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AGED CARE alliance

Aged Care Reform Series - Financing aged care in Australia

The National Aged Care Alliance (the Alliance) developed this paper to provide additional advice to Government, through The Hon Mark Butler, MP Minister for Mental Health and Ageing, as it considers the proposed aged care reforms from the Productivity Commission's Caring for Older Australians report which was released in August 2011. Financing aged care in Australia is one in a series of six papers available on the Alliance website (www.naca.asn.au), other papers in the series include: Assessment and entitlement (including the Gateway), Palliative care, Quality of care, Wellness and Workforce.

Purpose

The purpose of this paper is to address issues related to the financing of care and accommodation for older Australians. The paper is structured around the following seven questions:

1) What are the challenges and opportunities to implementing an enhanced user pays system? Who pays for what and how?
2) What principles are required to achieve a fair and reasonable outcome in income and asset testing?
3) What are the principles that should guide development of a Pensioners Savings Account, a Home Credit Scheme and a Stop Loss Limit?
4) What are the equity challenges to be addressed in a new system?
5) What are the implementation challenges and how can they be addressed?
6) How does the sector transition from reliance on bond funds to mixed funding?
7) What is the impact on supply and demand and system costs of introducing entitlements based on assessed needs, and gradually lifting restrictions on the supply of residential and community aged care?

As well as addressing each of the questions, the paper provides the Alliance's policy position[1] on issues raised in each of the questions where appropriate, noting however that the Association of Independent Retirees reserves its position on the policy issues.

The paper concludes with recommendations on the priorities for reform and their sequencing. It will be evident to the reader that there is quite a deal of overlap of issues across the questions.

1. What are the challenges and opportunities to implementing an enhanced user pays system? Who pays for what and how?

The premise of this question, with which the Alliance agrees, is that an affordable aged care system to cater for the growing number of older Australians and rising community expectations will need to include increased user contributions by those with a capacity to contribute to their aged care and accommodation costs.

[1] A reference in the body of the paper to the Alliance refers to its members, except the Association of Independent Retirees (AIR). The AIR reserves its position regarding the policy positions in this paper.

An assessment of the challenges and opportunities in implementing enhanced user pays in aged care is set out below.

The Challenges

a) *Community expectations for improved quality and access*

There will be a community expectation that increasing user pays would be accompanied by an overall improvement in the quality of aged care services, including easier access to and greater choice of more flexible and responsive aged care services.

Effective implementation of the key reform recommendations of the Productivity Commission will be necessary in order to respond to these expectations.

The key recommendations that would directly benefit older people and their families include care entitlements based on assessed needs; greater consumer control over services, including choice of provider and whether the care entitlement is used in an aged care facility, at home or other seniors housing option; lifting restrictions on what services providers may offer; an effective Gateway system to simplify access; a skilled workforce; greater emphasis on restorative care; and financial instruments to avoid the forced sale of the principal residence.

Many of these reforms will have reasonably long lead times. However, demonstrable early improvements in age care services where ever possible will be essential.

Increased choice and flexibility can be provided for new recipients of aged care and existing recipients of community aged care by increasing community care places from the beginning of the transition period, above the baseline established by the current provision quotas. New recipients would then have greater choice to receive care at home and existing community care recipients will have greater scope to age at home longer. New recipients could also be given choice of service provider.

Because of the long lead times involved in the development of aged care homes, the benefits of greater choice and improved infrastructure in residential care will become apparent more gradually. Without the reforms, however, the ability of the sector to renew ageing infrastructure and build new capacity to meet the demand from an ageing population would be greatly compromised.

Reform of the user pays system would introduce greater equity into the system for new aged care residents. Currently, residents contribute more towards the cost of their care than community care recipients, and bond payers on average contribute more towards the cost of their accommodation than accommodation charge payers and the subsidy provided for supported residents. However, changes to co-contributions arrangements for care should not be introduced until the integrated care entitlements system is implemented.

All care recipients would benefit under the proposal to base care prices on the cost of delivering care.

Grandparenting user contributions for existing residents would be an important mechanism for managing the impact of an enhanced user pays system.

b) *Wealth in the primary residence*

Wealth for the majority of older Australians is in the primary residence, and the proportion of self funded retirees is expected to increase only slightly even with the Superannuation Guarantee Scheme. If user pays is to be enhanced, practical means for accessing the wealth in the principal residence will have to be found, including without the forced sale of the principal residence.

Financial instruments developed by the Productivity Commission to allow greater flexibility in how accommodation and care co-payments may be made by accessing the value in the principal residence are discussed in Section 3 of the paper.

Objections to using wealth in the principal residence to contribute to the cost of aged care and accommodation will also need to be addressed by pointing to the potential for improved choice, access, flexibility, fairness and sustainability. Overall, unlike in 1997, the public and media reaction to date has been considered, with objections confined to some pockets in the community despite concerted efforts to generate concern.

c) *Excessive care costs for individuals*

An enhanced user pays system would need to include protections to prevent individuals from incurring excessive care costs. While most people can be expected to access the aged care system later in life, it is not possible to predict at the individual level the extent of the services that may be needed eg the probability that an individual will live long term with dementia.

Insurance-type arrangements proposed by the Productivity Commission to address this issue are discussed in Section 3.

d) *Price exploitation*

There is a risk that enhanced user pay arrangements for accommodation may result in price exploitation until the market for aged care services matures. There is also a risk of price exploitation in circumstances where a market is not expected to operate efficiently.

The new system will need to include measures to address the potential for price exploitation, especially during the transition period. This is addressed in Section 5.

The opportunities

e) *A more affordable quality aged care system*

Reform of the aged care system to make it entitlement based and more responsive to rising consumer expectations about easier access to more flexible and high quality services, will result in an even more expensive system than currently exists. The Productivity Commission has estimated that under its reform proposals, total costs (public and private) would rise to 2.9% of GDP by 2050 (excluding discretionary expenditures on daily living expenses).

There will also be continuing competing pressures on the Federal Government Budget, including the impact of an ageing population on age pension and health care costs. Together, these factors will mean that the provision of quality aged care services in the years ahead which meet community expectations will not be affordable without additional sources of funding.

Many older Australians and 'Baby Boomers' have the wealth to contribute towards the cost of their aged care and accommodation, though this wealth for most people is in the principal residence. This wealth in the principal residence presents an opportunity to help meet the costs of a high quality aged care system to serve current and future generations of older Australians.

f) *Increased capacity to support people with the greatest needs*

Increased user pays increases the scope for tax payer funding to be directed to ensuring access to quality services by those with lesser means and special needs.

g) *Fairness between generations*

Introducing enhanced user contribution is also a means for achieving greater fairness between generations. This is discussed further in Section 4.

