

Reflections of a Former Chief Economist on Two Decades of Failure in Social Care Policy

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Acknowledgement

- I acknowledge the traditional owners and custodians of the lands on which we are gathered and pay my respects to their Elders past, present and emerging. I extend that respect to all Aboriginal and Torres Strait Islander people here today.
- I acknowledge that Aboriginal sovereignty has never been ceded and I fully support the Uluru Statement from the Heart, and for an Aboriginal and Torres Strait Islander voice to be enshrined in Australia's Constitution.

Disclaimer

- The views expressed in this presentation are not necessarily those of the National Disability Insurance Agency, the Australian Department of Health and Aged Care, the Australian Government or the Royal Commissioners into Aged Care Quality and Safety.

Outline

- Overview of Australia's Social Care System
- Current State of the Australian Aged Care System
- Why is it so?
- What is to be done?
 - Independent Governance
 - Financing options that address the mismatch in the growth rates of different generations.
 - Economics

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Australia's Social Care System (2021-22)

	Recipients	Share of Population	Cost	Share of GDP
Age Pension	2.6 million	10%	\$51.1 billion	2.2%
DSP	765,000	3%	\$18.3 billion	0.8%
Aged Care	1.5 million	6%	\$31.4 billion	1.4%
Disability Support (NDIS)	535,000	2%	\$26.7 billion	1.2%
Carer payments	301,200	1%	\$9.9 billion	0.4%
	4.0 million	15%	\$137.4 billion	6%

Australia's Social Care System (2021-22)

	Consumer Share of Costs	State/Territory Share of Costs	Commonwealth Share of Costs	Share of Commonwealth Revenue
Age Pension	0%	0%	100%	10.3%
DSP	0%	0%	100%	3.7%
Aged Care	20%	1%	79%	5.0%
Disability Support	0%	40%	60%	5.9%
Carer payments	0%	0%	100%	2.0%
(Note: Does not include tax expenditure on superannuation of \$43 billion)				26.9%

Australia's Social Care System (2021-22)

- Aged Care

- 3,000 service providers
- 340,000 workers
- 2.6% of the workforce

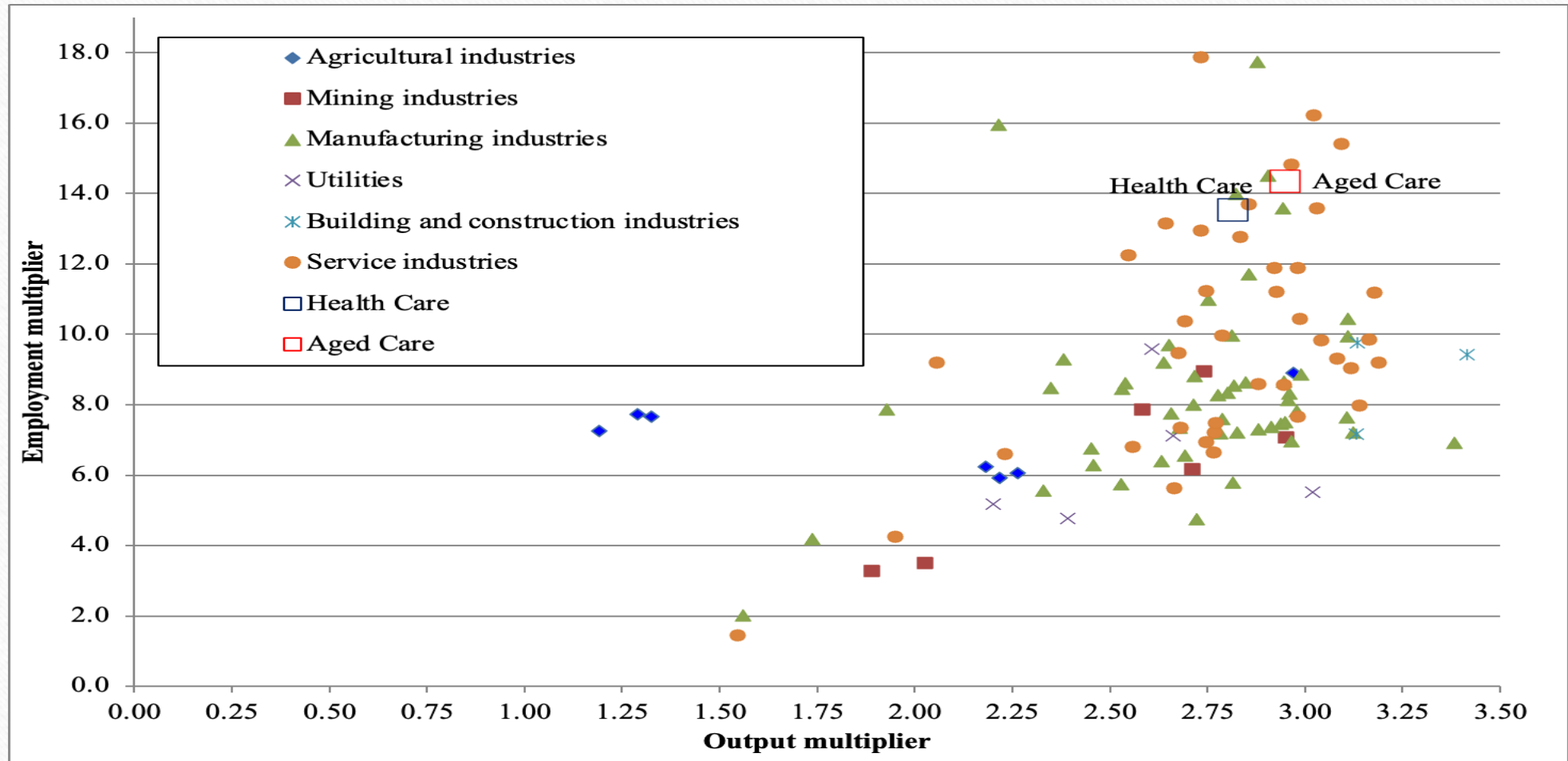
- NDIS

- 180,000 service providers
- 300,000 workers
- 2.3% of the workforce

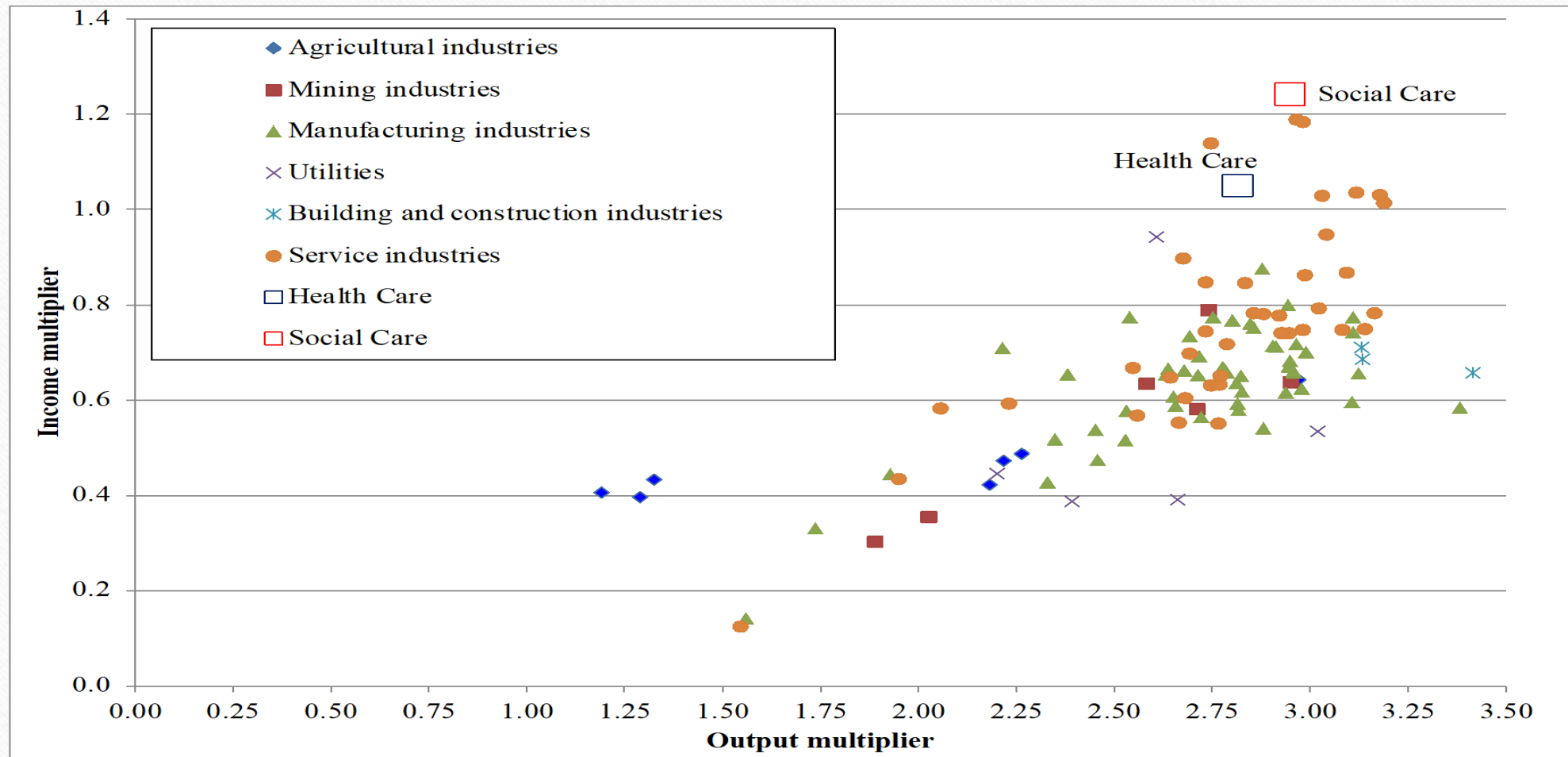
- Projected Growth

- 17.4% over next five years
- Twice the growth rate of the total number in employment

