



Health, Ageing, Superannuation

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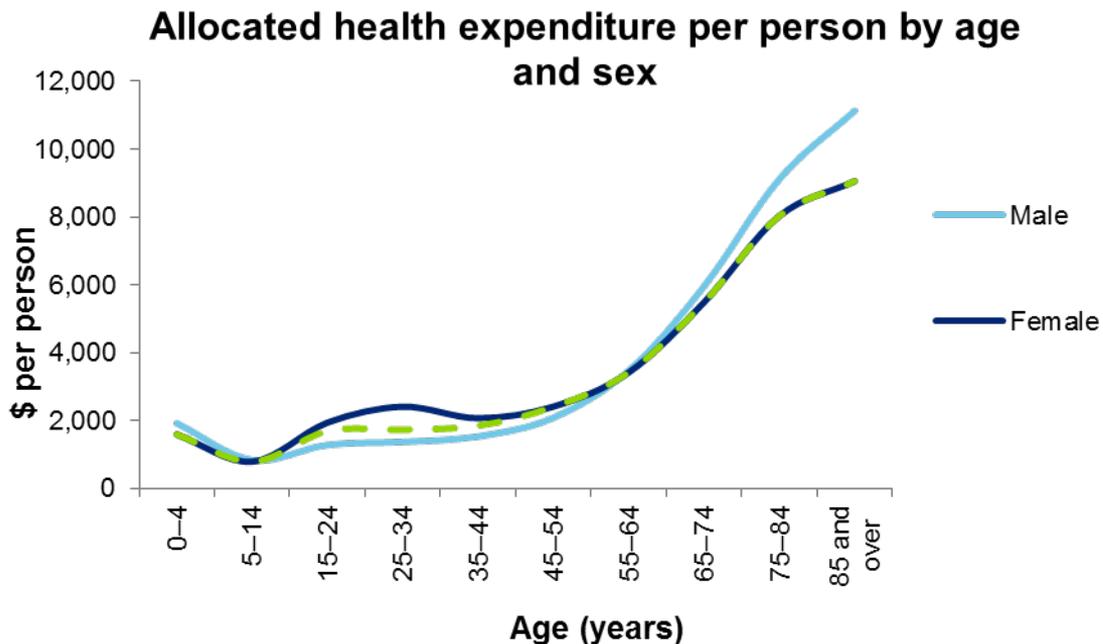
Agenda

Health costs and older ages

Affordability for the aged

Australia

Australian health expenditure increases with age . . .



Source: Australian Institute of Health and Welfare 2010, Australia's health 2010, Cat. no. AUS 99, Canberra

... and so do the individual cost components

Costs of hospitals and drugs by age

Dollars per person

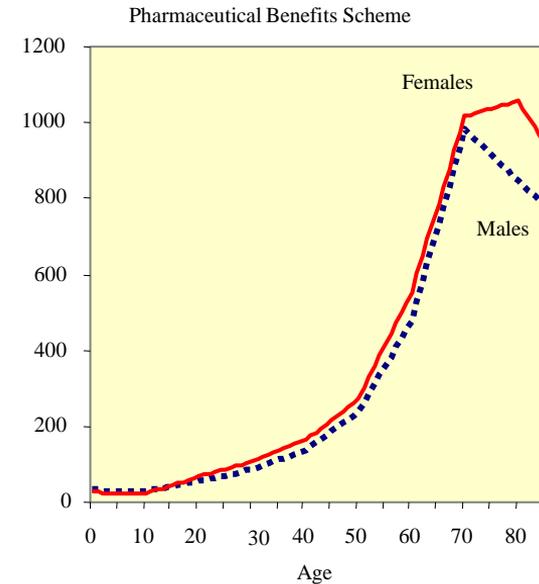
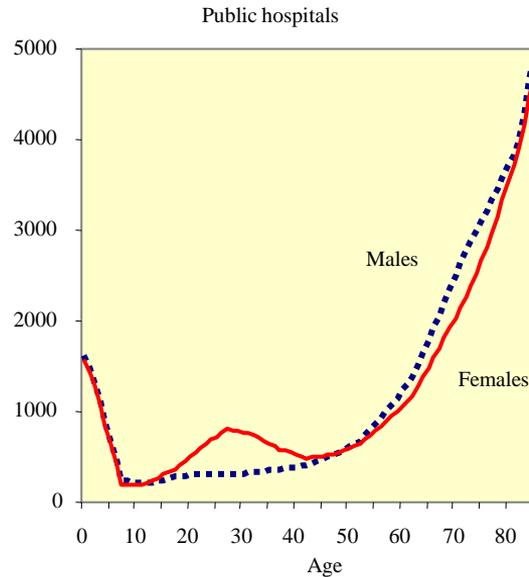
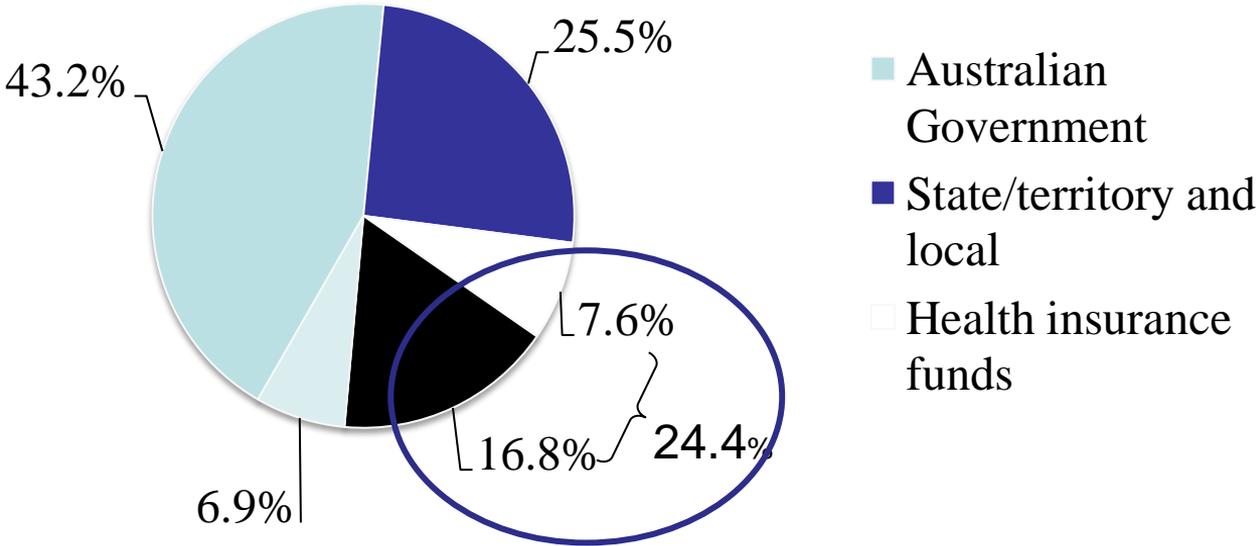


