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SUBMISSION

Submission to Aged Care Taskforce - Consultation on Aged Care Funding

31 August 2023

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The Aged Care Taskforce

Via email: agedcaretaskforce@health.gov.au

1 September 2023

Dear Sir/Madam

Aged Care Funding Options

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the consultation on aged care funding arrangements.

About ASFA

ASFA is a non-profit, non-partisan national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3.5 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 17 million Australians with superannuation.

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If you have any queries or comments in relation to the content of our submission, please contact Ross Clare on (02) 8079 0809 or by email rclare@superannuation.asn.au or Glen McCrea on (02) 8079 0808 or by email gmccrea@superannuation.asn.au.

Yours sincerely

Glen McCrea

Deputy CEO and Chief Policy Officer

General comments

The ageing of the Australian population structure will lead to a substantial increase in expenditure on aged care, particularly residential age care. This cost will fall on the Australian Government unless there is greater cost recovery from users of aged care services.

Current charging arrangements for residential aged care are complex: involving multiple components, capped fees, and means testing arrangements. Participants also have a choice between providing a Refundable Accommodation Deposit (RAD) or paying a higher daily fee. Participants would benefit from greater availability of information and affordable financial advice in regard to options that are available. Superannuation funds could potentially be involved in such activities.

Despite recent commentary on superannuation balances when people pass away, it is worth acknowledging that RADs are actually a much greater source of inheritances than superannuation balances (that remain unspent at the time of passing) by a factor of three to one.

ASFA publishes budgets for retirement living expenses at both the Modest and Comfortable levels, and for those at around age 65 and those around age 85. Allowance is made for aged care expenses in the budgets for those aged around 85. However, it is difficult to include precise residential aged care expenses in such budgets given the variability of payments and also the fact that not everyone who is retired will incur residential aged care costs.

Current residential aged care charging structures would be challenging to finance by directly linking to superannuation and there is no product available that could insure people for the probability of using residential care (and superannuation may not be an appropriate mechanism to manage the probability).

However, there are possibilities for superannuation funds to assist further with capital funding requirements by holding direct or indirect interests in the property assets used to provide aged care accommodation services on commercial terms.

In addition, the majority of Australians will have more money in superannuation going forward and this will be crucial to meet expenses in retirement including aged care.

Nevertheless, sufficient Government support is essential for older Australians without the capacity to financially contribute to their aged care needs. Further consideration needs to be given as to whether some payments could be deferred and paid out of an individual's estate after death. This could involve a loan arrangement similar to the Higher Education Contribution Scheme (HECS) for some aged care costs. This could build on the current Home Equity Access Scheme administered by Centrelink that is available to persons who have reached the eligibility age for the Age Pension.

ASFA comments on specific issues raised in the consultation

ASFA notes that the Aged Care Taskforce paper on how aged care funding currently works indicates that participants currently contribute only 4 per cent of the costs of home care and only 25 per cent of the costs of residential aged care.

If these percentages were to be maintained in the future clearly there would be pressures on the Federal Budget. The recently released Intergenerational Report has highlighted pressures on future government expenditure on aged care. The key driver of Australian Government aged care spending is the number of people aged over 80. This age group is the major user of aged care services. The number of people aged 80 and over is expected to triple over the next 40 years, to more than 3.5 million people by 2062–63.

To date much of the public debate has been led by those involved in either the provision of aged care services or in funders of such services, rather than those receiving aged care services. It is important that the perspective of users of aged care services be taken into account. Current arrangements are overly complex and are difficult for individuals to navigate. As well, those entering the aged care system typically have physical and/or mental conditions that make it challenging for them in complex decision-making.

Implications for public expenditures

The developments described above in terms of demographic trends and increasing costs will require one or more of the following if private contributions to the cost of aged care do not increase:

- An increase in tax collections, such as personal income tax or from GST.
- Less expenditure in relative terms on other categories of government supported activities.
- An increase in the Budget deficit or reduction in Budget surplus.

