Response to the Aged Care Taskforce - Residential Care Contributions

The need for change

Australia's population is ageing. Over the next forty years, the number of people over the age of 85 is set to triple. Aged care is one of the biggest pressures on the Budget, and without action, spending is expected to more than double as a share of GDP over the next 40 years. There is a need to make government spending on aged care more sustainable, while ensuring residential aged care providers are financially viable and can meet future demand.

The Government has made significant investments into residential aged care to improve the quality of care for residents. Improvements have increased care time and access to nursing care, and lifted wages for carers and nurses, acknowledging the value of their work and reducing labour shortages that have held the sector back. The next step is to make aged care funding fairer and more sustainable.

The Government accepts the Aged Care Taskforce (Taskforce) recommendation that those with the means to contribute be asked to make a fair contribution to the cost of their aged care.

The Government also recognises there have to be strong protections to ensure those who cannot contribute more are supported and can access residential aged care when they need to do so. Government funding needs to be targeted to those with the greatest financial need.

Residential aged care contributions also need to be simpler so residents can understand how contributions relate to the cost of their care. The Government also accepts the Taskforce's recommendation that government funding should be focused on care, with residents paying a greater contribution for everyday living and accommodation expenses they have met throughout their lives.

Contributions for everyday living costs

All residents are currently required to pay a Basic Daily Fee (BDF) which is set by government at 85% of the single base rate of the Age Pension. This contribution partially funds services like meals, cleaning and laundry.

The BDF will not change under these reforms. Fully supported residents will continue to only pay the BDF, and partially supported residents will continue to only pay the BDF and a contribution towards their accommodation costs. Residents who have more than $238,000 in assets, more than $95,400 in income or a combination of the two, will make additional contributions towards their everyday living costs.

There will continue to be a Hotelling Supplement that tops up the BDF because there is a gap between the BDF and the full cost of providing everyday living services in residential care.

Currently the Government funds the Hotelling Supplement for all residents, regardless of their means. Starting 1 July 2025, the Hotelling Supplement will be means tested. Residents with sufficiently high assets and/or income will make a contribution to some or all of the Hotelling Supplement. This will ensure government funding is targeted to residents in the greatest financial need, and that residents who are able to make additional contributions to their everyday living costs do so.

The contribution will be calculated as 7.8% of assets over $238,000 or 50% of income over $95,400 (or a combination of both), up to a limit of the Hoteling Supplement ($12.55 per day, as at 20 September).

For all fully and partially supported residents with income and assets below these thresholds, the Government will continue to pay the full Hotelling Supplement.

The Independent Health and Aged Care Pricing Authority will provide advice on the appropriate level for the Hotelling Supplement, to ensure providers can supply high quality everyday living services for older people.

Contributions to non-clinical care

The current Means Tested Care Fee will be abolished. The Government will fully fund all clinical care costs in residential aged care.

A new means-tested Non-Clinical Care Contribution will be introduced to cover non-clinical care costs such as bathing, mobility assistance and provision of lifestyle activities. Individuals will not begin contributing to their non-clinical care until their income and assets are more than sufficient for them to fully fund the Hotelling Supplement.

Residents with sufficient means would contribute 7.8% of their assets over $502,981 or 50% of their income over $131,279 (or a combination of both) up to a daily limit of $101.16.

A new lifetime cap on the Non-Clinical Care Contribution will also be introduced. A resident who remains in care over 4 years would cease making contributions to their non-clinical care costs. After 4 years the Government will cover their full care costs for the remainder of their time in residential care. This time-based cap will protect those residents who remain in care for a long time.

A $130,000 lifetime cap will also apply to the Non-Clinical Care Contribution. It will be indexed twice a year. Individuals will no longer contribute to the Non-Clinical Care Contribution when they reach $130,000 in total contributions, or after 4 years, whichever occurs first. Any contributions for supports made by a resident in Support at Home before they enter residential aged care will count towards the $130,000 lifetime cap.

The treatment of the family home in the residential aged care means test will remain unchanged. The value of the family home is only assessable if the home does not have a “protected person” still living in it (e.g. a spouse), and then only up to a capped amount ($206,039 as at 20 September).

No worse off principle for existing residents

A *no worse off* principle will apply to everyone in residential aged care on 30 June 2025, such that existing residents will have their current arrangements maintained until they leave care. The new arrangements for means testing will only apply to new entrants to residential aged care from 1 July 2025.

Impact

This new arrangement will result in around half of new residents paying more for their residential aged care. The current hardship arrangements will remain in place so residents who cannot afford their contributions will be supported and not prevented from accessing care.