

## Actuaries Institute says funding for Aged Care presents significant challenges for Government and consumers

6 December 2021

- **Aged Care sector costs to increase 7% pa over next 20 years, likely fastest growing line item in budget vs 4% or less in most other areas.**
- **Significant funding challenges on the Commonwealth budget over time with current policy settings.**
- **Better financial regulation will build better Aged Care.**

The Actuaries Institute today issued a Green Paper that calls for a considered conversation about funding of the Aged Care system as costs over the next 30 years are projected to peak earlier and higher than set out in the Government's Intergenerational Report, with the pressure most acute in the coming two decades.

The Institute's Green Paper, "Aged Care Funding: Assessing the Options and Implications", finds a potential challenge in Commonwealth Government funding at 2040/41 with a short fall of about \$9 billion in 2020/21 dollars (nearly 0.4% of GDP), notwithstanding the significant additional funding announced this year.

"Our research indicates that the cost and funding pressures at government and society levels will be significantly greater than currently projected, and that these will be most acute over the coming 20 years due to the safety nets and projected demographic, social and health trends. This is when the Baby Boomer generation is expected to reach extreme old age," the paper said.

"The current policy settings are likely to result in significant pressures on the Commonwealth budget over time," it noted.

In its paper, the Institute said the Aged Care sector's current funding, which covers home care and support through to more intensive services provided at residential accommodation facilities, accounts for 1.6% of GDP (or around \$32 billion per annum).

But over the next 20 years as Baby Boomers age and need access to more services, the figure will rise to 2.9% of GDP.

Annual system costs will increase by 7% over two decades before easing back to around 5% per annum. This growth is even stronger than that projected in the Government's Intergenerational Report. Aged Care would likely be the fastest growing major line item in the federal Budget over much of that period, compared with 5.7% each year for health and less than 4% for most other areas.

"The question of what is a sustainable and equitable sharing of funding between individuals and government requires further investigation. This is particularly so given the anticipated individual asset accumulation in the coming 20 years through superannuation and other investments, many or all of which will have been supported by tax concessions," the paper said.

The Green Paper calls out two specific areas where the sharing of costs could be worth further investigating.

The split between consumer and government funding for 'Support' costs – such as building maintenance, cleaning, laundry, cooking and modifications to enable mobility – is unusual for those in the 'at-home care' stage of life. The Government is the primary funder of these costs, compared with the consumer being the primary funder (explicitly or implicitly) at other life stages, both when they are in the aged and healthy stage or in residential aged care.

The consumer contribution to their 'Care' costs – for personal care and healthcare – is relatively low in Aged Care compared with other sectors, such as health. The Green Paper states that the Federal



Government currently funds 96% of care costs within the Aged Care sector, compared to 75% of broader health care costs, meaning the consumer outlay currently is just 4%.

Rather than specific solutions the paper shows the need for a conversation on possibilities such as requiring consumers to draw on wealth accumulated through superannuation, housing, and other assets. Another way is increased taxes.

"Aged Care is an essential service and has growing funding pressures which are complex to resolve. Here is a framework to start working through those issues," said Elayne Grace, the chief executive of the Actuaries Institute.

The Green Paper was commissioned by the Actuaries Institute and written by actuaries Andrew Matthews, Gillian Harrex, Hadyn Bernau and Kylie Hogan as part of the profession's contribution to public policy. It examines funding issues associated with Aged Care, following the recent Royal Commission into Aged Care Quality and Safety which highlighted a large number of challenges in the sector, including how best to fund it.

"Aged Care is a significant portion of Government spending and is projected to increase materially over the coming decades. As Australia's population ages and as our Baby Boomers are just now beginning to enter the Aged Care system, the question of how we best meet the needs of those requiring some form of Aged Care to enable a life of dignity is becoming more urgent," said Institute President Jefferson Gibbs.

"Finding sustainable financial solutions, and meeting the changing needs and expectations of society, will depend on understanding the demographic, economic, social and health trends driving demand over the coming decades," Mr Gibbs said. "Our projections highlight the challenge facing Australia," he said.

The paper states residential care costs as a percentage of GDP should peak in the 2040s. However, home care costs will grow quickly: it is likely that Home Care could become a bigger and more costly program than Residential Care within the next 40 years or soon after.

The Green Paper also highlights the opportunity for better financial regulation including more agile responses to ensure continuation of care and to lessen the risk to taxpayers of the costs of rescuing failed service providers, or an Aged Care home.

The paper supports the introduction of a capital standard and recommends financial regulation include a future viability component, and disclosure, which could include a fit for purpose financial rating system that aids the system to be adaptive to consumer needs.

"We have to ensure that the system is sustainable and can adapt to needs of current and future generations," said co-author Gillian Harrex, a Principal at actuarial firm, Finity.

Gillian Harrex is available for comment. The report can be viewed [here](#).

#### **For media inquiries please contact:**

Michelle Innis P&L Corporate Communications  
m +61(0) 414 999 693

#### **About the Actuaries Institute**

As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.