Submission to the Community Affairs References Committee
Support at Home Program

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July 30 2026

Terms of Reference Addressed

(b): the impact of the co-payment contributions for independent services and everyday living services on the financial security and wellbeing of older Australians

(c): trends and impact of pricing mechanisms on consumers

(e): the impact on the residential aged care system, and hospitals

The UNSW Centre for Population Ageing Research (CEPAR), based at the University of New South Wales, is an innovative partnership between academia, government and industry. With a commitment to advancing multidisciplinary research on population ageing, CEPAR has established itself as a leader in research designed to provide an evidence base to inform policy formulation related to demographic change, and related product development and community awareness.

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Introduction

This submission addresses two issues. First, it argues that more attention should be given to **harnessing informal care**, from relatives, friends and the community, in complementing professional home care services. This would facilitate lower costs of home care, addressing especially the terms of reference: (b) and (c). Second, it focuses on **the degree to which the expansion of the home care program can continue to substitute for residential aged care.** This issue is germane to term of reference e(e).

The submission is written with an acute awareness that demographic pressures will dominate the sector for the next generation. The Australian Bureau of Statistics projects that the number of Australians aged 80 and over will increase from just over 1 million today to almost 4 million by 2071 – the leading edge of the baby boom generation turns 80 about now.

The Role of Informal Care

Australia's aged-care system already relies heavily on informal care provided by family members, friends, neighbours and community networks. Informal carers are one of the largest sources of support for older Australians. Estimates suggest that, in 2020, informal care was equivalent to approximately 4% of Australia's GDP.[3] This substantially exceeds the value of formal aged-care services and highlights the critical contribution informal carers make to ageing in place and reducing pressure on publicly funded care systems.

As population ageing accelerates and workforce shortages become more acute, informal care may become an even more important component of the aged-care system. Future shortages will reflect not only limitations in physical infrastructure and investment capital in the residential care sector but also shortages of appropriately qualified workers in the home-based care network.

Informal care can complement formal care by providing social support, companionship, transportation, meal preparation, personal assistance and care coordination. Strengthening informal care arrangements may reduce reliance on formal services before residential admission, particularly for people with lower or moderate care needs.

However, current Australian arrangements for informal care support associated with Home Care Packages could be substantially improved to harness this resource more effectively, reducing costs to both government and client. It may also align with consumer preferences for care provision by trusted family or other informal carers.

International experience demonstrates that formal and informal care can be integrated within a regulated long-term-care framework. Several OECD countries, including

[3] Deloitte, 2020, The value of informal care in 2020: Carers Australia, 2020, value-of-informal-care-310820.pdf. p22

Germany, Austria and the Netherlands, provide mechanisms through which eligible care recipients can receive cash benefits alongside, or instead of, provider-delivered services.

Germany provides one of the most developed examples. Under its long-term-care insurance system, beneficiaries can choose between in-kind services, cash benefits or a combination of both. A substantial proportion of recipients continue to elect at least partial cash benefits, allowing family members and other informal carers to play a greater role in service delivery.

Australia already recognises informal carers through Carer Payment and Carer Allowance. There may nevertheless be scope to further integrate informal care into aged-care policy. One option would be to permit a limited proportion of Support at Home funding to be delivered through consumer-directed cash benefits that could compensate approved family members or informal carers for eligible non-clinical services.

Such an approach could improve flexibility and consumer choice and may be particularly valuable in regional, remote and workforce-constrained areas. It may also align with consumer preferences for care provision by trusted family or other informal carers. It could also help mitigate long waiting times for formal home-care services. Payments could be combined with caregiver training, respite services and other carer wellbeing support, care navigation support and quality safeguards.

Given the uncertainty surrounding the broader economic and workforce effects of informal-care payments, a prudent approach would be to commence with carefully evaluated pilot programs, particularly in regions experiencing workforce shortages, limited provider capacity or emerging residential aged-care supply constraints.

The Limits of Home Care Substitution

The expansion of home care has been one of the most significant developments in Australian aged-care policy. The number of older Australians receiving home-based care has increased substantially, while the rate of permanent residential aged-care utilisation has declined.

