

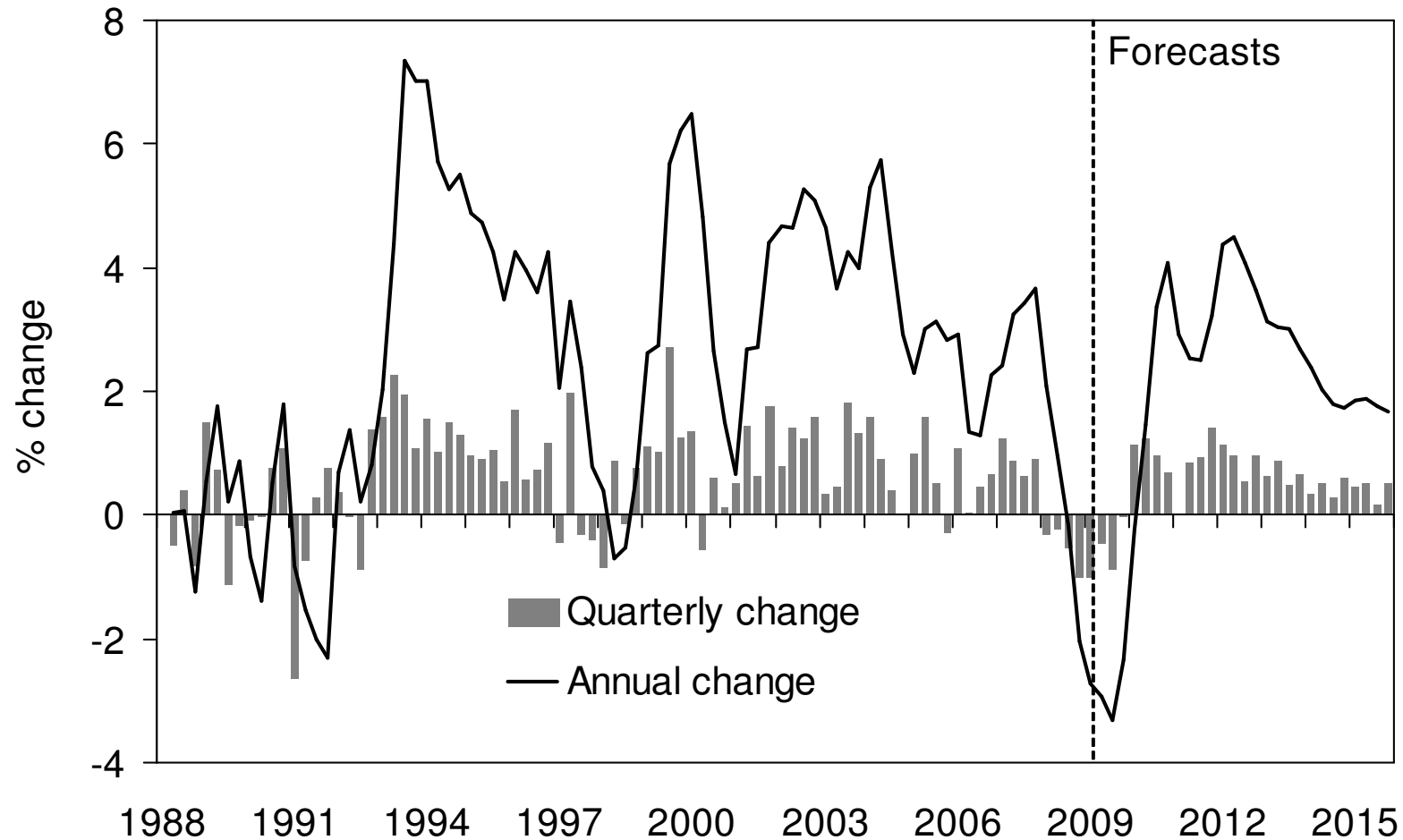
# Impact of the recession on aged care

7 September 2009

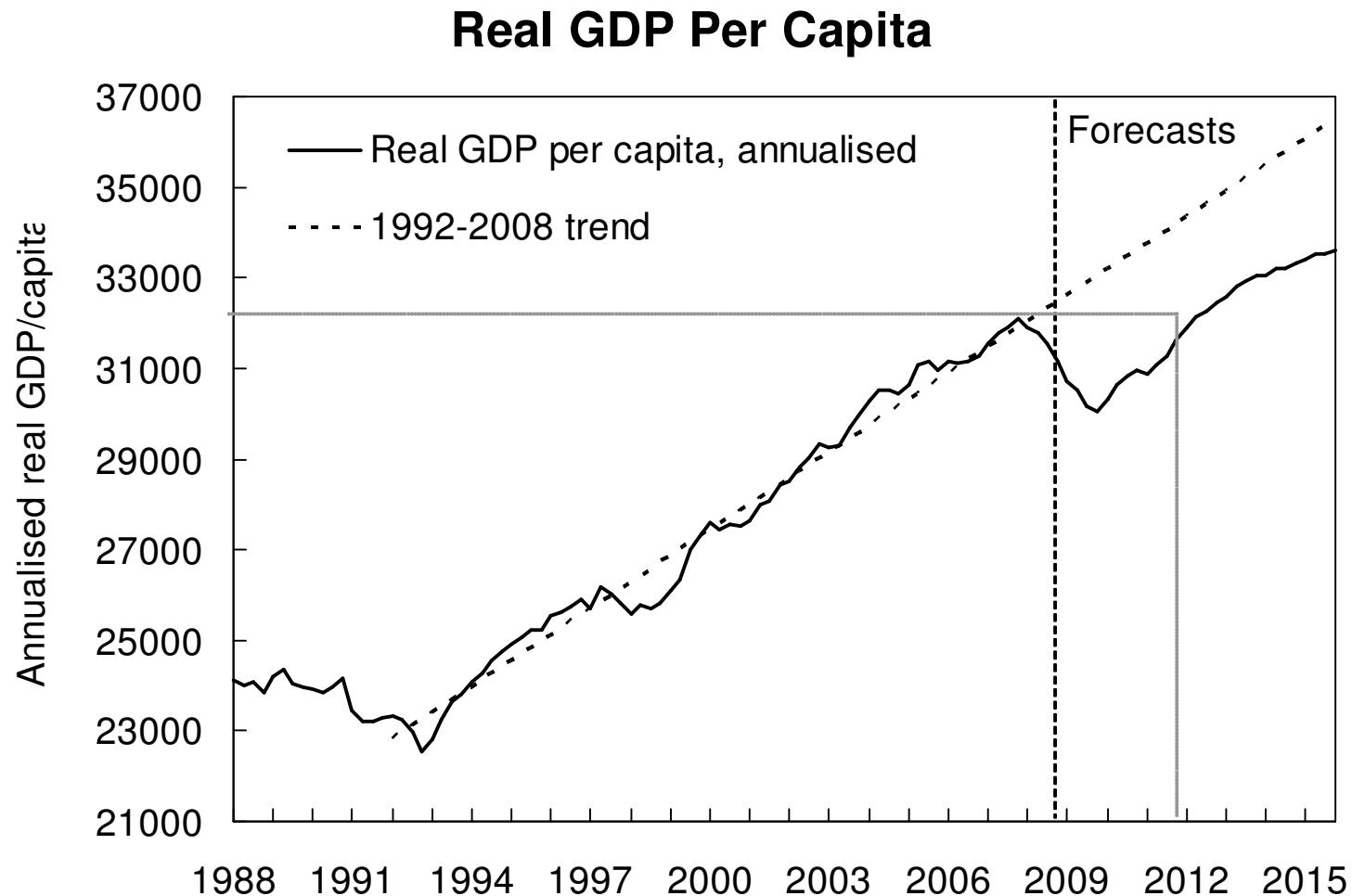


# Economic growth set to recover from late 2009 after 