



# NZACA Conference

## Australia's Bonding System

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# Presentation Overview

1. How the Accommodation Bond System works
2. Positive and Negative Aspects of the System
3. Reform Agenda in Australia and Possible Application to New Zealand

# What is an Accommodation Bond?

A refundable capital sum paid by a resident entering a low care facility (rest home) or an "extra service" high care facility (a limited number of hospitals)

# Historical Context

**1980's**

**Labor  
Govt**

- Residential Aged Care Dominates
- 1985 Aged Care Reform Strategy - restructuring with focus on hostel and community care services. Emphasis on access, equity and assessment strategies
- Different policy and financing arrangements for nursing homes and hostels
- Excess demand for dating nursing home stock

# Historical Context

<b>1990's</b> <b>Coalition</b> <b>Govt</b>	<ul style="list-style-type: none"><li>• 1997 Aged Care Act</li><li>• Uniform agenda for nursing homes and hostels</li><li>• Accreditation and Certification</li><li>• Accelerated Community Care and Ageing in Place</li><li>• Religious/consumer group intervention on implementation of the Act</li><li>• Withdrawal of bonds in high care</li></ul>
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# Protest to Bonds in High Care

**"People would have to sell their homes to pay the accommodation bonds"**

**"Residential care is short stay accommodation for frail people. Not fair or practical to force them to come up with capital sums for accommodation."**

**"System would harm financially disadvantaged people who can not pay a bond"**

# Actual impact of bonds on residents 13 years later....

**Residents to not have to sell their house if their spouse or permanent carer is living in it**

**Average lengths of stay have increased since 1997 by around 15% to 147 weeks (3 years) today**

**Safety net provisions create incentives to support financially disadvantaged**

## Most say its all about Bonds



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### In 1997 CHA said...

“Bonds will see seniors suffer...”

“ Bonds may force the sale of the family home...”

### In 2008 CHA said...

“The distinction between low and high care is an artificial funding formula. The distinction should be abolished...”

“We’ve had a decade long pilot of bonds, and the predicted disaster simply didn’t occur...”

“Those who can afford to pay should, those who can not need a safety net...”

# Operation of the Modified Accommodation Bond System

## Legislation

- 1. Aged Care Act 1997**
- 2. User Rights Principles 1997**
- 3. Aged Care (Bond Security) Act 2006 and the Aged Care (Bond Security) Levy Act 2006**

# Operation of the Accommodation Bond System

## Features

1. When can it be levied?
2. How can the money be used?
  - Capital amount
  - Interest revenue
  - Retention revenue
3. Length of time to pay?
  - Period of grace
  - Option of periodic payments
4. How much?

# Smaller Bonds \$120,000



# Medium Bonds \$400,000



# Large Bonds \$1,000,000 +



# Operation of the Accommodation Bond System

## Example

- Incoming resident sells house for \$350,000
- Negotiates bond of \$300,000
- Resident retains eligibility for full pension
- Elects to pay bond in a lump sum
- Aged care provider deducts monthly retention of \$299
- Resident remains in aged residential care facility for 3 years
- On departure resident receives balance of bond \$289,236 (\$300,000 less 36 months @ \$299)

# Operation of the Accommodation Bond System

## NEW DEVELOPMENT

### Construction Costs for New 80 bed Facility

Equity	\$ 6,000,000
Bank Borrowings	<u>\$ 10,000,000</u>
	<u>\$ 16,000,000</u>
Upon Commissioning	
30 residents paying \$300,000 bonds	<u>\$ 9,000,000</u>
Residual Bank Borrowings	\$ 1,000,000

# Operation of the Accommodation Bond System

## Features

- Safety nets – accommodation supplements
- Asset Testing implications
- Maximum deductions
- Repayment requirements
- Bond guarantee

# Operation of the Accommodation Bond System

## Bond Guarantee Scheme

1. Protection of Residents / Sector Confidence
2. Prudential Regulation
  - Liquidity
  - Reporting
3. Bond trends
  - \$10 billion
  - Average circa \$200,000

# Advantages of Accommodation Bonds

## For Providers

1. Major source of capital for new residential care developments
2. Interest/retention revenue to offset service delivery costs
3. Potential to increase balances through effective marketing (bond uplift)

