SUBMISSION TO THE PRODUCTIVITY COMMISSION

"CARING FOR OLDER AUSTRALIANS"

Introduction.

Masonic Homes Limited(MHL) is a not-for-profit, Public Benevolent Institution that was established in the early 1960's to provide housing and care services for Senior South Australians. Since that time MHL has grow in its operating scale, scope of services and geographic reach to be a leading provider of residential and community-based aged care services, along with a variety of adaptable seniors' housing options, for Seniors Australian resident in South Australia and the Northern Territory. Further detail on MHL is attached as Enclosure 1 and is available at www.masonichomes.com.au.

MHL welcomes the conduct of this review and accords with the growing view expressed by many that a need exists to fundamentally adjust the approach taken by the Australian government and wider Australian community to supporting the needs of Senior Australians.

Masonic Homes Limited (MHL) submits that the current Australian aged care system provides for a high quality of client service and accommodation but its operating arrangements and financial structures do not provide for a system that is sustainable under the emerging demographic and financial pressures as revealed in the recently released Intergenerational Report[1].

The Current System – Its Genesis.

From time immemorial the care of a community's vulnerable citizens, Seniors being counted amongst them, rested with the family unit. As our humanity developed increasingly it was accepted that there was a shared community-wide responsibility for these persons. As health and medical services improved, the life expectancy of such vulnerable persons increased and thus demand for services likewise grew.

As we entered the 20th Century, privately funded welfare services emerged that enabled the community to exercise its shared responsibility for the growing number of vulnerable persons, Seniors remaining amongst them. In time this responsibility transitioned to increasingly see government assuming the responsibility for the provision of such services, though often the government served as the principal funder and service delivery was contracted out to a wide variety of community-based welfare services.

Due to increasing life expectancy, in the post-World War 2 era the number of aged persons requiring assistance grew to unprecedented levels and as a result in the 1950's the Menzies Government, following considerable public pressure, enacted the Aged and Disabled Persons Housing Act(ADPHA). Under the provisions of the ADPHA, between 1954 and 1986, eligible organisations such as churches, charitable bodies and institutions received subsidies from the Australian government to construct independent housing for older persons.

---

1 Intergenerational Report 2010, Australia to 2050: Future Challenges, Commonwealth of Australia, January 2010

It was through this Act that many Not-for-Profit(NFP) organisations, MHL being one of them, first became involved in providing services for Seniors – first through the provision of Independent Living Units(ILUs) and then residential aged care facilities. During this time these organisations constructed over 30,000 ILUs. This can be considered to have been the genesis of today's residential aged care and retirement living industries.

Dr Satya Brink, a previous Adjunct Professor, Gerontology Research Centre, Simon Fraser University, Vancouver Canada, wrote in 2002 that she considered that developed countries transition through three phases in the provision of services and accommodation for the aged. She wrote:

> *"In the first phase, when the proportion of older persons (these being persons 65 years and over) is between 7% and 10% and there is growing life expectancy, countries engage in the construction of institutions such as aged care facilities, and train greater numbers of specialists, such as geriatricians. Voluntary organisations also appear, to provide services for older people."*[2].

MHL contends that the system which developed from the 1950's reflected a position consistent with that of Dr Satya's "first phase", though Australia, like most developed nations, has transitioned this phase.

The Current System – Its Operating.

The current system of aged care can be characterised as having been established through the enacting of the Aged Care Act 1997. The provisions of this act lays out the operating and financing structures within which the industry operates. Much research has been undertaken into the operating of the industry and one of the best "stocktakes" was that detailed in the Productivity Commission's own report "Trends in Aged Care Services: some implications" completed in late 2008.[3] In this paper we do not intend to restate much of the detail provided in this report as we believe that report was both accurate and comprehensive and presented an interesting and relevant insight into the strengths and weaknesses of the system – with little having changed since that time.

In addition to the Aged Care Act 1997, the other legislation of principal relevance to the topic of this review and addressed within its Terms of Reference was the respective Retirement Village Act enacted in each Australian state and Territory. It is interesting to note that the Australian Housing and Urban Research Institute(AHURI) recently referred to retirement villages that include appropriate aged care services as the "Third Tier" of aged care[4].