Diagram source: *Productivity Commission Technical Paper 6 – Economic Implications of an ageing Australia*; Data source: Hospital profile is based on NSW unit record data provided by NATSEM, Thurecht et al (2003); PBS: Health Insurance Commission, unpublished 2002-03 data.

Out of pockets plus net PHI premiums are 24.4% of Australian health costs . . .

Source of health expenditure 2007–08

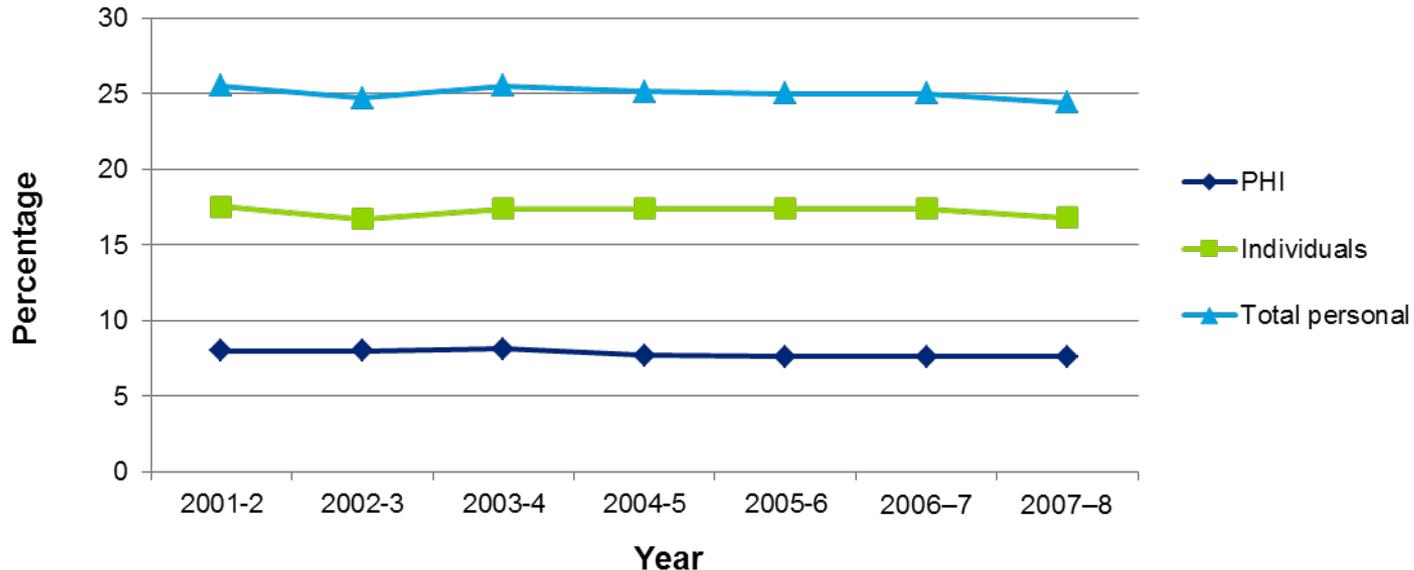
Source data: Australia's Health 2010 Table 8.4