2 bad years

## GDP Growth



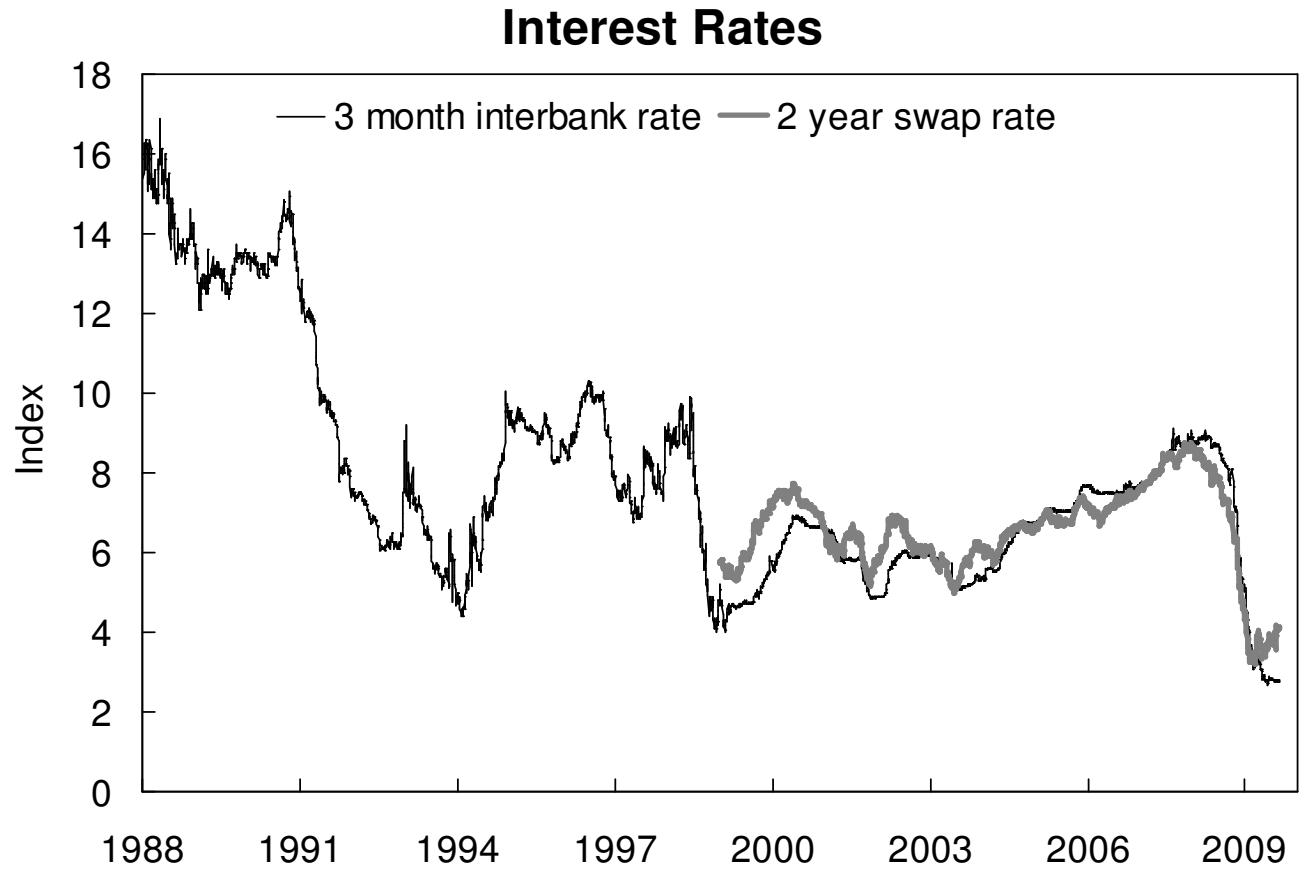
# But GDP per capita will not get back to pre-recession levels until early 2012



Source: Statistics NZ, NZIER

