Australian Government
Aged Care Financing Authority

Review of the Current and Future Role of Refundable Accommodation Deposits in Aged Care.

Appendix A – A Short History of Accommodation Payments in Residential Aged Care.

The predecessors of the current Refundable Accommodation Deposits (RADs) can be traced back to the not-for-profit sector and the enactment of the Commonwealth's *Aged Persons Homes Act 1954*. Under this *Act* the Commonwealth made available capital grants on a matching basis to religious and charitable organisations to expand their activities by building additional homes for the aged.

The policy behind the *Aged Persons Act* was government support for voluntary effort and self-help by matching funding raised by eligible organisations providing accommodation for older people. The matching basis was initially pound for pound, but the matching basis varied over time.

The methods religious and charitable organisations had been using to raise funding to build homes for the aged were unregulated and varied across organisations, and included donations and various forms and levels of entry contributions.

<u>Initial Steps to Regulate Matching Contributions</u>

In 1962, the Commonwealth took initial steps to regulate donations and contributions by requiring that monies donated to attract a matching Commonwealth subsidy under the *Aged Persons Homes Act* could not be used unless such monies were the absolute property of the organisation; had not been received subject to conditions that rights of occupancy will be given to a particular person(s); and were not subject to repayment "on the happening of any contingency".

From 1969, in a series of further steps, the Commonwealth began to increase regulation of hostel accommodation contributions, including measures to protect financially disadvantaged persons.

From 1986, hostels were required to ensure that 20 per cent of persons admitted were financially disadvantaged (that is, in receipt of the full pension plus some rental assistance). These residents could not be charged more than 85 per cent of the standard rate of pension plus rental assistance, and were exempt from what were sometimes known as 'donations' (bonds or entry contributions). Accommodation payments and donations made by other residents were negotiated between the hostel and the resident.

In 1990, as part of new hostel funding agreements with providers, hostel residents were able to retain a set level of assets before being asked to make an entry contribution, and entry contributions in most cases had to be partially refunded when the resident left the hostel.

The average hostel entry contribution in 1993 was about $26,000 per resident.

While Commonwealth capital funding support initially focussed on housing for older people, the *Aged Persons Homes Act 1954* was amended in 1969 to provide for the payment of a Personal Care Subsidy for people aged 80 and over living in homes for the aged (which become known as aged persons hostels). After 1973, the Personal Care Subsidy was extended to all hostel residents assessed by the provider as needing personal care.

<u>Nursing Homes Evolved Separately</u>

Nursing homes, on the other hand, had evolved separately from hostels. Prior to 1963, nursing homes were mainly private for profit or were public facilities run by state governments, and the Commonwealth did not provide capital or recurrent subsidies for nursing homes.

In response to growing pressure from the states to increase the number of nursing home beds in order to free up hospital beds that were being used by long stay older people, the Commonwealth in 1963 introduced a Nursing Home Benefit under the *National Health Act 1953* for non-government nursing homes. The intention was to assist "patients" with their fees, noting that private health insurance organisations excluded such people from participating in health insurance schemes.

The introduction of the Nursing Home Benefit led to a significant expansion in nursing homes beds in the ten years to 1972, with most of the growth provided by for-profit organisations. In 1972, for-profit providers operated 38,244 nursing home beds compared with 13,042 by state governments.

Following tensions between private nursing home operators and the Commonwealth Government over fee control that had been introduced in 1972, the Commonwealth introduced the *Nursing Homes Assistance Act 1974* with the aim, inter alia, of encouraging the not-for-profit sector to expand into nursing homes. The *Nursing Homes Assistance Act* introduced the Deficit Funding Model for funding nursing homes operated by not-for-profit providers whereby the Commonwealth would set an annual budget for running each participating nursing home and meet any deficit incurred. As a result, the number of beds operated by deficit-funded not-for profit nursing homes grew by 134% between 1975 and 1986.

<u>Concerns over the Growth and Increasing Cost of Nursing Home Beds</u>

The rapid growth in nursing home beds prompted growing concerns that Australia's aged care sector was becoming dominated by expensive nursing home beds inappropriately accommodating older people with low care and support needs whose needs would be better provided in hostels or in their own home.

In 1986, following the *Nursing Homes and Hostels Review*, the Commonwealth Government introduced planning ratios designed to shift the balance of care in favour of hostel accommodation, increased capital funding for hostels, and introduced Aged Care Assessment Teams in order to avoid unnecessary nursing home admissions. These changes coincided *Home and Community Care Act 1985* which consolidated early forms of home nursing and support programs into a joint Commonwealth-State funded *Home and Community Care Program* administered by the states.

