



ACAA National Conference
Hobart – Nov 2008

**MAINTAINING VIABILITY IN
RESIDENTIAL AGED CARE**

by

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**B. FLEXIBLE BOND OPTIONS &
PERIODIC PAYMENTS**



A. EXTRA SERVICES

What Does Extra Service Status Mean?

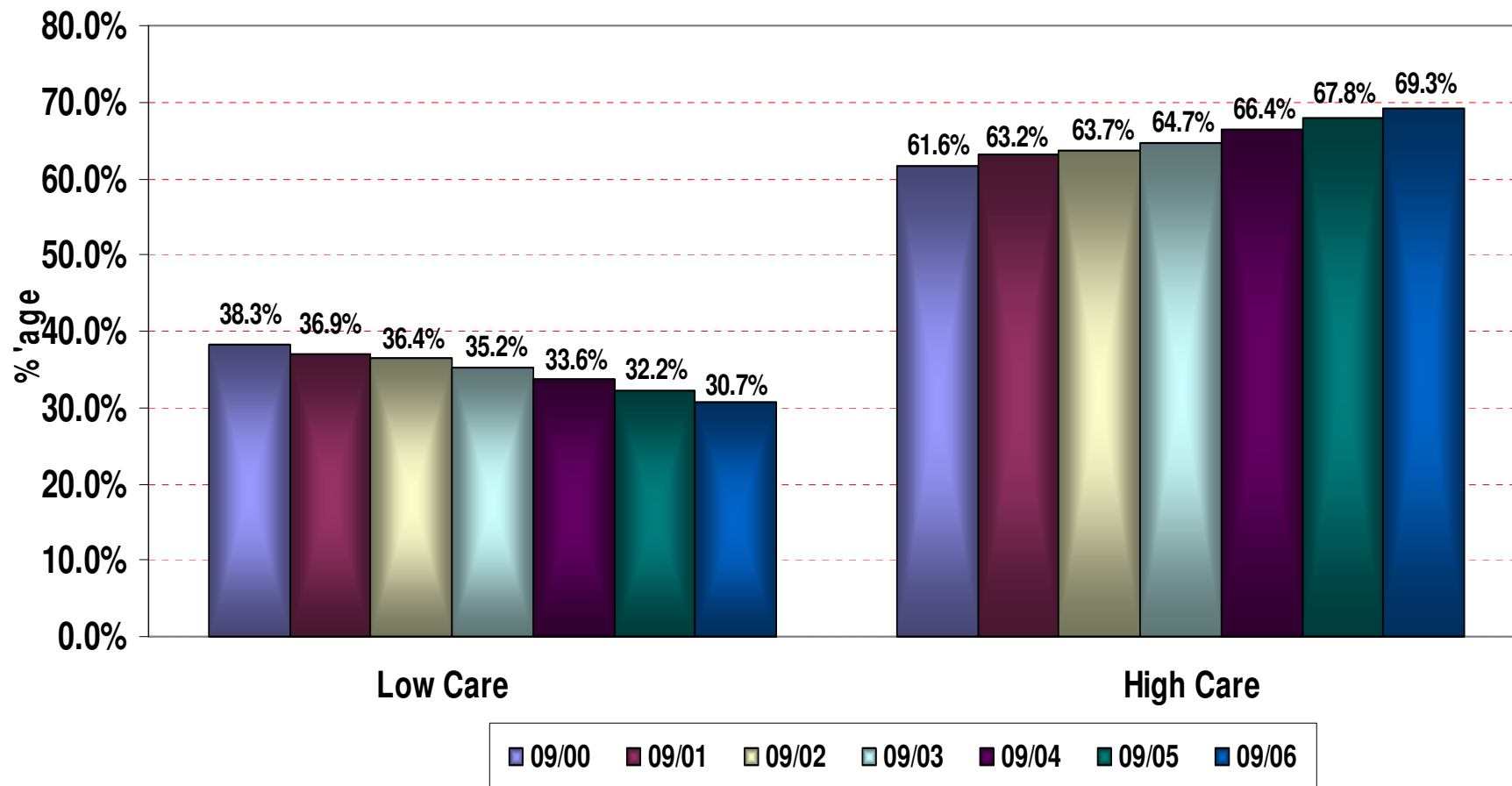
- A DoHA approval to charge higher fees to residents of an “above-average” service **and** to charge an accommodation **bond** to High Care residents in lieu of an accommodation **charge**.



Why do you need ES?

- To help cross-subsidise higher cost services
- To help fund an “above average” service
- To make single-room, ensuited High Care viable
- To ensure future viability