# Right now, those that rely on interest income to pay for bills and care will find it tougher...

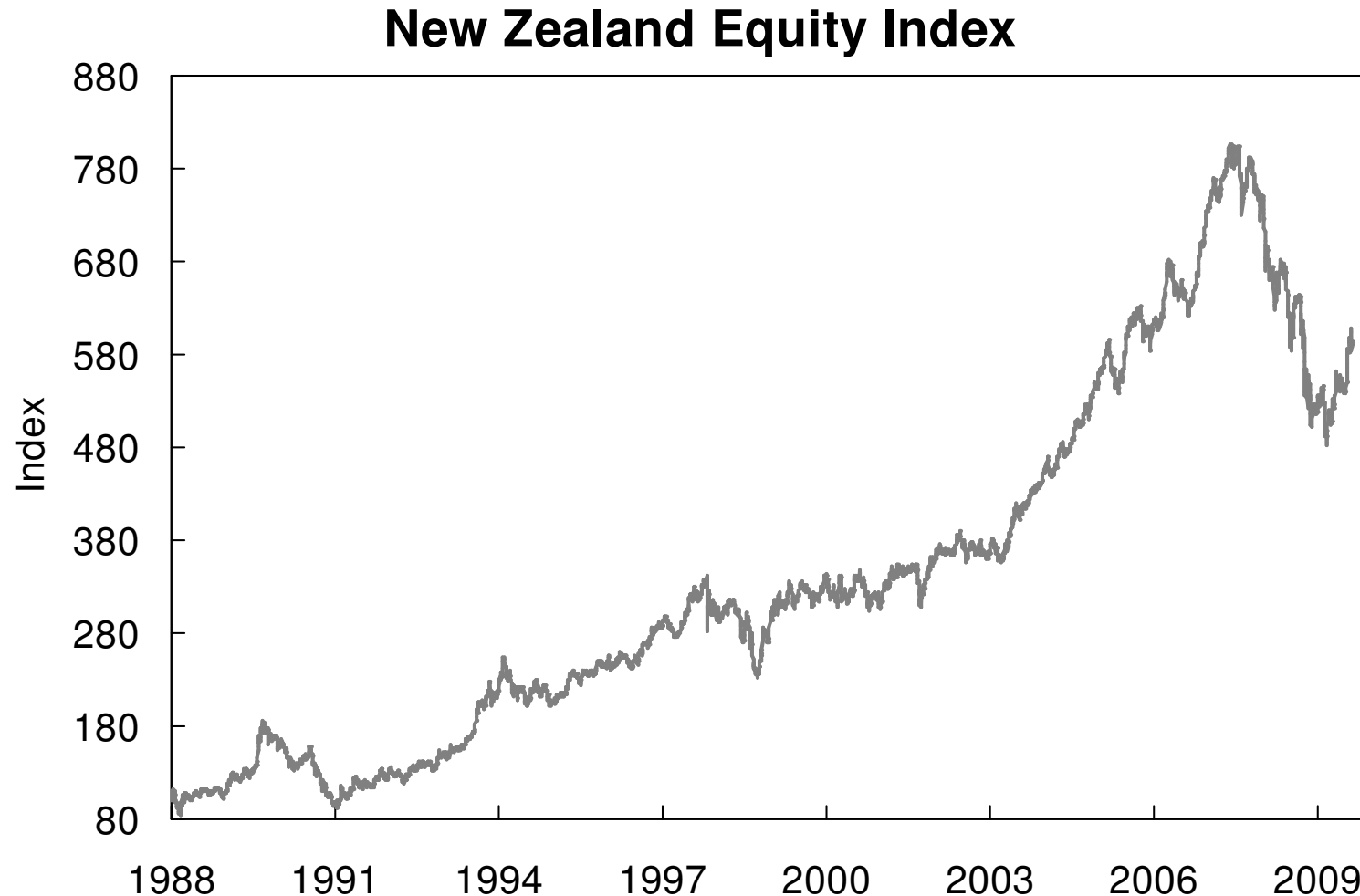
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Source: DataStream

