Centre for Population Ageing Research (CEPAR)

Submission to the Department of Health and Aged Care (DoHAC) on Funding of the Support at Home Program

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1. Introduction

We are researchers in the School of Risk and Actuarial Studies in the UNSW Business School at UNSW Sydney specialising in actuarial aspects of aged care financing, including long term sustainability and the design of private market long term care insurance. Our research aims to provide the basis for support for individuals to manage the financial risks and costs they face in retirement. This submission provides key observations and recommendations regarding the funding proposals for the Support at Home Program (SAH) under the new Aged Care Act 2024.

2. Means testing and cost to retirees for support at home for limitations of ADLs

The proposed means testing and cost-sharing arrangements for part-pensioners and self-funded retirees in the new Support at Home Program imposes a disproportionate financial burden for **essential aged care related to the Activities of Daily Living (ADLs** - bathing or showering, dressing, getting in and out of bed or a chair, walking, using the toilet, and eating). Currently, the Draft Rules for Chapter 4 of the Aged Care Bill 2024 recommend means tested rates for independence costs of between 5% to 50% of the cost of services for part-pensioners and a flat rate of 50% for self-funded retirees[1]. Given the absence of a private long tem care insurance market in Australia, this level of contributions is unreasonably high and raises significant concerns about equity for these retirees and the difficulty they will face to effectively finance or insure the risks of functional disability in old age and the substantial costs involved.

Recommendation: A fairer cost sharing framework should cap contributions at **5%–25%** for part-pensioners and **25%** for self-funded retirees. This would better balance individual costs with government support, ensuring retirees receive meaningful protection against these significant financial risks in retirement.

3. Inadequate Needs-Based Approach and Rationing of Care

Although reforms have been implemented, the aged care system remains **inadequately needs-based**, with ongoing issues of care rationing and prolonged waiting times. Key concerns include:

- **Waiting times**: As of June 2024, over 44,000 people remain on waiting listings for Home Care Packages (HCPs) and not yet been offered an interim HCP[2]. Such

[1] Department of Health and Aged Care (Australian Government), 'Aged Care Bill 2024 – Overview of Aged Care Funding (Chapter 4)'.
[2] Department of Health and Aged Care (Australian Government), 'Home Care Packages Program Data Report 2nd Quarter 2023-24'.

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delays undermine timely access to critical support services, especially given the increased financial contributions now expected from retirees. Even though the queue on the National Priority System was cleared after the government released around 80,000 Home Care Packages (HCPs) in response to the Royal Commission, estimated wait times for individuals with medium priority can be as long as 12 months which is untenable considering that disabled life expectancy can be much shorter than a year.

- **Rationing**: Supply contraints persist, limiting timely access to care when mortality risks are highest.
- **International insights**: Experience from the Netherlands public aged care system shows that rationing of supply inadvertently leads to growing waiting lists and deteriorating quality of care[3]. This highlights that the supply-based approach is reactive rather than proactive to the needs of older individuals. **If retirees are required to shoulder more of the financial burden, ensuring timely, needs-based access to care becomes imperative.** Long wait times are neither equitable nor acceptable under the current cost–sharing framework.

While the Australian Government accepted 'in-principle' the recommendation of a new planning regime that would provide demand driven access to aged care, this Aged Care System fails to sufficiently link growing demand for aged care through levels of functional disability with supply. There are pure public based aged care systems that are demand based as demonstrated in the northern European countries such as Sweden, Norway and the Netherlands.

Our research on assessing sustainable aged care financing in Australia provides a robust demand based framework that provides a viable financing model for aged care [4]. Conversely, while the increase in the classification levels as proposed in SAH is generous, it is not an appropriately designed demand based mechanism to adequately solve the problem of unspent funds as the system is still supply based.

Recommendation: Transition is required to a fully need-based system, ensuring timely access to care particularly for those contributing more under the new cost-sharing framework.