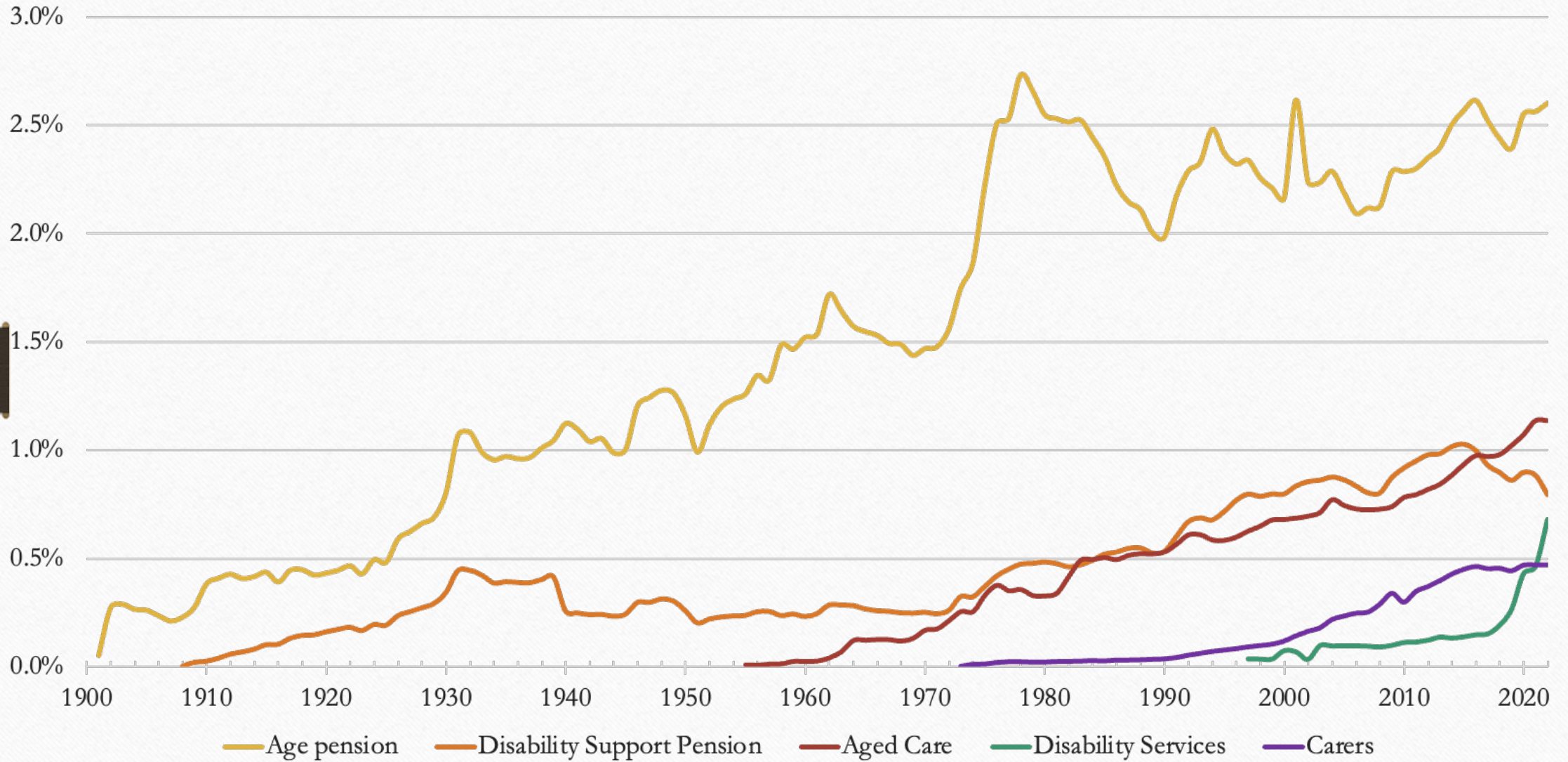
Macroeconomics of Social Care



Macroeconomics of Social Care



Australian Government Expenditure on Social Care as a share of GDP – 1900 to 2020



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Australia's Social Care System (2021-22)

