$5,000
Total Assets	**$100,000**	**$50,000**	**$20,500**
Cost of Aged Care			
RAC Paid	$0	$49,500	$79,500
RAC Outstanding	$211,861	$162,361	$132,361
Basic Daily Fee	$19,071	$19,071	$19,071
DAC Paid	$8,687	$6,657	$5,428
Means Tested Care Fee	$0	$0	$0
Personal Expenses	$3,650	$3,650	$3,650
Total Cost	**$31,408 p.a.**	**$29,378 p.a.**	**$28,149 p.a.**
Income			
Age Pension	$24,552	$24,552	$24,552
Interest @ 2% p.a.	$1,900	$910	$310
Total Income	**$26,452**	**$25,462**	**$24,862**
Cash Flow	**–$4,956 p.a.**	**–$3,916 p.a.**	**–$3,287 p.a.**

Under the income test Jack's liability is $0/day. Under the assets test his liability is $23.80/day, his equivalent lump sum ***more than double his assets at $211,861***.

Jack's cost of aged care regardless of his chosen method of payment is ***greater than his income*** and this is before he has met any of his personal living expenses like medications, haircuts, clothing, etc.

Jack ***will never be in a position to pay his RAC*** in full and nor will he be able to meet his cost of care from his cash flow. While the means assessment recognises that Jack is of limited means, the formula creates a liability for him to pay beyond what he can afford.

Market Price Resident

Betty is moving into residential aged care from a retirement village on 4 August 2020.

Betty's exit entitlement from the village is $180,000 (different State based laws will determine how much of this and when Betty can access these funds if her unit has not sold). Betty has $25,000 in bank accounts and $5,000 in personal assets and receives the full Age Pension of $24,552/year.

The Market Price at the facility Betty wants to move to is $500,000 (RAD). Betty can pay by Daily Accommodation Payment (DAP), Refundable Accommodation Deposit (RAD) or a combination, including deducting her DAP from her RAD.

Betty's aged care costs vary with the payment option.

For a person to be liable for the market price for their aged care accommodation, they only need to have assets of $171,535 (including the capped value of the former home), less if they have income above the threshold. It is a common scenario for people exiting a retirement village that their assets exceed the threshold but are insufficient to enable them to pay the market price.

	Pay by DAP	Pay RAD	Deduct DAP from RAD
Assets			
RAD Paid	$0	$180,000	$180,000
Bank Account	$25,000	$25,000	$25,000
Personal Assets	$5,000	$5,000	$5,000
RV Exit Entitlement	$180,000	$0	$0
Total Assets	**$210,000**	**$30,000**	**$30,000**
Cost of Aged Care			
RAD Paid	$0	$180,000	$180,000
RAD Outstanding	$500,000	$320,000	$320,000
DAP Paid	$20,500	$13,120	$0
Basic Daily Fee	$19,071	$19,071	$19,071
Means Tested Care Fee	$0	$387	$387
Personal Expenses	$3,650	$3,650	$3,650
Total Cost	**$43,221 p.a.**	**$36,228 p.a.**	**$23,108 p.a.**
Income			
Age Pension	$24,552	$24,552	$24,552
Interest @ 2% p.a.	$4,100	$500	$500
Total Income	**$28,652**	**$25,052**	**$25,052**
Cash Flow	**–$14,569 p.a.**	**–$11,176 p.a.**	**$1,944 p.a.**

If Betty elects to deduct her DAP from her RAD, each month as the RAD reduces her DAP increases. At the end of Year 1 her DAP will be $37.32/day and her RAC will $166,631. After 5 years her DAP would be $43.96/day and RAC will reduce to $107,329.

Betty is a common example of someone who the means test determines can pay the market price but cannot afford to do so.

Wealthy in Residential Aged Care

Approximately 60 per cent of all residents are ineligible for assistance with their accommodation costs (noting that as above this may include people with modest means). However, while this group may be asked to pay a means tested care fee towards their cost of care it is subject to annual and lifetime caps. The Commonwealth government pays the difference and if the person has reached their caps, the Commonwealth pays the full amount.

The following points are relevant to high net worth residents:

- All residents, irrespective of their means, pay the same Basic Daily Fee.
- While the market price can vary widely, they may be able to negotiate a fee that is less than what a low means resident can pay.
- The rate at which they contribute is much lower, being 1 per cent on assets between $171,535 and $413,605 and 2 per cent on assets above, but the means tested care fee is not unlimited.
- Assuming their means are high enough (and care needs great enough) to have a means tested care fee of $200 per day they won't pay $200 day for the whole year. There is an annual limit of $28,087 and a lifetime limit of $67,410 – which includes any income tested fee paid towards a home care package. In effect, a high net worth individual is subject to the same lifetime cap as people with much more modest means.
- The means tested care fee is used to offset the government funding on a dollar for dollar basis. This adds administrative burden and costs for providers but provides no additional revenue. (Total care subsidies, including a person's mean tested care fee as assessed through the ACFI, is the same for any other person of similar needs.)

So what would Australia's richest person pay?

She wouldn't qualify for funding for accommodation so she would need to pay the market price which could be as low as $99,000 or as high as almost $2.9 million. Like all residents she could choose to pay this by RAD, DAP or a combination.

She would pay the basic daily fee of $52 per day and a means tested care fee based on her cost of care. If we assume her cost of care is $200 per day then she would pay that for 140 days at which point she would reach the annual limit and revert to paying just $52 per day.

For the remaining 225 days of the year the government would pay the $45,000 for her care.

At the start of the next year she could start paying a means tested care fee of $200 per day again until she reached the annual limit or the lifetime limit. If we assume that she didn't receive a Home Care Package prior to entering residential aged care she would reach her lifetime limit in 2 years and 2 months. Once her lifetime limit is reached no further means tested fee would be payable, from this point the government would fund all of her $200/day cost of care.

Conclusion

We appreciate the opportunity to contribute to the Commissioner for Senior Victorian's submission to the Royal Commission into Aged Care Quality and Safety, enabling us to help improve the aged care system. As a business, and as individuals, Aged Care Gurus are passionate about helping consumers navigate their options, and enabling advisers to provide great advice across all the aged care options available.

It is gratifying to also see deeply held values of Aged Care Gurus, which were not a focus of the submission, find their way into the Commission's recommendations, such as *Recommendation #11: Improved public awareness of aged care*. Since Rachel's introduction to the complexities of navigating the aged care system in 2004, she has been writing books such as *Aged Care, Who Cares?* (Lane & Whittaker, 2017), and regular columns in major outlets, such as the *Sydney Morning Herald*, in an effort to educate consumers about their aged care options.

The Royal Commission appears to have taken on board our point that if an expert is required to assist an older person to successfully navigate the aged care system, then it is by definition failing to meet the needs of all. While we believe that there will always be value in seeking expert advice, a simpler, more user-friendly system with a higher standard of accountability and transparency is needed. Whether the proposed recommendations can achieve this remains to be seen in the implementation.