4. Increased Financial Risk Without Adequate Insurance Mechanisms

Shifting a larger share of costs to part-funded and self-funded retirees effectively transfers the financial risk of substantial care needs in later life. Previously, government financing acted as a form of implicit insurance, protecting retirees from the unpredictable costs of long-term care. **With reduced public coverage, retirees now face significant exposure without access to affordable, comprehensive long-term care insurance.**

[3] Schut and van den Berg, 'Long-Term Care Insurance in the Netherlands'.

[4] Shirodkar, 'Assessing Sustainable Aged Care Financing in Australia'.

Japan and South Korea have developed LTC insurance products and have a public-private mix[5]. Offering LTCI as an optional rider to lifetime income products in superannuation also gives individuals the flexibility to choose since only two out of three women and one in two men will need aged care at some point in their life[6]. Innovative mutual pooled lifetime income products offered through superannuation funds that pool investment, mortality and functional disability can be designed to be cost effective and efficient in meeting retirees retirement income and aged care. Choice remains an important design aspect of retirement income frameworks in Australia.

Recommendations for Sustainable Long-Term Care Insurance Solutions:
To address this gap, there is a critical need for **innovative long-term care insurance (LTCI) products** integrated within retirement income frameworks. Specifically:

- **Superannuation funds** should offer LTCI as an optional component of lifetime pension income products.
- **Mutual and not-for-profit superannuation funds** should be able to develop and offer innovative **pooled insurance solutions covering both mortality and functional disability risks**, leveraging their scale and structure to provide cost-effective, sustainable coverage for retirees.

Such products would offer retirees the financial security of knowing that care costs, especially for ADLs, are manageable within their retirement income planning.

5. Support from Research Evidence

Research, including studies by the ARC Centre of Excellence in Population Ageing (CEPAR) and other academic institutions, highlights the growing financial vulnerability of retirees due to longer life expectancies and increasing care needs. Spending on aged care is expected to rise to 2.5% of Gross Domestic Product (GDP) and they will be more than 3.5 million people aged 80 and above in Australia[7]. We have been actively involved in the measurement and management of aged care risks and developing a demand driven financing model of aged care that is sensitive to the prevalence and trends of disability, the associated costs and their uncertainty.

Through health state modelling of functional disability using activities of daily living, we are able to determine the time spent requiring aged care and the probability that an individual will need aged care[8]. The risk of becoming disabled at age 90 is approximately 10% and increases exponentially with age. Almost 60% of individuals

[5] Dyer et al., *Review of International Systems for Long-Term Care of Older People*.
[6] Centre of Excellence In Population Ageing Research, 'Aged Care in Australia: Part I – Policy, Demand and Funding'.
[7] Treasury (Commonwealth of Australia), 'Intergenerational Report 2023: Australia's Future to 2063'.
[8] Fong, Shao, and Sherris, 'Multistate Actuarial Models of Functional Disability', 2 January 2015.

aged 65 and older will require aged care. Furthermore, we now know that incorporating health status in models of functional disability allows us to more precisely quantify mortality and aged care risks and reduces inaccuracies in determining time spent in aged care[9]. These insights can help inform the appropriate budget allocations that should be specified in the Support at Home classification levels to meet the needs of individuals. There is substantial research evidence that underscores the importance of risk-pooling to avoid expensive solvency capital requirements that would decrease retirees wealth[10]. For example, we have proposed innovative financial product solutions including pooled health care annuities that pool mortality, functional disability and health risks so as to manage the costs of aged care. These hybrid products combine a life annuity with long term care insurance [11]. They are based on earlier ground-breaking reseach from CEPAR on pooled annuities that demonstrate that group self annuitisation is highly favourable in countries such as Australia where the market for annuities is thin and can be easily implemented within superannuation[12].

Please let us know if you require further information or wish to discuss the content of the attached responses.

Submitted by

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[9] Sherris and Wei, 'A Multi-State Model of Functional Disability and Health Status in the Presence of Systematic Trend and Uncertainty'.
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[12] Piggott, Valdez, and Detzel, 'The Simple Analytics of a Pooled Annuity Fund'.

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