Numbers of Low Care residents are decreasing

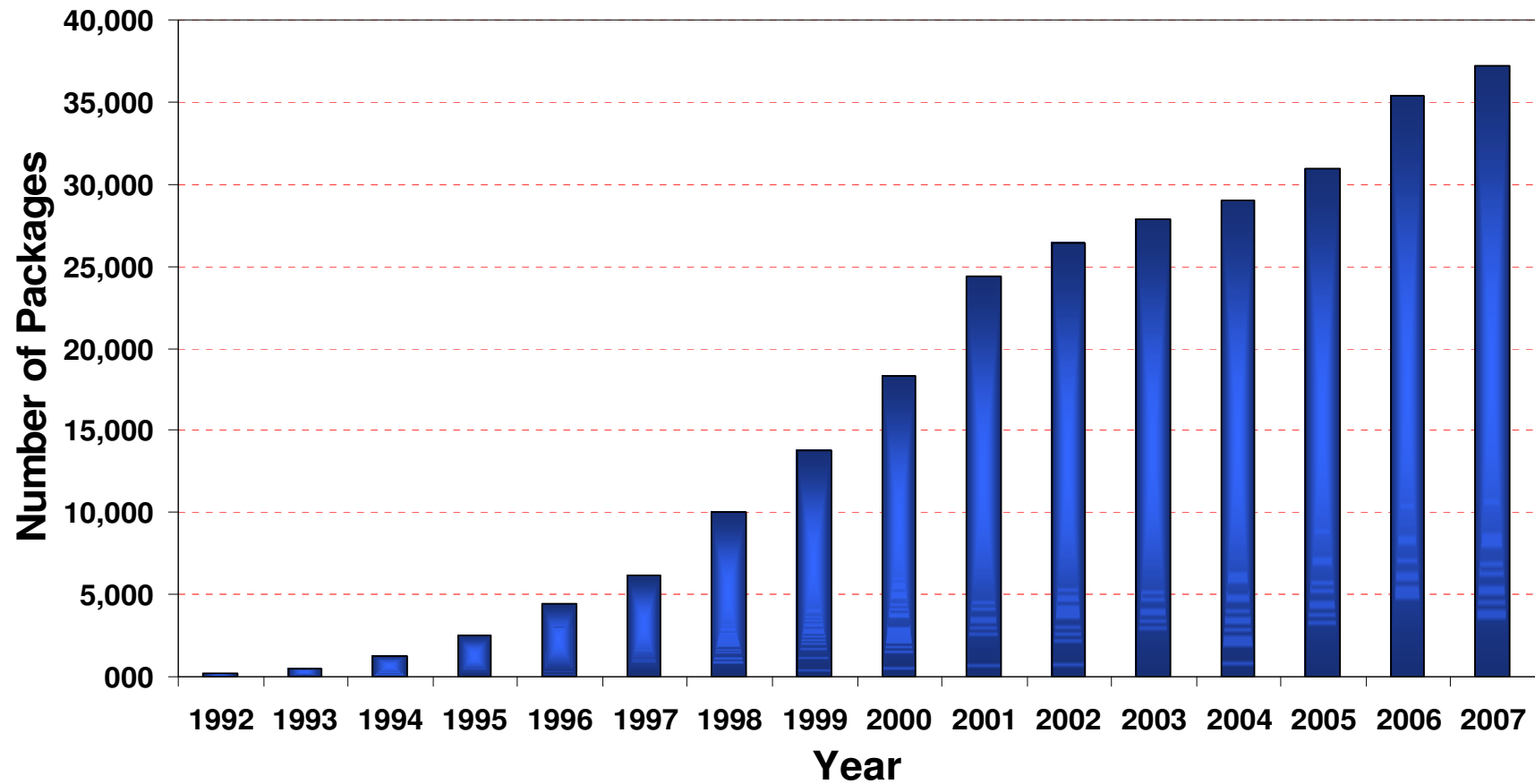


Movement in Low Care & High Care Resident Levels as Proportions of All Australian Residential Aged Care Residents Sep 2000 to Sep 2006



Numbers of CACPs are increasing

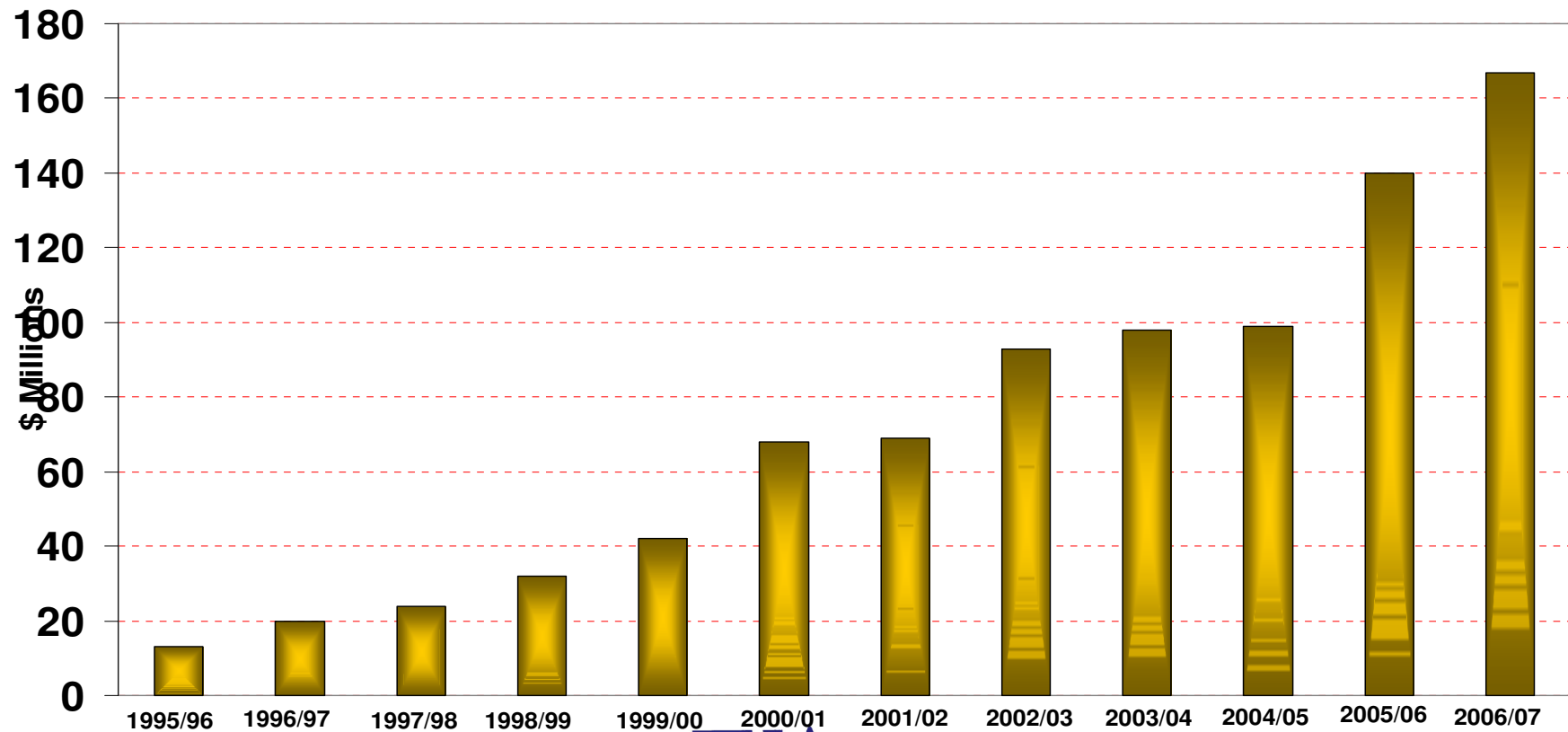
Number of Community Aged Care Packages, 1992 to 2007