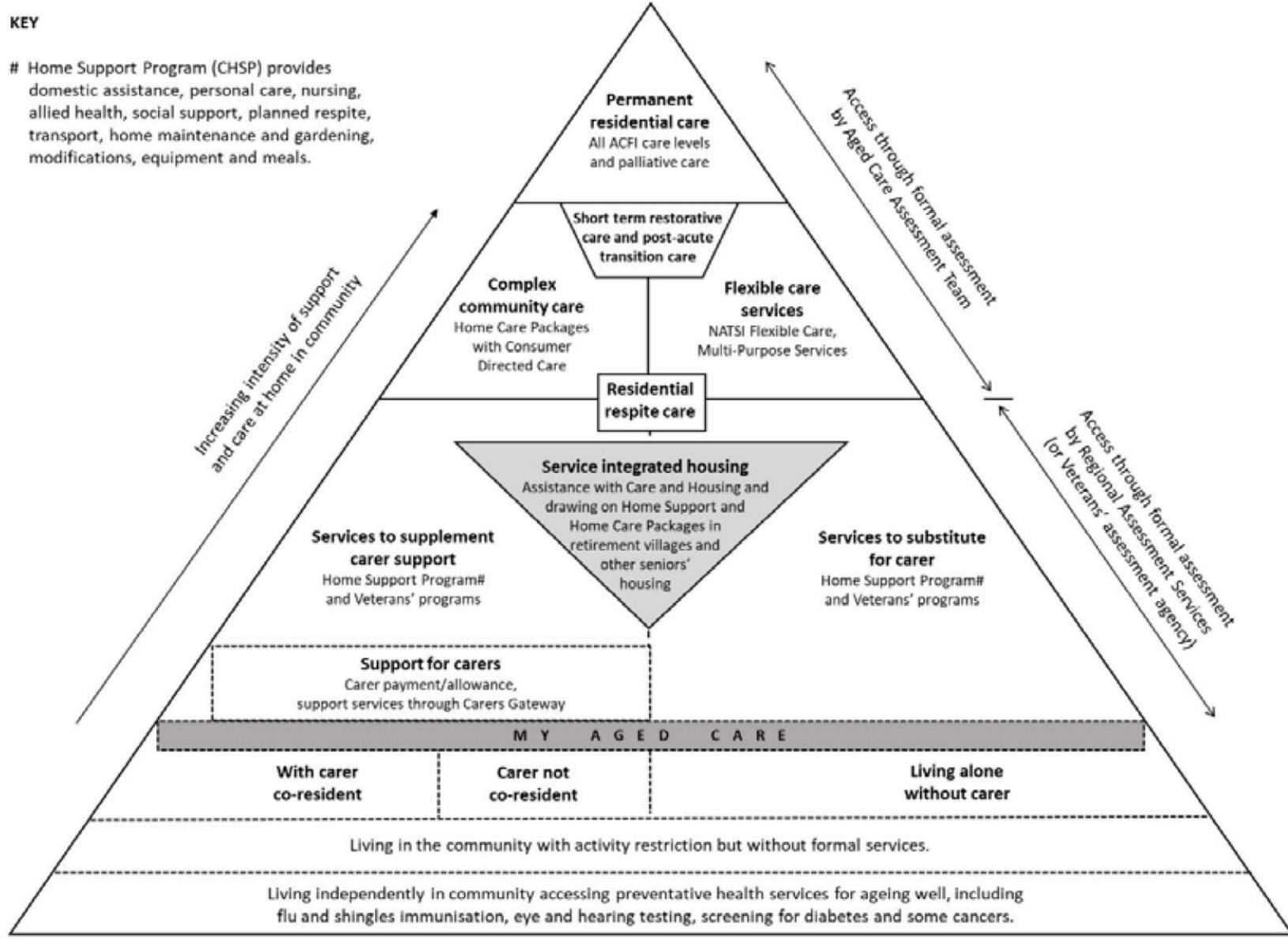
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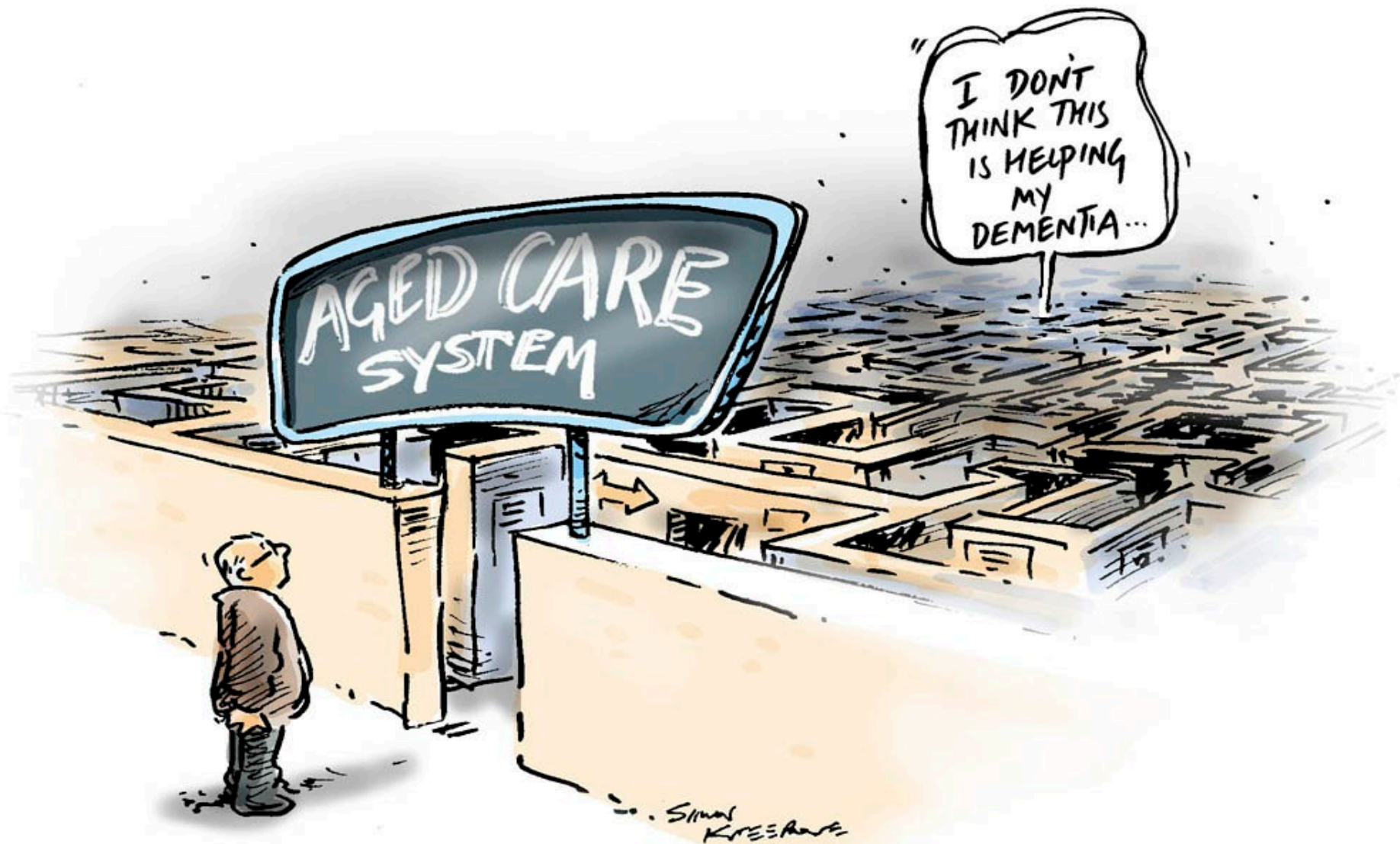
Australia's Aged Care System

- Context
 - A heavily subsidised health system (effectively social insurance with some private insurance)
 - A retirement incomes policy that has always sought to provide a minimal safety net but to encourage self provision
- The consistent direction in Australian social policy has been towards the provision of subsidised services rather than more generous income support.
- Aged care policy lies at the nexus of health and welfare policy
 - From the welfare system, the aged care system inherited an emphasis on means testing.
 - From the health system, came an emphasis on universality of access, tempered by:
 - quantity rationing (enforced through the restrictions on the number of places); and
 - reliance on significant co-payments.

KEY

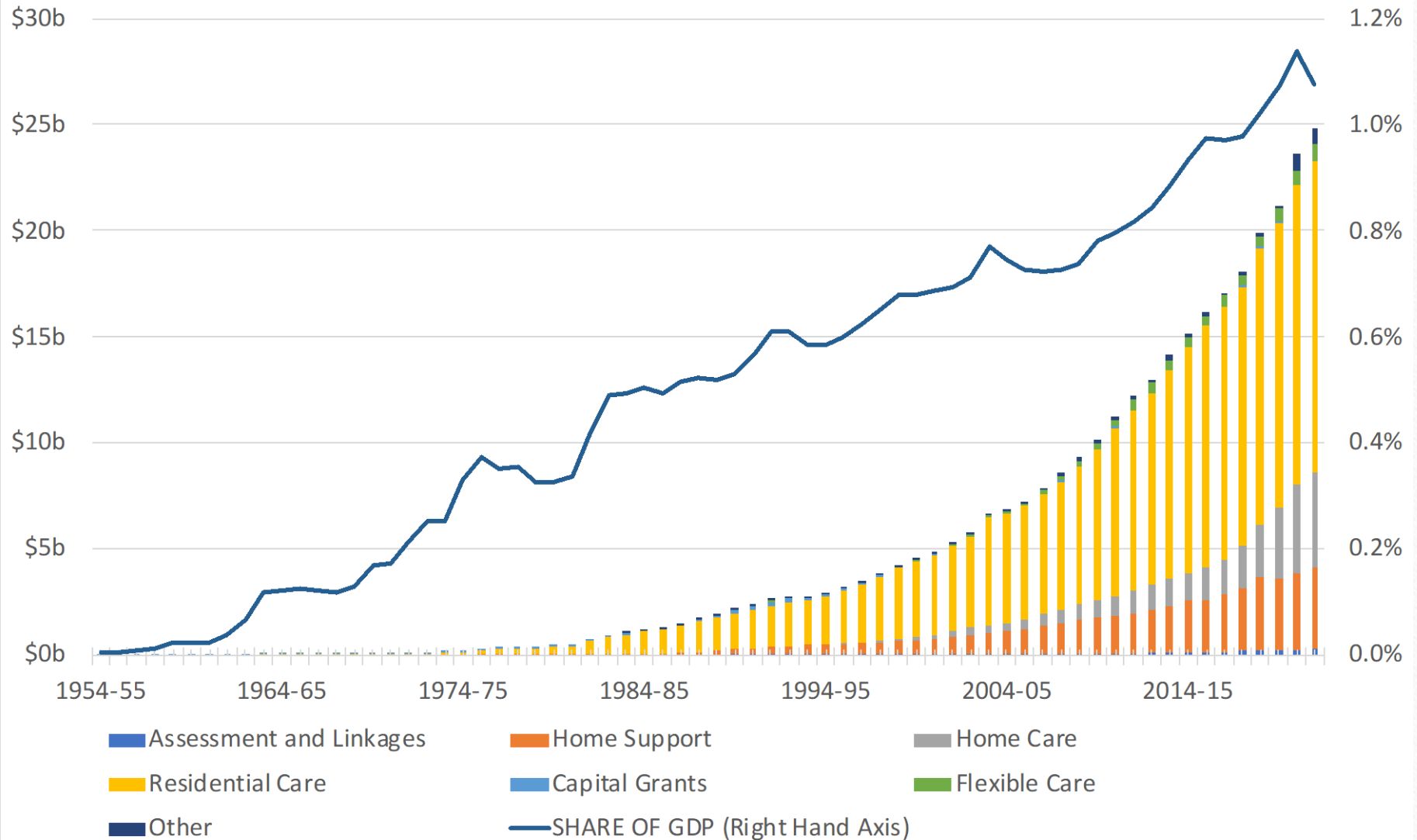
Home Support Program (CHSP) provides domestic assistance, personal care, nursing, allied health, social support, planned respite, transport, home maintenance and gardening, modifications, equipment and meals.





