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A looming crisis means New Zealand must rethink how it pays for aged care[1]

M.Claire Dale[2]

The recent submissions to parliament's Health Select Committee makes one thing clear: a crisis looms for the aged care sector in New Zealand. This crisis centres on the funding and staffing of residential aged care (ARC) and in-home care and support services.

But to address the problem, the government doesn't have to look far. Australia has changed how the sector is funded, calling on wealthier members of society to pay a fairer share of the costs.

Last year, an estimated 32,000 people were in residential aged care. A means-tested government-funded residential care subsidy pays for most of the cost of care for those who qualify – around 63% of ARC residents.

The eligibility threshold for the ARC subsidy is total assets of NZ$284,636 or less for a couple aged 65 or older. New Zealand superannuation, the universal age pension, pays the remainder and provides a modest weekly spending allowance.

Those whose assets exceed the threshold pay for their own care, increasingly in "care suites". These beds, only available to those who can afford the cost, reduce what is available for subsidised residents, raising equity issues.

In 2022/23 Health NZ contributed $1.352 billion to ARC providers. Residents' fees contributed a further $1.1 billion.

During the same period, around 80,000 people aged over 65 years, with a community services card or suffering from a long term condition, accessed home support services (at a cost of $2 billion). These services included personal care, cooking, cleaning and respite care. Personal care services were not income or asset tested.

In July 2023, Health NZ launched a review of funding and service models for aged care services. The purpose of the review is to provide recommendations that will ensure equity of access and outcomes for older people across New Zealand, while balancing the need for a cost-effective system.

Phase One of the review was completed in late December 2023. The report identified five key issues and no surprises:

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[2] Dr M.Claire Dale is Research Fellow in the Pensions and Intergenerational Equity Hub, EPC, Economics Department, University of Auckland. Contact: m.dale@auckland.ac.nz

- aged residential care and home and community support services are under-funded
- the funding models used to distribute funding to the sector are not fit for purpose
- there are material ethnic inequities in accessing aged care services
- the aged care sector continues to face significant workforce pressures
- issues with aged care are exacerbated in regional and rural New Zealand.

Phase Two is to develop recommendations for service and funding models that will result in a more integrated care model, efficient use of resources, and fit-for-purpose regulatory and funding regimes.

Despite the government's demand for $1.4 billion in savings from Health NZ, Seniors Minister Casey Costello says the government is not intending spending cuts in aged care.

A recent survey found that 56% of respondents' ARC facilities made a net loss in the 2022/23 financial year.

Inadequate funding has caused some retirement village providers to scale down the number of ARC beds in their care facilities. Many smaller providers have closed beds, or closed their doors for good.

Further, due to the acute shortage of registered nurses in 2023, over 1,000 beds were closed permanently and 1,200 closed temporarily. Unsurprisingly, Health NZ estimates a shortage of 12,000 residential care beds within eight years.

Yet underfunding of the sector is clearly a false economy. The cost of hospital-level care in ARC facilities is less than a quarter of bed-day cost in a public hospital medical ward.

As Aged Care Commissioner Carolyn Cooper states in a recent report: *Critically, there is a lack of dedicated strategy and planning for the health needs of an ageing population.*

The crisis in aged care is not limited to New Zealand. The Australian government has just completed a review of the sector and adopted the aged care taskforce's 23 recommendations.

One major change is requiring wealthier people to contribute more to the overall costs instead of relying on taxpayers subsidies.

The urgency of this change is driven by the reality that over half of all aged care homes in Australia are not financially viable. Providers need sufficient revenue to cover the costs of the services they deliver. Every facility that closes reduces the availability of residential care for older people.

The Australian government will continue to pay 100% of clinical care services, while more means-testing arrangements for everyday living and non-clinical care costs will ensure those who have the assets are self-funding their care. Taxpayer funding will ensure those without assets still have access to the care they need.

These changes will improve the financial viability of care providers, and will also improve intergenerational equity by reducing the taxpayers' burden.

New Zealand could learn from the Australian example. Stats NZ projects the proportion of people aged 65+ will reach 20% of the population by 2028. In four years, there could be 30 people aged 65+ years for every 100 people aged 15–64 years.

Older people are high users of health services, and the bulk of aged care and support is currently taxpayer-funded. Without a change in the funding model, an increasingly impossible burden will be placed on working-age citizens.

The sector review needs to ensure wealthier users of aged care services contribute appropriately. Intergenerational equity needs to be considered in any redesign of the provision of aged care.