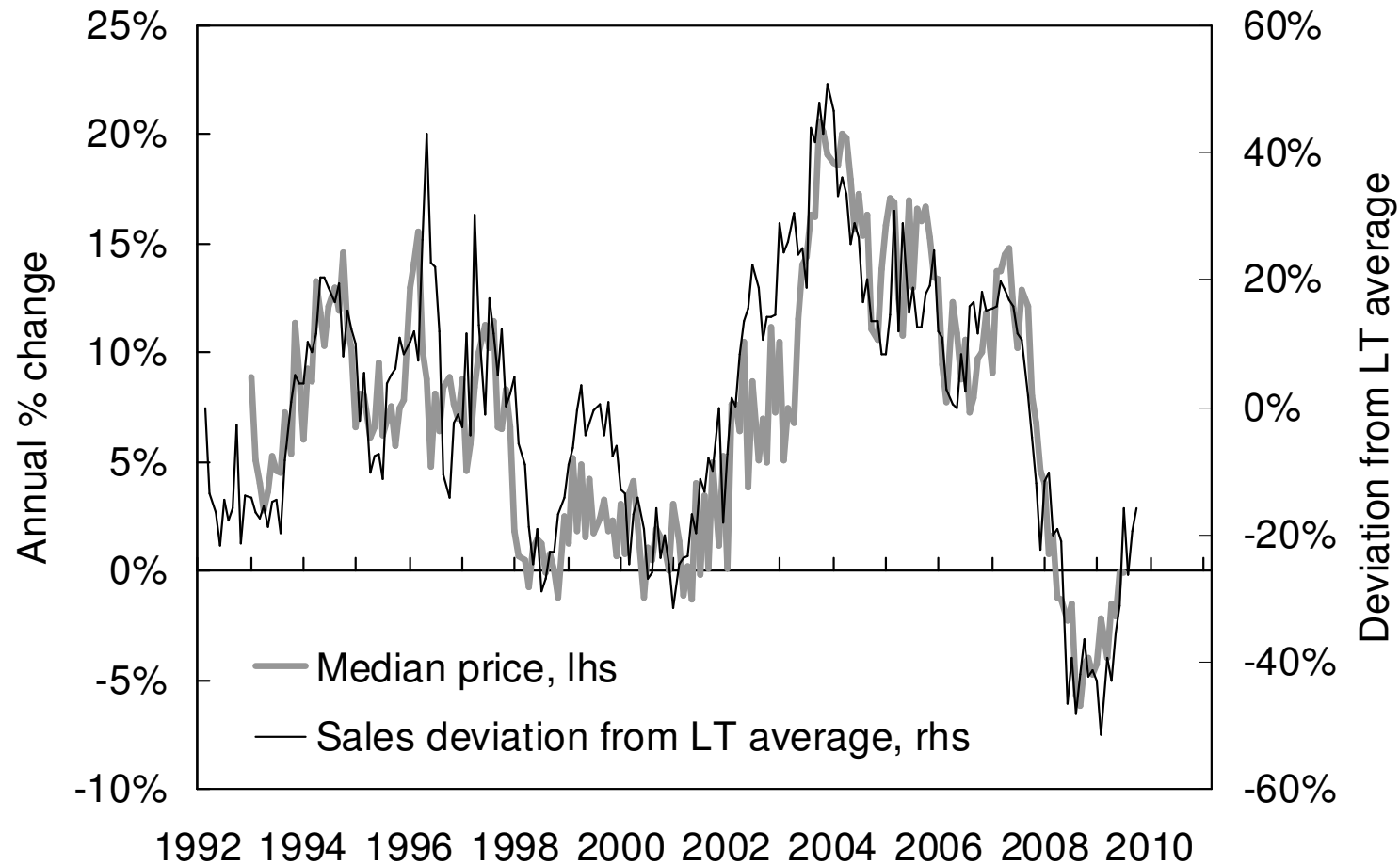
# The knock to financial wealth is an issue for those that cannot make up lost ground