Simon KREER

Australian Government Expenditure on Aged Care, FY1955 to FY2022



Australia's Aged Care System (2021-22)

	Out of Pocket	State Gov.	Aus. Gov.	% Total Cost	% of people	Average Age	Average Annual Cost
Assessment			\$0.3 b	1.3%	100%		
Home Support	\$0.3 b		\$2.9 b	15.6%	64%	80	\$3,800
Home Care	\$0.1 b		\$4.4 b	17.7%	17%	82	\$25,200
Residential Care	\$5.2 b	\$0.2 b	\$14.7 b	59.1%	19%	85	\$116,500
Flexible Care		\$0.1 b	\$0.8 b	3.2%			
Quality & Workforce			\$0.7 b	2.9%			
Capital		\$0.1 b	\$0.1 b	0.2%			

Neglect

- Royal Commission found that:
 - Too many older people are not getting the aged care they need at the time and level they need it.
 - Home Care Package Waiting List - Those with the highest levels of need wait up to 36 months
 - Care levels are insufficient.
 - People receiving the highest level of care at home get slightly more than one hour of care a day.
 - Half of aged care homes have inadequate staffing to meet need.
 - Quality is not at the level that Australians expect.
 - Between 22%–50% of people in residential aged care are malnourished
 - Between 75%–81% of people in residential aged care are incontinent
 - Pressure injuries occur in a third of the most frail residents towards the end of their lives
 - About 61% of people in residential aged care are regularly given psychotropic agents

Decaying Financial Performance

Residential Aged Care



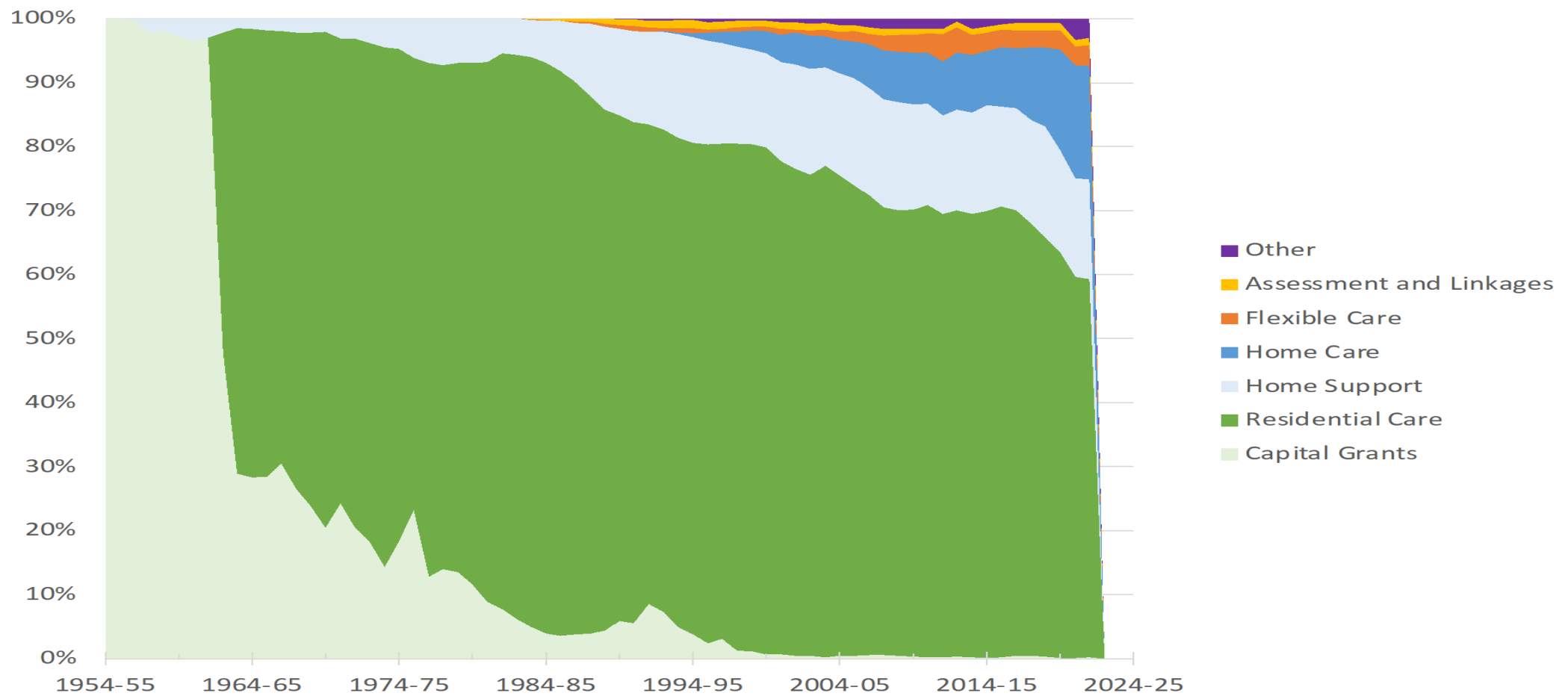
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Why is it so?

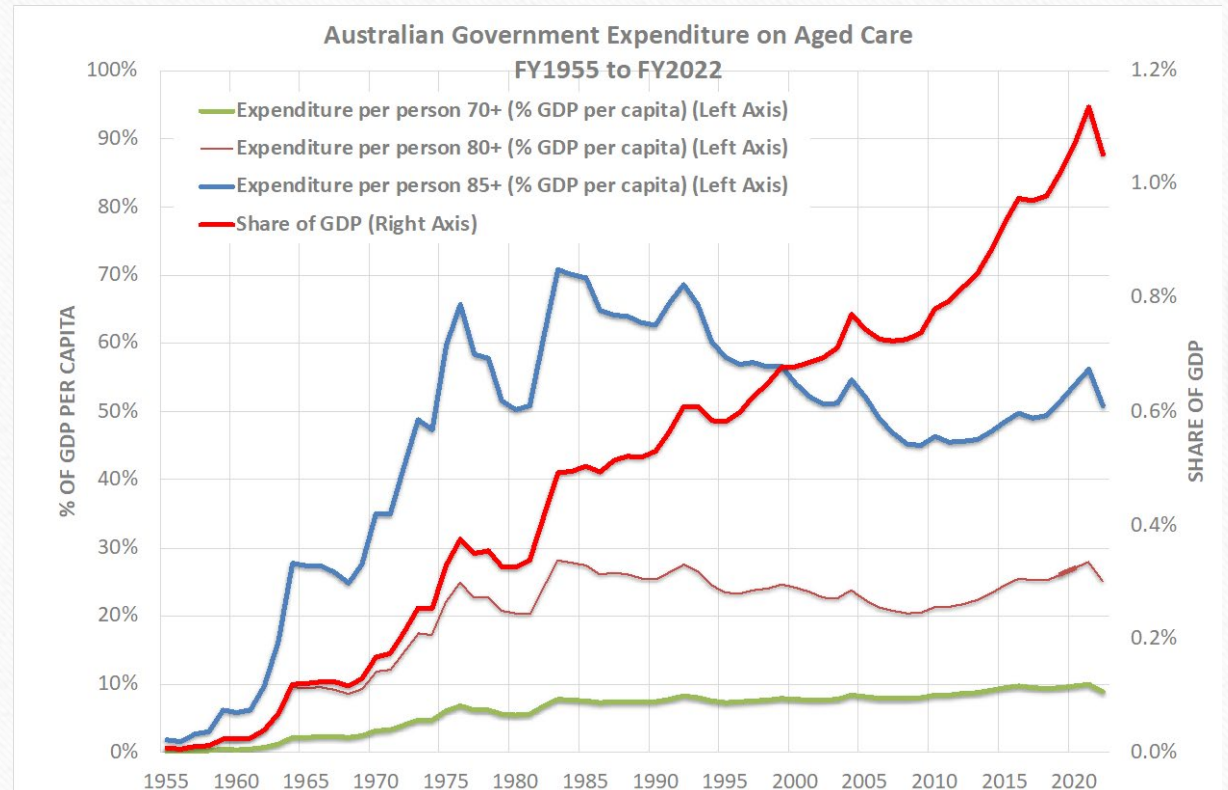
- The history of aged care is a history of decisions about how much taxpayers are willing to spend.
 - 1900-50s – Age Pension was sole support for older people (minimal welfare)
 - John Forest - “No one is to receive an old-age pension unless he (sic) is unable to maintain himself.”
 - 1950s-65 – Increasing accommodation costs led to a capital program for nursing homes
 - The alternative was an increase in the age pension or demand for hospital care
 - 1965-85 – Recurrent subsidies for nursing homes
 - The alternative was higher hospital costs or an increase in the age pension
 - 1985-2005 – Expanding community care to leverage informal care and delay admission to expensive residential care
 - 2005-now – Expanding support for informal carers to sustain the expansion of community care

Why is it so?