Who pays for what and how?

h) *Funding principles*

The Alliance supports the following funding principles used by the Productivity Commission in its Report, and the unbundling of service types to allow co-contribution policies and subsidies to be tailored to the nature of the services.

- Individuals should continue to be responsible for their accommodation and daily living expenses into old age and aged care, with safety nets for those without the means to pay.
- Personal care and nursing care, the extent of an individual's requirement for which in older age is unpredictable, should be subject to charging arrangements consistent with those in the health care system. That is, the Government underwrites a significant proportion of the costs of care irrespective of the ability to pay, and with a co-contribution by those who can afford to pay to improve overall affordability. This includes co-contributions for basic care and support services.

Because wealth for most people is in the principal residence, it is appropriate that co-contributions towards personal and nursing care costs should be assessed on total wealth, including the principal residence.

i) *Early intervention and restorative care*

Access to early intervention and short term restorative care and sub-acute services should be at no cost in order to encourage take up and to reduce or defer downstream costs.

j) *Payment flexibility*

Older people should have flexibility in how they pay for their accommodation and care costs, subject to accommodation prices reflecting the underlying value of the service.

Payment options are discussed further in Section 3.

2. What principles are required to achieve a fair and reasonable outcome in income and asset testing?

The Alliance considers that the following principles should apply in order to achieve a fair and reasonable outcome in income and asset testing.

a) A balance needs to be struck between individual affordability and sustainability of the aged care system, drawing on the funding principles outlined in Section 1.

b) Individuals should be protected from excessive care costs.

c) The principal residence should be included as an assessable asset for income and asset testing when assessing capacity to contribute to aged care and accommodation costs.

d) People with the same overall wealth should be treated in the same way when assessed for care contributions, regardless of differing combinations of income and assets and whether the care entitlement is used in their own home, an aged care home or seniors housing.

e) Only the relevant share of the income and assets of the person accessing aged care services should be included in the income and asset test.

f) Income and asset testing needs to be undertaken on a consistent basis nationally, including for basic care and support.

g) Care contributions should be determined simply and transparently through a universally applied income and asset testing regime, rather than in parallel with opaque measures such as reduced subsidies for certain types of services (such as extra service).

h) Income and assets testing needs to be easy to understand and administer. Any differences between the income and assets testing arrangements for the age pension and aged care should be easily explainable and readily understood.

i) Information on income and assets testing arrangements should be readily available and accessible.

Application of the funding principles

As well as proposing the funding principles referred to in Section 1, the Alliance notes that the Productivity Commission provided some guidance on means testing options and indicative co-contribution levels. It also considered that further analysis of means testing options using more robust data was warranted in order to better understand distributional impacts.

The Alliance notes that under the current income test for care contributions, residents of aged care homes may be required to meet up to 100% of their care costs.[2] The Productivity Commission's approach, which includes the principal residence as an assessable asset and a stop loss limit to avoid excessive costs, would require care contributions to be made by a larger proportion of the care recipient population, but would reduce co-contributions paid currently by those with the greatest wealth (who can now contribute up to 100%).

On balance, the Alliance considers that care contributions should be proportional to an individual's capacity to pay, but with provision for a stop loss limit to avoid excessive total costs. This would be fairer and would make improvements in the aged care system more affordable.

2 In contrast, community care package recipients may be asked by service providers to contribute up to 17.5% of the single pension towards their care costs. However, the Productivity Commission has identified that providers are inconsistent in applying this charge (largely due to the absence of a means test for community care), and that the average co-contribution is significantly less than 17.5%.

3. What are the principles that should guide development of a Pensioners Savings Account, a Home Credit Scheme and a Stop Loss Limit?

Pensioners Savings Account Scheme

The Alliance considers that as a matter of principle and equity, frailer older people who sell their principal house to move to more age appropriate housing, including an aged care home, should not have continuing access to the aged care pension compromised by the transaction.

This proposed policy needs to be considered as being complementary to the proposed comprehensive wealth test which is intended to make aged care more affordable for the community, and proposals to provide people with greater flexibility in meeting their age care costs. This contrasts with current policy which treats the principal residence as a non-assessable asset for the pension means test if an older person chooses not to sell their principal residence. Those who sell the principal residence should not be disadvantaged.

The Alliance supports the Productivity Commission's recommendation to establish a Pensioners Savings Account Scheme in order to facilitate user contributions to aged care and accommodation by those who sell their principal residence, while at the same time ensuring that the sale of the primary residence does not compromise ongoing eligibility for the age pension.

The Alliance considers that the following principles should underpin the Account Scheme:

a) The Account Scheme deposits should be Government backed to support consumer confidence in the Scheme.

b) Eligibility for participation in the Account Scheme could be restricted to people who are age and service pension recipients at the time of the sale of the residence and who enter an aged care home (as currently defined under the *Aged Care Act*). This option would be the simplest way of reducing the potential for abuse of the system.

   The Alliance, however, is concerned that restricting eligibility to the Account Scheme in this way would limit its potential, in association with a system of care entitlements, to:

   - encourage innovation in age appropriate housing into which community aged care may be delivered more effectively and efficiently;
   - encourage older people to plan ahead for their accommodation needs in anticipation of physical limitations associated with older age; and
   - encourage the intergenerational recycling of residential land and housing stock.

The Alliance favours an alternative option which would result in access to the Account Scheme being restricted to age and service pension recipients who have been assessed by the Gateway Agency as needing care and support under the aged care system.

Restricting eligibility in this way would lessen the scope for, and risk of, manipulation to secure the age pension, while providing an incentive for housing innovation and greater flexibility for older Australians.

c) Deposits should be restricted to the net proceeds from the sale of the primary residence in open market conditions.

d) Deposits in the Account, interest thereon and any residential aged care bond payment should be exempt from the pension income and assets test.

e) A CPI equivalent interest rate should apply to deposits in the Account.

An interest rate designed to maintain the real value of the surplus proceeds from the sale of the principal residence may be viewed as a reasonable trade-off for continuing eligibility for the age pension.

f) Depositors should have full flexibility in how they use their funds in the Account.

g) No transaction fees should apply.

h) There should be safe guards against inappropriate access to the age pension as a result of using the Account, in the same way that safeguards were developed for age pension eligibility.

The Alliance notes that, depending on the form that the Scheme might take, it could give the Government access to funds at interest rates significantly below its normal borrowing costs, which would help offset the cost of the concessional interest rate (CPI) under the Home Credit Scheme.

An alternative to setting up Savings Accounts held by the Government may be to allow individuals to invest surplus sale proceeds in a commercial account paying market interest, and include in the pension means test the difference between the deeming rate for financial investments and CPI.