When considering the provisions of the Aged Care Act 1997 and the assertions made by AHURI regarding retirement villages as the "Third Tier" it is interesting to again refer to Dr Satya Brink's writings. She states:

---

[2] "Ageing, ready or not", About the House, November – December 2002, page 17

[3] Trends in Aged Care Services: some implications, Productivity Commission Research Paper, September 2008

[4] Service integrated housing for Australians in later life by Andrew Jones, Anna Howe, Cheryl Tilse, Helen Bartlett, Bob Stimson, Australian Housing and Urban Research Institute, January 2010

> *"In the second phase, once the proportion of older people reaches 11 to 14 per cent, the demand starts to skyrocket for nursing home care, particularly because there are few other options. Attempts are made to meet the demand, with the building of various forms of (barrier-free) housing with care and services attached. But the cost of this investment is huge, and cannot meet demand. Policies emerge to support ageing-in-place, but the support is piecemeal, rather than comprehensive. Older persons with similar needs but living in different settings - in the community, in residential care, or in nursing homes - receive different services and pay different costs."*

MHL believes that Australia is now operating a system that reflects our being in this phase.

I would now like to provide further comment on the three operating elements that comprise the Australian aged care industry and about which the Productivity Commission is undertaking its review.

- **Residential Aged Care.**

At the core of the Australian aged care system are Residential Aged Care Facilities(RACF) that many view as analogous to a lower grade hospital. The fundamental premise for RACF within the aged care system is that at some point in everyone's life they will no longer be able to care for themselves and at this time most will need to be placed in an institutional care setting.

The Australian Government, who in fact is responsible for the provision of residential aged care facilities, meets its obligations in this area through a contracting out arrangement that sees a range of non-government organisations providing the services. This can be considered as analogous to the government in the acute medical care arena exercising its responsibility for hospital care services through an arrangements solely based on the operating of private hospital without the existence of any public hospital services.

This arrangements imbeds a range of conflicts of interest that the Australian Government exploits – see further below. One principal distortion caused by this situation relates to pricing. The price paid by the Australian Government for aged care services draws it source from relative antiquity with it having no basis in fact against what the government requires – noting that it is the Australian Government that sets the standard of care required.

The Australian Government proposes addressing this challenge for the hospital sector by establishing "*A new, independent hospital pricing umpire – at arm's length from all levels of Government –will determine the efficient price of hospital services. The independent umpire will determine rate of growth in health costs, and the efficient price will be set on this basis. The umpire's ruling will be final."*[5] Such an arrangement is also considered relevant to the residential aged care sector.

---

[5] "A National Health and Hospitals Network: Further Investments in Australia's Health" Commonwealth of Australia, 2010, page 90

CONFLICT OF INTEREST

Considerable conflict exists in the current arrangement because;

a. the Australian Government, through the operation of the Aged Care Assessment Team(ACAT), establishes the demand for formal aged care services – this being persons assessed as requiring residential aged care;
b. the Australian Government, through the operation of the Annual Aged Care Approvals Round(ACAR), establishes the level of supply of formal aged care services;
c. the Australian Government, through the Aged Care Principles established in the Aged Care Act 1997, determines and regularly assesses the standard of aged care services to be supplied;
d. the Australian Government, through its annual budgetary process, establishes the price to be paid for the standard of service to be supplied(with no independent reference as to whether this is sufficient or not); and
e. Independent organisations, who are virtually excluded from any of the above detailed steps and have very high barriers to exit, then delivering the aged care services.

It is submitted that the Australian Government unfairly exercises its monopoly market power through setting both demand and supply, and also setting & assessing both the service standard and price to be paid.

As a consequence of this, it is submitted that the system of residential aged care that currently exists has become unsustainable in the long run as;

a. supply has been artificially constrained by government intervention - despite surplus demand being known to exist;
b. pricing has been distorted – with government fixing the price for a standard of service required without taking accord of costs incurred; and
c. the government exploiting the very high barrier to exit – resulting in an increasing number of providers incurring operating losses that cannot be sustained in the long run but can not be avoid in the short run.

RECOMMENDATION 1.

It is therefore recommended that the Australian Government;

a. Establish an independent pricing umpire – at arm's length from all levels of Government – that will determine the efficient price of RACF services; and
b. Revise the ACAR and regional allocation process with a view to allowing the market to better drive the demand-supply arrangement – this being especially relevant for areas in major Capitals where there is little risk of market failure.

- **Community-Based Aged Care.**

A fast growing, and warmly embraced, element of the Australian aged care system are community-based aged care services. Principal amongst these services

are Community Aged Care Packages(CACP), Extended Aged Care at Home(EACH) packages and Extended Aged Care at Home – Dementia(EACH-D) packages. MHL delivers CACP, EACH and EACH-D and believes that these provide for a valuable, and very welcome, support for Senior Australian who need some assistance but are unable or unwilling to access such services through residency in a residential aged care facility. Further, the availability of such services provides a mechanism whereby the community can avoid, or at least reduce, the need to incur the high Capital cost involved in the construction of RACF.