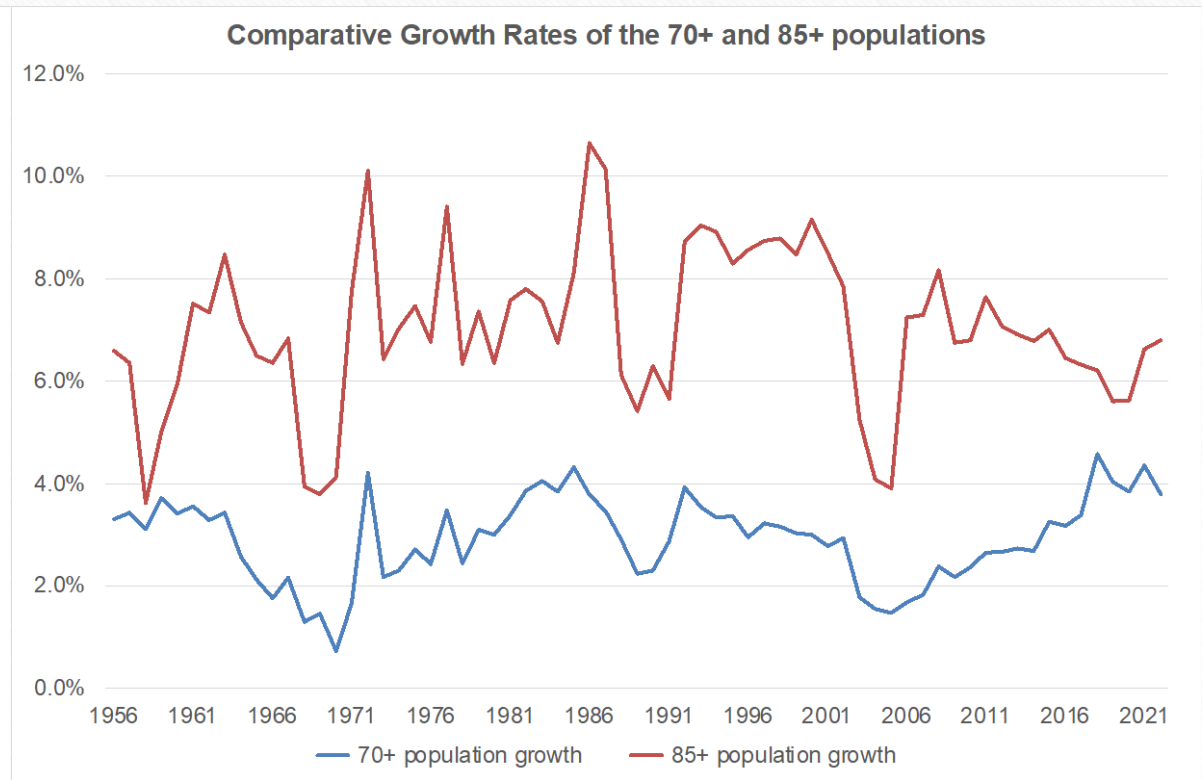
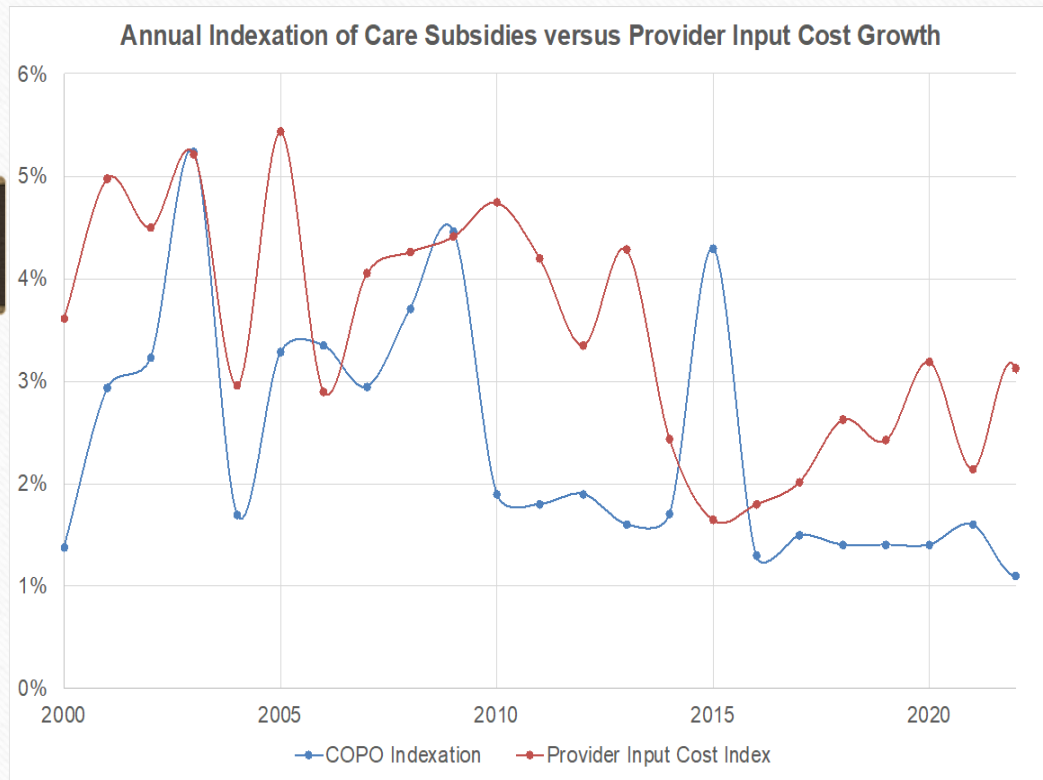


Why is it so?

- Australian government expenditure on aged care has not kept pace with demand since at least 1984-85 because of two main factors:
 - The growth in number of aged care places was linked to the 70+ population, whereas demand for aged care was more closely correlated to the 85+ population; and
 - An annual efficiency dividend has been imposed on aged care providers since 1996-97 through the Commonwealth Own Purpose Outlays/Expense arrangements.



Why is it so?



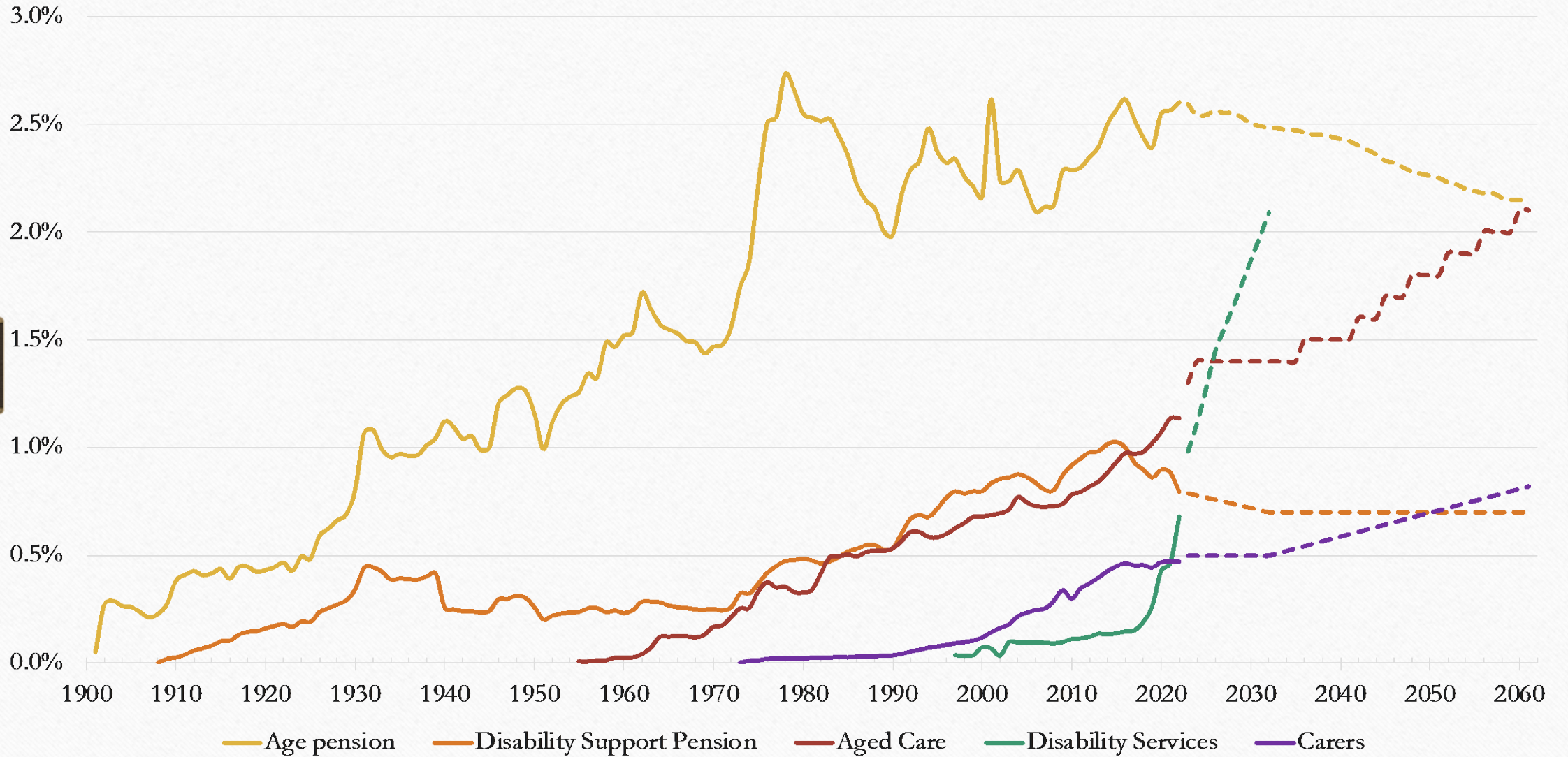
Why is it so?