...and are growing at roughly the same pace
as overall health costs

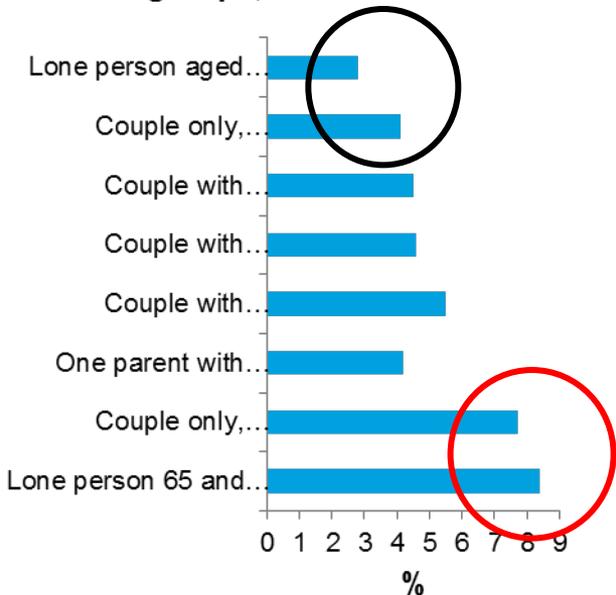
Personal expenditure as % total health expenditure

Source data: Australia's Health 2010, Table 8.4

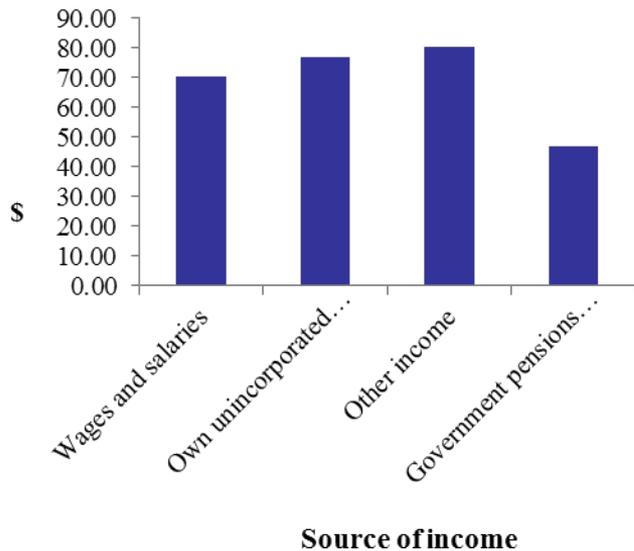


In Australia the older you are, the more your expenditure is for personal health costs . . .

Weekly household expenditure on health by selected life cycle groups, 2009-10



Household expenditure on health by principal source of gross household income, 2009-10



Source data: Household Expenditure Survey 2009-10 (ABS cat. No. 6530.0)

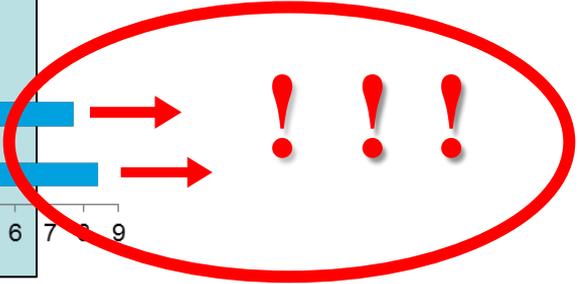
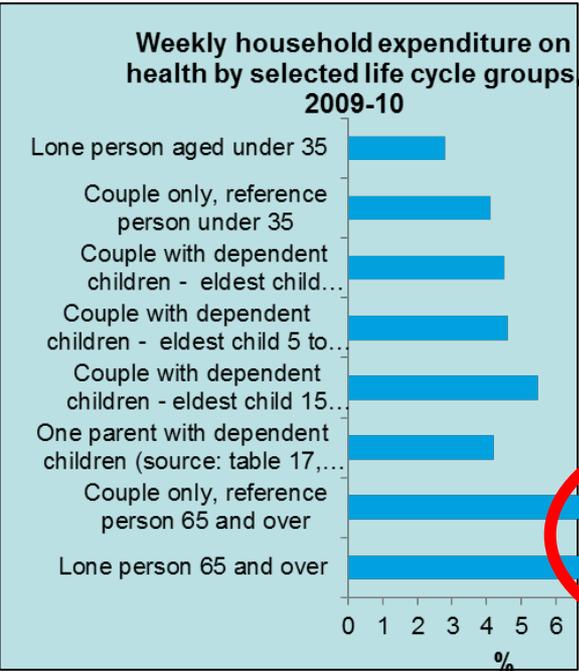


Financial Services Forum

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... leads to old age cost blowouts?



Unaffordable personal expense after 65



Agenda

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Affordability for the aged

Australia

Observations from other countries'

Health Policy:

Four methods of supporting personal health affordability at older ages:

- Community rating (Australia, Netherlands, some US reforms)
- Government funding (all countries)
- Employer / ex-employer support (e.g. USA)
- Pre-funding (e.g. Singapore Medisave)

What about support from Financial Services?