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# The weaker housing market will be a key concern for retirement villages and DHBs

## Median Price & Sales



Source: REINZ, NZIER

# Houses are the main form of wealth for individuals

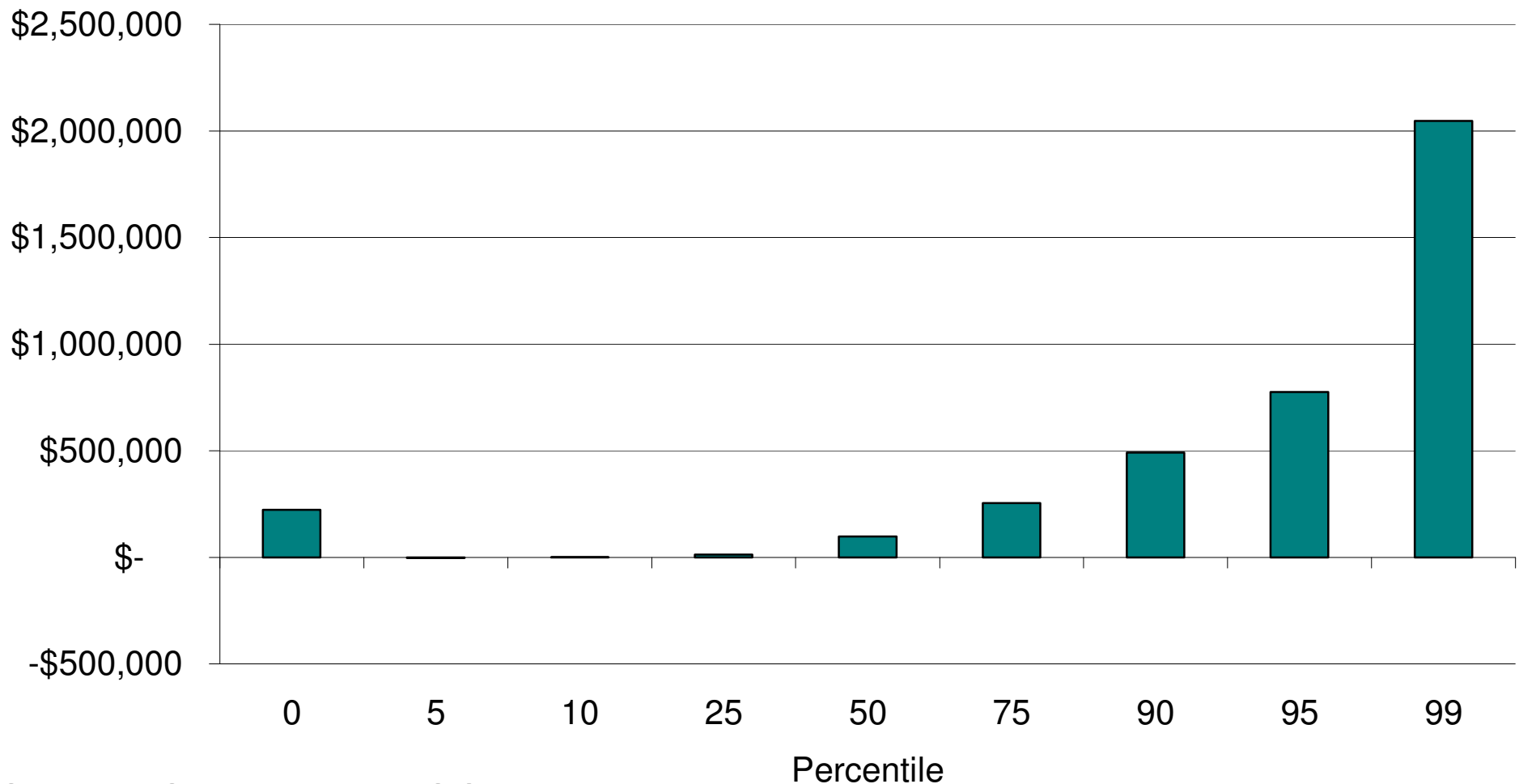
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| <b>Mean</b> | <b>Home</b> | <b>Investment<br/>Property</b> | <b>Financial<br/>wealth</b> | <b>Durables</b> | <b>Net<br/>worth</b> |
|-------------|-------------|--------------------------------|-----------------------------|-----------------|----------------------|
| 60-64       | 35%         | 9%                             | 37%                         | 19%             | \$192,047            |
| 65-69       | 37%         | 11%                            | 37%                         | 14%             | \$346,964            |
| 70-74       | 50%         | 5%                             | 28%                         | 17%             | \$268,853            |
| 75-79       | 53%         | 8%                             | 23%                         | 16%             | \$275,380            |
| 80+         | 54%         | 5%                             | 28%                         | 14%             | \$283,962            |

