THE VOICE of Pensioners and Superannuants

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CPSA responds to Budget 2021: new aged care funding disappoints plus a few green shoots

The Government has disappointed in its response to the recommendations by the Aged Care Royal Commission.

CPSA welcomes $18 billion of new, recurrent funding for aged care. However, it is clear that this new funding barely touches the sides. Any claims by the Government that it has responded comprehensively to the recommendations of the Aged Care Royal Commission will be false.

While the Government has committed funding to rewrite the *Aged Care Act 1997*, it is clear that the Government will continue to ration aged care. Discontinuation of rationing is one of the reasons the Royal Commission wanted the *Aged Care Act 1997* rewritten.

While it has abolished nursing home bed licences, nursing home occupancy rates are falling anyway, so these licences have abolished themselves and there's no longer a need to ration them. However, the Government has committed insufficient funding to get rid of the Home Care Packages waiting list, which will be with us for many years to come.

With the Budget 2021 announcement of 80,000 packages, the number of inactive ‘allocated’ packages has now risen to 102,000 packages. To fund the additional 80,000 packages, the Government has allocated $6.5 billion over four years where $7.9 billion is required to get rid of the home care packages waiting list. That’s a shortfall of $1.9 billion and funds only three of the four forward estimates years.

It’s good news that the Government is making 200 minutes of care per nursing home resident mandatory (including 40 minutes by a Registered Nurse). CPSA is unable to judge at this point if the additional funding made available for the increase in nursing home staffing numbers is adequate, but making this law is an important measure.

CPSA welcomes the removal of the work test for after-tax (voluntary) super contributions. The current work test prevents people over 67 to contribute to super unless they are gainfully employed for 40 hours in a consecutive 30-day period. People will now be able to put savings outside super and financial windfalls such as inheritances and lottery wins in their super where returns will not be taxed.

CPSA also welcomes the reduction from 65 to 60 the age at which people can sell their home an put up to $300,000 of the proceeds into super. It’s a measure intended to encourage downsizing and freeing up home equity to fund retirement. The measure has been unpopular so far and will continue to be unpopular due to limited downsizing stock and reluctance to move as people get older, but for those who do downsize it’s good news.

CPSA welcomes the widening of the Pension Loans Scheme to allow lump sum withdrawals but warns that any home equity release should only be taken out as a last resort. Once a retiree’s home is encumbered with debt in the form of equity release, the retiree will find it impossible to sell and buy elsewhere.

Budget 2021: How much would it really cost to get rid of the home care waiting list?

THE Aged Care Royal Commission recommended the Government get rid of the waiting list for Home Care Packages (HCPs) by 31 December 2021. That's this year, and it would require some heavy-duty budgetary fireworks, because the waiting list is lengthy. Here's a detailed calculation of how much it would cost at a minimum.

The Treasurer announced $6.5 billion for 80,000 new HCPs over the next four years.

Announcements of new packages are best ignored. What counts is:

- the number of people waiting for a package at their assessed level (level1, 2, 3 or 4);
- what it would cost to supply those packages;
- the appropriation the Government is making.

So here goes.

On 31 December 2020, there were:

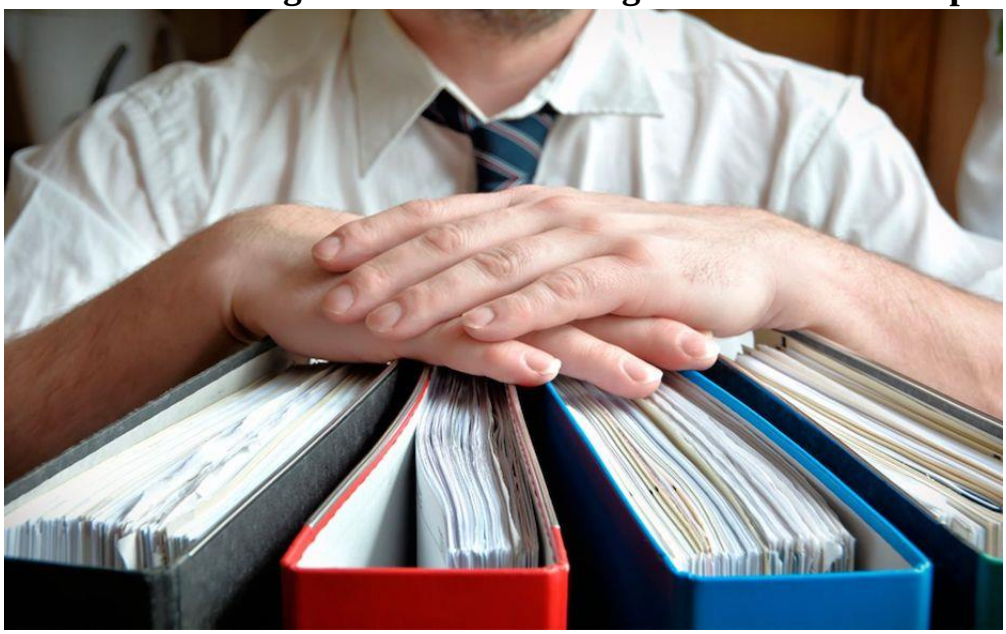
- 3,384 people waiting for a level 1 package without an interim package – cost to fix, $30.1 million;
- 26,115 for a level 2 package without an interim package – annual cost to fix, $410 million;

- 23,915 for a level 3 package without an interim package – annual cost to fix, $817.9 million;
- 7,042 for a level 4 package without an interim package – cost to fix 365.5, million;
- 9,155 waiting for a level 2 package ($15,700 p.a.) with in an (interim) level 1 package – annual cost to fix, $62.3 million;
- 10,368 waiting for a level 3 package ($34,200 p.a.) while in an (interim) level 1 or level 2 package – minimum annual cost to fix, 191.8 million;
- 5,071 waiting for a level 4 package while in an (interim) level 1, level 2 or level 3 package – minimum annual cost to fix, $89.8 million.

Total annual minimum cost to fix: $1.97 billion per year. Minimum cost, because it's been assumed that every interim package is at the level just below the level for which a person has been assessed.

With the Budget announcement of 80,000 packages, the number of inactive 'allocated' packages has now risen to 102,102 packages. To fund these additional 80,000 packages, the Government has allocated $6.5 billion over four years where $7.9 billion is required to get rid of the home care packages waiting list. That's a shortfall of $1.9 billion.

Bureaucratic imagination soars in Budget 2021: home care packages



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These 80,000 packages simply top up 22,000 unused packages and their release happens in mysterious ways and perhaps not at all.

The September 2020 quarter data report for the Home Care Packages Program says that the total number of ‘allocated’ Home Care Packages is 195,597, of which 173,495 are ‘active’, of which 14,156 have not (yet) been accepted, leaving 159,339 active ‘active’ packages.

The difference between 195,597 ‘allocated’ packages and 173,495 ‘active’ Packages is 22,102. The data report omits to say why, in the face of a waiting list of 96,859, these packages haven’t been activated.

The data report omits a second bit of information: how many level 1, 2, 3 and 4 packages there are in that 22,102 number of ‘allocated’ packages.

When the Government announces new packages, it announces a Budget appropriation. In the 2019-2020 Budget, for example, it announced 10,000 new packages with an appropriation of $282.4 million over 5 years from 2018-2019.

$282.4 million cannot pay for 10,000 new packages over five years.

The lowest level of care package is level 1, with an annual subsidy of $8,900, so $282.4 million over five years can pay for 6,346 level 1 packages. Alternatively, it can pay for 1,088 level 4 packages, which get an annual subsidy of $51,900.

Clearly, the truthfulness of the announcement of “the release of an additional 10,000 home care packages across the four package levels” depends very much on the timing of the release of each of those 10,000 packages.