Like with residential aged care, the Australian Government meets its obligations in this area through again serving as the principal funder and again contracting out service delivery to a range of non-government organisations.

SEIZING AN OPPORTUNITY

The considerable conflict for government that exists in the current arrangements for residential aged care is either absent or has a much reduced impact on the operating of community-based aged care services. MHL contends the reason for this include;

⇒ The lower costs of community-based aged care services – and thus the reduced exposure government faces in this area.

⇒ The lower level of complaint – as customers are often very thankful for the services provided as they assist them in avoiding entry to a RACF; and

⇒ The much reduced history and operating bureaucracy that exists with community-based aged care – though it is feared that as the area grows pressure for increased oversight and bureaucracy will follow.

RECOMMENDATION 2.

It is therefore recommended that the Australian Government;

a. Unlock the Limit on the Availability of Community-Based Aged Care services.

The entitlement to access a community-based aged care service is established through the operation of the ACAT. Through this mechanism the demand for this form of care assistance can be established. Unfortunately the operation of the Annual ACAR serves to limit the supply of services, despite the government having separately established that a need exists – and in most cases this need can not be ignored as it relates to a real and immediate situation that if not addressed through a aged care service then the situation will deteriorate further and result in a presentation to a medical service or admission to an acute care facility.

It is therefore recommended that the Australian Government should immediately remove the cap on the number of CACP, EACH and EACH-D that can be delivered by Approved Providers to persons assessed by an ACAT as being approved for such a service.

It is believed that the acceptance of this recommendation will:

i. Allow for an immediate increase in the scale of quality services available – as it is submitted most Approved Providers has latent capacity to grow the scale of their services.
ii. Maintain the quality of service delivery – as it is proposed that only those organisations that have already been approved to provide such services are able to do so.
iii. Have limited financial exposure – as those accessing these services are assessed as needing the service and it can be safely assumed that failure to provide these services merely results in the eligible persons accessing a more costly service offering.
iv. Facilitate increased choice – as a recipient will be able to access a broader range of Approved Providers(as currently numbers are capped and recipients are often forced to accept an Approved Provider who have a service package available).
v. Reduce the demand on RACF and Hospitals – as recipients will be able to access services earlier and thus avoid the inevitable decline in a condition which results when services/assistance is not available.

b. Enhance the Focus on the Customer.

Recently the government agreed to extend a trial of "consumer directed care" operating in community-based care. The result of the call for applications is still awaited – having been delayed by the announcing of the 2010 Federal Election. Whilst MHL strongly supports initiatives to enhance customer focus and choice, we do not believe this is best effected through an artificial construct that merely establishes another funding program.

It is therefore again recommended that the Australian Government should immediately remove the cap on the number of CACP, EACH and EACH-D that can be delivered by Approved Providers to persons assessed by an ACAT as being approved for such a service.

It is believed that the acceptance of this recommendation will:

i. Increase the choice available – as current Approved Providers will no long be limited by the number of packages they are approved to provide.
ii. Enhance the capacity for customers to exercise choice – as most have the capacity to do so but have been denied the opportunity to do so due to supply being artificially constrained.
iii. Promote competition between Approved Providers – as customers will be able to exercise choice and should they assess an Approved Provider not favourably then they can exercise they choice accordingly(and not be constrained by the need to accept the provider that has a package available and the virtual absence of the ability to switch provider should the customer wish).

- **Retirement Living.**

MHL submits that the Australian aged care system composes two key elements, these being housing and care services. Indeed, it is felt that the most important or crucial element to a Senior Australian maintaining their health, lifestyle and connection to their community is their housing choice. For most this choice will be their own home which usually will NOT encompass adaptable housing features supportive to a frailer aged person.

The key consequences of a frailer aged person residing in unsuitable housing are;

a. Increasing disconnection from the community – as they find it difficult to transition outside of the home;
b. Increasing frailty or disability – as they are unable to maintain their health due to reduced activity and their failure to maintain a healthy diet or access appropriate care and health services; and
c. Increasing likelihood of the need to access hospital and RACF accommodation – as they suffer increased frailty or experience an acute health incident.

For many older persons, they elect to take up occupancy in a retirement village as a lifestyle choice. Retirement villages, unlike RACFs, operate within a market and thus offer a variety of options from which to choose. As stated earlier, in the words of AHURI, retirement villages may be considered as "the Third Tier" of aged care[6], though this assumes access to a series of appropriate aged care services.