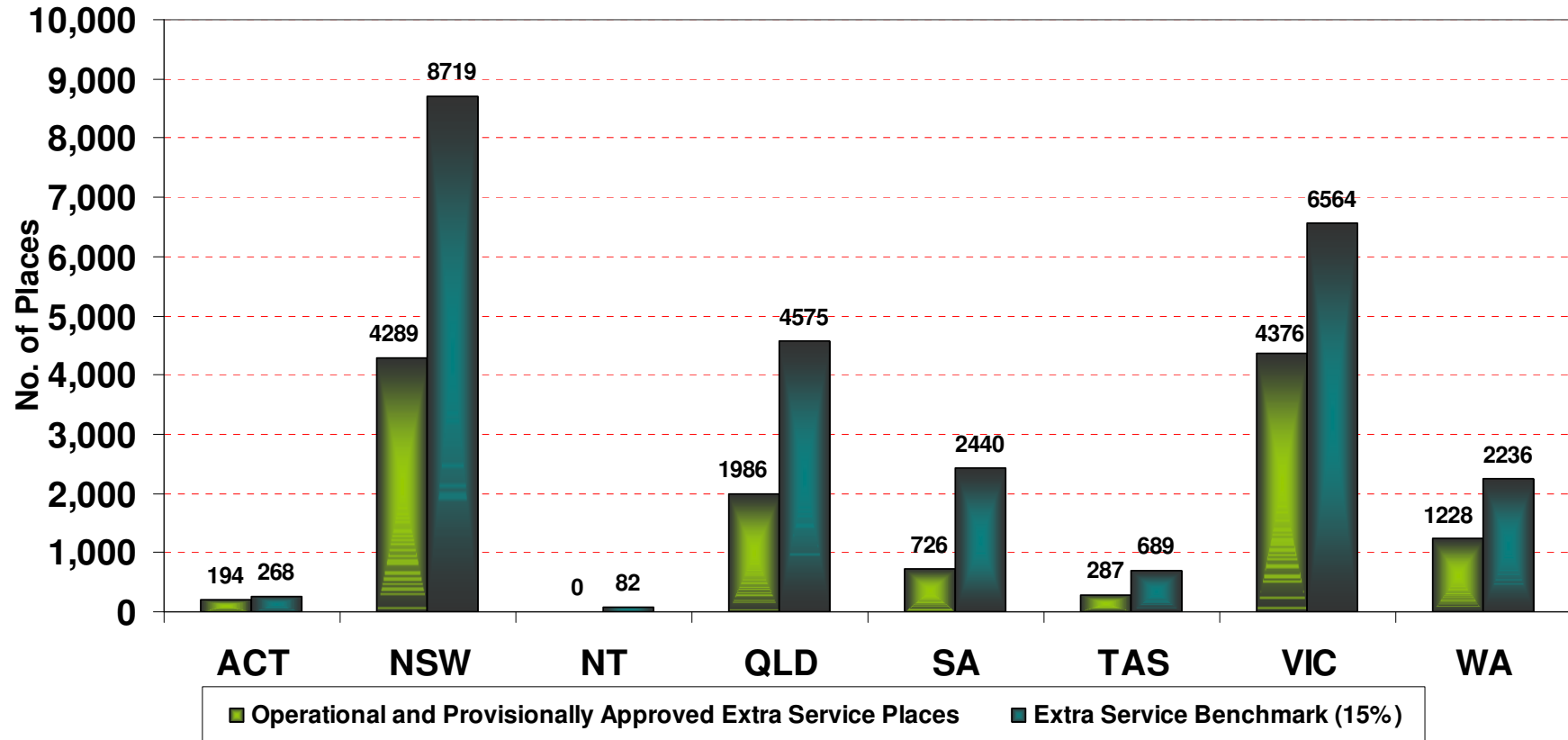


Commonwealth support for respite is increasing

Australian Government support for National Respite for Carers Program, 1995/96 - 2006/07

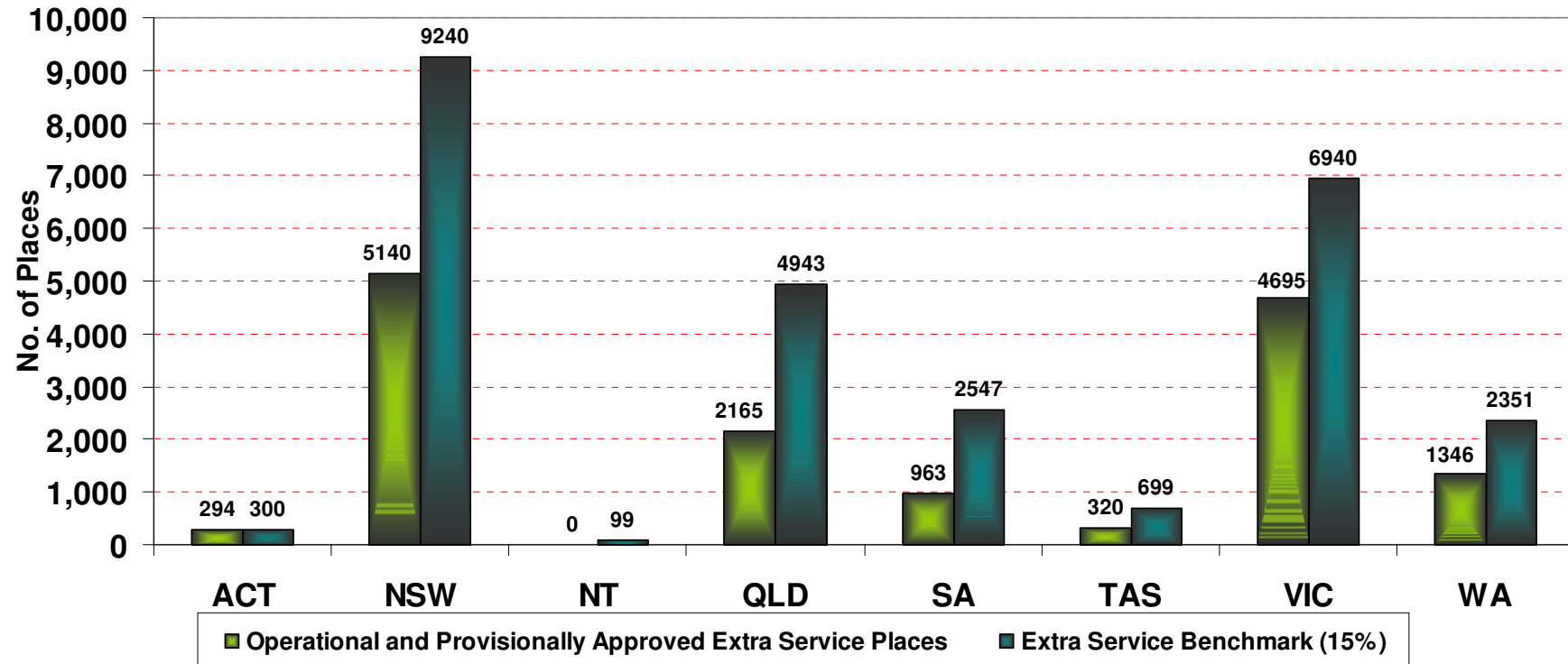


How did the numbers of ES places compare to the 15% limit in 2007?