Responding to increasing concerns about the growing cost of nursing home subsidies and concerns that the Deficit Funding Model being used for not-for-profit nursing homes offered no incentive to improve efficiency, the Commonwealth in 1987 also introduced new arrangements for subsidising the costs of nursing homes (for both for-profit and not-for-profit providers). The new arrangement was based on three components – the Standard Aggregated Module (SAM) which was a standard subsidy per occupied bed day to cover costs such as transport, laundry, food <u>and also a return on investment</u>; the Care Aggregated Module (CAM) for nursing and personal care costs; and the Other Cost Reimbursement Expenditure (OCRE) module under which the Commonwealth reimbursed each nursing home for actual expenditure incurred on long service leave and superannuation for care staff, and payroll tax and workers compensation insurance for all staff.

Concerns over the Quality of Nursing Home Building Stock and Moves towards Integration of Aged Care Programs

A growing appreciation of the scope to achieve greater integration of aged care services led to the *Aged Care Act 1997* which saw the integration of the separate aged persons hostel and nursing home systems under a single funding and regulatory framework.

The *Aged Care Act 1997* also responded to Professor Bob Gregory's 1994 review of nursing home funding (CAM, SAM and OCRE) by introducing and regulating accommodation bonds across all residential aged care, similar to the entry contribution arrangements that applied for aged persons hostels. Professor Gregory's review had documented major deficiencies in the quality of nursing home capital stock, including in comparison with hostels, and criticised the funding arrangements as providing neither the funding nor the incentive for nursing home providers to maintain their buildings or expand.

As well as accommodation bonds, the *Aged Care Act 1997* introduced systematic asset testing to establish capacity to pay an accommodation bond; regulated for maximum annual retention amounts ($2,600 indexed for five years), with the balance to be returned to the person's estate; replaced capital grants with daily accommodation supplements for concessional residents (the Concessional Resident Supplement and Pensioner Supplement)[1]; introduced quotas for accommodating concessional residents and associated penalties; provided targeted capital assistance (e.g. for rural and remote services); and legislated for minimum building standards.

It was expected that the funds derived from accommodation bonds would be sufficient to finance the future growth and renewal of residential aged care services, without the need for a significant Commonwealth capital grants program.

However, the extension of bonds to high care residents was soon reversed by the Commonwealth in response to community pressure. Instead, a maximum means tested daily accommodation charge set by government ($12 per day indexed) was introduced for new high care residents (who were not in an Extra Service place).

Prudential regulation of accommodation was limited to purposes to which accommodation bonds could be applied.

To generate revenue from an accommodation bond broadly equivalent to that generated by the accommodation charge for high level care residents, assuming an interest rate of 5 per cent, an accommodation bond of around $35,000 was required. The average bond in late 1998 was around $54,000.

[1] Concessional residents were defined as full or part pensioners who had not owned their own home for the past two years and who had assets less than 2.5 times the single pension.

By 2007-08, the average accommodation bond agreed with a new resident had increased to $188,800 and around 80 per cent of aged care homes held accommodation bonds, noting however that accommodation bonds were not permitted for high care residents. Around 37 per cent of residents in care at 30 June 2008 had paid a bond.

In 2007-08, the Commonwealth combined the Concessional Resident Supplement and the Pensioner Supplement into a single asset tested daily Accommodation Supplement and introduced a significant phased increase in the maximum level of the new Accommodation Supplement – a maximum of $26.88 per day. This positioned the Accommodation Supplement amount more in line with the accommodation charge the Commonwealth set for non-supported residents.

Bond Guarantee and Increased Prudential Regulation

It was not until 2006 that the Commonwealth legislated the Bond Guarantee Scheme *(Aged Care Bond Security Act 2006)* to protect bond paying residents, including a capacity for the Commonwealth to recover default costs incurred by imposing a levy on providers.

At the same time, the Commonwealth legislated additional prudential requirements through setting standards concerning liquidity, record keeping, governance and disclosure.

Refundable Accommodation Deposits (RADs) Introduced

The 2012 Living Longer Living Better (LLLB) package, which followed the Productivity Commission's report *Caring for Older Australians*, reversed, from 2014, the 1997 decision to limit accommodation bonds to low care residents by extending accommodation bonds to all new residents, low care and high care. This was mainly in response to a prolonged slowdown in investment in new and rebuilt aged care homes, except for Extra Service homes where accommodation bonds applied for all residents.

The LLLB package also made the accommodation deposit fully refundable, significantly increased the value of the daily accommodation supplement for low means residents moving into new or significantly refurbished homes, renamed accommodation bonds as Refundable Accommodation Deposits, and introduced regulation to support consumer choice on whether to pay a RAD, an equivalent daily rental payment (DAP) or a combination of both. In-coming residents were also given 28 days upon entering the aged care home to decide and advise the provider their choice between a RAD, DAP or a combination of both.

The average value of a RAD at 30 June 2020 was $332,000, increasing from $248,000 in 2014-15. However, total RADs held by providers increased rapidly from $15.6 billion in 2014-15 to $32 billion at 30 June 2020.

The LLLB changes that extended RADs to all new residents and increased the accommodation supplement for new and refurbished aged care homes underpinned a significant increase in investment in new and rebuilt aged care homes.