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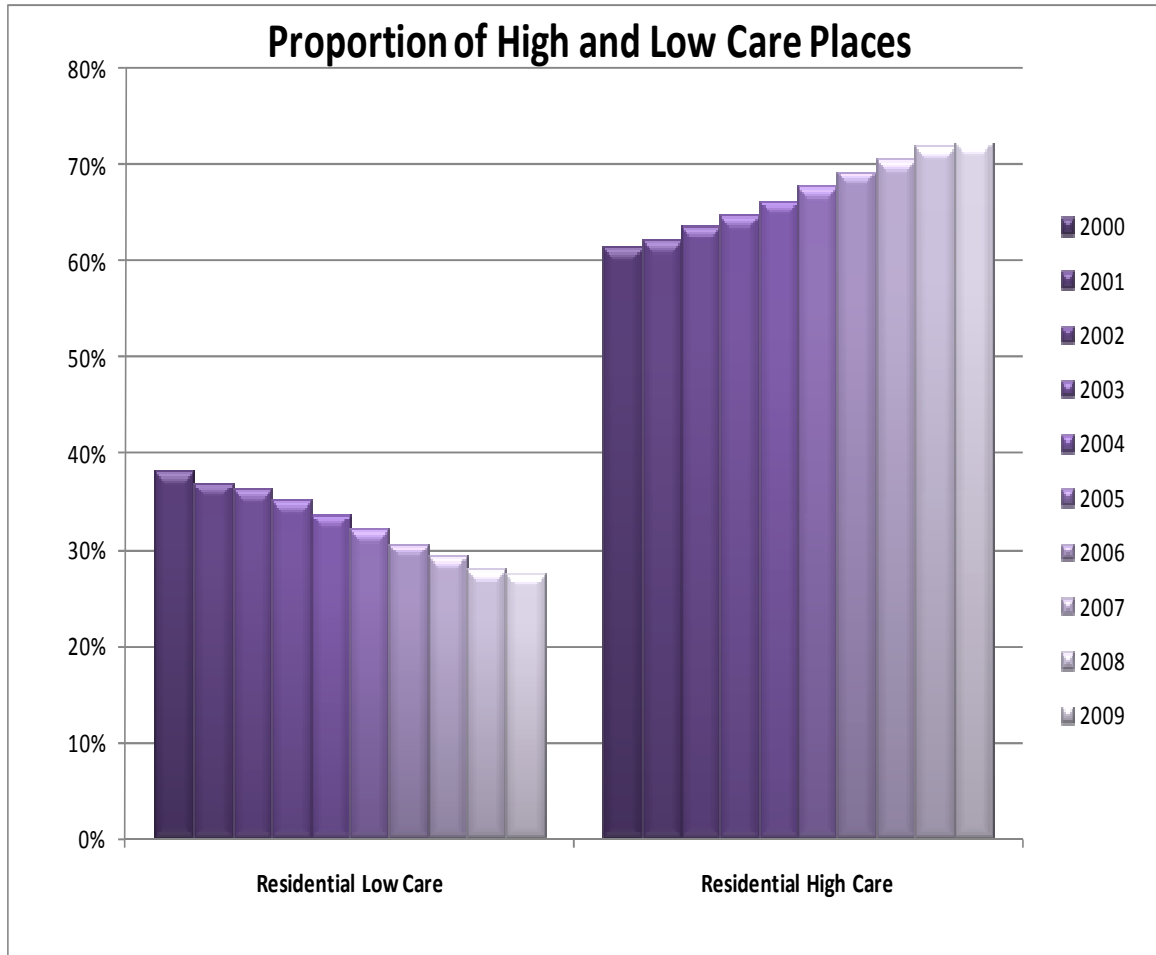
## **For Residents (and Taxpayers)**

1. Consumer driven choice in accommodation
2. Asset protection (and family issues)
3. Pension protection
4. Limits taxpayer contribution to resident accommodation

# Problems with the Australian Accommodation Bond System

1. Inconsistent treatment between High Care and Low Care (rest home and hospital level) "Extra Service" focus.
2. Development risk for new services
3. Weaknesses in Prudential Regulation and underwriting arrangements
4. Declining demand for low care (bonded) services

# Profile of Users of Aged Care Services



# The Australian Reform Agenda

***It is increasingly recognised that these restrictions combine to limit the scope for effective competition between providers, weaken incentives for innovation in service design and delivery, distort investment decision making, and risk the long-term sustainability of aged care services.***