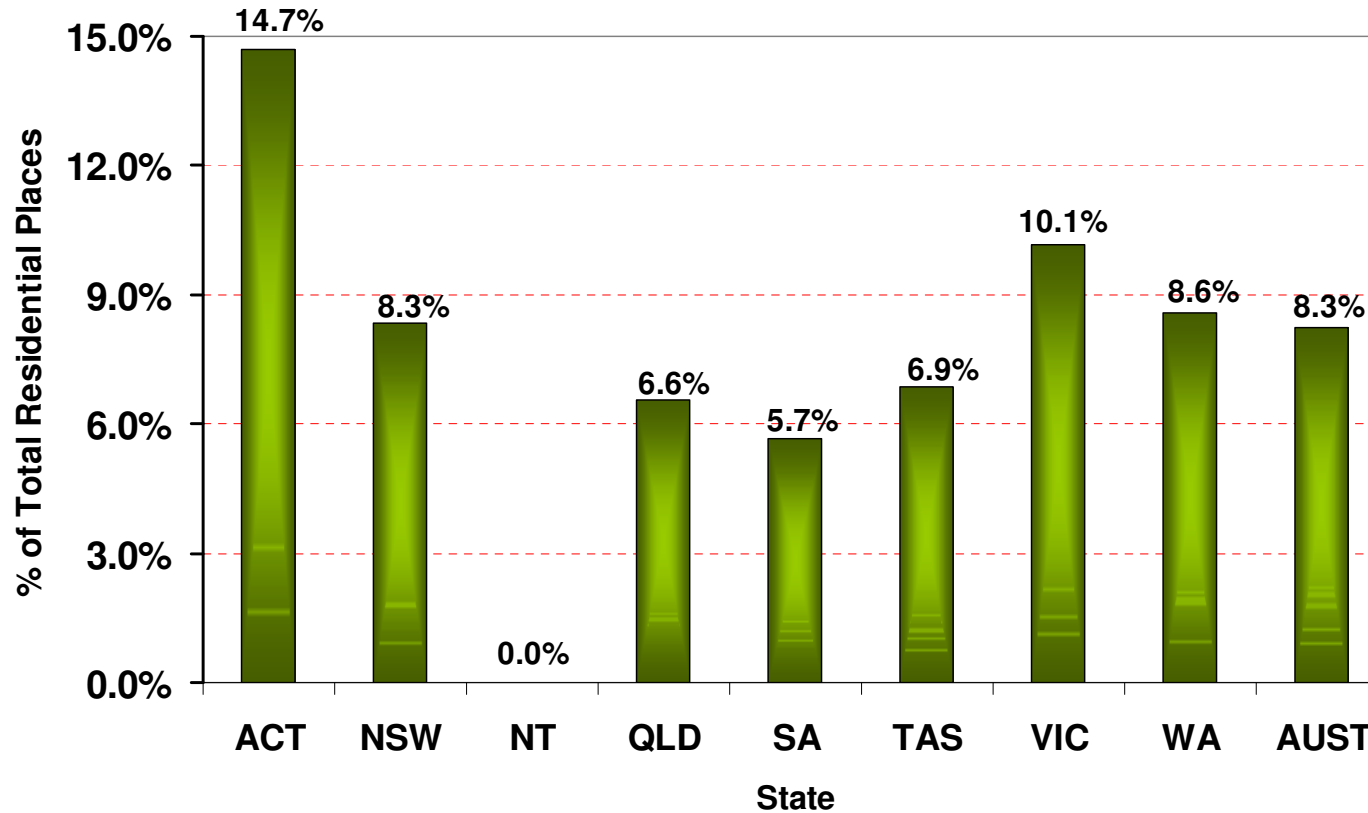
Operational plus Provisionally-Approved Extra Service Places Compared to Australian Government Benchmark of 15% of all Residential Care Places – As at Oct 07, updated with the Apr 07 ESAR allocations.

How do the numbers of ES places compare to the 15% limit in 2008?



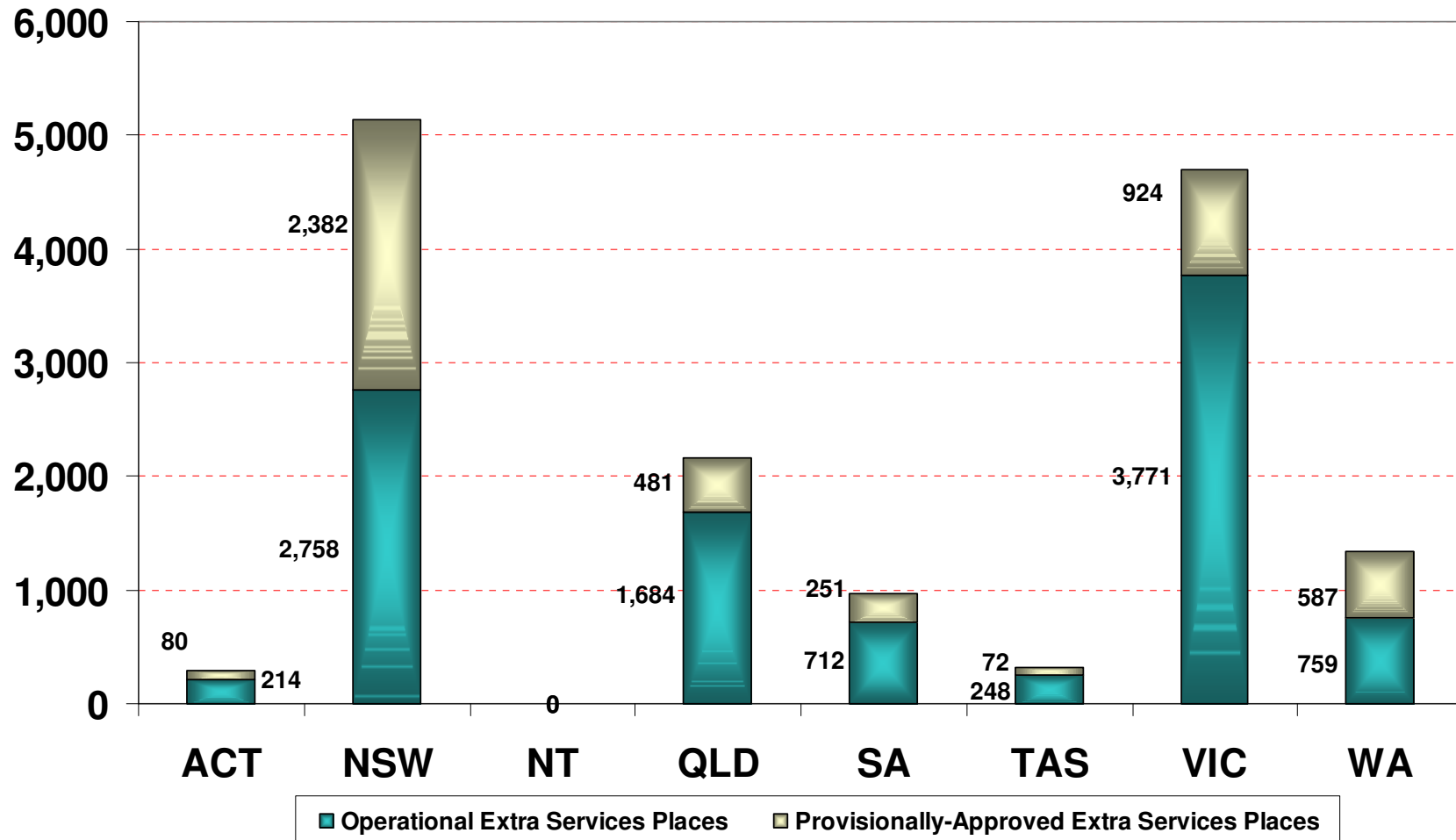
Operational plus Provisionally-Approved Extra Service Places Compared to Australian Government Benchmark of 15% of all Residential Care Places – As at Oct 08, updated with Feb 08 ESAR allocations.