- This was deliberate. When the 1997 Aged Care Reforms were considered by Government, the Cabinet was told by the Department of Health that “Government has total control over all of its parameters”, including:
 - “applying quotas to numbers of people at various care levels”
 - “an efficiency dividend or other adjustment to funding structures”
 - “changes to service provision benchmarks”
- These two factors meant that Australian Government spending on aged care was, *ceteris paribus*,
 - 50% lower than it would have otherwise been (\$35.0 billion) because of the planning ratios
 - A further 35% lower than it would have otherwise been (\$35.0 billion) because of COPO Indexation
- The Royal Commission found that much of the bad quality it had observed could not be divorced from this parsimony.

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Australian Government Expenditure on Social Care as a share of GDP – 2020 to 2060



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Independent Governance

Royal Commission

- *The current aged care system and its weak and ineffective regulatory arrangements did not arise by accident.*
- *The move to ritualistic regulation was a natural consequence of the Government's desire to restrain expenditure in aged care.*
- *In essence, having not provided enough funding for good quality care the regulatory arrangements could only pay lip service to the requirement that the care that was provided be of high quality.*

Royal Commission

- *The aged care system has been affected by piecemeal approaches and policy compromises that detract from quality care.*
- *For several decades, one of the priorities for governments dealing with the aged care system has been to restrain the growth in aged care expenditure.*
- *This priority has been pursued irrespective of the level of need, and without sufficient regard to whether the funding is adequate to deliver quality care.*
- *This has occurred through limiting expenditure without accounting for the actual cost of delivering services, rationing access to services, and neglecting reform of the funding model.*

Independent Governance

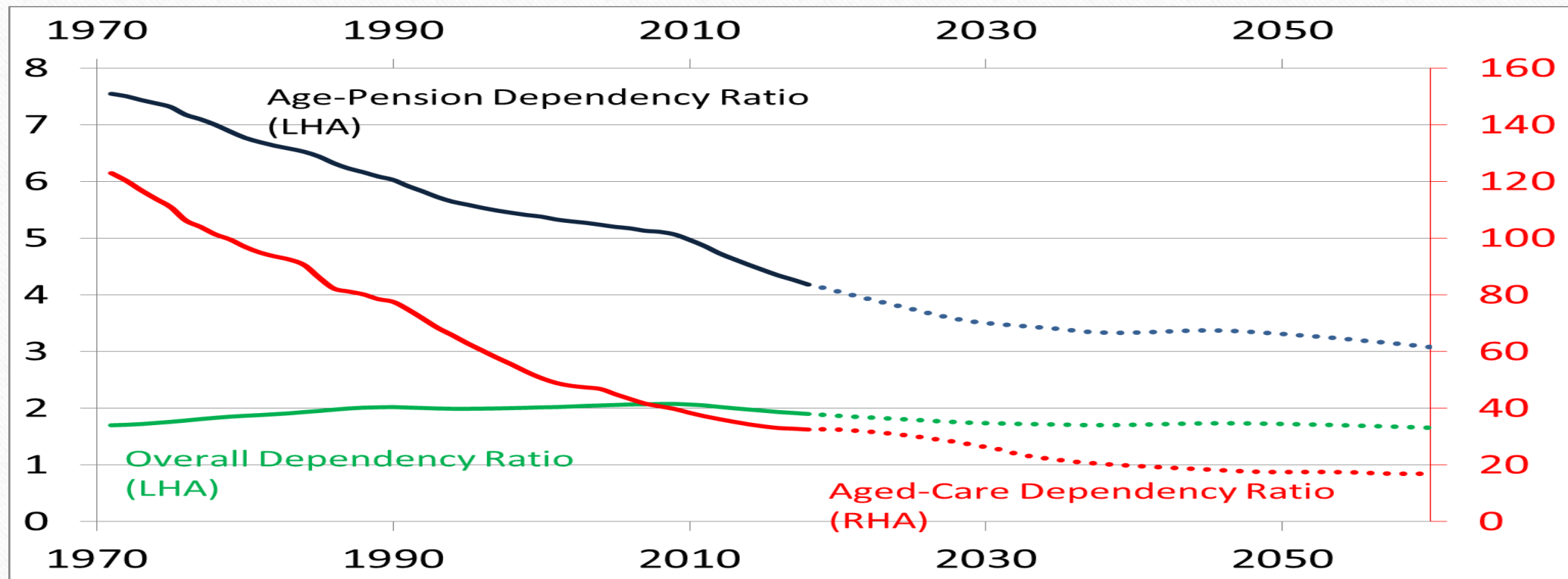
- **Governments face budget choices.**
- Moreover, aged care expenditure, unlike expenditure on much other health care, education and some welfare services like employment services, does not have an investment effect.
- **Therefore best conceptualised as social insurance (income smoothing) managed separate to government and separate to consolidated revenue.**
- Again, it is unfortunate (although hardly surprising) that the previous government choose to ignore this recommendation from the Royal Commission.

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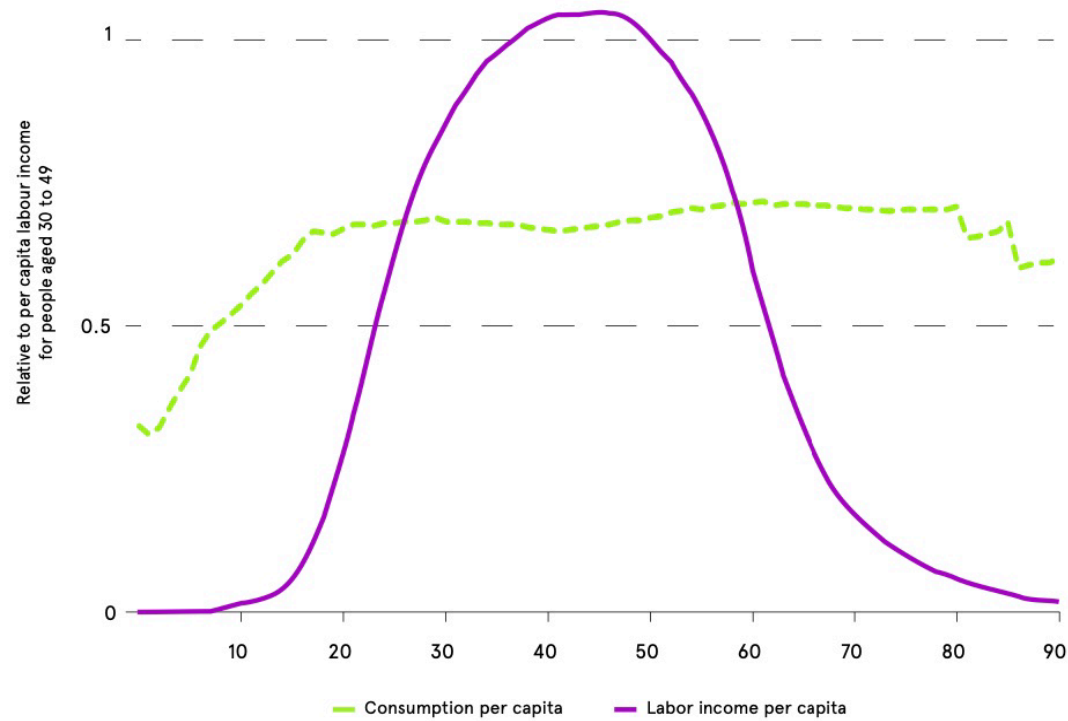
The Demographic Dilemma

- The key issue for aged care financing is how to overcome the mismatch in the growth of generations?

