Funding aged care: Insurance and choice

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Overview

- **Aim:** to design an insurance product to assist consumers in making individual contributions to their own aged care
  - This should supplement government funding, providing the scope for greater consumer choice and the meeting of unmet demand
- **The solution:** a product attached to superannuation, with funds invested in a superannuation-like vehicle rather than an APRA regulated insurer

Emergent primacy of the consumer

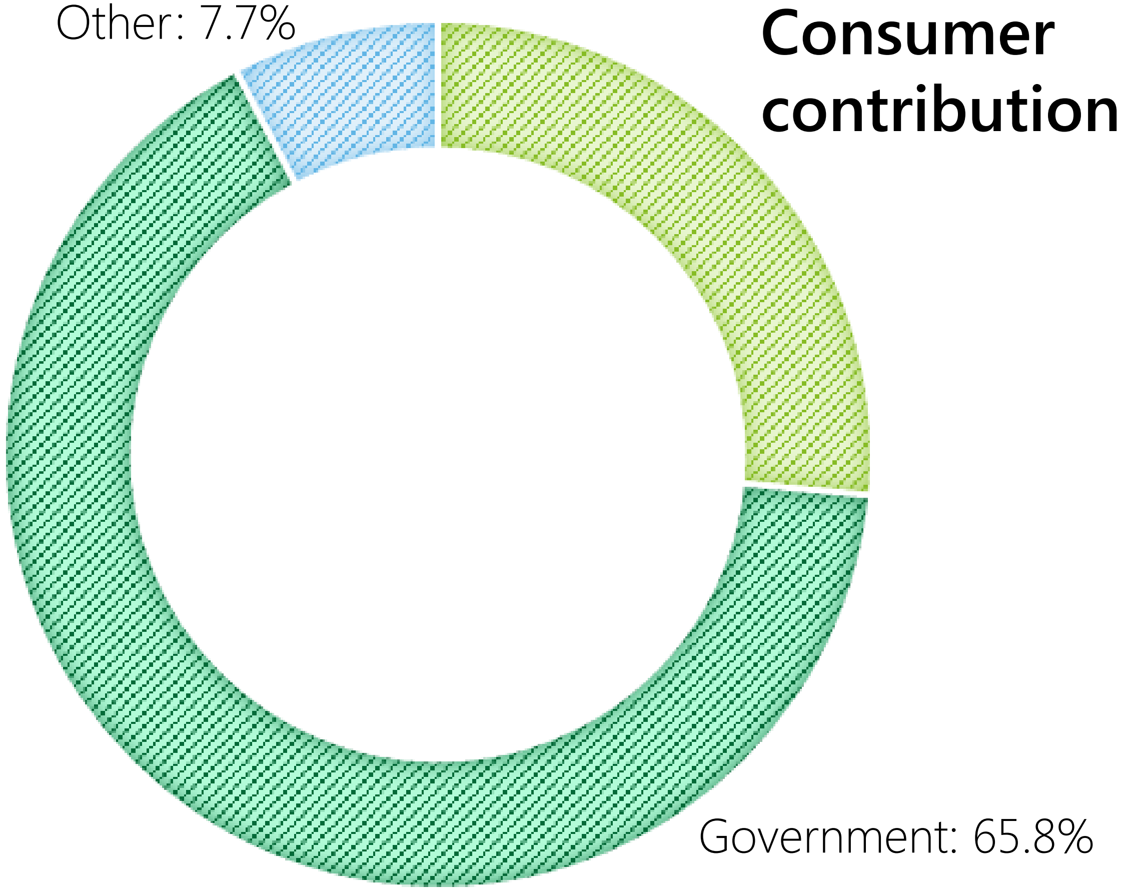
"Consumers will be viewed as active partners throughout the care journey and be part of the decision making process"

Aged Care Sector Statement of Principles

With increased decision making capacity comes increased risk. Is this risk which can be insured against?

Digging deep – financing choices

Revenue sources – Residential Aged Care 2015-16



Current financing options for individuals include:

- Savings (self insurance)
- Asset sales
- Reverse mortgage
- Family contributions

Source: ACFA Report on Funding and Financing Aged Care Sector 2017

Aged care insurance overseas

- **Mostly:** mandatory state long-term care insurance with universal coverage
  - Akin to funding through the Budget (as in Australia)
- Where there is (supplemental) private LTCI, take-up is very low (eg France, Germany)
  - Take-up rises with income (eg in Israel, take-up is 5% for the lowest quintile and 60% for the top five).

So why is there no market in Australia?

Demand-side

- Complexity and ignorance of future risks and costs
- Hyperbolic discounting
- Bequest motive
- Safety net
- Informal care
- Price

Supply-side

- Adverse selection
- Regulatory costs/uncertainty
- Small market size

For most, the expense outweighs the risk

$1,000

Super (~8%) — $4,927

LTCI(~4%) — $2,223

A high price for insuring against risk in the future

60 years of age → 80 years of age

Criteria for a solution

- ☐ Simple
- ☐ Provides consumer choice, for both home and residential care
- ☐ Price
- ☐ Pools risk
- ☐ Solution must work in alignment with the existing government contributions
- ☐ It needs to be mindful of issues related to adverse selection and moral hazard

Features: investing the premiums

- The cost needs to be aligned with the average risk aversion of a consumer
  - Unlikely to achieve this relying solely on APRA regulated insurers
- The government is best able to manage risks that cross generations
- Either invest through the Future Fund or …
- … a tender process with super/investment funds, with an implicit government guarantee for these investments.

A proposed solution

Insurance as a part of SCG. Paid out once approved for aged care through ACAT in accordance with level of care which is approved for. Investment is made through super-like portfolios.

Some features

- A opt-out default option for contributions as a percentage of the SGC
- Government manages intergenerational risk
- Works along side government subsidies

The alternatives

Option	Assessment against criteria
Encourage a private market	☐ Price too expensive ☐ Intergenerational transfers difficult
Add onto health or life insurance products	As above, plus: ☐ Complex, may not neatly fit with existing schemes ☐ Limits on being based on personal ratings
Life time care annuities	☐ Possible, as long as the funds are invested through a super-like vehicle with government support ☐ Otherwise, too expensive
Social insurance	☐ Doesn't meet choice criterion

Conclusions

- The proposal requires some change in governments' attitudes to risk management
- There is the risk that government might withdraw more
- There will be transitional issues to be addressed
- But the proposal does help the management of risk in retirement, and ...
- ... provides greater choice as we move to a more consumer/carer led regime.