This approach would remove the need for the Government to become a banker, and have a positive effect on pensioner incomes and minimal effect on age and service pension entitlements. It is also noted that under this option, the Government would forego the opportunity to access low interest deposits via the Savings Account to offset the cost of the concessional advances under the Home Credit Scheme.

Home Credit Scheme

The Alliance supports the establishment of a Home Credit Scheme to facilitate user contributions for aged care and accommodation by those care recipients who do not wish to sell the principal residence.

The Alliance considers that the following principles should underpin the Credit Scheme.

a) The Credit Scheme should incorporate a Government backed ‘no negative equity guarantee’ in keeping with industry accreditation standards and the Government’s recently announced regulatory requirements for such schemes. This would support confidence in the Credit Scheme by providing ‘insurance’ against the possibility of a significant decline in housing values.

b) The ‘no negative equity’ guarantee should be complemented by a fixed minimum equity level (related to each individual’s share of the asset) beyond which no further drawdowns would be allowed. Accrued interest charges should count towards the minimum equity level.

Consistent with linking accommodation payments and living expenses with capacity to pay, the fixed minimum equity level should be a percentage of the market value of the principal residence at the time the Credit Scheme is accessed by the individual.

The Alliance gave consideration to the appropriate minimum equity level. The principle that individuals should be responsible for their accommodation costs would suggest that the minimum equity level should be comparatively low. On the other hand, the level set should have regard to community perceptions and the security of ownership for any 'protected resident'.

On balance, a minimum equity level of 60% could be seen to be practical and reasonable. It would ensure that those with substantial assets would be able to meet their care contributions and most, if not all, of their accommodation costs, while being sensitive to not having the total value of the principal residence potentially at risk. For example, with a 50% interest in a house valued at $500,000, $100,000 would be available to contribute to an individual's aged care costs, while quarantining $150,000.

The Alliance noted however that before settling on a minimum equity level, the Alliance would wish to take into account the distributional impact of the means testing approach to be used for user contributions for care and accommodation.

c) Advances under the Credit Scheme would have appropriate security over the principal residence to ensure appropriate priority in recovery from the estate.

d) Payments under the Credit Scheme should be restricted to residential aged care accommodation (periodic payment or accommodation bond), aged care services and health services.

e) The Stop Loss Limit would operate within the Credit Scheme's minimum equity provisions.

f) Advances under the Credit Scheme should attract a CPI equivalent interest charge (variable annually). This would allow the recovery of advances in real terms, as occurs for advances under the Higher Education Contributions Scheme.

g) No further interest charge should apply once the minimum equity level has been reached.

h) Once the minimum equity level is reached, the person living in an aged care home would become a supported resident. A resident's security of tenure must not be affected as a result of becoming a supported resident, and the current provisions in the *Aged Care Act* providing security of room tenure should be continued.

i) Advances under the Scheme would be recovered (inclusive of accrued interest) from the person's estate upon death, unless a 'protected person' as currently defined in the *Aged Care Act* continues to reside in the principal residence. In the latter situation, the advance would be recovered when the person ceases to be a 'protected person'.

The 'no recovery' provision should continue to apply in the event that the 'protected person' moves to more appropriate housing. The availability of Special Disability Trusts does not negate the need for this provision. Only people with a severe disability can be a beneficiary of such a trust. Thus other categories of 'protected person' such as family carers could not be covered under current arrangements. There is also a concern that such Trusts are impractical for the majority of families supporting a disabled person as they are expensive to establish and maintain. As a result their take up has been very low.

j) Utilisation of the Credit Scheme should not affect pension eligibility.

The Alliance also notes that a number of older people live in retirement villages and other seniors housing arrangements where conventional home ownership does not apply. Consideration will need to be given to adapting the Scheme to such circumstances.

Stop Loss Limit

The Alliance considers that protecting individuals against the possibility of incurring excessive care costs through a stop loss mechanism, as proposed by the Productivity Commission, is an essential policy objective for any enhanced user pays arrangements. The policy reflects principles that apply to Medicare, and should be viewed in the context of social insurance to avoid exposure to excessive aged care costs, which is unpredictable for individuals.

The Alliance considers that the following principles should underpin a stop loss mechanism.

a) The stop loss limit should apply on a 'whole of life' basis, not annually, as this has regard to the total care costs incurred by an individual and is more in keeping with social insurance objectives. It would also be easier to administer and for the public to understand.

   Care co-contributions that count towards the limit should be restricted to approved care services that can be tracked without undue administrative overhead.

b) The same stop loss limit for care co-contributions should apply universally. The 'progressive' objectives of user pays arrangements should be addressed directly through the primary income and asset testing arrangements.

c) The stop loss limit should be indexed annually to CPI to maintain its real value.

d) The stop loss limit would commence from the introduction of the new care co-contribution arrangements, and would not apply to individuals whose care co-contributions have been grand parented.

Consideration of the appropriate level at which to set the stop loss limit has to have regard to the means test selected to determine co-contributions.

Taking into account average house values, the Alliance considers that a stop loss limit of $60,000 does not seem unreasonable. However, the Alliance notes that a final position on the appropriate stop loss limit will need to have regard to the distributional impact of the means testing model chosen for user contributions as this will influence the number of aged care recipients who reach the limit and how many approach the limit but without reaching it.

The Productivity Commission recommended that with a stop loss limit in place, aged care and accommodation costs should be excluded from the medical expenses tax offset. The Alliance notes that a policy rationale for this exclusion was not provided by the Commission in their Report.

4. What are the equity challenges to be addressed in a new system?

The following sets out equity challenges that need to be addressed in a reformed aged care system.

a) *Fairness between generations*

A reformed aged care system should aim for fairness between generations, noting that a pay-as-you-go tax payer financed aged care system catering for the 'Baby Boomers' would pose a significant burden on tomorrow's taxpayers, whose number will also be in relative decline.

The Alliance supports the Productivity Commission's rejection of compulsory or voluntary savings and private insurance as a means of pre-paying for aged care. It also agrees that compulsory social insurance for aged care does not represent a significant improvement over a pay-as-you-go tax financed system, provided the latter is supplemented by higher co-payments by those who can afford to pay using a comprehensive assessment of wealth. There is insufficient time for 'Baby Boomers' to contribute meaningfully to their age care costs through compulsory social insurance arrangements.

b) *Protection against excessive care costs for individuals*

A future aged care system which includes user contributions towards the cost of personal and nursing care costs also needs to include, consistent with insurance concepts and Medicare principles, provisions that protect individuals against excessive personal and nursing care costs, noting that such costs are unpredictable at the individual level.