Agenda

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Affordability for the aged

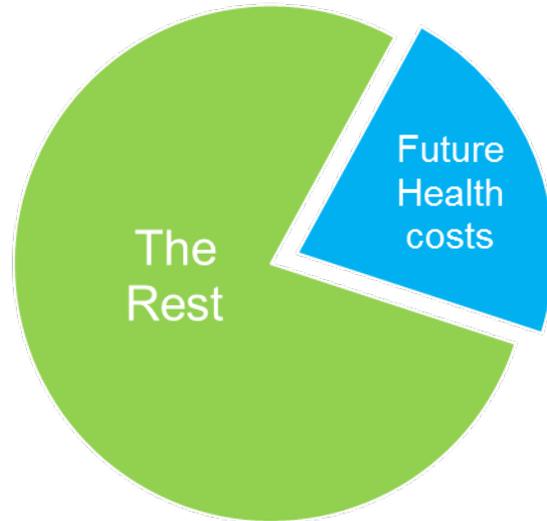
Australia

Superannuation and personal health costs

- We have modelled the interaction of two government-supported policy areas:
 - Health costs
 - Superannuation
- Our question is whether the growth in superannuation balances emerging for new retirees will more than compensate for their growth in personal health costs
 - Superannuation is a form of prefunding for these costs
- We have not attempted to include non-superannuation retirement assets

Key Comparison

What proportion of my age 65 superannuation fund is needed for my future health costs?



Key Measure – future health costs

Present value of all future personal health costs faced by a person at age 65

- Future personal costs each year estimated from household expenditure survey, health price index, health cost curves
- Present Value of these future costs calculated as at age 65

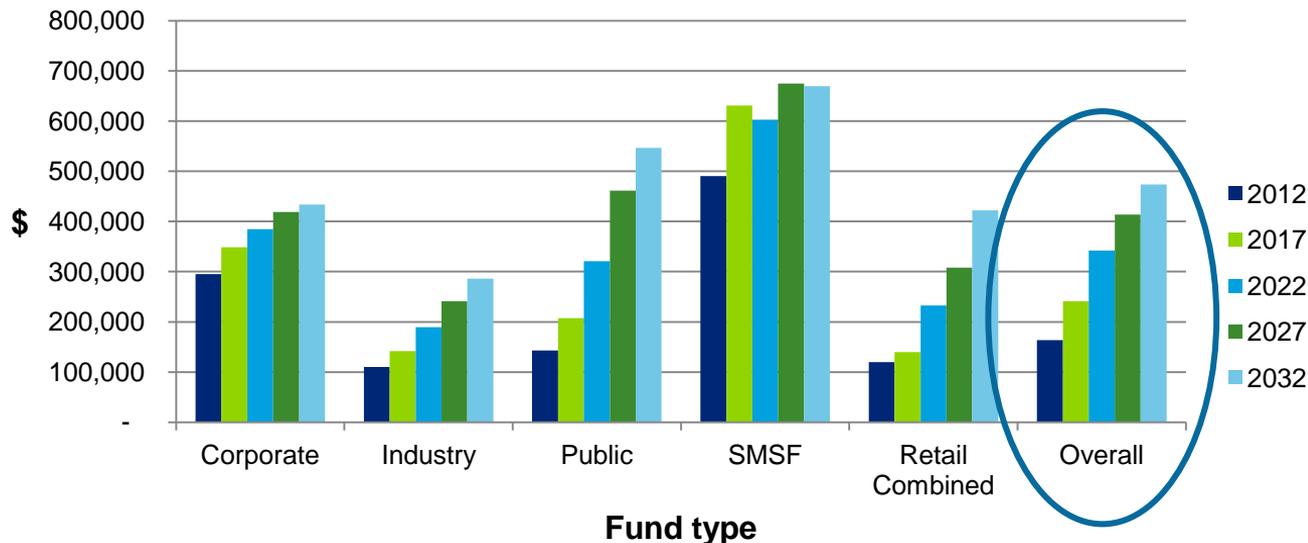
“The lump sum you would need to set aside at age 65 to meet your future health costs” (on average)

How does this compare to personal health expenses faced by 65 year olds?

- We looked at those turning 65 in year:
 - 2012
 - 2017
 - 2022
 - 2027
 - 2032
- Question: Over time, will super ease the pressure of old age health costs?