Even if the *proportion* of older people entering residential aged care continues to decline, this substantial growth in the oldest age groups means that the *absolute* demand for high-intensity aged care is likely to continue increasing; demographic pressures will dominate home based substitution and technology for the next 20 years.

However, the relationship between home care and residential aged care is not one of unlimited substitution. Table 1 reports recipients of Level 3 and Level 4 Home Care Packages and permanent residential aged-care recipients per 1,000 people aged 65 years and over between 2018 and 2024.

Table 1: Usage rates of permanent residential aged care and Level 3–4 Home Care Packages per 1,000 people aged 65 and over, 2018–2024

Year	Permanent residential aged care	HCP Levels 3–4
2018	58.1	11.6
2019	56.0	20.2
2020	54.4	25.0
2021	53.6	32.2
2022	53.3	39.1
2023	51.7	39.2
2024	51.5	43.0

Note: Data from the Report on Government Services.

Between 2018 and 2024, Level 3–4 Home Care Package recipients increased from 11.6 to 43.0 per 1,000 people aged 65 and over. Over the same period, permanent residential aged-care use declined from 58.1 to 51.5 per 1,000 people. This pattern is consistent with an initial substitution effect. The expansion of home care has enabled some older Australians to remain at home rather than enter residential aged care.

However, the relationship appears to have weakened in recent years. The Financial Report of the Australian Aged Care Sector (FRAACS)[4] 2024–25 reports that the permanent residential aged-care usage ratio remained broadly stable at approximately 5.6–5.7% from 2022, while overall home-care utilisation among people aged 70–99 increased from 6.4% to 8.1%.

This suggests a diminishing marginal effect of additional home care on residential aged-care demand. The initial expansion of home care may have enabled people with moderate care needs to remain at home. However, as people entering residential care increasingly have more complex and intensive needs, additional home-care capacity may have a progressively smaller effect on preventing residential aged-care entry.

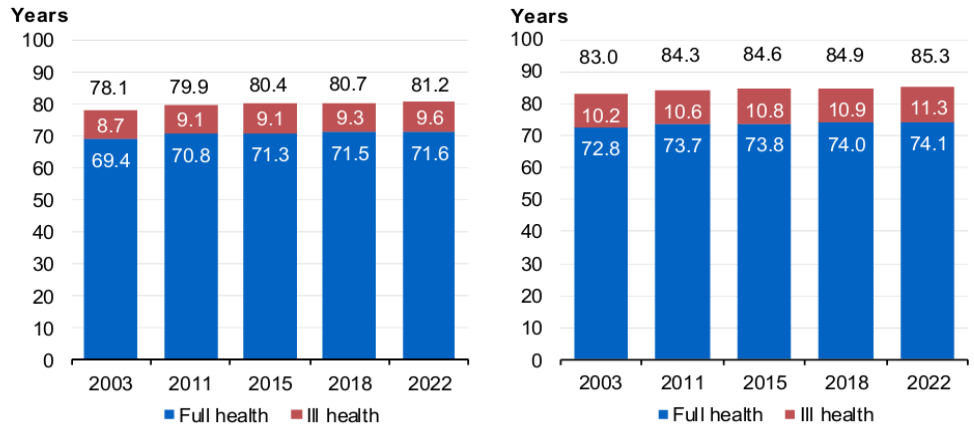
Increasing Years Lived in Ill Health

Increasing life expectancy is one of Australia's major demographic achievements. However, longer life does not necessarily mean longer periods of healthy life. The

[4] financial-report-on-the-australian-aged-care-sector-2024-25.pdf

increase in years lived in ill health among both males and females between 2018 and 2022 highlights an additional challenge for the future sustainability of the aged-care system.

Chart 1: Male (left) and female (right) health-adjusted life expectancy at birth, 2003–2022[5]



Source: Australian Institute of Health and Welfare, Australian Burden of Disease Study 2022.

As Chart 1 indicates, while life expectancy has continued to increase over the long term, much of the gain appears to have been accompanied by a corresponding increase in the period of life spent with disability, chronic illness or functional limitations.