The stop loss mechanism recommended by the Productivity Commission, and discussed in Section 3 of this paper, would provide such protection.

A stop loss limit would entail the Government taking on the 'long term risk' of aged care costs and thereby make aged care costs more manageable and less unpredictable, and hence insurable. A stop loss limit could therefore provide the basis for the development of a range of private insurance products for aged care costs to supplement the underwriting through the stop loss mechanism.

c) *Areas where choice may have limited applicability*

An aged care system designed to ensure choice of services will have limited applicability for certain groups and communities. This includes rural and remote and Indigenous communities, and people with special needs such as the homeless and people with mental health issues and challenging behaviours.

The Productivity Commission's proposal that accommodation prices for supported residents and care entitlements should reflect regional costs of supply would assist the provision of services in those areas that incur above average costs of construction and care delivery.

However, to ensure access to services in other cases eg because of the nature of the client group or the auspicing body, the new system will also need to make provision for special funding arrangements such as partial or full block funding; expansion of the multipurpose service model of funding; capital grants for infrastructure; early intervention and support mechanisms for Indigenous services; and, potentially, tendering for services where appropriate. Many of these provisions already exist in the current system and will need to be continued and supplemented.

The financing arrangements for the system, ie the process for setting prices for care entitlements, will also need to be able to identify and cover any additional costs that may be intrinsic to providing care and support for people with special needs.

d) *Catering for diversity*

The Productivity Commission has recognised that catering for diversity involves increased costs.

The Alliance supports the Commission's view that, in recommending the scheduled prices for care services, the Australian Aged Care Commission should take into account the costs associated with, for example, providing language services for people from non-English speaking backgrounds and ensuring staff undertake appropriate professional development in relation to catering for diversity.

e) *Supported residents*

The proposed change to 'protected resident' arrangements would reduce the proportion of supported residents. However, there would still be a significant proportion of older people who would need support with accommodation costs to access residential aged care.

Current accommodation payments for supported residents are inadequate to support new residential high care developments, and new developments rely on a significant cross subsidy by those who pay accommodation bonds. Accommodation subsidies for supported residents in future will need to be informed by independent and transparent assessments of the regional cost of supply of an appropriate standard of accommodation.

The Productivity Commission has proposed as the appropriate basic standard of accommodation an average of 1.5 residents per room (the 1999 Building Certification Standard for new and rebuilt homes). However, the overwhelming majority of new homes built in the last ten years have used a single room/ensuite configuration. This reflects providers' assessment of consumer expectations about privacy and dignity, which are likely to firm further in this direction in the years ahead.

An alternative approach which would balance not funding supported accommodation to the highest standard and giving service providers flexibility to build according to their assessment of market preferences and clinical/ care requirements, would be to base the accommodation payment on the regional cost of supply of a single room/ ensuite service with agreed basic design features such as room size and quality of fittings and furniture. This approach is based on the assumption that the cost of a single room/ensuite configuration, putting aside regional differences, can vary depending on design features such as room size and building amenity, while still meeting minimum standards.

The Alliance recognises that the Government subsidy for supported residents also could take into account building quality and amenity, consistent with what would be expected to occur with market based pricing of accommodation for non supported residents.

f) *Alignment of care entitlements and consistent testing of means*

The future aged care system proposed by the Productivity Commission would have, at its core, care entitlements based on assessed need, and flexibility for individuals to choose whether they use their entitlement in their home, in an aged care facility or other seniors housing option.

There is a case on equity grounds for using consistent comprehensive income and asset testing arrangements for care entitlements irrespective of the care setting chosen by the individual, and for aligning the value of the care entitlement for people with similar assessed care needs.

g) *Exercise of informed judgment*

The achievement of equitable outcomes from a system which places greater emphasis on care entitlements and choice of services will be heavily reliant on consumers being capable of exercising informed judgment. In view of the characteristics of the client group, it will be essential that the new system is resourced to develop and maintain easily accessible information and guidance processes to make access to appropriate care as easy as possible, including quality indicators at the individual service level.

Successful implementation of the Productivity Commission's recommendation that information and advisory services be consolidated and coordinated through a Seniors Gateway Agency will be critical to the exercise of informed choice and the overall success of the reforms. The Agency should operate through a regional network of shop fronts, as well as providing virtual access. The Agency should also be responsible for preparing information that would be available through other existing community information sources, and be resourced and attuned to facilitate access for people with language and cultural needs.

Seniors Gateways Centres are discussed further in the Assessment and entitlement paper.

The exercise of informed judgment also extends to financial decisions, especially in an environment of increased user pays. This is discussed further at Section 5 (g).

h) *Consistent, fair and timely assessment of aged care needs*

Equitable outcomes will also be reliant on assessments of care needs and entitlements which are timely and consistent across the nation.

A national network of Seniors Gateway Centres which provides fair, consistent and timely assessments of care is a prerequisite for achieving equitable outcomes. Seniors Gateways Centres are discussed further in the Assessment and entitlement paper.

i) *Grandparenting*

A tenet of good public policy is that legislative and administrative changes should not apply retrospectively. Accordingly, proposals for aged care reform will need to provide for the grandparenting of arrangements for existing care recipients.

Application of this policy to an aged care system which spans occasional basic support through to high level care is, however, not straightforward. Application of the policy needs to be sensitive to affordability and a fair and reasonable outcome for the individual.

Against this background, the Alliance proposes the following grandparenting arrangements:

- Current user pays arrangements should continue to apply to private contributions for **care** by existing residents of aged care homes and for existing recipients of community care packages.

  With regard to the latter, it is noted that while the current arrangements provide for community care package recipients to pay 17.5% of the basic pension towards their care, a significant proportion of package recipients are not currently charged the full fee. Implementation of this policy would mean that Government subsidies would be reduced by the equivalent of 17.5% of the subsidy, leaving the provider with the opprobrium of applying the fee or operating with lower revenue.
- Current user pays arrangements should continue to apply to private contributions for **accommodation** for existing residents of aged care homes, but with the Government topping up the current accommodation charge to reflect the cost of supply.
- Nationally consistent user charges for **basic care and support services** (ie the current recipients of HACC services and certain respite services) should be phased in as soon as possible.

j) *Excessive reliance on cross subsidisation*

A major inequity of the current system is that bond paying residents (in low care and extra service) are often cross subsidising the accommodation costs of supported residents by making up for the shortfall in Commonwealth funding.