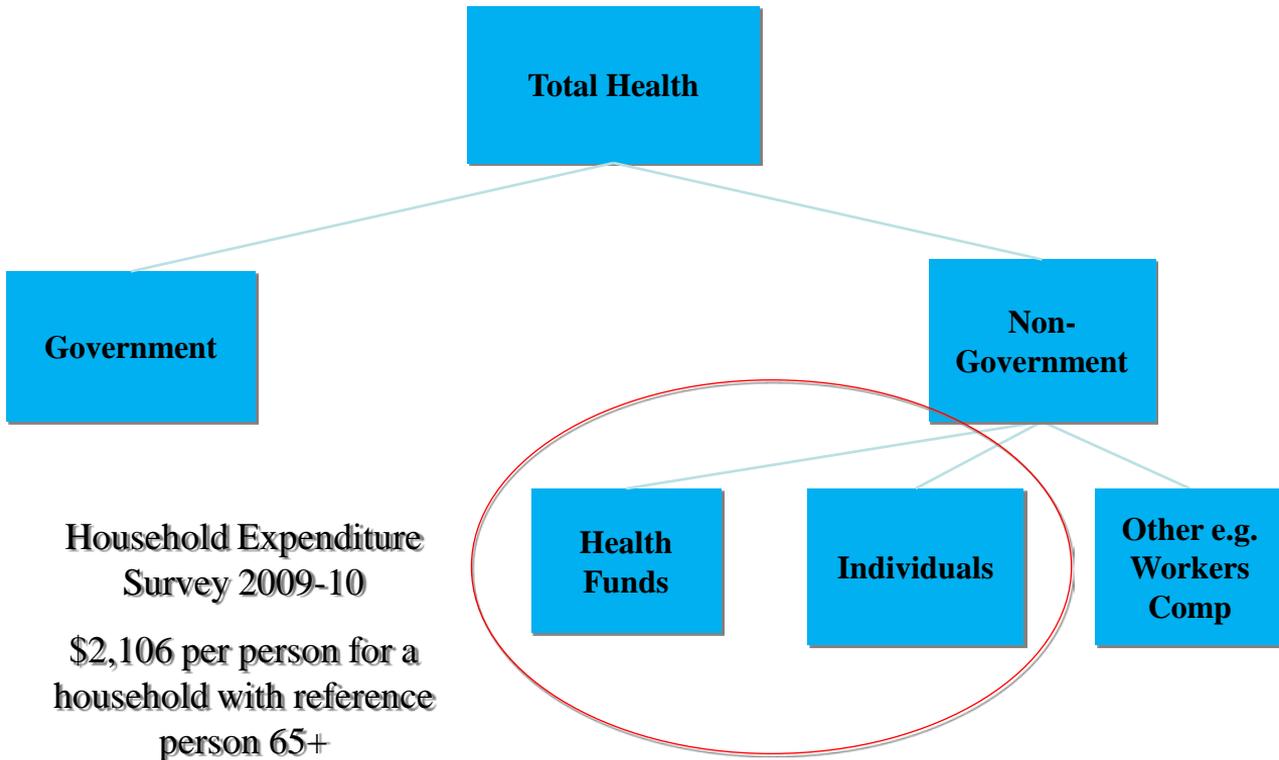
In real terms, we will have more super*

Average Super Balances (in 2012 \$) for Males and Females aged 65 (per member)



* Source: Deloitte Super Model 2011 – Assumptions listed on final slide.

Personal health expenses are “individual” and “health fund” costs



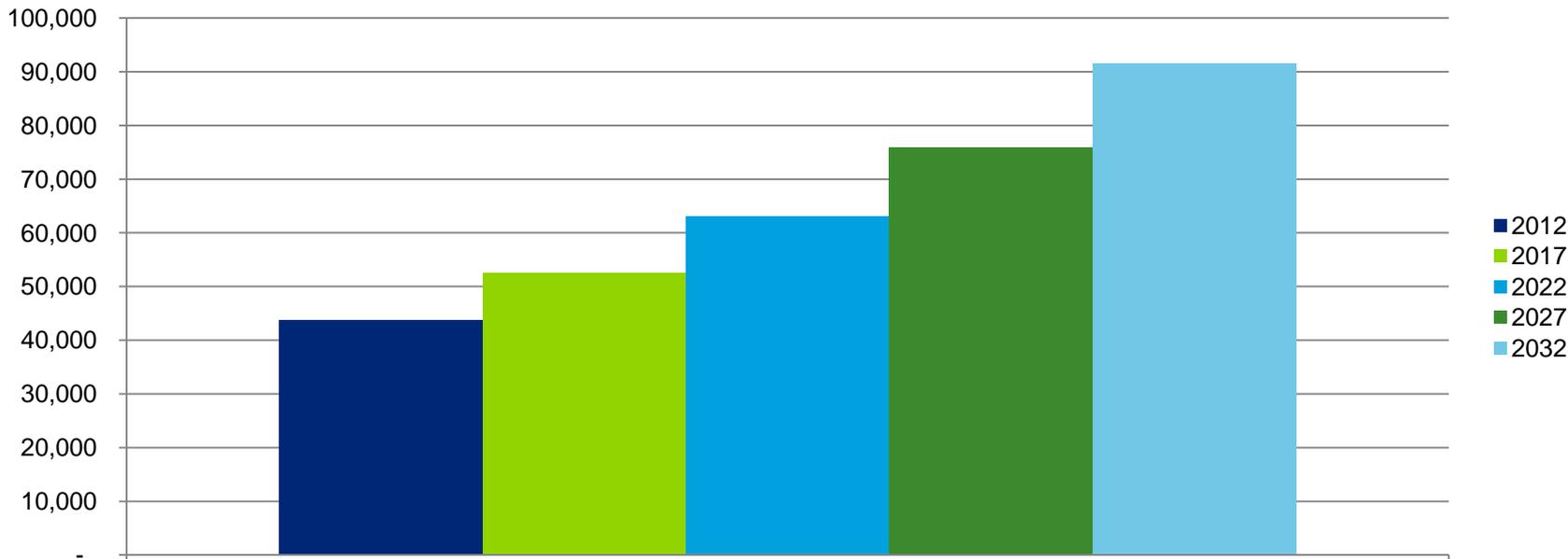
We estimate the average 65 y.o. spends \$1773 on health out-of-pockets