Any decision on the level and form of increased tax collections and/or public expenditures in areas other than aged care clearly would require very careful consideration by government.

Implications for private expenditure on aged care

If increased contributions to the cost of aged care were to be required from participants the structure of current charging arrangements would need to be reviewed. As explained by the Aged Care Taskforce paper, a number of the funding components do not have a means test attached to them. One example is that RADs are flat rate for those accessing a given residential aged care facility.

RADs tie up a considerable amounts of the capital of participants and generate a substantial amount of bequests. ASFA estimates (based on Productivity Commission and other data) suggest that there currently are about $8.5 billion a year in inheritances flowing from the repayment of RADs to the estates of participants, which is far in excess of superannuation death benefits. The aggregate amount of RADs contributing to inheritances each year is nearly three times the annual amount attributable to superannuation balances of retirees still held at the time of death.

RADs have become an important part of aged care provision given the challenges of some providers in gaining access to capital. If the housing component of aged care was decoupled to some extent then alternative capital arrangements could be developed, such as the establishment of Real Estate Investment Trusts (REITs). These could hold residential aged care facilities and lease them to providers of aged care services. Provided the return and risk profile was appropriate, superannuation funds potentially would be investors in such assets. The overriding duty of superannuation funds is to generate returns for their members.

Superannuation funds are increasingly diversifying their property holdings from traditional areas of offices, factories and retail premises to build to rent residential real estate and independent living residences for retirees. Superannuation funds also have shareholdings in ASX listed aged care providers, such as Regis, Japara Healthcare and Estia.

The amount of superannuation that typically is not spent or withdrawn

The Aged & Community Care Providers Association in their Issues Paper indicate that many Australians do not run down their superannuation and that a significant proportion of tax concessions for superannuation pass are inflating inheritances. However, the current reality is that only a small minority of Australians aged over 80 still have any superannuation. In those cases where there is superannuation at the time of death, Inheritances frequently go to a spouse.

In 2021-22 funds with more than six members paid out a total of $5.6 billion in death benefit payments, with around $1.8 billion of this attributable to life insurance benefit payments which in almost all cases relate those in current employment and/or aged under 70.

Adjusting the aggregate superannuation death benefit figure for insurance payouts and other death benefits for those not yet retired, a reasonable estimate of total death benefits paid in relation to retirees is under $3 billion a year. This is around 4 per cent of the $85 billion of aggregate benefits paid by funds in 2021-22.

As well, how to best assist participants fund any new or amended personal contributions to aged care costs requires decisions to be made on what the structure and level of those new charges will be.

As noted earlier, individuals receiving either home care or receiving residential aged care currently pay 25 per cent or less of the total cost on average. While a substantial proportion of individuals receiving aged care have limited financial resources and will rely completely on Government support, others may have more capacity to contribute (particularly as superannuation balances rise). If the Government were to consider that some individuals could contribute more, they would need to address some of the liquidity changes that older people may face. Some assets may not be able to immediately converted into cash, including where their capital is being held as a RAD or their is capital in a home occupied by a spouse.

In these situations, there could be active consideration as to whether some payments could be deferred and paid out of an individual's estate after death. A possible approach could involve a HECS type loan arrangement for some aged care costs but with repayment due after death. This could build on the current Home Equity Access Scheme administered by Centrelink that is available to persons who have reached the eligibility age for the Age Pension.

ASFA comments on matters raised in the Aged & Community Care Providers Association (ACCPA) Issues Paper

The ACCPA Issues Paper canvasses a broad range of matters, including a number relevant to superannuation.

In designing any proposal, careful consideration would need to be given to managing intergenerational equity and risks such as moral hazard and adverse selection. In addition, any new products would need to be designed to provide value to consumers through appropriate pricing, delivering benefits that match expenses when they occur and clear specification of their coverage.