Individuals who can contribute towards the cost of their accommodation should only be required to make accommodation payments which reflect the underlying market value of the accommodation. To avoid the need for cross subsidisation, it will be essential, as recommended by the Productivity Commission, that accommodation prices for supported residents in future are based on independent and transparent assessments of the regional cost of accommodation supply.

k) *Security of tenure for 'protected residents'*

The Productivity Commission's recommended change to the current 'protected resident' arrangements is accompanied by a recommendation that advances under the Home Credit Scheme would not be repayable until the protected person ceases to permanently reside in the principal residence or ceases to be a protected person.

In some cases, it may be more appropriate for the protected person to make alternative accommodation arrangements, rather than stay in the principal residence. In such circumstances, the Alliance considers that the 'non recovery' provision should extend to the new accommodation. The Alliance notes such an extension would not, of itself, add to Government liabilities but could be quite significant for a person's wellbeing.

5. What are the implementation challenges and how can they be addressed?

While representing a logical extension of the aged care reforms undertaken in the 1990s, the reforms proposed by the Productivity Commission would nevertheless involve a fundamental restructuring of the current system.

The following is a discussion of the major implementation risks and how they might be addressed. A striking feature of the risk elements is that they are strongly linked.

a) *Workforce constraints*

The Productivity Commission has highlighted workforce pressures for the Australian economy due to the structural ageing of Australia's population, and that these pressures will impact on the aged care sector in particular due to the projected increase in demand for aged care and health services as our population ages; the relative decline in the availability of informal carers; and the current uncompetitive and unfair wages for aged care staff which will challenge the attraction and retention of quality staff.

These pressures will be compounded by the expected increase in the number of older people living with chronic and complex conditions and dementia which will require an increasingly skilled workforce to provide appropriate care and support. Further, an entitlement based aged care system is likely to result in an increase in services provided compared with the current rationed system.

The above circumstances have both transitional and longer term implications for the implementation of the reforms.

During the transitional period, it will be important that the entitlement-based reforms are gradually phased in so that quality is not compromised by workforce shortages, and to allow workforce measures with a longer lead time to have an impact. In particular, this requires that the current quotas for the supply of services are removed gradually.

Workforce measures with longer term implications for workforce availability and quality which will need to be pursued include:

- fair and competitive wages for aged care staff by requiring the Australian Aged Care Commission to have regard to the need to pay fair and competitive wages and the appropriate mix of skills and staffing levels when recommending prices for care entitlements;
- promoting skills development through an expansion of accredited courses at all levels, including further expansion of 'teaching aged care services' for medical, nursing and allied health students;
- a preparedness to address scopes of practice to reflect technological change, changes in best practice care and enhanced training regimes to support more flexible skill sets and career paths; and
- an independent review of aged care-related vocational education and training courses and their delivery by Registered Training Organisations to assess the quality of training outcomes.

Workforce issues are discussed further in the Workforce paper, including mechanisms for delivering funding for fair and competitive wages for age care staff.

b) *Risk of service closures*

The risk of service closures arises from:

- increased competition that service providers will face; and
- liquidity pressures those service providers who have relied on a large portfolio of bonds, including bonds which exceed the underlying value of the accommodation,

may experience as a result of more market based accommodation prices and flexibility to pay by periodic payment.

Issues to do with the potential for liquidity pressures are discussed in Section 6 of this paper.

It is very likely that reforms that increase competition between providers, including between residential and community care providers, and which link success to an organisation's capacity to develop business models which respond to consumer expectations about service choice, flexibility, quality and value for money, will result in some rationalisation of current providers. The extent of the reforms will also prompt many providers to take stock of their future in the sector. In similar circumstances, service closures and amalgamations was the experience when accreditation and building certification was introduced, and can be expected to occur again, despite the expanding demand for services.

In general, the services that will face the greatest adjustment risk will be the smaller providers specialising in a limited service line with ageing infrastructure and in a competitive local market eg. smaller residential care providers in metropolitan areas focusing on low care or with multi bedded rooms.

The greatest risk to the continuity of care services for existing care recipients would be realised if service closures were to be unplanned and sudden. It is noteworthy that this was not the experience with the closures and amalgamations which accompanied the introduction of accreditation and building certification, where service providers acted responsibly.

Nevertheless, to minimise the risk of disruptive service closures, it is vital that the reforms are implemented gradually and transparently in order to provide certainty to the sector (older people, their families, service providers, unions, professional organisations and banks) so that the adjustments that will be required can occur as seamlessly as possible. This is particularly the case in relation to the phasing out of the current supply quotas in order to give providers the time required to adjust their business models and to plan their future.

Further, to assist the adjustment process, it is important that the transition arrangements include, as recommended by the Productivity Commission, capped matching grants for smaller existing providers of residential aged care services to seek financial and business planning advice in assessing their future options.

Notwithstanding the above, some insolvencies among providers cannot be ruled out. In order to minimise disruption to residents, the Department of Health and Ageing should be provided with the authority and funding to support receivers appointed to manage an orderly closure or sale of the service.

Risk minimisation would also be assisted by the continuation of open consultative arrangements between the Government and sector stakeholders during the implementation phase.

c) *Risk of price exploitation*

There is a risk of price exploitation in relation to accommodation for non supported residents needing residential care.

It is important to keep this risk in perspective. There is no evidence that price exploitation is a problem in regional and rural areas where affordability seems to be a limiting factor on bond sizes. In metropolitan areas, the bond levels have been driven, as much as anything, by the need to cross subsidize non bond paying residents and rising house prices, and people's wish to secure continuing access to the age pension. Shortage of supply of quality services may have also been a factor in some areas.

Under the Productivity Commission's proposals, which the Alliance supports, the incentive to pay large bonds in order to secure continuing access to the age pension would be neutralised by the Pensioner Savings Account Scheme. The Alliance also supports the proposal for enhanced disclosure by providers of accommodation prices for non supported residents which they will set, including requiring 'equivalence' between the published periodic payment and accommodation bond. The administration of 'equivalence' would be assisted if the Australian Aged Care Commission were to issue guidance on how equivalence is to be broadly established. Such guidance should not be reflected in regulations.

Together, the above proposals would reduce the risk of price exploitation. Nevertheless, it would be prudent for the Government to introduce accommodation price monitoring by the Australian Aged Care Commission, at least during a transition period, with provision for review. Providers should be put on notice that if the price monitoring shows that they are systematically charging excessive accommodation fees, the Government would consider regulatory measures to stop this practice.

In the longer run, the removal of the incentive to pay a large bond to secure continuing access to the pension, together with the emergence of a more competitive market and the requirement for the publication of accommodation prices, should ensure that prices, whether in the form of periodic payments or accommodation bonds, will reflect the underlying value of the accommodation.

