CATHOLIC HEALTH
Australia

Aged Care Update

6 March 2015

# The 2015 Intergenerational Report – an aged care perspective

The 2015 IGR updates the 40-year projection for Australian Government expenditure on aged care in the light of policy changes since the 2010 IGR. There are no great surprises, which is to be expected given the highly regulated nature of aged care and the relative certainty of population projections.

The 2010 IGR had projected that Australian Government expenditure on aged care under policies applying at the time would increase from 0.8% of GDP to 1.8% over the 40 years to 2050. This has been revised down by the 2015 IGR to 1.7% of GDP (over the 40 years to 2055).

The major policy decisions since 2010 affecting aged care expenditure are those contained in the Living Longer Living Better package. The most significant decisions adding to expenditure were to increase the service provision target ratio from 113 places per 1,000 people aged 70 and over to 125, and to increase the accommodation supplement for supported residents living in new and significantly refurbished aged care homes. These increases were partly offset by an increase in the proportion of places in the overall target ratio allocated for home care packages from 25 to 45, and increases in consumer care contributions in residential care and home care to offset reduced care subsidies paid by the Government.

The revised projections also take into account the Commonwealth takeover of the formerly joint Commonwealth-State funded Home and Community Care Program (now the new consolidated Commonwealth Home Support Program or CHSP), and the decision by the former government to reduce the annual growth rate of the CHSP from 6% to 3.7% (after indexation) from 1 July 2018 to align with the growth of the population aged 65 and over.

The report identifies the major drivers of the increase in aged care's share of GDP from 0.9% in 2014-15 to 1.7% as the growth in the population aged 70 and over (the age criterion used in the service rationing formula) and the indexation of subsidies for cost increases such as wages and the increasing frailty of residents. The report notes that the contribution of new places being allocated under the rationing formula to expenditure growth decreases towards the end of the projection period as the growth in the population aged 70 and over declines, at which time growth in costs becomes the dominant factor in spending growth.

Unfortunately, the report does not provide information about the relative contribution of the major policy decisions since 2010 to the revised expenditures estimates. The exception is in relation to the CHSP where the impact of reducing the annual growth rate can be derived by extrapolating from the report's estimate that, without the reduction in the annual growth rate, aged care expenditure as a percent of GDP would have increased to 2.1% of GDP in 2055 rather than 1.7%. The difference (or saving to the Budget) in today's dollars is $14 billion.

The fact that total expenditure would have amounted to 2.1% of GDP without the reduction in the annual growth rate for the CHSP suggests that the Living Longer Living Better package may well have added significantly to aged care costs over the 40- year projection period, whereas the net cost of the LLLB package over the first five years was reported as only $55 million (a source of much criticism at the time). We will be seeking a better understanding of the relative contribution of the LLLB package elements to the projections from Treasury as it may provide insights into the costing of the next edition of reforms.

It should be noted that the decision to reduce the annual growth rate for the CHSP was accompanied by the decision to introduce nationally consistent fees for CHSP services from 1 July 2015. Unlike income tested fees in home care and means tested care fees in residential care, CHSP fees will not offset Commonwealth funding. Nevertheless, fees will not make up for the impact of the reduced annual growth rate. There will be more on this in a subsequent Update dealing with the discussion paper recently issued by the Department of Social Services about fee arrangements in the CHSP.

The following table provides a comparison of Commonwealth age care expenditures compared with other sectors. Note that the 2015 IGR projection of expenditures as a percent of GDP are based on policies announced by the Government, though some of these policies are subject to approval by Parliament.

| Sector | 2015 IGR % of GDP 2014-15 | 2015 IGR % of GDP 2054-55 | 2010 IGR % of GDP 2049-50 |
|---|---|---|---|
| Health | 4.2 | 5.5 | 7.1 |
| Aged Care | 0.9 | 1.7 | 1.8 |
| Age and Services Pension | 2.9 | 2.7 | 3.9 |
| Other Income Support | 4.5 | 3.2 | 3.0 |
| Education | 1.7 | 1.0 | 1.9 |
| NDIS | 0 | 0.9 | 0 |
| Defence | 1.8 | 2.0 | na |

It is worth acknowledging that caution is needed when interpreting any long term projections.

However, the regulated nature of aged care (supply linked to a population-based formula and care funding/prices controlled by the Government) and the relative certainty of population projections make the aged care projections relatively more reliable than those for many other sectors. Perhaps the greatest source of uncertainty affecting aged care projections, about which there are mixed views and inconsistent evidence, is whether the increased longevity predicted by the IGR and others is accompanied by increased years of disability requiring more care and support services or whether older people will live longer in good health.

## Want to know more?

If you wish to see previous editions of Aged Care Update, they are available at the CHA website here.

*Disclosure Statement: The author of Aged Care Update, Nick Mersiades, is a member of the Aged Care Financing Authority. The opinions in this Update should not be read as being an expression of the views of the Aged Care Financing Authority.*

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