Source: Statistics NZ, SOFIE dataset 2006

# Especially affects that proportion of people who pay for themselves

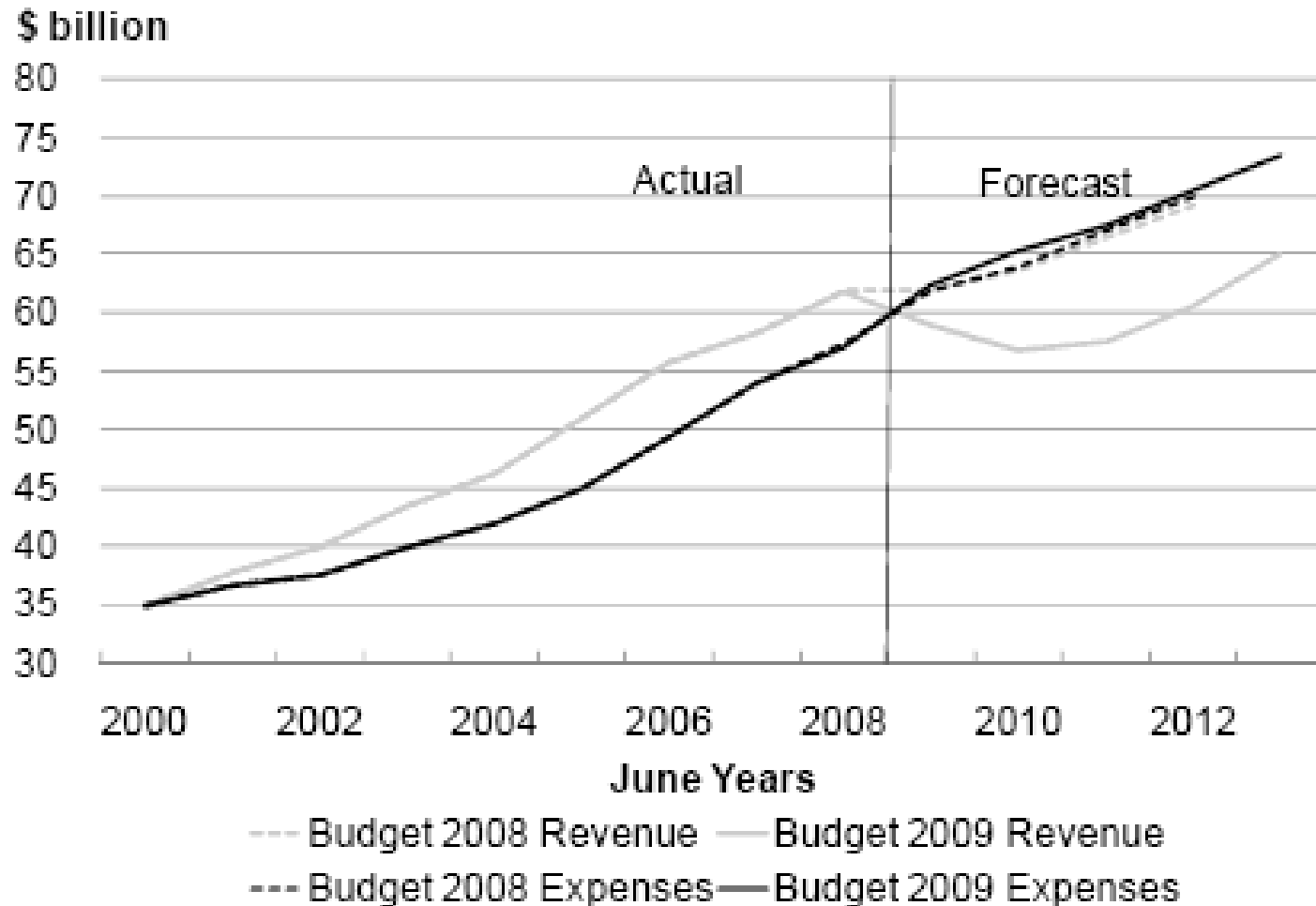
**Distribution of net worth**



Source: Statistics NZ, SOFIE dataset 2006

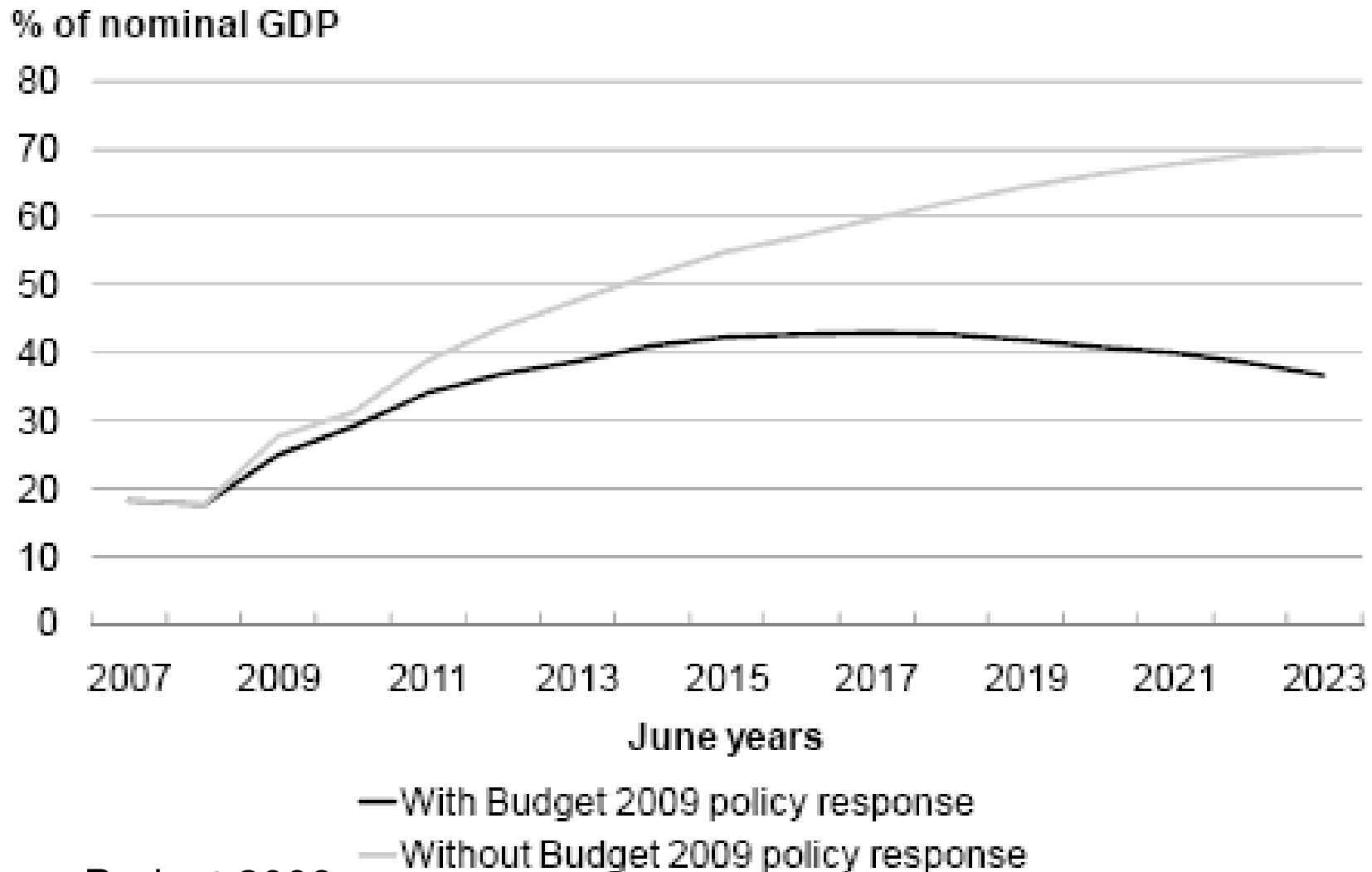
# Fall in income and assets implies more pressure on stressed government accounts

## Core Crown revenue and expenses



Sources: *The Treasury*

# Government spending will have to be very tight the next decade to manage debt levels



Source: Budget 2009

# NZ super may be safe, but signs are that health budgets will have little *real* growth

| <b>\$ million, June years</b>        | <b>2009/10</b> | <b>2010/11</b> | <b>2011/12</b> | <b>2012/13</b> |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Economic Development                 | 280            | -18            | 299            | 304            |
| Education                            | 304            | 348            | 393            | 389            |
| Government Administration            | 36             | -8             | -30            | -5             |
| <b>Health</b>                        | <b>692</b>     | <b>712</b>     | <b>720</b>     | <b>728</b>     |
| Infrastructure                       | 201            | -              | -              | -              |
| Law and Order                        | 211            | 291            | 299            | 307            |
| Research, Science and Technology     | 29             | 29             | 29             | 29             |
| Social Services                      | 114            | 133            | 152            | 162            |
| Line by Line Review Savings          | -301           | -553           | -591           | -549           |
| Other Savings and Adjustments        | -101           | -140           | -152           | -177           |
| Contingency                          | 254            | 336            | 313            | 262            |
| <b>Total Budget 2009 Initiatives</b> | <b>1,719</b>   | <b>1,130</b>   | <b>1,431</b>   | <b>1,450</b>   |

Source: Budget 2009

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So what does this all mean?

