



Caring for Older Australians  
Productivity Commission interim report January 2011  
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## **Depletion of the Accommodation Bond Pool- Probability; potential impact; questions to be raised**

### **Existing Low Care and Extra Service High Care**

#### **CH14 Page 453 PC**

*An important issue is the timing of initiatives to free up quantity and price restrictions. In the Commission's view, **there are strong reasons to liberalise quantity restrictions before moving away from regulated prices (box 14.2).***

*That said, the immediate removal of quantity restrictions could adversely affect providers who have planned and invested on the basis of the current regulations. This suggests the need for a gradual easing of these restrictions **followed by price liberalisation**, while retaining provisions for price monitoring and setting.*

There is currently a \$10 billion Bond Pool Government would be foolish to place this at risk. Providers who have supported the construction of new facilities through **Low Care or Extra service High Care** are at most risk as they have an **existing Bond Pool** which is in danger of being depleted if bureaucratic interference rather than market forces and public choice are the determinants.

They should not be exposed to having a depletion in the Bond Pool as this will activate a call on additional equity by financiers and many providers may not have this as all their assets already secured by the banks. A call on equity would place the Bond Pool at risk as Bonds going out are not able to be replaced to retain the debt level. Some providers might fail and this is unfair as these providers are the ones whom have invested in new stock under the existing system.

In discussions with industry valuers and bankers, they accept there will be an increase in "going concern" valuations" however this will be less than the drop off in lump sums thus there will be a call on increased equity. If all equity is already secured, a major problem will be created for those that have already invested in new stock. This is obviously to be avoided.

Q7 Furthermore at p453 (above) the PC is recommending PRICE CONTROLS BE RETAINED in the first few years of implementation whilst removing supply constraints. In order to obtain finance a provider must prepare a budget showing their income stream which is then capitalised by the bank's Valuers to determine if a project can be funded. Under the Extra Service model these Bonds and Prices can be predicted by the provider to prove up the proposal. If PRICE RESTRICTIONS are retained in the first few years but Extra Service model scrapped, how does the PC propose a provider would be able to



put a finance deal together, It simply won't stack up unless pricing is feed up at the commencement. The Commission needs to clarify [their comments on timing of Pricing and Supply controls removal](#).

It is lunacy to stop Extra Service Homes levying their accepted Extra Service Fees , Bonds and Periodic Payments if pricing restrictions are not removed to allow these charges to continue.

**Extra Service MUST continue until pricing restrictions removed.** Until time has proven that there is no artificial bureaucratic interference in the Bond and Periodic Accommodation charge process, **EXTRA SERVICE SHOULD NOT BE DISCONTINUED IN STAGE ONE BUT BE CONTINUED UNTIL THE LAST STAGE. If over time it becomes redundant by the end of the 5 year process it will be obvious.**

The PC should not recommend Government tamper with the Extra Service system which has provided the renewal of High Care building to date, nor should it jeopardise the Bond Pool by doing so.

In researching this question a number of other issues beg further explanation. These are included in **bold:**  
**Q 1** Will a resident be able to opt out of the test and simply pay a MAX daily care contribution ? They should be able to as freedom of choice issue

**Q 2** Does this test have any impact on the level of PERIODIC PAYMENT OR LUMP SUM BOND PAYABLE or does it strictly relate to the level of Care Co-contribution?

### **Xxx111**

...where financial capacity to pay is mainly in form of a Home, Accommodation Bond or non-liquid asset, a Govt backed Equity Release Scheme is available which they can draw against for their co-contributions"

#### **Comment**

40% Level too low

Whilst the concept is excellent a 40% level is too low to allow for a reasonable accommodation bond and leave sufficient funds to cover the car co-payment and aged care facility's fees. For example you would need net proceeds from a sale of \$500,000 X40% to achieve a \$200,000 Bond and this would leave no residual for on goings.

Suggest this be increased to 60% to be realistic particularly as many regional consumers would have houses of far less value.

If the limit is not increased then suggest it only relate to care costs and that a lump sum bond has been firstly paid.



## **Fees Payable**

For clarity of understanding I believe a resident will pay:

- a) Daily care co-contribution
- b) Accommodation payment-either periodic or
  - Lump Sum Bond or
  - combination of these
- c) Hotel Services fee
- d) Personal Services Fee
- e) Additionally the provider will receive direct care funding based on an ACFI type scale.

This needs clarity

Providing I now have the correct understanding of the system I'll examine the Accommodation Bond Issue

1. As lump sum bonds will be a choice option for all then there will be greater number by definition;
2. This is providing there is no hidden bias away from lump sums in the testing system;
3. Thus we need to explore if the new Means Testing and Pension Bond Scheme arrangements will make it less attractive than at present to pay a lump sum bond?;

The proposed “comprehensive aged care means testing” will no longer provide a Financial Planning incentive to pay a larger ‘Super Bond’ as the level of Bond will be included in the test where it was previously excluded. It is hard to estimate what level and number of these “super bonds” are in the system, but as they are replaced with more moderate Bonds there will be a reduction in the Bond Pool. I don't believe there are a large number in the system so in principle this is accepted.

## **Recommendation 6.4**

*The Australian Government should remove regulatory restrictions on accommodation payments, including the cap on accommodation charges in high care. It should also abolish the charging of retention amounts on accommodation bonds. The Government should require that those entering residential care have the option of paying for their accommodation costs either as:*

- *a periodic payment for the duration of their stay*
- *a lump sum (an accommodation bond held for the duration of their stay).*
- *or some combination of the above.*

*To ensure that accommodation payments reflect the cost of supply, and are equally attractive to care recipients and providers, the Australian Government should require that providers offer an accommodation bond that is equivalent to, but no more than, the relevant periodic accommodation charge. Accommodation charges and their bond equivalents should be published by the residential aged care facility.*

**It needs to be clear that the only intended control over the level of the Lump Sum is that it must be published so a consumer can decide that the “relevant periodic accommodation charge” is equivalent to the Lump Sum Bond alternative.**



The fear is that the bureaucracy will attempt to interfere by attempting to artificially determine what a Lump Sum should be by some magical formula controlled by the Department. This would be disastrous to the process

**CH 14 Page 455 PC**

“These reforms, including the setting of a charge for standard accommodation, will lead to a reduction in the average value of accommodation bonds. As a consequence, there will be a need for an alternative means for age pensioners to deposit any excess funds from the sale of their home in a form that is exempt from the age pension assets test so that these individuals can remain eligible for the age pension.”

**It is critical that the Bond pool is not diminished thus I suggest that the “Pension Bond Scheme” only be accessible ONCE A BOND HAS BEEN PAID.**

Yours faithfully

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