The Australian retirement housing/village industry has now grown to be a significant supplier of housing for Seniors. It operates under the provision of a varying array of state and territory retirement village legislation and it is understood to provide for over 200,000 living units and faces exciting growth prospects. The Stimson Report, released in 2003, presents what it is believed the best insight into the scale and operating arrangements of the Australian retirement housing/village industry.[7]

There remains however a wide spread ignorance about what retirement villages constitute and this often can extend to confusing them as being some form of RACF – sometimes even being referred to as a "retirement home". In marketing retirement living arrangements there are two elements that need to be transitioned. First, a persons needs to be "sold" on the general concept of retriement living and then they need to identify a specific living offering. The first is a community/industry wide matter whilst the later is for individual opertaors to promote.

In 2005, AHURI research found that in study of over 7000 persons aged 50 years and above, the view about retirement villages was;

> *"In terms of place, family and meaning, retirement villages were a deeply ambiguous category and hence communications about them tended to be*

---

[6] Service integrated housing for Australians in later life by Andrew Jones, Anna Howe, Cheryl Tilse, Helen Bartlett, Bob Stimson, Australian Housing and Urban Research Institute, January 2010

[7] The Retirement Village Industry in Australia: Evolution, Prospects, Challenges, edited by Robert J Stimson, University of Queensland Press, October 2002

couched in suspicion. While those who were already living in retirement villages were by and large satisfied with their choice, more generally there was a degree of suspicion about the costs and conditions of retirement villages, and also importantly, what retirement homes symbolised in terms of family relationships.

Retirement villages may offer a new substitute form of family and community, but it is one which ultimately signifies a final break from the real family. Retirement villages embody the compromise position between living with the children and therefore becoming dependent on them, and going to the nursing home, a place often referred to as 'God's waiting room' in modern television sitcoms.

Retirement villages offer life with a new mono-generational surrogate family of siblings, with the omnipresent administrators representing the new 'parent figures'. And it is that seeming loss of independence, abrogating control to village managers or staff, which presented a problem."[8]

Retirement Villages operate under the provisions of state and territory legislation that is administered by relevant consumer authorities. It is clear that such legislation is more focused on effecting consumer protection and it is not on facilitating growth or developement of this important adaptable housing options.

Retirement villages provide an important housing option for Seniors and should **NOT** be confused as merely being an alternative care option. Retirement village serve as an important adjunct to the Australian aged care industry providing an appropriate, adaptable housing options for Seniors – manifesting more as their private residence rather than as some form of institutional housing option as presented in a RACF.

PROMOTING UNDERSTANDING.

Retirement villages provide a very valuable, non-government, market-driven housing option for Senior Australians. Their operating and financing arrangements are widely misunderstood but in the vast majority of situations they have proved to be favourable for those who have taken up residence in a retirement village.

RECOMMENDATION 3.

It is therefore recommended that the Australian Government;

a. Support the continuance of the Australian retirement housing/village industry as being market-driven;
b. Promote initiatives to increase market knowledge/intelligence of the retirement housing/village industry;
c. Support the continuance of the state & territory-based retirment village legislation; and

[8] Ageing in Place: intergenerational and intrafamilial housing transfers and shifts in later life, by Dr Diana Olsberg and Mark Winters, Australian Housing and Urban Research Institute, October 2005

c. NOT progress any action that would serve to increase regulation of the Australian retirement housing/village industry.

- **Summary.**

MHL believes that Australia is now operating a system that reflects our being in Dr Satya's "second phase" but we contend that the time has come for us to transition to the "third phase" of Dr Brink's continuum - see following panel.

According to Dr Brink, proceeding with a "phase 2" response when entering a "phase 3" environment can be a recipe for waste and frustration.

"In most countries using this [phase 2] model, there is already sufficient housing stock, and most people move to these facilities primarily to ensure the availability of services," Dr Brink says.

"These residential care facilities are expensive to construct, and hard to distribute so that older persons living in any part of the country have equal access to such housing. Allocation is especially challenging because most seniors do not want to leave their community or lose their established social networks.

"And though attempts are made to keep the scale small, service delivery is more economic at larger concentrations of older people."

As the proportion of older people increases, the approach becomes completely unsustainable. Stay-at-home options become a key, for financial and practical reasons. "With almost one in five in the population being elderly, it becomes essential to provide older persons with the same needs with the same array of services, regardless of housing type," Dr Brink says.

"In this model increasing numbers of older people age in place. Most households move once, about the time of retirement, usually to downsize while independent. The majority own their homes, mortgage free, and if modifications are made, they tend to be minor.

"Generally, people prefer to add services to their existing home. Because the needs of persons 80 years and over are very diverse, customization of services and the ability to vary them is more effective than a fixed package."