From a system perspective, the tax and social security implications of any new products or arrangements would need to be considered. Adverse tax or social security outcomes might render such products unattractive or unviable.

This submission addresses three specific options that were raised by ACCPA regarding superannuation and aged care:

1. A voluntary scheme enabling superannuation funds to offer products that allow tax-efficient saving for aged care.

The Issues Paper suggests that such a scheme could be established through changes to the tax treatment of funds which are withdrawn as a lump sum specifically to pay residential aged care accommodation costs. There are some difficulties with such a suggestion. Currently amounts withdrawn from superannuation at ag 60 and over are tax free. As well, investment earnings supporting a pension account of a retired person are also tax free.

Given the current concessional tax treatment of superannuation, particularly in the retirement phase, introducing a further tax concession supporting saving for aged care would have its challenges. Perhaps the only additional tax concession that could be provided would be to also have tax free investment earnings for any amount allocated to spending on aged care costs. Such a scheme might also require changes to the upper age thresholds for making contributions to superannuation. Currently superannuation funds can only accept voluntary contributions for those aged under 75 years. For those aged 75 years or older only compulsory contributions and downsizer contributions can be accepted.

If the latter approach were adopted care would need to be taken to avoid arrangements being entered into which facilitated contributions to superannuation which receive considerable tax concessions but are never used for retirement income or for paying aged care expenses.

2. A compulsory saving approach for which a proportion of superannuation guarantee contributions is ring-fenced to pay for aged care costs

As the Issues Paper notes, this could disadvantage those retirees who never require aged care, or who need only limited supports.

ASFA does not support ring-fencing. It is likely that a ring-fenced amount would generally be either too much or too little relative to what might be required private contributions by a participant to aged care costs.

Ring-fencing also would have a significant impact on retirement living standards as it would restrict the amount of superannuation that could be drawn down for general living expenses. It also would be unfair for such ring-fenced assets to be taken into account for the purposes of the Age Pension means test as they would not be available to support retirement income.

Ring-fencing would reduce the flexibility in spending that is typically required in retirement. Individuals can face a variety of one-off expenditures in retirement, with both the incidence and amount of such spending varying from individual to individual. Being able to access a lump sum, rather than a weekly or monthly income stream amount, can be crucial in dealing with such expenditures. Restricting the amount of lump sum available for a specific expenditure due to ring-fencing of components of the superannuation balance would prevent the flexibility that retirees need in accessing required lump sums in retirement.

For instance, some individuals might have high medical expenses associated with an operation or other medical procedure. Some might have to make major home repairs or to undertake renovations to support continued occupation of their home. Only a minority of individuals will enter residential aged care. Reserving various "buckets" of retirement savings for specific requirements will have adverse impacts on the general standing of living in retirement.

For many individuals the full 12 per cent SG (when that is reached) will be necessary to support the retirement income they need. Superannuation is not something which can be used as a central pillar for aged care funding.

3. An approach where there are incentives for people to save specifically for their aged care needs earlier in life, either through the superannuation system or other specialised products.

For this type of approach the Issues Paper gives the example of the health system, whereby people are incentivised to maintain a health insurance policy through the use of a government rebate that covers up to approximately 30 per cent of the cost of a qualifying policy. There is also the use of a disincentive for not having cover, whereby people who choose not to take out a policy may be required to pay a Medicare Levy Surcharge.

As the Issues Paper notes, the possible downsides in these approaches are that they are likely to be complex and would require changes to legislation in other areas such as insurance or superannuation, particularly if they required changes to the tax treatment of savings or tax-based incentives. They would also not apply to those without superannuation accounts and/or with limited ability to save.

More fundamentally, aged care insurance currently does not exist in Australia. It is not clear what the benefit structure of such insurance would be, or what the premium rates would be. While community rating is required in regard to private health insurance, this is not likely to be viable in regard to aged care insurance. Community rating only becomes viable when a large proportion of the population takes out insurance given the risks of adverse selection, with those most likely to need aged care being the ones that take out such insurance.