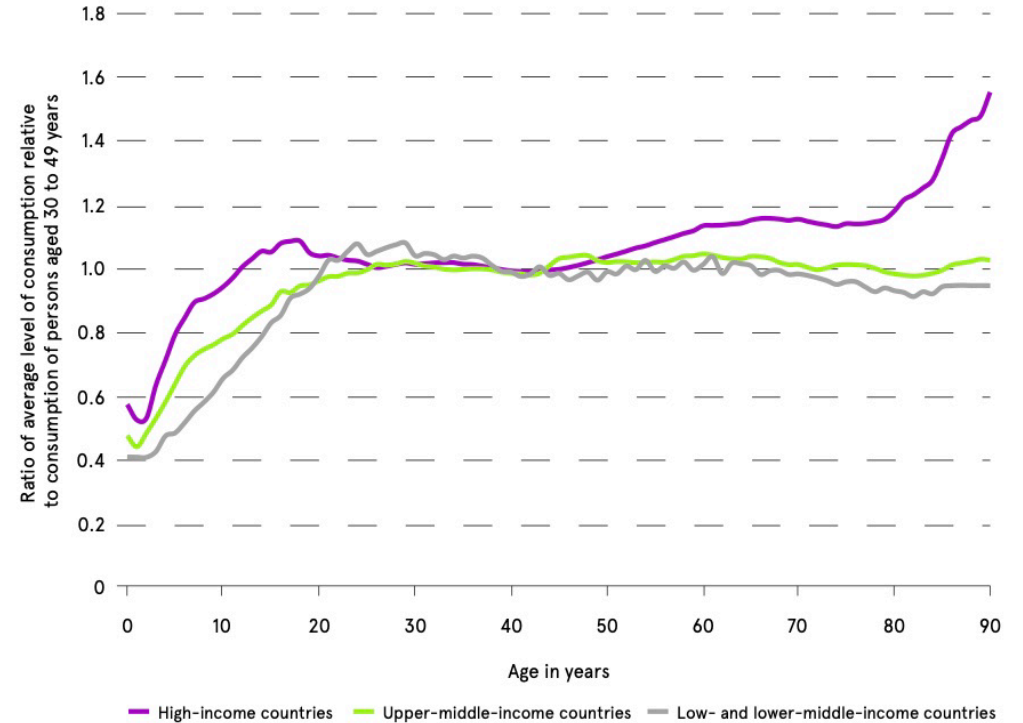


The Demographic Dilemma

Age patterns of labour income and consumption, averaged across 41 countries, based on data between 1994 and 2016



Per capita consumption by age relative to the consumption level among those aged 30 to 49, latest year available, 2005-2016

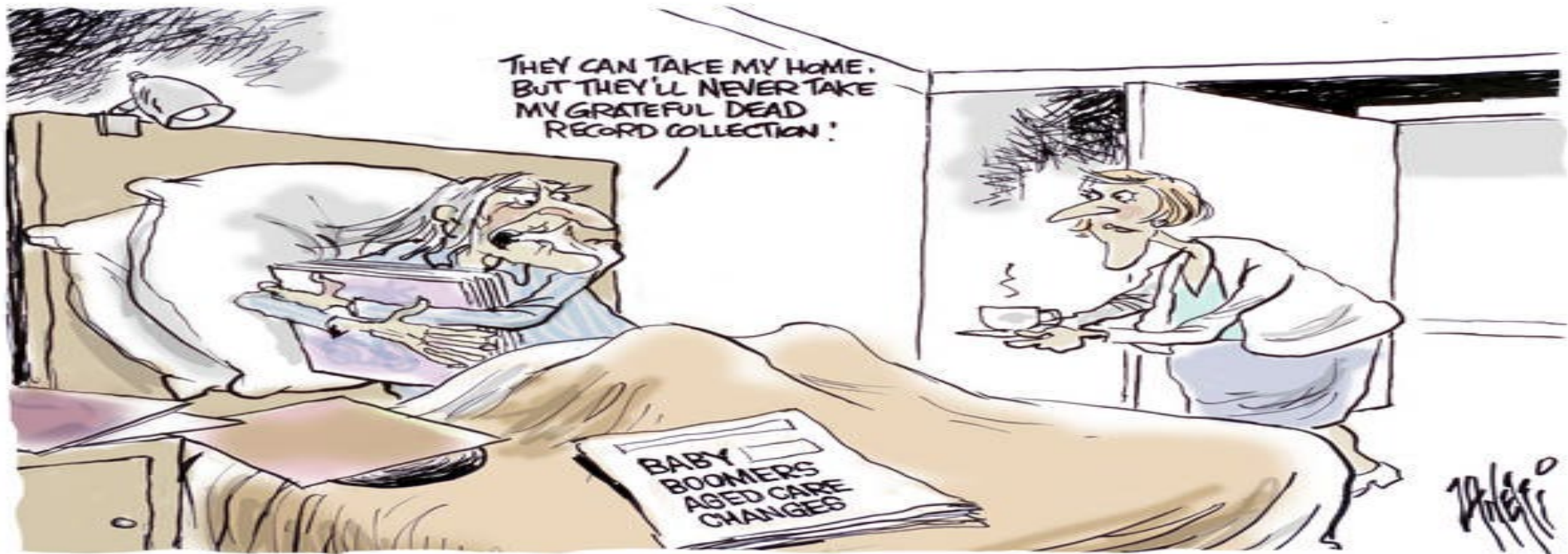


The Demographic Dilemma

- One option to overcome the changing dependency ratio is to introduce a public social insurance system for the costs of aged care.
- Bridget Ballard and I undertook some work for the Royal Commission to examine the structure of such a scheme.

Income tax bracket	Baseline	Reform (Gross)	Reform (Net)
Up to \$18,200	0.0%	0.0%	0.0%
From \$18,201 to \$37,000	2.1%	4.4%	2.3%
From \$37,001 to \$87,000	3.7%	7.6%	3.9%
From \$87,001 to \$180,000	4.2%	8.7%	4.5%
Above \$180,000	5.1%	10.5%	5.5%

- These rates preserve the proportional relationships between tax bands that already exist in the present income tax system
- 'Net Levy' rates reflect the differences between the Gross Levy rates in the reform scenario and the levy rates in the baseline scenario, reduced to maintain revenue neutrality
- It is unfortunate that the previous government choose to completely ignore this recommendation.



THEY CAN TAKE MY HOME.
BUT THEY'LL NEVER TAKE
MY GRATEFUL DEAD
RECORD COLLECTION!

BABY
BOOMERS
AGED CARE
CHANGES

20/10/11

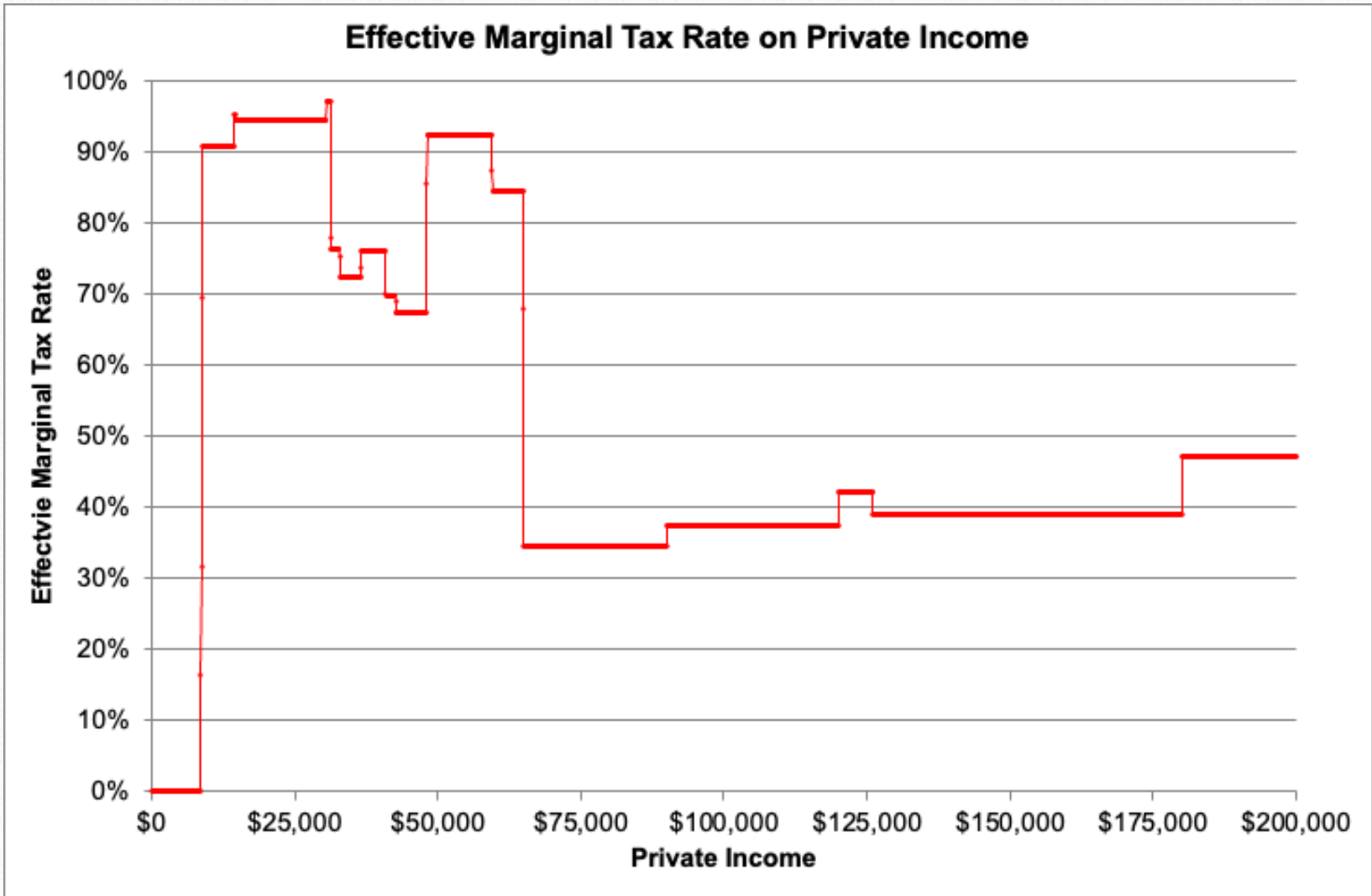
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Outline