# Impact of recession will reverberate in the aged care sector for some years to come...

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- ▶ Profit margin squeeze for retirement villages...
- ▶ ... and residential care
- ▶ Funding pressures on DHBs

# Longer term outlook less clear

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- ▶ Long run fiscal strategy
- ▶ Consumer worry about sustainability of support could lead to increased savings rate

# Implications

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- ▶ Long run health funding environment will be very tight.
  - Any proposal will need to pass stringent Return on Investment test
  
- ▶ There will be pressure to cut costs
  - Tightening of the need test
  - Shining a spotlight on home support
  
- ▶ There will be pressure to shift the burden back to citizens
  - Review Income & Asset Testing regime
  - Allowing differentiated services based on ability to pay, away from the one-size-fits-all

**HEALTH COST WEIGHTS IN THE LONG TERM FISCAL MODEL (2003/04 \$)**

| EXPENDITURE CATEGORY | PERSONAL HEALTH |               | DSS OLDER     |              | MENTAL HEALTH |              | PUBLIC HEALTH |              | DSS UNDER 65 |              | TOTAL HEALTH  |               |
|----------------------|-----------------|---------------|---------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|---------------|---------------|
| AGE GROUP / GENDER   | FEMALE          | MALE          | FEMALE        | MALE         | FEMALE        | MALE         | FEMALE        | MALE         | FEMALE       | MALE         | FEMALE        | MALE          |
| 0 - 4                | 1,966           | 2,304         | 0             | 0            | 106           | 106          | 63            | 63           | 180          | 180          | 2,316         | 2,653         |
| 5 - 9                | 478             | 548           | 0             | 0            | 104           | 104          | 81            | 81           | 180          | 180          | 843           | 913           |
| 10 - 14              | 451             | 495           | 0             | 0            | 101           | 101          | 80            | 80           | 180          | 180          | 812           | 856           |
| 15 - 19              | 832             | 524           | 0             | 0            | 315           | 312          | 76            | 75           | 180          | 180          | 1,404         | 1,091         |
| 20 - 24              | 1,106           | 525           | 0             | 0            | 281           | 277          | 77            | 76           | 180          | 180          | 1,644         | 1,058         |
| 25 - 29              | 1,325           | 574           | 0             | 0            | 277           | 276          | 54            | 54           | 180          | 180          | 1,837         | 1,084         |
| 30 - 34              | 1,353           | 573           | 0             | 0            | 267           | 268          | 53            | 53           | 180          | 180          | 1,853         | 1,075         |
| 35 - 39              | 1,113           | 603           | 0             | 0            | 258           | 259          | 51            | 52           | 180          | 180          | 1,603         | 1,094         |
| 40 - 44              | 939             | 682           | 0             | 0            | 254           | 253          | 51            | 50           | 180          | 180          | 1,424         | 1,166         |
| 45 - 49              | 1,122           | 1,009         | 0             | 0            | 248           | 247          | 50            | 50           | 180          | 180          | 1,600         | 1,486         |
| 50 - 54              | 1,265           | 1,217         | 53            | 29           | 245           | 244          | 49            | 49           | 180          | 180          | 1,792         | 1,719         |
| 55 - 59              | 1,525           | 1,608         | 84            | 60           | 243           | 241          | 49            | 49           | 180          | 180          | 2,080         | 2,137         |
| 60 - 64              | 1,901           | 2,158         | 134           | 121          | 246           | 244          | 49            | 49           | 180          | 180          | 2,510         | 2,752         |
| 65 - 69              | 2,880           | 3,405         | 336           | 277          | 185           | 183          | 50            | 49           | 0            | 0            | 3,450         | 3,914         |
| 70 - 74              | 3,470           | 4,328         | 674           | 598          | 184           | 181          | 50            | 49           | 0            | 0            | 4,378         | 5,156         |
| 75 - 79              | 4,399           | 5,537         | 1,382         | 1,227        | 182           | 180          | 49            | 49           | 0            | 0            | 6,013         | 6,993         |
| 80 - 84              | 5,732           | 6,844         | 2,870         | 2,325        | 181           | 179          | 49            | 48           | 0            | 0            | 8,832         | 9,396         |
| 85+                  | 5,068           | 5,792         | 7,626         | 5,135        | 180           | 178          | 49            | 48           | 0            | 0            | 12,923        | 11,153        |
| <b>TOTAL</b>         | <b>36,926</b>   | <b>38,725</b> | <b>13,158</b> | <b>9,772</b> | <b>3,857</b>  | <b>3,831</b> | <b>1,028</b>  | <b>1,024</b> | <b>2,345</b> | <b>2,345</b> | <b>57,314</b> | <b>55,697</b> |