8.3% of all residential places in Australia are ES



Operational plus Provisionally-Approved Extra Service Places as a Percentage of Occupied Residential Aged Care Places - As at Oct 08, updated with Feb 2008 ESAR allocations.

NSW is leading the ES way

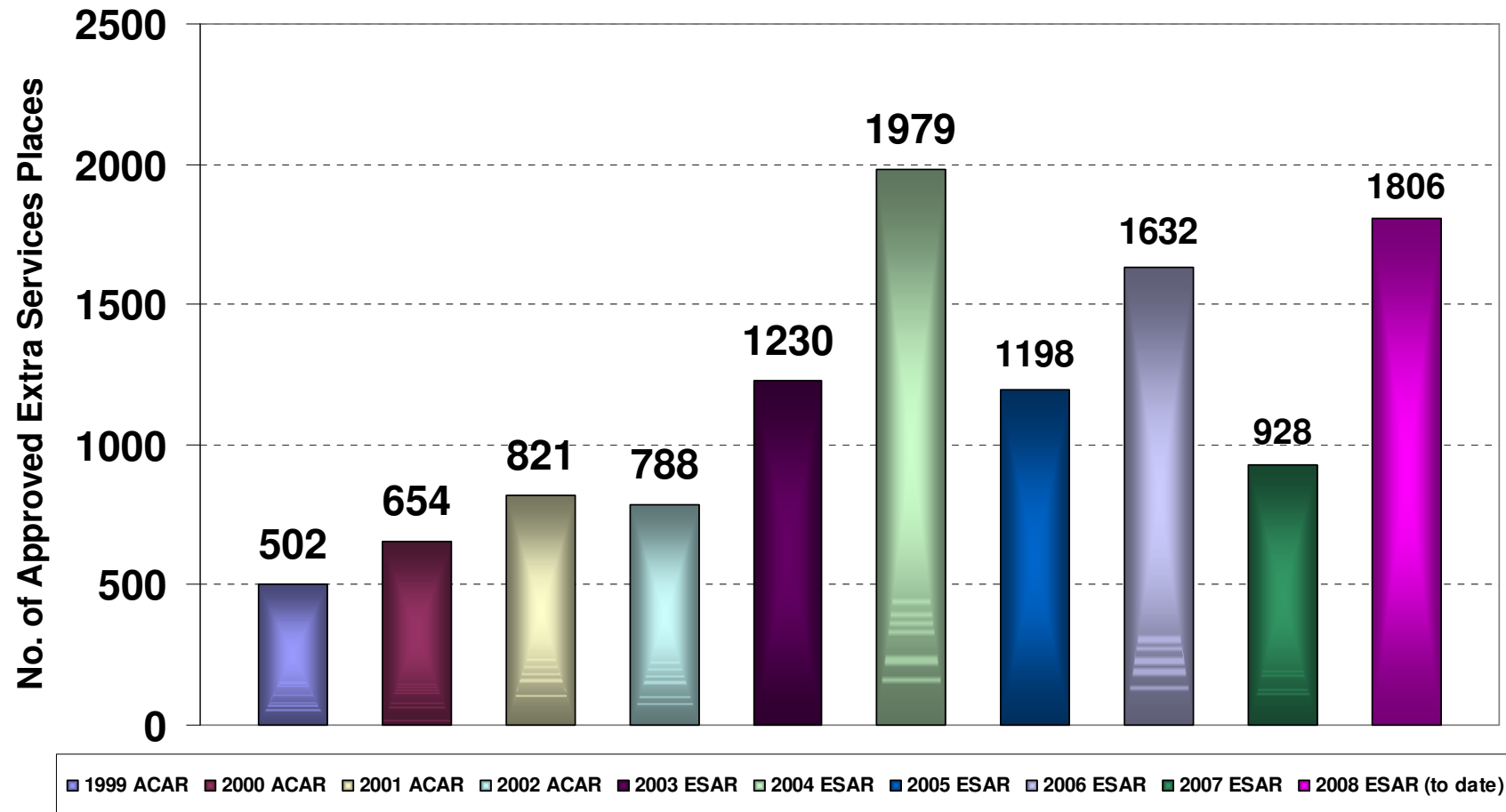


Operational and Provisionally-Approved Extra Service Places As at Oct 08, updated with Feb 08 ESAR allocations.