Under this model, if people move to housing with care at all, it is generally late in life and for a relatively short period of time. High levels of care can be provided at home for a few and for a short time.

Dr Satya writes that:

> *"In 'phase three' countries, older people make up more than 15 per cent of the population, and there is a high proportion of seniors with better health and declining rates of disability. In these countries provision of housing and services are 'delinked'. Existing housing stock is adapted for ageing-in-place, and care services are provided regardless of type of residence, with home and community care services readily available. The costs of housing and housekeeping services tend to remain with the individual, and are often purchased from the private sector. Quality nationwide lower level (community) care is provided by government, delaying entry to high level care."*

A NEW APPROACH IS REQUIRED.

The age demographic in Australia now requires Australia to adopt a new approach to aged care and we should be embracing one more based on ensuring appropriate housing options for Seniors – and then the provision of appropriate care services able to be delivered to their desired housing options – dependent upon their need, capacity and desire.

The Future – Empowered Seniors.

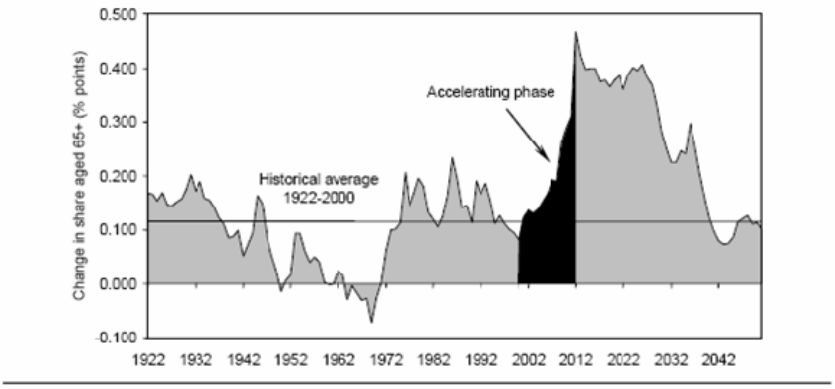
When considering the future of Australian aged care, it is critical that we assess the market it comprises and the operating environment which exists. It is contended that both have undergone significant change over the last 10 years and will face significant change into the future.

- **The Demograhics.**

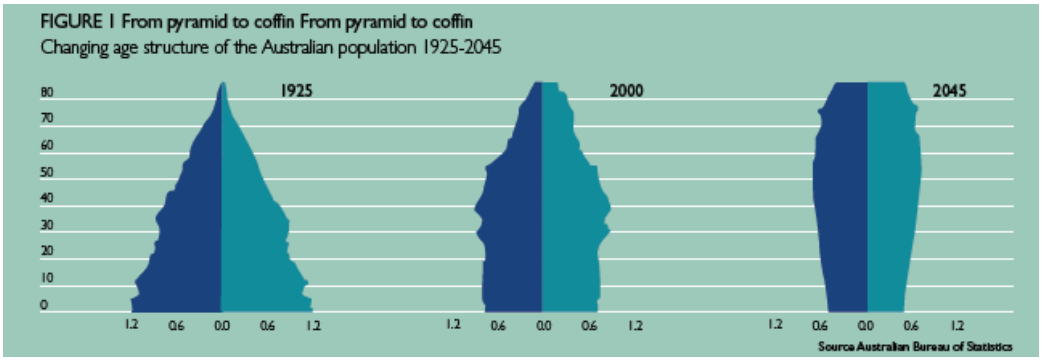
The demographic characteristics of Australia are rapidly changing from those for which the Australian aged care system was designed. First, as illustrated in a range of recently released studies, Australia is facing an unprecedented growth in the number and proportion of persons aged 65 years plus. This is illustrated in the below figure.

Figure 3 **Ageing is set to accelerate**

Annual change in the share of people aged 65+ in the population: 1922-2051



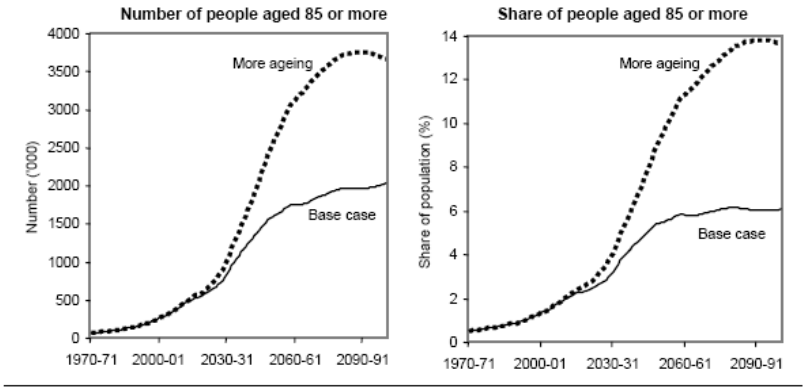
Further, we as a nation are facing a change in the age structure of the population with a shrinking proportion of persons being of working age, ie income earners and a growing proportion being in retirement, ie drawing on taxes. This is illustrated in the below figure.



