Opinion: Australia needs a new way to pay for aged care, but it can't shut out those on low incomes

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Aged-care funding is again on the agenda, with the latest Intergenerational Report predicting Australia's aged population will triple over the next 40 years. As a community, we will need to spend more on aged care than we do today, with aged-care spending expected to more than double its share of gross domestic product by 2063.

We cannot sleepwalk into this increased spending. It needs to be planned so access is protected and all older people, regardless of income, are able to get the aged care they need.

Aged-care funding should include taxpayer-funded care and resident co-payments. But we need to ensure funding changes don't reduce access for those on low incomes.

Two distinct types of services

Most experts now accept the two main types of services older people receive in aged care facilities or in their home require different policy responses:

- **ordinary costs of living.** These would have ordinarily been paid for by older people themselves earlier in their lives, for things like cleaning the house or food preparation. Housing and accommodation is sometimes a special subset of these costs

- **care and support.** This includes nursing care, podiatry, physiotherapy and other health services, either in the home or in a residential aged care facility. These would generally not have been needed earlier in life.

Funding 'care' services

Medicare is now almost 40 years old. Australians long ago made the choice that hospital and medical care should be publicly funded—and people should not be forced to forgo necessary care because of cost. The same arguments apply to the aspects of aged care which look more like health care.

There is usually some form of health assessment for these services and so consumers don't initiate these services themselves. Because of this gatekeeping, the arguments for people to pay out-of-pocket for aged care (other than ordinary costs of living) are weak.

It's also hard for consumers to assess the quality of these services, and so one of the preconditions of a functioning market—the ability for consumers to make informed choices—does not exist.

In these circumstances, funding should come from the public purse. Governments should pay the full costs of care (other than ordinary costs of living) for all aged-care residents and those who receive care in their home.

So how should 'care' costs be funded?

Future funding requirements for care should be met through economic growth, or a specific adjustment to taxation revenue, such as increasing company or income tax payable, or reducing inequitable tax loopholes.

An "aged-care levy", effectively an increase in income tax modeled on the Medicare levy is an alternative option. An aged-care levy might be specifically allocated—or "hypothecated"—to aged care or, as with the Medicare levy, just go into the total pot of Commonwealth revenue.

The downsides of hypothecated taxes are they potentially reduce government flexibility and make it harder for government to set priorities across all areas of government. Direction setting is even harder if the hypothecated tax generates more or less than expected. A focus on a special hypothecated tax creates blinkers, which may mean the full range of potential revenue sources aren't considered.

However, an aged-care levy may be a politically palatable source of additional revenue. It's the most equitable and efficient way of increasing Commonwealth revenue to pay for aged care. Its major downside is that it continues the current policy approach that today's taxpayers pay for the aged-care needs of yesterday's taxpayers, and this raises issues of "intergenerational equity".

Funding 'ordinary costs of living' in later life

Most people meet the full cost of their meals, accommodation, cleaning and so on during their working life, so the normal expectation is that they would meet them later in life too.

However, there are a few reasonable exceptions to the rule:

- some people don't earn enough to pay for their own accommodation and live in public housing during their middle years
- most people's income in retirement is lower than their income during their working life. Renters especially may not have enough income to pay for accommodation in later years
- some people are unable to maintain their own homes and need to pay others to do so, at increased cost
- some people might require special foods or different accommodation, and so their costs of living might be substantially higher than previously.

All of this means that ordinary costs of living may need to be subsidized when they weren't previously.

Currently there is a mish-mash of policies for consumer co-payments for the ordinary costs of living. People in residential aged-care facilities face income and assets tests which determine co-payments, but residents can pay more for additional amenities. Consumers face a bewildering array of choices for contributions toward accommodation (capital) costs.

Contributions to home care are less structured and providers have more leeway about consumer co-payment policies.

Issues relating to accommodation costs for residential care are very complex, as much of a homeowner's capital is tied up in the family home. This creates transition issues, especially if one member of a couple needs to move to a different type of accommodation. A complex web of payment arrangements for accommodation costs in residential care has evolved, and a shake up of these arrangements is overdue.

So how should 'ordinary costs of living' be paid for?

Some form of means- and asset-tested co-payment must be part of the mix, with means and assets including superannuation balances and income streams.

There should also be more consistency across providers in the co-payments consumers have to pay.

Although aged-care policy must balance equity and financial sustainability, the full cost of aged care—including care costs and ordinary costs of living—cannot be met by recipients themselves, so we must be wary of the calls for massive increases in out-of-pocket payments.

Increased contributions from the public purse will be required through income tax, with an aged-care levy one option, or reduced tax loopholes.

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