The risk of price exploitation in relation to care services would not arise because, under the Productivity Commission's recommendation, entitlements for care and care prices would be set by the Government based on independent and transparent advice. However, it will be necessary to review the current provisions for specified care and services to ensure consumers and providers are given adequate guidance on what level and type of service would be expected under an entitlement for care, to distinguish those services for which additional fees might apply.

d) *Risks for the quality of care*

It will be critical for the credibility of the reforms that there are no instances of care being compromised as a result of the reform implementation process. Indeed, as indicated below, it will be important to be able to point to demonstrable improvements in service quality, flexibility and accessibility.

The aged care system already operates under comprehensive quality assurance regulations, including accreditation; complaints review; approved provider arrangements; compliance, reporting and sanction regimes; key personnel checks; and police checks for staff. It will be important that the risk assessments for these regulatory activities target the potential risks presented by change, and are supplemented by the early introduction of quality indicators at the individual service level.

It is noted that the effectiveness of publishing quality indicators to guide consumer choice would be diminished if the current rationing of services was maintained.

The projected rapid expansion of community aged care in a workforce constrained environment is an area of potential heightened risk regarding the quality of care services. The proposal to consolidate accreditation arrangements for both community and residential aged care within the Australian Aged Care Commission is an opportunity to ensure quality standards are appropriately monitored in both areas.

However, the monitoring of quality standards in community care needs to recognise that, unlike in an aged care home where the provider is responsible for resident welfare for 24 hours a day, a decision to receive care in one's own home comes with the expectation that the individual and any family/informal carer are accepting some responsibility for managing their own care needs and the associated risks.

The accreditation and quality assurance arrangements for aged care services that expand their business models to include sub-acute and restorative care will need to be reviewed.

e) *Risk of implementation being poorly executed*

The reforms involve significant legislative and administrative changes which will impact directly on both consumers and their families and service providers, and as a result, the perceived success of the reforms.

The changes include the development of a new care entitlement and assessment system across residential and community care; a new funding model and payments system; the integration of basic care and support services into a national aged care system; and the establishment of the network of Seniors Gateway Centres and the Australian Aged Care Commission. It will be important these changes are carefully sequenced and appropriately tested before they are rolled out, including in close consultation with the sector as they are developed and implemented.

Open communication of the reform plans to stakeholders and the community will also be essential.

This matter is discussed further in Section 8.

f) *Risk of consumer expectations not being met*

As well as the risks for care quality during the implementation period, consumer expectations that the reforms will lead to improvements in service quality, flexibility and responsiveness will need to be fulfilled, especially in the context of an enhanced user pays regime which involves the principal residence. This issue was also raised in Section 1.

A key early reform measure which would assist with consumer expectations would be to expand community care places above the base line that would apply under the current rationing arrangements, with an increased emphasis on EACH and EACHD, in order to give more people greater flexibility to receive care in their own home. This should be complemented by the introduction of interim intermediate community care packages pending the development of the system of care entitlements, and flexibility for new package recipients to choose their approved service provider.

A public commitment to a timetable for the implementation of the reforms would increase consumer confidence and help manage community expectations.

g) *Uninformed consumers*

The realisation of the full benefits envisaged from an aged care system based on care entitlements and greater choice of services will depend significantly on there being a significant proportion of consumers and families who can exercise informed judgment.

The importance of a network of effective Gateway Centres to support consumer choice and access to appropriate services has already been highlighted, along with the development of service level quality indicators.

The increased emphasis on user contributions that would result from the Productivity Commission's recommendations, including the higher profile given to the principal residence as a source of capital and the proposed new financial instruments (Pensioners Savings Account Scheme and the Home Credit Scheme), also increases the need for older people and their families to have access to quality financial advice. Relatively few aged care recipients currently seek financial advice, and financial advisors operating in the aged care field are not required to have aged care specific accreditation.

The Alliance considers that there is a need to develop dedicated expert and accredited aged care financial advisors operating under prudential regulations specific to the sector, to inform financial decision making by care recipients and their families.

6. How does the sector transition from reliance on bond funds to mixed funding?

A premise in this question seems to be that capital funding of residential care has relied on accommodation bonds (including cross subsidisation by low care and extra service bond payers), and that changes to current arrangements might adversely impact the sector's access to capital and hence its financial viability.

In particular, there is a concern that the Productivity Commission's proposal to introduce market based accommodation prices for all non supported residents, and flexibility for residents to pay by periodic payment or an accommodation bond which does not exceed the equivalent of the relevant published periodic payment, may result in liquidity pressures as a result of a refinancing requirement for providers who have a significant bond portfolio when bonds are required to be repaid.

The pressure on liquidity will be greater for those providers who have been making up the shortfall in capital funding through the cross subsidisation of large bonds which exceed the underlying value of the accommodation. The pressure would be more widespread if consumer preference were to fall decidedly, and quickly, in favour of periodic payments.

Under the Productivity Commission's proposals, there are factors which suggest that periodic payment will not necessarily become the dominant payment method:

a) the option of paying by bond would be extended to all residents by the removal of the current low care/high care distinction; and

b) the financing cost of an accommodation bond to an individual (CPI), whether paid through the Home Credit Scheme or the Pensioners Savings Account Scheme, would be less than the cost of capital to the provider reflected in the periodic payment.

In addition, providers' cash position would benefit from market based accommodation prices for non supported residents and independent and transparent processes for informing the cost of the regional supply of accommodation for supported residents. As well, the proposed change to 'protected resident' arrangements is likely to result in a reduction in the proportion of supported residents.

The Productivity Commission acknowledged the potential for liquidity pressures, but considered that these would be transitional. There has also been concern expressed that some providers, such as those who do not meet bank debt to equity lending criteria and have relied on bonds for capital, may not be able to access sufficient capital in the financial markets for service renewal and expansion.

The Alliance highlights that a deliberate policy to discourage accommodation bonds as a future source of capital for residential aged care would have severe implications for the viability of the sector, especially during a transition period. Such a policy would result in a significant refinancing requirement as bonds became due for repayment and many providers would not meet bank lending criteria to support the extent of the refinancing required. This view is supported by representatives of the major banks. The policy could also be expected to impact adversely on the capacity of the sector to access the capital required for the expansion of residential aged care and the renewal of ageing infrastructure.