Whilst this will have consequences for our taxation arrangements that in due course will need a government response, in the immediate term it can be viewed as indicating that we will not be able to address the needs of Australian Seniors merely by applying the same mechanisms as present and just assuming additional resource will automatically be available to government to provide for this.

Further, we are facing a ballooning in the number and proportion of persons aged 85 years plus – see below. This number is of greatest concern to the aged care industry as it is these persons who will increasingly be the principal users of the higher levels of aged care services.

Figure 4 **The 'oldest old' could be more numerous than projected**
1970-71 to 2100-01



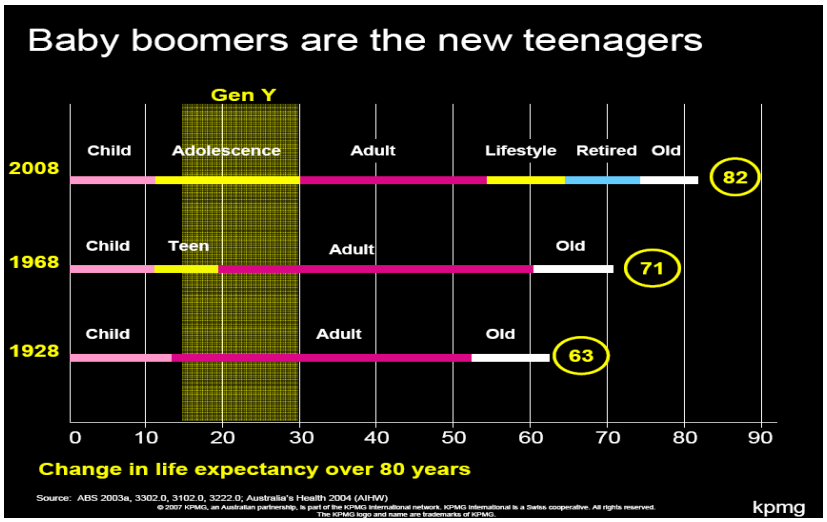
DRAMATIC GROWTH.

The Australian community is experiencing a dramatic growth in the number of older persons and the current system IS NOT structured and financed to meet this growth. Change is therefore inevitable!

- **The Market Expectation.**

A consequence of the demographic trends, as illustrated below diagram, is that Australian Seniors are living longer and healthier. Indeed, for the first time in history we have two generations living in retirement – these being the newly retiring Baby Boomers(who can be considered to be enjoying a second teenage experience) along with their parents who retired some 20 years or so prior(and

whilst exhibiting some slowing from their ageing, are still keen to maintain their independence). Boomers are the first generation in history to be entering retirement with an expectation that they will have a parent or two alive!



Market expectations are therefore changing – and these are NOT being contained only to the newly retiring Baby Boomer. Today's Senior is beginning to reject the previously accepted wisdom that they would all "end their days" in a RACF. They now wish to exercise choice – which may involve taking up residence in a RACF but this should be at their desire – and are increasingly willing to pay for the privilege to be able to exercise a choice.

I hasten to add that the actions of the Australian Government in the past years have served to reinforce a view in the public psyche that the payment for aged care services is something of a welfare service and thus an appropriate area for the committing of public funds. It is therefore believed that the inevitable move to the adoption of what will probably be a means tested, user pays arrangement will have considerable political sensitivity and will therefore be some time in the coming – and will probably not manifest until we are at a precipice(a point which we believe we can already see ahead).

TWO GENERATIONS.

Further, the aged can now be considered to constitute two generations, one being the relatively fit and "cashed-up" Baby Boomer whilst the other is their parent(s) who are now facing a health or ability challenge, have a modest income but are often "asset rich" through the equity held in their home.

RECOMMENDATION 4.

It is therefore recommended that the Australian Government;

a. Accept that all Seniors are individuals and reject a "one-size-fits-all" approach to Seniors living and care;
b. Support moves to empower Seniors and transition "aged care" away from a focus on being a welfare service; and
c. Focus public funding on supporting the frail aged and those with limited financial means.