Fully 12% of all Services have ES



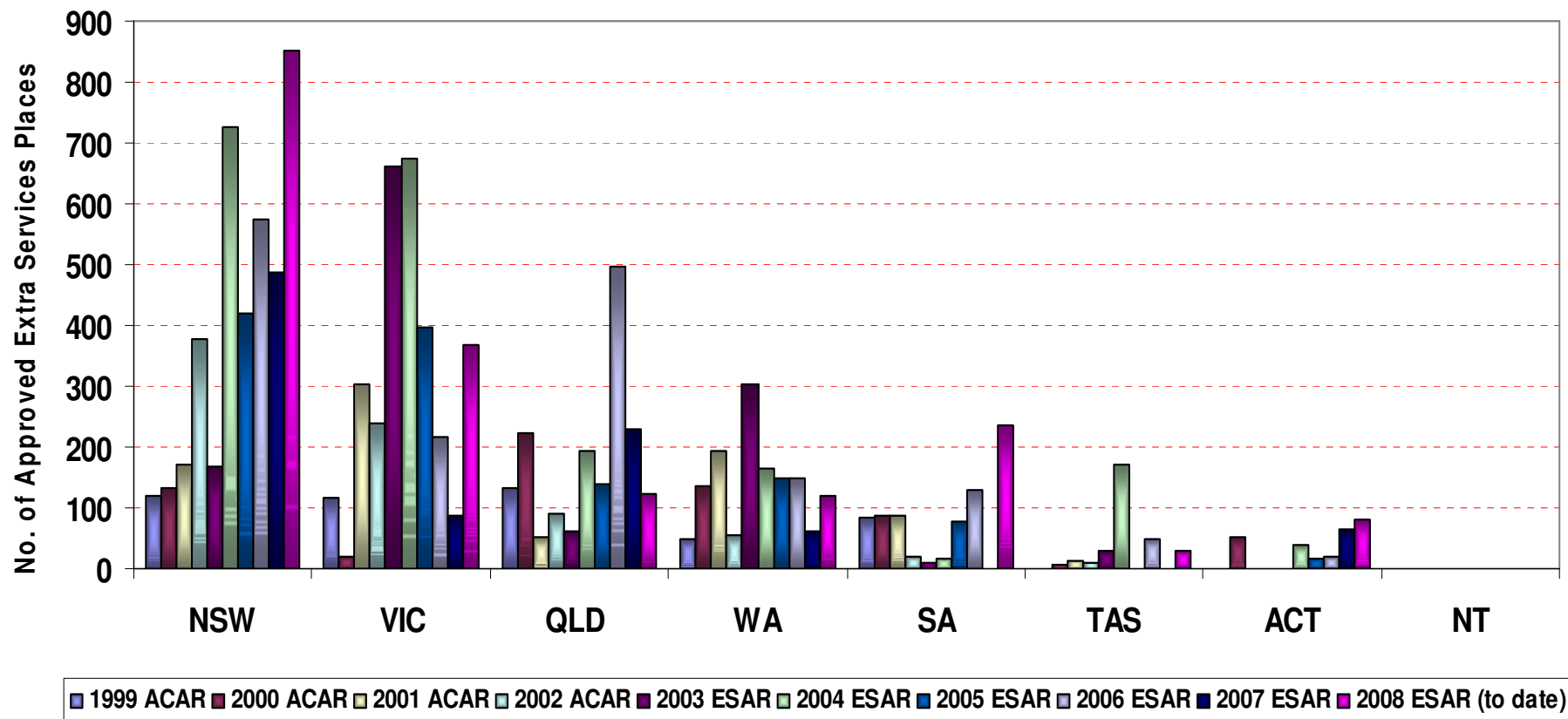
ES numbers are expanding rapidly



New approvals for Extra Services Places – Total per Year

(NB: 2008 figure includes the February 2008 results only – a further round is due for submission in December 2008)

In NSW alone there have been more than 850 new ES approvals already in 2008



New Approvals for Extra Services Places



Groupings of JU&A's successful ES applications

Operator	No. of Services		No. of States & Territories
Anglican	6	in	3 States plus ACT
Baptist	2	in	2 State
Catholic	9	in	4 States
Charitable	20	in	5 States plus ACT
Churches of Christ	9	in	2 States
Freemasons	1	in	1 State
Jewish	1	in	1 State
Lutheran	2	in	2 States
Private-for-Profit	41	in	4 States
Russian	1	in	1 State
Uniting Church	3	in	3 States
TOTAL	95	in	6 States plus ACT



The basics for applying for ES status

- Four rounds per year
- Meet 2008 certification
- Have 60 ‘points’ on ESS list
- Be ‘above average’
- Select ‘all’ or ‘definable areas’



How do you market ES?

- As being particularly flash *or*
- As having larger/newer/better rooms *or*
- Like a **non-ES low care** service:
 - **Without** differentiating care
 - **Without** differentiating service standards
 - **Without** differentiating staff
 - Differentiating **only** by payment terms

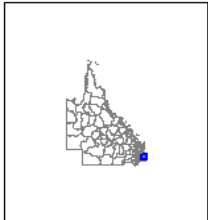
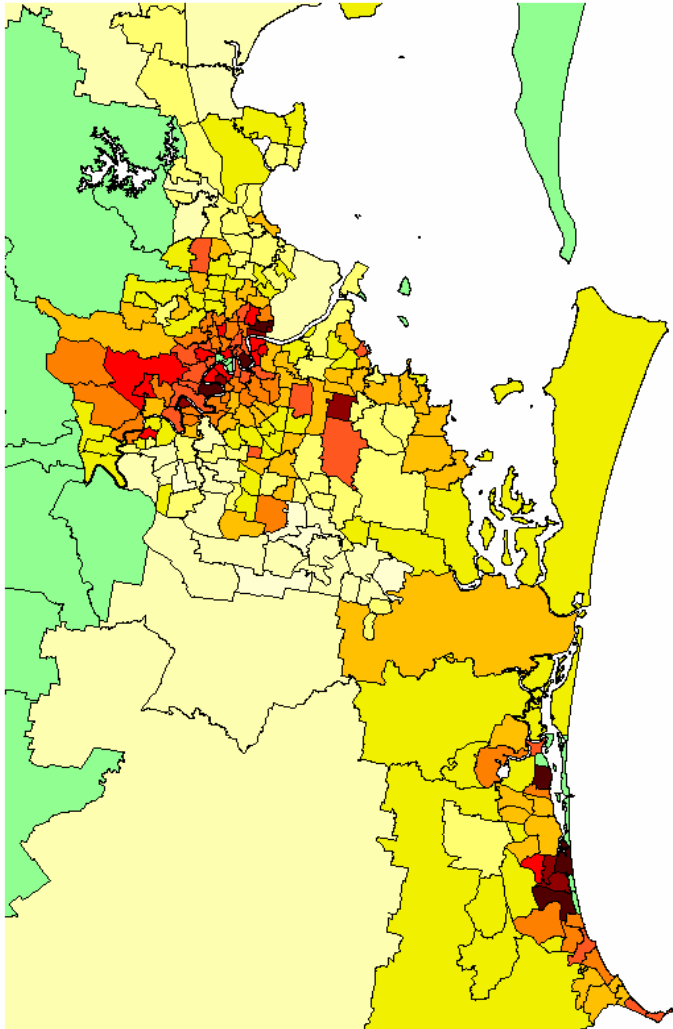


Can people afford to pay Bonds to access
good quality services?