There also would need to have any changes to participant contributions to aged care costs settled and for there to be confidence that these would not change over time before insurance arrangements could be put in place. The need to access aged care insurance could be some decades after first taking out a policy. There also would be issues, similar to connected with funeral insurance, in regard to expectations following an individual ceasing or pausing aged care insurance cover.

While the great bulk of people may need hospital and other medical care, including ancillary medical services, during their lifetime, only a minority will need substantial aged care. Currently less than one-third of the population will enter residential aged care at some point. However, the incidence of being a participant in residential aged care rises with advanced age.

There also would be considerable complexity and design issues involved if incentives were provided for voluntary contributions and/or part of an individual's overall superannuation balance being ring-fenced for aged care costs.

Past work by ASFA on aged care financing issues and the relevance of superannuation

ASFA has previously explored the interaction of superannuation with aged care and health care:
https://www.superannuation.asn.au/ArticleDocuments/359/ASFA_Aged-care-health-and-super_Nov2015.pdf.aspx?Embed=Y

The purpose of that paper was to raise questions about how dealing with increasing health and aged-care costs might interact with the superannuation system. The paper outlined trends in health and aged-care costs and provided the results of a survey undertaken by CoreData, on behalf of ASFA, that assessed Australians' perceptions regarding costs and other issues surrounding the provision of health and aged care, as well as the role of superannuation.

A particular focus of the paper was the provision of financial advice.

There is an expectation that financial advisers should be able to provide advice about all aspects of retirement, including private funding requirements for aged care.

Many individuals contemplating entry into residential aged care, together with their families, are faced by difficult financial decisions. While greater flexibility is now available in regard to the balance between accommodation deposits and ongoing charges, this does make for greater complexity and the need to consider alternative options. There is also interplay between the holding of various financial assets and the means tests for both the Age Pension and aged care ongoing costs. Some individuals also will have taxation and estate planning issues that they need to address.

All of this highlights the need for any changes to aged care financing to support effective decision making by individuals. This might in some cases require the provision of financial and other advice and guidance to the individuals concerned. How such advice and guidance is provided is important for its quality and cost. Arguably there is a need for more financial planners to receive training in regard to aged care personal funding requirements and options that are open to individuals.

There are regulatory requirements that constrain the ability of superannuation funds to provide financial advice in regard to matters that are not superannuation related, including the funding of such advice out of an individual's superannuation account or the funds of a superannuation fund more generally. However, individuals who have retired are able to withdraw amounts and to use such amounts for expenses.

Some funds provide educational material about aged care on their websites and/or provide details to their members about external financial advisers with expertise in the area of aged care arrangements.

The ASFA Retirement Standard

ASFA prepares a quarterly basis budgets which indicate levels of retirement spending needed by couples and singles to sustain living standards at either the modest or comfortable level in retirement. Budgets are prepared for those aged 65 to 84 and those aged 85 plus:

https://www.superannuation.asn.au/resources/retirement-standard

Each set of budgets allows for the payment of private health insurance premiums. The budgets for those aged 85 plus also contain amounts for certain home and community care private expenses and for greater out of pocket medical expenses due to age related medical conditions and disabilities.

The existence of retirement savings in the form of superannuation also provides at least some retirees with the capacity to access cash on a ready basis to finance an accommodation bond or other capital contribution.

If any new financing arrangements were introduced that led to new private expenditure responsibilities, these would be built into the ASFA retirement standard budgets.

Currently many retirees would not have the financial capacity to fund significant additional aged care expenses, particularly on an ongoing basis. This highlights the need for the Superannuation Guarantee to reach 12 per cent of wages, as is legislated. Individuals who are on the Age Pension alone or who have only very modest superannuation or other retirement savings are not in a position to meet any additional private funding requirements for aged care. Many would struggle with existing private contribution requirements.