- **The Market's Capacity To Pay.**

As stated earlier, the provision of aged care services, which it has been acknowledged earlier, grew from welfare-based services and have been allowed to be continue to be so characterised. This is despite the Australian Government now having become the principal source of funding and significant change also occurring in the financial capacity of the user to pay.

I do not intend to undertake a detailed analysis of the capacity older Australian now have to pay, but will merely highlight some key metrics;

a. The share of family wealth held by persons aged 65 years+ will grow.

   The Productivity Commission estimates that between 2000 and 2030, the real average family wealth of older Australians will grow at a significantly faster rate than the rest of the population, with the share of total family wealth for those aged 65 and over increasing from around 22 to 47 per cent[9].

b. Proportionately fewer will receive the full pension.

   As illustrated in the below table, reflecting the expected growth in the wealth of Senior Australians, it is expected that there will be a steady fall in the proportion of persons qualifying for a full aged pension and it is understood that a growing proportion of those receiving a part pension will be receiving little more than health card entitlements.[10]

	2007	2017	2027
Full Pension	70%	60%	50%
Part Pension	30%	40%	50%

c. "Asset Rich – Cash Poor"

   Further, I large proportion of the wealth of older Australians will be their non-income producing principal place of residence. It will therefore be necessary for encouragement to be given to financial product innovations, such as reverse mortgage schemes, that will enable older Australians to draw on the equity in their home to fund their day-to-day needs in retirement, including for aged care services.

NO LONGER A WELFARE CLASS.

[9] Trends in Aged Care Services: some implications, Productivity Commission Research Paper, September 2008, page 56

[10] ibid, page 58

No longer can aged persons be considered a welfare class purely based on their age. Increasingly wealth is being based with older Australians – though often this is Capital-based rather than income-based.

RECOMMENDATION 5.

It is therefore recommended that the Australian Government;

a. Adopt a funding arrangement for aged care services based more on a means tested, user pays approach; and
b. Establish a Capital funding arrangement for RACF – possibly based either on accepting Accommodation Bonds for all levels of care and/or ensuring the funding received meets the "cost of Capital".

- **The Supply Response.**

As the Australian Government has elected to have no presence in the service delivery of any aged care services or seniors living options, but merely serves as a principal funder, it has limited capacity to influence supply – other than through somewhat subtle measures. I would like to comment on each of the three elements of the aged care and living system.

⇒ Residential Aged Care.

Until about 2006, there was an active demand for the take up of additional aged care bed licences the Australian Government released through the ACAR process. However, since that time there has been a steady decline in the demand for these licences and it would be safe to say that the construction of new residential aged care facilities has stalled – with large numbers of bed licences that have been allocated under a string of ACARs remaining unbuilt(noting that these had been allocated under the obligation that they would become active within two years from allocation), large numbers of available licences not being taken up(indeed many allocation did not receive and applications) and beds being constructed are almost solely being for either expanding the scale of current services.

As the Australian Government controls the bed allocation and there is usually a long lead time for beds to become operational – noting that it will usually take some two years from development to operating(and the Australian Government requires regular reporting of progress made) – there should be a clear understanding of the forward projection of operating bed numbers. It is understood that indications are that the growth in bed numbers is set to stall due to decommissioning of older RACFs and the failure of new bed construction progressing.

The principal impediment to the constructing of new RACF is the inability to access sufficient affordable Capital to meet the cost of construction. This is especially amplified when looking to rebuild an already operating RACF. Whilst the Australian Government has implemented the Zero Real Interest Rate initiative this has very limited impact as they are only available in limited geographic areas(and these are principally in remote areas that have

other impediments that mitigate against constructing additional RACF), they still require payment of an interest on Capital(though it is acknowledged that this is reduced) and the growing demand is for high care beds(and these do not allow for the raising of Bonds – which are the industry's most affordable means of raising Capital).

The matter of accessing Capital has been further exacerbated due to the on set of the Global Financial Crisis and a more critical assessment being undertaken by financial institutions into the financial attractiveness of a RACF development.

RACF – GROWTH IN BED NUMBERS STALL

There has been a significant slowing in the construction of new RACF and it is anticipated this slowing will continue. Due to government reporting requirements, this situation should be readily known to them.

RECOMMENDATION 6.

It is therefore recommended that the Australian Government;

a. Release the forward projections on operational RACF bed numbers – with this to extend out at least two years;
b. Establish initiatives that will allow RACFs to adopt a greater focus on the delivery of high-care services;
c. Approve the extending of Accommodation Bonds to High Care beds; and
d. Support an immediate increase in the availability of community-based aged care.

⇒ Community-based Aged Care.