There are a number of policy responses supported by the Alliance which are relevant to managing liquidity pressure risks for providers:

a) removing the quotas for residential places and increasing the quotas for community care gradually so that residential occupancy rates overall are not exposed to excessive fluctuations;

b) early implementation of the Productivity Commission's proposals to allow market based accommodation prices for new non supported residents (with Government top up of accommodation charges for grandfathered residents), and to set accommodation payments for supported residents following independent and transparent assessments of the regional cost of supply;

c) early implementation of the Home Credit Scheme and Pensioner Savings Account Scheme to allow greater flexibility in how accommodation payments by non supported residents are made;

d) applying CPI equivalent interest to advances under the Home Credit Scheme and deposits in the Savings Account so that the real value of recoveries and deposits is maintained;

e) extending the Productivity Commission's recommended loan facility for otherwise solvent smaller approved residential providers for the repayment of bonds (at a modest interest rate premium) to all aged care providers;

f) making available capped matching grants to small providers to enable them to obtain financial and business planning advice on their future options in a reformed system;

g) continuing the current exemption of existing extra service facilities built in the last five years from the supported resident obligations during the transition period; and

h) not pursuing a deliberate policy to discourage the future use of accommodation bonds as a payment option and a source of capital in residential aged care.

7. What is the impact on supply and demand and system costs of introducing entitlements based on assessed needs, and gradually lifting restrictions on the supply of residential and community aged care?

Reform of the aged care system to introduce care entitlements and individual choice has to take into consideration:

a) the level of latent demand for aged care services under the current system of rationed supply, noting the potential impact on the affordability of the reforms; and

b) a transition process to allow the gradual reshaping of the supply of services to reflect consumer preferences, rather than the current service profile which reflects the regulated provision ratios.

Latent demand

The Alliance was unable to identify robust estimates of latent demand under the current system of rationed supply. It is aware, however, that from time to time, attempts have been made to estimate potential demand by comparing the characteristics of current aged care recipients with those of older people living in the community without aged care support, with the latter drawing on the results of the Australian Bureau of Statistics' Survey of Disability, Ageing and Carers (SDAC), which is undertaken periodically.

The Alliance considers that estimates of latent demand based on the above comparison need to be treated with caution because it is not possible to link the data sets and because the SDAC assessments of activity limitations are self-reported, whereas those of existing care recipients are by trained assessors.

Moreover, the Alliance is very concerned with the implication that many older Australians may be missing out on receiving appropriate care and support under current policies.

Notwithstanding the practical difficulties in accurately estimating latent demand, the Alliance strongly favours on equity and efficiency grounds a commitment to move towards an entitlement based system. In view of the uncertainties, the rate at which this commitment is implemented will need to be reviewed regularly based on ongoing monitoring and analysis of approvals by the Gateway, occupancy levels in services and how consumer aspirations translate into actual choices made.

Transition

The current supply of aged care services for intensive care recipients is shaped by the current regulated balance of care ratios. Under these ratios, 78% and 22% of places are reserved for residential and community aged care respectively.

Anecdotally, there is a widely held view that people prefer to receive care in their own home rather than move into residential care. As a result, in a situation of greater individual choice, it is expected that the current supply of community and residential care will not reflect consumer preferences. Nevertheless there is no data collected on the exercise of choice in an open system, including the 'lived experience' of free choice, as opposed to aspiration. The 'lived experience' will be influenced, inter alia, by the quantity of care and support services that will be available through an entitlement used in the community compared with that which would be available in an aged care facility; the availability of willing informal support; the extent to which alternative seniors housing emerges; and the degree of personal aversion to 'institutional' care.

In these circumstances, it is difficult to prepare conclusive demand forecasts. What is clear, however, is that there will be a trend for more people to age in their own home (either the principal residence or other seniors housing) and to make greater use of respite care.

In anticipation of this trend, it would be reasonable to begin with a gradual lifting of community care supply, while closely monitoring how consumer preference impacts on the relative demand for community and residential care. Depending on how the exercise of preference translates into occupancy levels, including taking into account the growth in the total number of older people, more informed decisions can then be taken progressively on the timing of the lifting of the constraints on residential places, and the rate at which this should occur.

8. Reform priorities and sequencing

Drawing on the discussion and the Alliance's policy positions outlined in this paper, the following summarises the Alliance's aged care reform priorities and provides recommendations on the sequencing of reform implementation.

Reform priorities

The Alliance considers that the Government's response to the *Caring for Older Australians* Report should commit the Government to reform of the aged care system based on an architecture which comprises the following essential building blocks:

1) A single integrated national system of **care entitlements across residential and community aged** care based on assessed needs with
   - an emphasis on restorative care and maintenance of independence; and
   - flexibility for individuals to use their care entitlement at home, in an aged care home or other seniors housing option.

2) A gradual **removal of the current restrictions on the number and type of residential and community aged care services** that providers may offer in order to
   - increase individual choice of services and service provider;
   - improve provider responsiveness through greater flexibility and increased competition; and
   - to create a more open market to inform prices.

   The rate at which supply constraints are removed will need to be subject to annual review having regard to the impact of consumer choice on the relative demand for community and residential aged care, occupancy rates and latent demand.

3) A national network of Federal Government managed **Seniors Gateway** Centres to replace the existing disparate care assessment and information services in order to :
   - simplify access to services by providing accurate information, undertaking initial assessments of care needs, approving entitlements for approved services, and arranging assessments of financial capacity to make co-contributions; and

- ensure fairer and more consistent and timely eligibility assessment, and better management of the Commonwealth's fiscal risk.

4) **Consistent care co-contributions across residential and community care** which balance reasonable individual responsibility, protection for those with greater need and affordability for the taxpayer, as follows:

    - Co-payments for personal care and nursing costs based on a comprehensive wealth test (including the principal residence) which are proportional to an individual's wealth and capacity to pay, but with provision for a Stop Loss Limit to avoid excessive total care costs.
    - Individual responsibility for accommodation costs and everyday living expenses, with accommodation subsidies for people without the means to meet their accommodation costs (supported residents) based on independent and transparent assessments of the regional cost of supply of a basic standard of accommodation.
    - A requirement, subject to review after a transition period, for providers to make available a proportion of their accommodation for supported residents to ensure their access to services.

5) Realistic revenues for service providers to support a reasonable rate of return to justify the capital investment required for the renewal and expansion of services, based on:

    - market accommodation prices for non supported residents, with flexibility for residents to pay by rent or a fully refundable accommodation bond;
    - prices for care entitlements and accommodation subsidies for supported residents based on the transparent recommendations of an independent body (the proposed Australian Aged Care Commission) using regional costs of supply; and
    - a requirement that the Australian Aged Care Commission takes into account the need to pay fair and competitive wages to aged care workers and the appropriate mix of skills and staffing levels.

6) Implementation of a **Home Credit Scheme** and a **Pensioners Savings Account Scheme** to facilitate user payments for care and accommodation without the need to sell the principal residence:

    - The Home Credit Scheme would be Government- backed with a negative equity guarantee and would allow individuals to access a line of credit, secured against the principal residence, to meet aged care costs. A maximum draw down limit set at a fixed percentage of the market value of the property at the time the Credit Scheme is activated would apply.