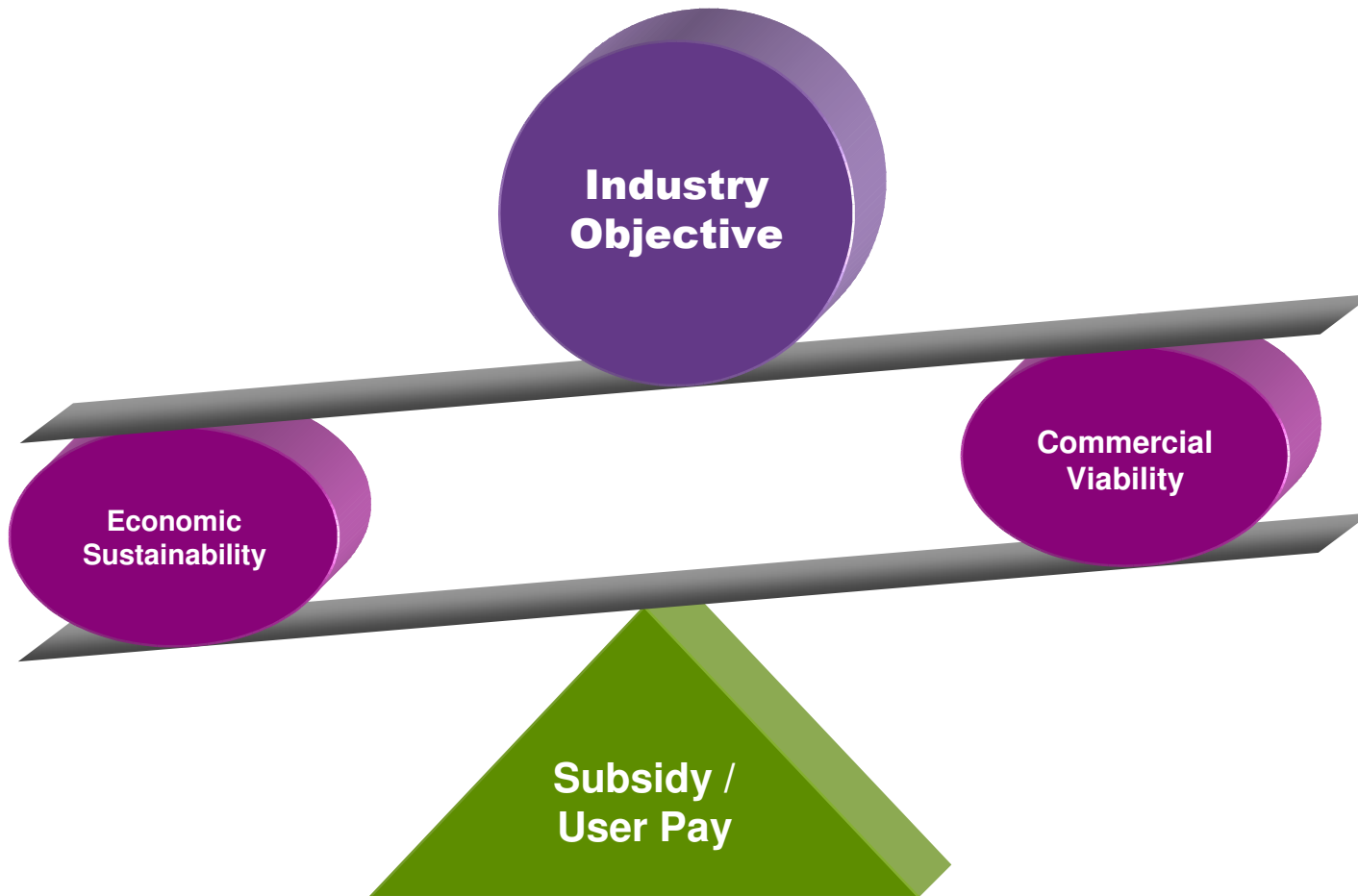
***Productivity Commission 2008***

# National Health & Hospital Reform Commission 2009

## Recommendations:

- 1. Assessment process/funding integrated and tailored to person (and not the available programs)**
- 2. Restrictions on places lifted (remove planning ratios)**
- 3. User pays consistent across all subsidised services – (including accommodation bonds in high and low care)**

# Designing a Sustainable Solution – Consumer Driven



# National Health & Hospital Reform Commission 2009

## Sector Impact:

- 1. Greater choice for consumers as to where their services are delivered – preferences for non-institutional care**
- 2. User contributions facilitating choice – major investment stimulus**
- 3. Impact on established operators – existing infrastructure and removing barriers to entry**

# Overall Impact Anticipated from User Pays System in Australia

- 1. Greater choice for consumers and improved quality of living**
- 2. Reduced cost to public as residents pay for accommodation and contribute towards hotel services**
- 3. Improved standards for financially disadvantaged where safety nets exist**
- 4. Consolidation and rationalisation of industry – competitiveness, innovation and efficiency**

# Is the Australian Accommodation Bond System Suitable for New Zealand?

“New Zealand has the opportunity to develop a a more sustainable, fairer system learning from the strengths and weaknesses of regimes employed overseas.”

"For service providers, increased competition to meet resident expectations will be challenging. In this environment, it will be the innovative and proactive operators that will prosper. "

# Potential Applications for New Zealand

- 1. Ensure consistency with retirement living and serviced apartment models.**
- 2. Strong service integration models not currently established in Australia. NZ existing User Pays models already less restrictive.**
- 3. Size of investment required.**
- 4. Need for appropriate Safety Net provisions.**



# Discussion