There remains an active demand for community-based aged care with this high demand being reflected in the applications made under the ACAR being nearly for 10 fold that of the number of packages available.

It is clear that it is community-based aged care that there is the greatest ability to boost supply in both scale and capacity. Unfortunately current arrangements serve to artificially restrict this supply.

COMMUNITY CARE – READILY SCALEABLE.

Community-based aged care is a popular, affordable and readily scaleable aged care option. Indeed, when coupled with a suitable housing option and supportive family/community, it makes for an appropriate alternative to accommodation in a RACF.

RECOMMENDATION 7.

It is therefore recommended that the Australian Government take immediate action to expand the availability of community-based aged care services, especially of CACP, EACH and EACH-D.

⇒ Retirement Living.

The strength of the retirement living industry is that it is driven by market demand and is not reliant on the vagaries of government funding. The result is that the industry can access Capital funding on a much more favourable and ready basis than RACF.

Recently Colliers International had authored a report detailing projections for detriment living. This reported as follows;

"In 2001, 3.5% of those aged over 65 years were residing in a retirement village in Australia. By 2006 this had risen to 4%. Today the market penetration rate is approximately 5%. Generally speaking demographic trends have, and should continue to favour the retirement industry. When comparing this rate with the US's rate of 12% and the New Zealand rate of 7%, Australia's current penetration rate appears relatively low. The higher penetration rate in the US compared to Australia may be a result of the rental model dominating in the US compared to the purchaser model, which is the preferred option in Australia. In addition, US residents are able to age within facilities longer which is due to the availability of the care model, deferring the need to enter an aged care facility.

"The tables below show projected market penetration rates of those aged over 65 years residing in a retirement village in Australia over the next two decades. Considering the market penetration rate has increased from 3.5% in 2001 to 5.0% today we would expect this trend to at least continue over the next two decades. Consequently, the first table assumes the market penetration rate will follow historical trends and equal 6.0% by 2016 and 7.2% by 2026.

Projected Penetration Rates by State – Medium Series (penetration rate 1.5x)

YEAR	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Aus
2006	3.78%	3.33%	6.58%	6.56%	7.36%	2.74%	1.90%	6.15%	4.80%
2016	4.73%	4.16%	8.23%	8.20%	9.20%	3.43%	2.38%	7.69%	6.00%
2026	5.67%	5.00%	9.87%	9.84%	11.04%	4.11%	2.85%	9.23%	7.20%

Source: Colliers International Research, 2009 and ABS 2006 Census.

Projected Penetration Rates by State – High Series (penetration rate doubles)

YEAR	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Aus
2006	3.78%	3.33%	6.58%	6.56%	7.36%	2.74%	1.90%	6.15%	4.80%
2016	5.67%	5.00%	9.87%	9.84%	11.04%	4.11%	2.85%	9.23%	7.20%
2026	7.56%	6.66%	13.16%	13.12%	14.72%	5.48%	3.80%	12.30%	9.60%

Source: Colliers International Research, 2009 and ABS 2006 Census.

"This would equate to approximately 370,000 persons choosing to reside in a retirement village by 2026. Assuming an average household size of 1.2 persons this would equate to approximately 308,333 retirement dwellings by 2026. Given the population of those aged over 65 years is anticipated to grow from 2,736,000 to 9,049,000 by the year 2051 the second table makes

the assumption that the market penetration rate could double from 7.20% by 2016 and 9.60% by 2026. This would equate to approximately 490,000 persons residing in a retirement village by 2026. Assuming an average household size of 1.2 persons this would equate to approximately 408,333 retirement dwellings by 2026"

Further, Jones Lang LaSalle has also recently undertaken research on the suitability of Australian retirement villages serving a greater role in supporting the aged to remain located in their communities[11,12].

RETIREMENT VILLAGES – MARKET-DRIVEN.

Retirement villages provide a very valuable, non-government, market-driven housing option for Senior Australians. They exhibit a significant potential to further grow and support the Boomer's Parents – all at no cost to the community and the Australian Government.

RECOMMENDATION 8.

It is therefore recommended that the Australian Government;

a. Support the growth of the Australian retirement housing/village industry – providing a ready alternative to residence in a RACF for many Seniors;
b. Increase the availability of community-based aged care services – to avoid the need to access an RACF; and
c. NOT increase the regulatory burden on the providers of retirement living – and this avoid impeding growth in the industry.

[11] Retirement Villages: Will the current product satisfy Baby Boomer needs? by Peter McMullen, Jones Lang LaSalle, November 2006

[12] Seniors Living: Can Australia learn from the USA? By Peter McMullen, Jones Land LaSalle, March 2007