Median House Sale Price

South East Qld - 12 mths to 31 March 2003



Median House Sale Price
12mths to 31 March 03

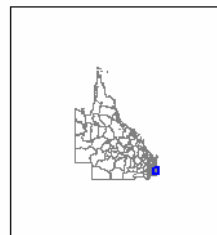
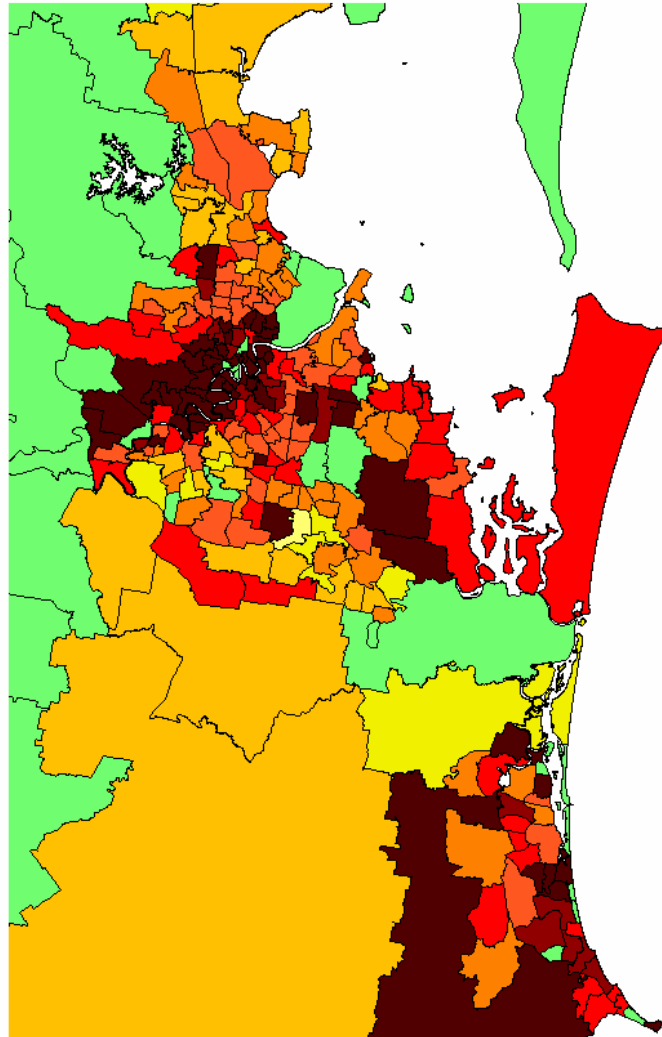
Over \$500,000	(6)
\$450,000 - \$499,000	(6)
\$400,000 - \$449,000	(13)
\$350,000 - \$399,000	(24)
\$300,000 - \$349,000	(32)
\$250,000 - \$299,000	(48)
\$200,000 - \$249,000	(49)
\$150,000 - \$199,000	(43)
\$100,000 - \$149,000	(26)
Under \$100,000	(5)
No available data	(0)

Based on 2001 Statistical Local Area Boundaries
Source: Qld Property & Lifestyle Winter 03
Produced by: James Underwood & Associates Pty Ltd
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Median House Sale Price