For example, if these 10,000 packages were ‘activated’ on the first day of the last month of the forward estimates, $282.4 million can easily pay for 10,000 packages, even if these 10,000 packages are all at level 4.

If, on the other hand, these 10,000 packages were released on the first day of the first month of the forward estimates, $282.4 million is nowhere near enough.

Going by the spare (inactive) 22,102 ‘allocated’ packages in the system, the timing for these 10,000 packages has indeed been significantly delayed. In fact, they have not yet been released.

Neither have another 12,102 packages announced previous to the 2019-2020 budget.

As mentioned at the top of this story, with the Budget announcement of 80,000 packages, the number of inactive ‘allocated’ packages has now risen to 102,102 packages.

If the home care packages program performs as it usually does, the home care packages waiting list will still be there for many, many years.

Budget 2021: Work test for super abolished!

Budget 2021 removes the work test for after-tax (voluntary) super contributions. Under the work test, you cannot contribute to super unless you are gainfully employed for 40 hours in a consecutive 30-day period.

The previous work test cut-off age of 65 has been moved to 74. Up to the day you turn 75 you can put money into super where the investment return is not subject tax.

Previously, you could only get around the work test if you sold your home and put the proceeds into your super by making a contribution up to $300,000 per person. That $300,000 maximum would be over and above any other contribution you wanted, or more to the point, were able to make.

The age at which you can sell your home an put the proceeds into super has now been lowered from 65 to 60 as part of Budget 2021. The idea is to encourage people to downsize.

There are two things about downsizing (your home) that make it difficult to do.

One is that it isn't easy to find something smaller that is affordable in the same area where you live. So, downsizing usually also means moving to a cheaper area, away from your old life.

The second thing about downsizing is that the older you get, the less likely you are to want to move. 'Can't be bothered' is term often heard.

This may explain why to date there have only been 22,000 applicants to the scheme allowing you to put home sale proceeds into super.

It is doubtful, though, that applications will start flooding in now that the age limit has been lowered. The attachment to neighbourhood and the unaffordability and unavailability of smaller accommodation in that neighbourhood will remain obstacles.

Budget 2021: Pension Loans Scheme widened

THE Pension Loans Scheme is the Australian Government's own reverse mortgage scheme. The interest rate is lower than for commercial reverse mortgage. Up to now, the Pension Loans Scheme would only provide fortnightly top-ups to eligible retirees' income.

However, from the 1 July 2021, the Pension Loans Scheme will also offer lump sum pay-outs. These will be limited to two per twelve-month period and those two withdrawals cannot exceed 50 per cent of the annual Age Pension single full rate.

CPSA's position on any reverse mortgage, including those offered by the Australian Government is that these should only be taken out as a last resort. Reverse mortgages mean borrowing against your home and paying interest by borrowing more against your home.

Another affordable housing non-solution

THE new Family Home Guarantee Scheme offers 10,000 guarantees over four years to single parents with dependants. The scheme allows a single parent with an annual income under $125,000 to buy a home with a deposit of a minimum two per cent.

At the same time the maximum amount of voluntary contributions that can be released under the existing First Home Super Saver Scheme is increased from $30,000 to $50,000.

Note that only voluntary contributions can be released, not compulsory contributions.

Any single parent with a salary under $125,000 will be hard-pressed to make *any* voluntary contributions to their super, let alone a total of $18,000, which is about 2 per cent of a home of median value in Sydney. Then there's stamp duty to worry about.

The aim of these two schemes is to make things easier for people finding it difficult to buy a home. However, it seems a very round-about way of achieving that.

House prices are high because supply doesn't match demand.

Increase the supply and prices will go down.

But what does the Government do: free up more money to chase after the same number of homes.

The result is predictable: prices go up even more.

The First Home Super Saver Scheme might be a good idea if the Government fixed up the supply of housing first.

As to the Family Home Guarantee Scheme, it allows participants to load up on even more debt than ordinary human beings. What happens when the interest rates start going up?