- Economics
 - **Effective Marginal Tax Rates**
 - Value for Money
 - Competing Optimisation Strategies
 - Corner solutions and a lack of scarcity

Effective Marginal Tax Rate on Private Income



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Microeconomics of the Scheme

- It is important to note that a distinctive feature of social services delivery is that it often involves a **bundle of related services**.
 - Successfully assisting such clients can require a range of services that can be either mutually reinforcing or in conflict. Conversely, providing some services without other services risks undermining the effectiveness of the services provided.
 - The delivery of social services can therefore require multiple interventions by one or more providers. This raises questions about how best to bundle provision by different providers, and the range of services to be offered by any one provider.
 - How consumers can be assisted or incentivised to make these decisions is crucial to the success of the NDIS investment approach.

Microeconomics of the Scheme

- There is also a difficulty in that the priorities of the funder, the consumer and the provider may not necessarily align.
 - The principal difficulty is that the insurer and the consumer face different optimisation problems.
- An added difficulty is that providers are almost always not responsible for entire service offering so unclear how they can be judged (priced) against their contribution to the well-being outcome. Certainly, absent bundling or lifetime contracts (which have their own problems) each provider's optimisation strategy is purely local.



Microeconomics of the Scheme

- These competing priorities cry out for an overarching assessment framework which can operate to resolve the apparent tensions – a benchmark measure of quality of life that underpins the cost benefit analysis at the centre for the reasonable part of the reasonable and necessary test.
 - Work is currently underway with Monash University to develop such a framework.
- Moreover, the difficulty of measuring effectiveness in the disability services sector makes it attractive to rely on intermediate indicators, such as measures of cost-effectiveness or consumer satisfaction; but if those measures are used as targets, and performance relative to the targets has any consequences, then we need to worry about how those targets will affect behaviour.

Microeconomics of the Scheme

- Campbell's Law reminds us that 'the more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption and the more apt it will be to distort the social processes it is intended to monitor'.
- Holmström's theorem reminds us that if we consider the consumer / provider / insurer triptych as a team seeking to achieve an agreed set of outcomes, then the three body problem formed by the differing optimisation strategies of consumers, providers and insurers is inherently unstable and highly sensitive to the ways in which outcomes are measured.

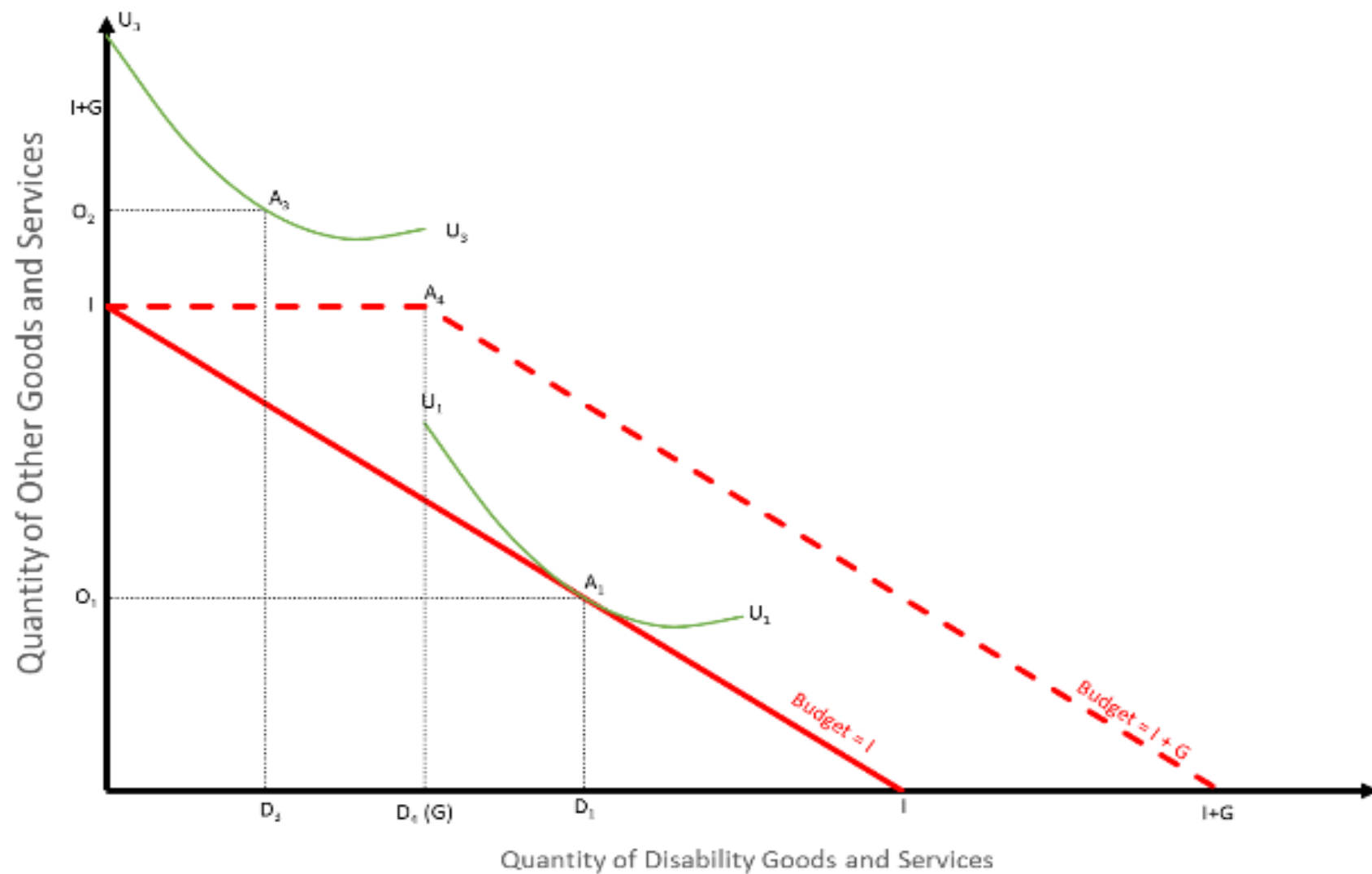
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 - Effective Marginal Tax Rates
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 - Competing Optimisation Strategies
 - **Corner solutions and a lack of scarcity**

Microeconomics of the Scheme

- On the demand side the largest efficiency gains are to be made through greater choice and control for consumers and ensuring that consumers have access to the widest possible range of services (noting the need to balance the views of taxpayers as to the use of the funds provided).
 - This efficiency can only be actualised through strong mechanisms (**quality and safeguards**) to address information asymmetries.
 - Need to worry about the diminishing returns on additional expenditure on Aged Care Goods and Services. In particular, care needs to be taken (**through guided planning and ensuring reference packages are appropriately priced**) to ensure that the funding provided to participants is strongly constrained by the reasonable and necessary test.
 - Need to ensure that the choices of consumers are well informed. (**support coordination and plan managers**)

Vouchers



Questions