South East Qld - 12mths to 30 June 2007

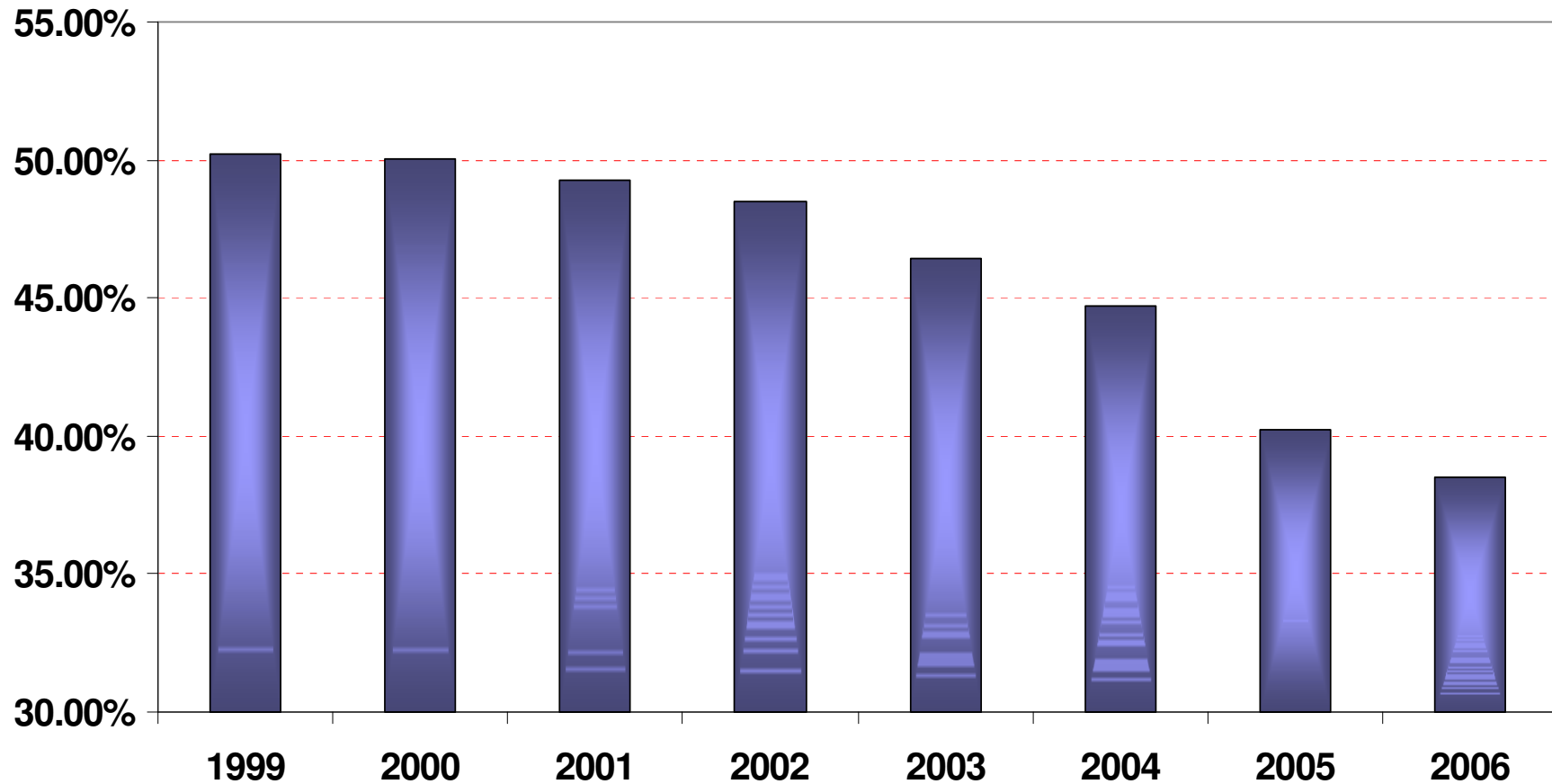


Median House Sale Price
12mths to 30 June 07

Over \$500,000	(61)
\$450,000 - \$499,000	(19)
\$400,000 - \$449,000	(42)
\$350,000 - \$399,000	(41)
\$300,000 - \$349,000	(40)
\$250,000 - \$299,000	(24)
\$200,000 - \$249,000	(9)
\$150,000 - \$199,000	(1)
\$100,000 - \$149,000	(0)
Under \$100,000	(0)
No available data	(0)

Based on 2001 Statistical Local Area Boundaries
Source: Australian Property Investor Oct 2007
Produced by: James Underwood & Associates Pty Ltd
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Numbers of concessional residents are decreasing



Movement in Proportions of Concessional and Assisted Residents as a Proportion of all Residents in Australian High and Low Care Services June 1999 – June 2006



ES has several benefits

- Makes single-room High Care more viable
- Cross-subsidises services for **all** residents
- Enables enhanced levels of outcomes
- Enables Asset Test-exempt bonds in High Care
- Excludes ES residents from Concessional ratios
- Makes respite care more viable
- Enables 'suite-style' accommodation and other innovations



It also has its challenges

- Partial refunds of capital grants
- Apparent discrimination due to ‘definable areas’
- “Over-promising” in ESS applications
- The need for specialised marketing expertise
- The need for flexibility in payment arrangements
- Greater focus on hospitality services



Remember...

- Extra services does **not** mean ‘over the top’
- It does **not** mean ‘rich people only’
- It does **not** mean ‘the Ritz’
- Extra services is actually *Latin* for “**bonds** in High Care”



B. FLEXIBLE BOND OPTIONS & PERIODIC PAYMENTS

1. “The Preferred Option” – Lump Sum plus Periodic Payment

Lump Sum \$250,000 + Addit PP Fee of \$40/day
(@ Interest Rate of 9.125%)

Lump Sum	\$250,000
Lump Sum Equivalent (LSE)	
\$40 x 365 / 0.09125	<u>160,000</u>
	\$410,000
Minimum Asset Retention	<u>34,500</u>
Minimum Assets Required	<u>\$444,500</u>

Note: You could have as your “preferred option” to have the additional fee withdrawn from the bond as a total retention of \$118,104pa. Then, only the base fee plus any ITF is the “on-going” fee.



Can people afford to pay Bonds to access good quality services?



Median House Prices

12 Months to 28 February 2008

	Number sold	Median \$	%'age growth over 12 mths
Holland Park	142	\$370,500	21.4
Raceview	223	\$285,000	16.3
Eden's Landing	169	\$335,000	14.6
Caloundra	44	\$508,750	22.0
Allora	25	\$200,000	11.4
Chinchilla	107	\$237,000	-5.2
Murgon	63	\$150,000	15.4

Source: Australian Property Investor, June 2008



2. The “Higher Daily Fee, Lower Lump Sum” Option

Lump Sum \$190,000 + Addit Fee of \$60/day (or Total “Retention” of up to \$25,404pa)

(@ Interest Rate of 9.9%)

Lump Sum	\$190,000
LSE $\$60 \times 365 / 0.099$	221,212
Minimum Asset Retention	34,500
Minimum Assets Required	<u>\$445,712</u>



3. The “No Lump Sum” Option

If the residents prefers to pay **no** lump sum or a lower lump sum – perhaps so they do not have to sell their home at this time or ever – they can do so by paying a higher fortnightly fee. It may suit the resident to pay a higher fee for a year or two whilst they consider whether to sell their home or other assets to pay a lump sum.

Example 3

LSE \$111.21/Day x 365 / 0.099	\$410,000
Minimum Asset Retention	<u>34,500</u>
Minimum Assets Required	<u>\$444,500</u>
PP/day	\$111.21 PP
	<u>9.20</u> (retention per day)
	<u>\$120.41</u> /day or \$1686 f/n



4. The “Deposit of 5 Years Retentions Only” Option

- Paying a small lump sum – a “deposit” – from which retentions are drawn down will reduce daily fees significantly **and** provide the organisation with a simple way to draw-down any unpaid fees or interest on departure.

Example 4

If a lump sum of just \$100,000 was sought and also used to cover retention draw-downs of \$9.60/day for five years, then the additional fee would fall from \$120.41/day in Option 3 to \$84.08/day at 9.9%pa. This may make a periodic payment more affordable for a person with a superannuation pension who rents out their vacated home.



5. The “No Retention, Interest-free Loan” Option

- If the resident would prefer to have **no** annual retentions (currently \$3,504 p.a. for 5 years) withdrawn from their bond lump sum, this can be arranged by paying an increased lump sum.
- The resident will be refunded their bond lump sum **in full** on departure, provided they have not selected any deferred payment options.
- Likely to be more popular with pensioners or part-pensioners who definitely wish to sell their homes and will have well over \$582,000 in assessable assets after sale of their home.
- Residents can reduce their fees at any time by paying still larger lump sums. The fee reduction is typically based on a return of 5% or 6%pa.



Example 5 – The “No Retention” Bond

\$410,000 standard bond
100,000 “extra bond”
\$510,000 total bond

- Certain benefit: ➡ No “retention” – Gain of 3.504% pa for 5 years
- Possible benefit: ➡ Reduce Income-Tested Fee by up to \$1,500 pa
(extra 1.5% return on \$100,000)
- ➡ Increase Pension by up to \$2,400 pa
(extra 2.4% return on \$100,000)
- ➡ Pension Card?
- Possible Maximum Return ➡ $3.504\% + 1.5\% + 2.4\% = 7.404\%$ pa
plus pension card



6. Additional Marketing Tools

- (i) Peace of Mind Guarantee (POMG)**
- (ii) Deposits**
- (iii) Waiving of Interest for Prompt Payment of Bonds**
- (iv) “Accountant with Personality” Position**
- (v) Financial Advisers**
- (vi) Market the ONE preferred option only**