      The outstanding balance would be payable upon the death of the individual, but not while a 'prot.ected resident' continues to occupy the principal residence or other appropriate housing. Consistent with the recovery of advances under the Higher Education Contribution Scheme, a CPI interest charge should apply to enable the recovery of advances in real terms.

    - For those pensioners who sell their principal residence to move to age appropriate housing or an aged care home, the Alliance considers that those proceeds should be able to be deposited in an Age Pensioners Savings Account. The Account could be drawn upon for aged care and accommodation payments (periodic payment or accommodation bond) by those who have been assessed as eligible for aged care services by the Gateway Agency. Funds in the account (and any accommodation bond) would be exempt from the age pension income and assets test, and deposits would attract interest at CPI to maintain their capital value.

7) Special funding arrangements for **rural and remote areas and for services for other special needs groups** such as Indigenous communities and the homeless. The special funding arrangements would include partial or block funding; multipurpose service models; early intervention and support services; and, potentially, the tendering of services.

8) Retention of the key existing quality assurance regulations, supplemented by the introduction of quality indicators published at the service level, but consolidated in a new independent body (the Australian Aged Care Commission) separate from the Department which would focus on policy.

9) Appropriate grandparenting arrangements for existing care recipients.

Within this broad framework, the aged care system of the future also needs to include the following features which will need to be progressively developed and implemented during the transition period. These matters include many that were not directly addressed in the Financing aged care in Australia paper, but are important elements of an aged care system.

1) Introduce a reablement program which takes into account Day Therapy Centres and transition care.

2) Introduce more flexible respite.

3) Allow age care providers to compete for the provision of certain sub-acute services.

4) Introduce new models for funding end of life and palliative care in residential and community aged care.

5) Expand accredited training courses at all levels.

6) Expand joint University /provider teaching aged care services.

7) Conduct an independent review of aged care related VET training by Regional Training Organisations.

8) Expand consumer advocacy programs and carer support services.

9) Develop a group of expert and accredited aged care financial advisors.

10) Establish a data clearing house capability in the AACC to support evidence based research by Government agencies and private researchers.

Sequencing

The aged care framework outlined above involves a fundamental restructuring of the current system. The reforms would need to:

- be implemented gradually and transparently in order to provide certainty to the sector (older people, their families, service providers, unions, professional organisations, banks and relevant Government agencies) so that the adjustments that will be required may occur as seamlessly as possible, and to avoid risks to continuity of care for care recipients;
- allow sufficient time for the legislative framework and administrative structures to underpin the new system to be developed;
- recognise that important components of the new system, such as Gateway Centres, a system of care entitlements and reablement programs, will require significant development and piloting (in some cases) before they can be implemented;
- recognise the inter-dependencies of the reform elements and the lead times required for their implementation;
- make allowances for the workforce pressures that will ensue from the expanded system; and
- recognise, and give priority to, the more immediate pressures on the system.

Having regard to the above considerations, the Alliance recommends that the Government's response to the *Caring for Older Australians* Report should give priority to the following in the 2012 Budget:

1) A public commitment to **a timetable for the phased implementation of an aged care system based on care entitlements and choice**, so the Government, the community and the sector can plan the transition for the changes.

2) Initiate the development of a system of **care entitlements**, including common funding and assessment mechanisms across community and residential aged care and provision for access to reablement and respite services.

3) Initiate the necessary administrative and legislative requirements and development work to establish the Gateway Agency and enable the early implementation of the network of **Seniors Gateway Centres**. The Gateway will be a more effective and efficient way of providing information and assessment services to older Australians and simplifying access to services in a more open system. A robust Gateway system is a prerequisite for an entitlement-based aged care system.

   Expand **consumer advocacy and carer support services**.

4) **Expand community care places** above the base line that would apply under the current rationing arrangements, with an increased emphasis on EACH and EACHD, in order to give more people greater flexibility to receive care in their own home. This should be complemented by the introduction of interim **intermediate community care packages** pending the development of the system of care entitlements, and flexibility for new package recipients to choose their approved service provider.

5) Commence **phased increases in wages for aged care workers** to achieve fair and competitive wages, on the basis that the funding increases are not required to be offset from within the Health and Ageing portfolio.

6) Secure the revenue needed to achieve a reasonable rate of return to support the **capital investment required for the renewal and expansion of residential high care services** by:

- increasing gradually the accommodation supplement for supported residents to reflect regional costs of supply; and
- allowing providers to set market-based accommodation prices for all new non-supported residents, with flexibility for residents to pay by periodic payment or fully refundable bond.

This measure would recognise the under investment that has occurred in residential high care in recent years and the long lead times for new developments. Appropriate grandparenting arrangements for existing residents would need to apply.

7) Discontinue the **distinction between residential low and high care places** in order to give service providers greater flexibility to adjust their service models and planning to meet local needs.

8) Establish the **Home Credit Scheme** and the **Pensioners Savings Account Scheme** to support increased flexibility for care and accommodation payments under the proposed revised user pays arrangements.

9) Initiate an **independent cost of care study** to set the prices for care entitlements pending the establishment of the Australian Aged Care Commission to determine the real cost of providing care services.

10) Initiate the administrative and legislative requirements to establish the **Australian Aged Care Commission** so that it is operational within 18 months of the commencement of reform implementation.

11) Establish a l**oan or refinancing facility** for otherwise solvent approved residential providers for the repayment of bonds (at a modest interest rate premium) in the event that providers dependent on large bond portfolios do not meet commercial lending criteria.

12) Make available **capped matching grants** to small providers to enable them to obtain financial and business planning advice on their future options in a reformed system.

13) Establish a **representative stakeholder group** to work with the Government on the development and implementation of the aged care reforms.

With regard to the sequencing of the implementation of the balance of the reforms over the transition period, the Alliance broadly supports the implementation plan proposed by the Productivity Commission. It notes that the Commission's plan is broadly consistent with that proposed by the peak provider groups in their submissions to the Commission's inquiry.

The Alliance, however, proposes the following amendments to the Commission's plan:

1) Indicate a predisposition to gradually increase the supply of residential places within two years of the commencement of the implementation of the reforms, but also indicate that the actual rate will be determined in the light of the impact of the increased supply of community care places on vacancy rates in aged care homes and latent demand.

2) As proposed above, introduce the Home Credit Scheme at the commencement of the reforms, at the same time as the Pensioners Savings Account Scheme.

The development and implementation of the reform package needs to involve close consultation with the sector. Appropriate consultative mechanisms will need to be established after the Government's response to inform the implementation of the reform.