Measure of average expenditure on health per person	
Average expenditure on health per person per annum 2009-10 (based on Household Expenditure Survey using average household)	\$1,312
Average expenditure on health per person per annum 2009-10 (based on Household Expenditure Survey using a 65+ household)	\$2,106
<i>Average expenditure on health per person per annum 2009-10 illustrated for a 65 yo</i>	<i>\$1,773</i>

We have chosen an assumption of 3.6% real personal health cost growth which assumes that personal costs will not decline as a share of all health costs. (Actual figure over the past decade is 3.5% - 3.8%)

In our model, 65 y.o. in future face higher real personal health costs for life ...

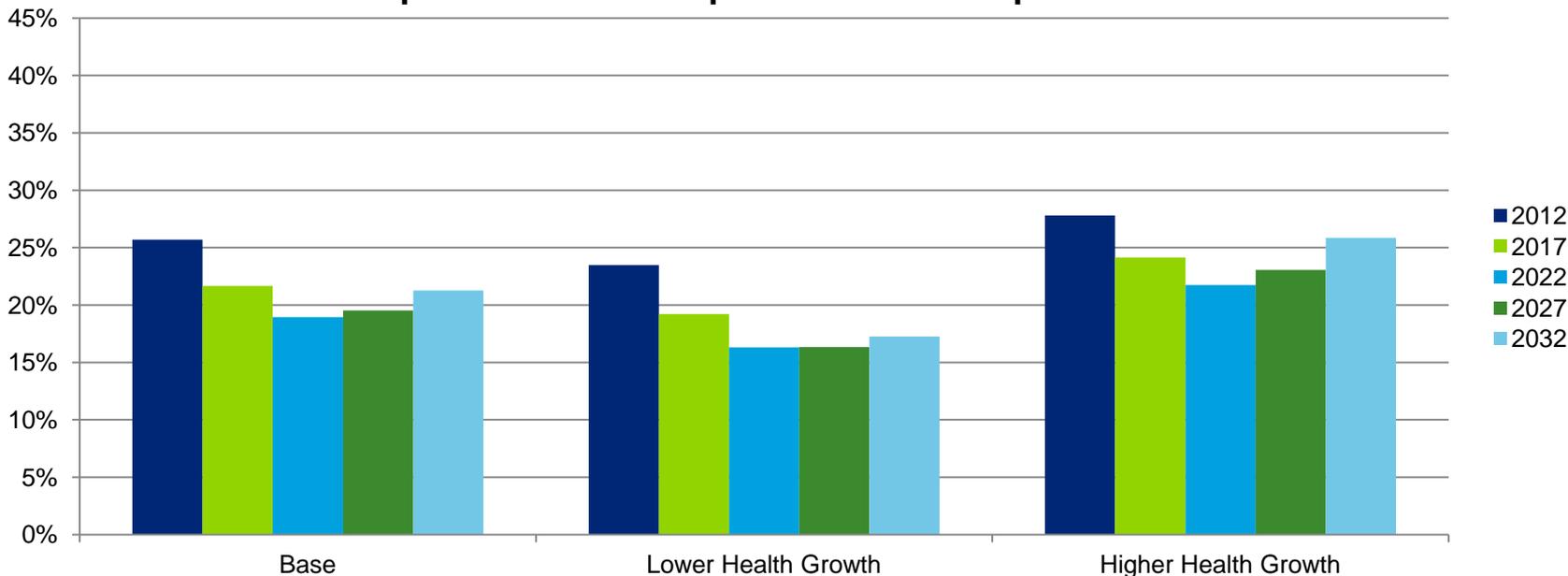
PV @ 65 of all future personal health expenses (2012\$)



... but over the next decade super balances outpace the health growth...