This distinction is important for aged-care planning. If people live longer but spend a greater proportion of their later lives with disability or chronic illness, the demand for aged-care services, including residential aged care, may increase even if the proportion of people entering residential care at each age remains unchanged.

Increasing Complexity of Residential Aged-Care Entrants

Evidence from the Independent Review indicates that approximately 90% of new entrants to residential aged care now have high-level care needs. Residential aged care increasingly serves people with substantial frailty, disability, cognitive impairment and complex health-care needs.

For these individuals, a Home Care Package will not typically provide the intensity, continuity or availability of care required. The capacity to provide high-intensity care at home may be constrained by the availability and skill limitations of informal carers, the suitability of the home environment, the availability of qualified workers and the complexity of care requirements. Generally, the degree of substitutability between home care and residential care declines as care needs become more severe.

[5] Intergenerational Report 2023, p43

Implications for Residential Aged Care and Hospitals

New residential aged care capacity is falling well short of projected requirements. Estimates suggest that about 10,000 new beds will be needed annually for the next decade or more, as the baby boom generation reaches an age where residential aged care utilisation becomes more prevalent.

The limits of home-care substitution have direct implications for residential aged-care capacity The assumption of full substitutability of home care for residential care appears questionable,

The need for additional capacity is particularly significant because new residential aged-care places require substantial time and capital to develop. Land acquisition, planning approval, financing, construction and workforce recruitment cannot be achieved quickly once a shortage becomes apparent.

Insufficient capacity may lead to longer waiting periods for residential care, older people remaining in unsuitable home environments and increased pressure on informal carers. It may also contribute to delayed hospital discharge.

Hospitals are designed primarily to provide acute and subacute medical care, not to substitute for residential aged care. However, where an older person can no longer safely remain at home and no appropriate residential place is available, the hospital may become the default provider of care. This can contribute to functional decline for the individual and reduce hospital capacity for emergency and elective care.

A shortage of residential aged-care capacity is likely to shift demand to a more expensive and less appropriate part of the health system.

Conclusion and Recommendations

Australia should continue expanding home care for the elderly. The submission argues that in doing so, more harnessed use of informal carers, complementing formal caregivers, may serve to reduce overall costs to both government and client, and may also be better aligned with consumer preferences. Informal care provided by family members, friends and community networks is an important but often under-recognised component of the system.

The submission also argues that the substitution of home care for residential care is diminishing at the margin. This has important implications for both the residential aged-care system and hospitals. While further investment in formal home care and support for informal carers is essential, the need for residential aged-care capacity will continue to increase. However, current patterns of supply expansion suggest major shortfalls in new supply relative to such increased demand. Failure to keep pace with the number of older people with high and complex care needs will lead to increased pressure on hospitals, emergency departments and acute-care services.

Australia needs an integrated system in which home care, informal care, residential aged care and hospitals are planned as interdependent components of the broader health and aged-care system.

The above discussion suggests the following:

1. **Account for the growth of the population aged 80 and over and the population aged 85 and over** when forecasting future demand for aged care, both home support and residential.
2. **Incorporate trends in years lived with disability and chronic illness** into aged-care demand projections rather than relying solely on current age-specific utilisation rates.
3. **Continue expanding Home Care Packages and Support at Home** to address waiting lists and support ageing in place, with appropriate attention to workforce availability.
4. **Explore how better to harness the informal carer network to control costs and align with consumer preferences. This could be progressed through carefully evaluated pilots of consumer-directed payments** for approved informal care and eligible non-clinical support.
5. **Recognise the diminishing substitution effect of home care** in future residential aged-care demand modelling, and continue policy reforms which ease constraints on expansion of residential aged care supply.
6. **Integrate aged-care and hospital capacity planning** to assess the effects of residential-care shortages on hospital admissions and delayed discharge.
7. **Improve data on transitions between informal care, home care, residential care and hospitals** to support integrated demand modelling.

More generally, Australian policy-makers should work towards a more integrated system of aged care provision, focusing on both home-based and residential care as the primary domains. Australia needs a co-ordinated system in which older people receive the right level of care in the right setting.