

SUBMISSION

Submission to Royal Commission into Aged Care Quality and Safety Consultation on Aged Care Financing

12 August 2020

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Royal Commission into Aged Care Quality and Safety

Via email: FinanceOptions@royalcommission.gov.au

12 August 2020

Dear Sir/Madam

Aged Care Financing Options

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

About ASFA

ASFA is a non-profit, non-political 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 \$2.7 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 16 million Australians with superannuation.

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

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

In November 2015 ASFA released a paper on 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 ASFA's 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. It also 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 increasing expectation that financial advisers should be able to provide advice about all aspects of retirement, including private funding requirements for aged care. The paper indicated that two questions that need to be considered are:

- How can the program of increasing adviser standards incorporate aged-care advice? What else needs to be done to drive trusted advice in this space and increase levels of understanding in the community?
- How can access to aged-care advice be improved? What is the role of superannuation funds in this equation?

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.

The ASFA Retirement Standard

ASFA has also prepared on 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 in order to finance an accommodation bond or other capital contribution.

If any new financing arrangements were introduced that led to new private expenditure responsibilities, such as the introduction of voluntary or compulsory insurance for aged care expenses, these would be built into the ASFA retirement standard budgets.

The Consultation Paper notes in regard to preparedness to pay for the cost of aged care that there may be community willingness for additional payments by aged care recipients, but that this source of finance alone would need to be complemented by other measures to meet the prospective funding gap.

Currently many retirees would not have the financial capacity to fund significant additional aged care expenses, particularly on an ongoing basis. Insurance for aged care expenses, if introduced, also could involve substantial annual expenses for retirees, especially if premiums were related to age or current health status.

This highlights the need for the Superannuation Guarantee to reach 12 per cent of wages, as is legislated.