Comparison for all super members

PV personal health expenses as % of super @ 65 - Overall



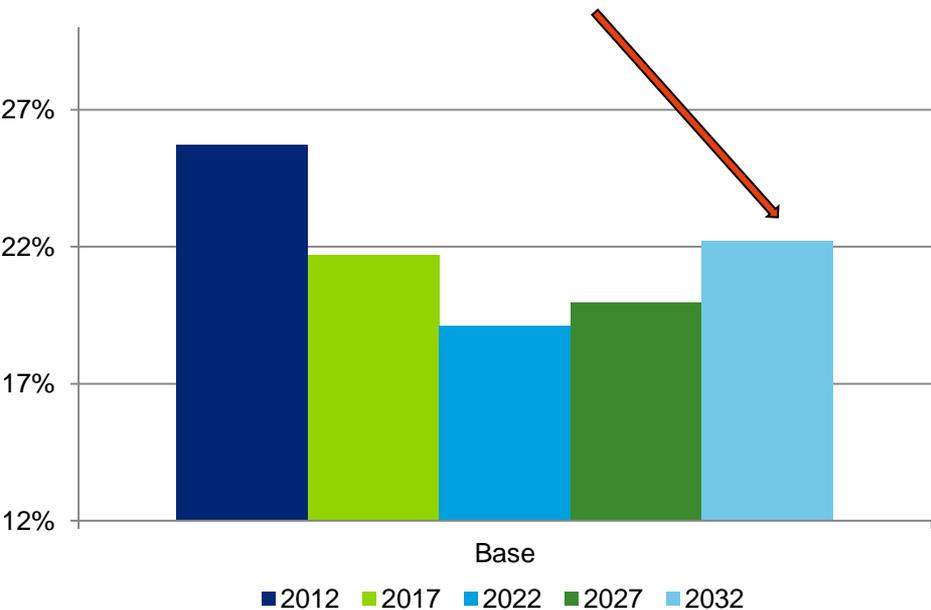
Base: 3.6% real;

Low: 3.2% real;

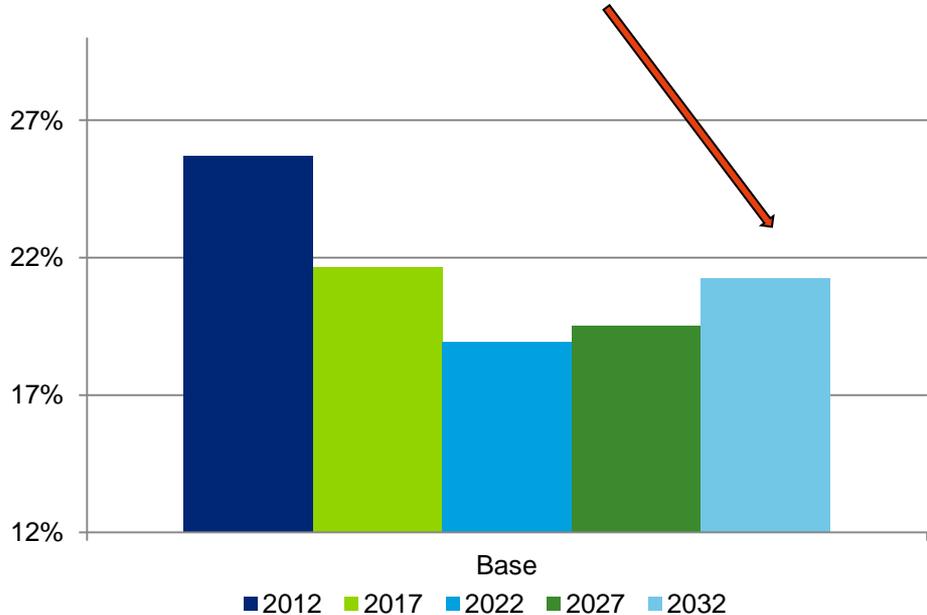
High: 4.2% real

... although the move to 12% contributions makes little difference until 2027-2032

PV personal health expenses as % of super @ 65 - Overall with 9% SG

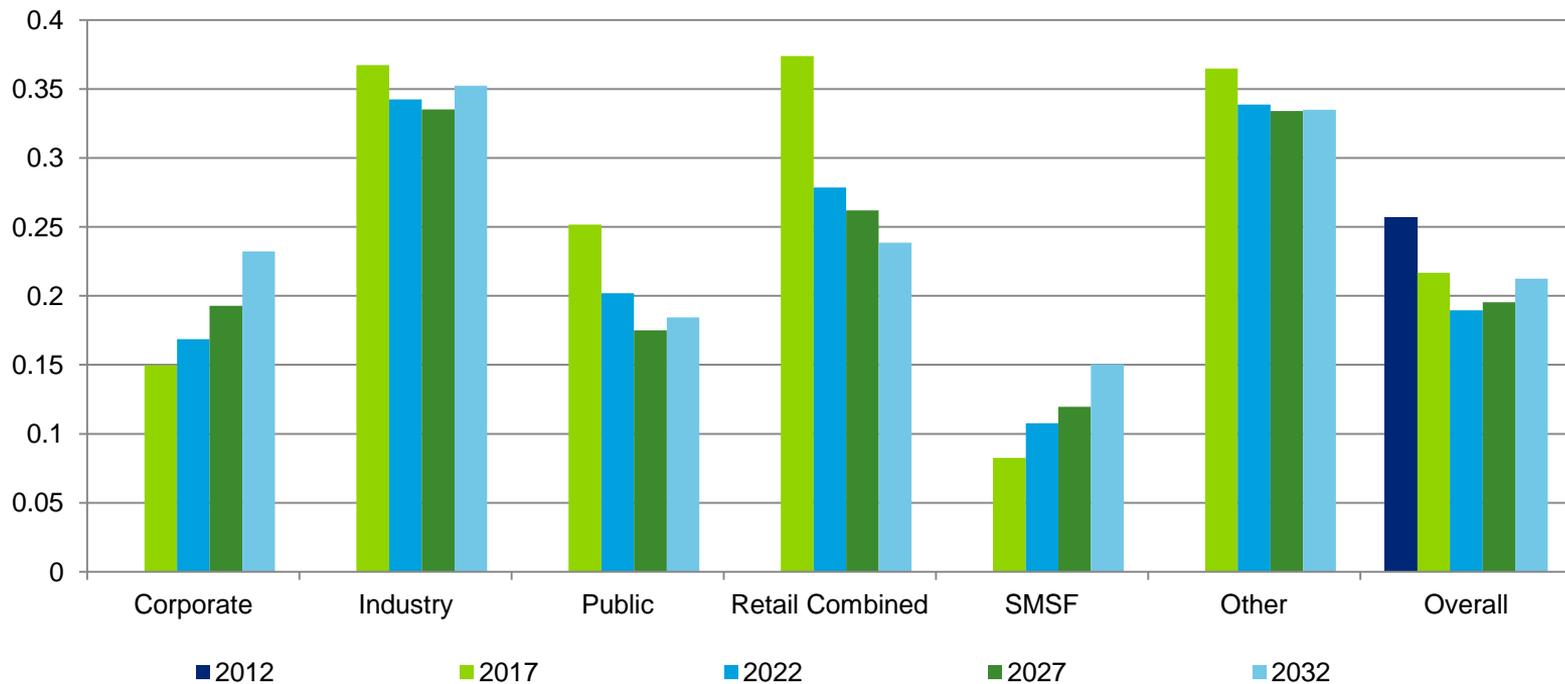


PV personal health expenses as % of super @ 65 - Overall with 12% SG



... and there is significant difference between members of different types of superfund

PV personal health expenses as % of super @ 65





But that's not all!

Aged Care needs will add to the pressure of out-of-pocket costs

“...older Australians needing aged care services have generally had the opportunity to purchase a home and to accumulate other wealth such as retirement savings, and therefore have the financial capacity to contribute to their cost of care” (my emphasis)

- Productivity Commission “Caring for Older Australians” 2011, p. xxxvii

“...individuals should contribute to the cost of their personal care according to their capacity to pay; but should not be exposed to catastrophic costs of care”

- Productivity Commission “Caring for Older Australians” 2011, Draft recom. 1.2

New Financial Services are waiting (1):

AMA on Health Savings Accounts:

“...Most of us can expect our lifetime out-of-pocket health care costs to be concentrated in our senior years. Lack of personal financial resources can be a barrier to accessing health care and can result in sub-optimal health outcomes. Health Savings Accounts could provide a mechanism by which people can accumulate savings so they are able to afford more easily the out-of-pocket health care costs they will encounter in later years of life”

- AMA: Health Savings Accounts Policy Paper (<http://ama.com.au/node/4714>)

New Financial Services are waiting (2):

Productivity Commission on Equity Release:

“The Australian Government should establish a government-backed Aged Care Equity Release Scheme which would enable individuals to draw down on the equity in their home to contribute to the costs of their aged care and support.”

- Productivity Commission “Caring for Older Australians” 2011, Draft recom. 7.1

Productivity Commission on special Bond investments:

“The Commission is proposing the establishment of an Australian Pensioners Bond for those on an aged pension who wish to deposit all or some of the proceeds of the sale of their home. . . Excluded from the aged pension asset test ... The bond could be drawn down to meet aged care co-contributions, pay for accommodation or meet other living expenses .”

- Productivity Commission “Caring for Older Australians” 2011, p. xxxv

So What?

- Taking a systemic approach to enabling retired people to afford their personal health costs is important.
 - Government, industry and individuals each have a role
 - A financial planning problem should have a financial services solution?
- Superannuation growth is helping, but not forever
- Is the distribution of outcomes acceptable?
 - Each individual will have a different experience of superannuation balance and personal health costs – each individual needs their own plan
 - How will Financial Services help to manage the spread of different requirements?
- What should the private sector health/financial services/aged care industries do to meet this emerging Australian society need?
 - The Private Sector Challenge: How much can the System rely on it?
- What responsibility do individuals have?

Deloitte Super Model – Key assumptions

- Population growth: ABS Projections Series B
 - Total fertility rate: 1.8 babies per woman
 - Net migration: 180,000 persons p.a
 - Life expectancy at birth: 85 (male), 88 (female)
- Labour force participation rates: Projected Participation Rates (2010 to 2051/2) by the Productivity Commission's study on the Economic Implications of an Ageing Australia
- Starting superannuation assets
 - APRA Statistics – Superannuation Fund Level Profiles and Financial Performance, Fund Level Data, June 2010
 - ATO – Self Managed Super Funds Statistical Report, June 2010
- Wages growth: 4% p.a
- Asset allocation: APRA Statistics – Superannuation Fund Level Profiles and Financial Performance, Fund Level Data, June 2010 (subject to adjustments for reasonableness)
 - ATO – Self Managed Super Funds Statistical Report, June 2010
- Investment returns: Cash 4.5%, AFI 5.0%, OFI 4.5%, AEQ 8.5%, OEQ 8.5%, Property 7.0%, Other 9.0% (Net of tax)



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