

Brief Report

The financial impact of entering aged care

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Introduction: *This paper examines the financial impact of entering aged care.*

Methods: *Estimates of that impact are derived from estimates of the lifetime risk of entry to, the expected total length of stay in, and the annual private cost of, permanent residential care.*

Results: *Almost half of women and a third of men aged 65 years will enter permanent residential care at some time in their remaining life. On average, of those who do enter, women will stay for 3.5 years, whereas men will stay for 2.3 years. For a part-pensioner with annual income of \$A30 000 and assets worth \$A160 000, the financial impact of entering care would, on average, be \$A52 600 for a woman and \$A34 700 for a man.*

Conclusions: *Retiring Australians face a considerable risk that they will require aged care during their remaining lifetime and that the private cost of that care will substantially impact on their finances.*

Key words: *costs, homes for the aged – utilisation, length of stay, long-term care.*

Introduction

The implications of the ageing of Australia's population for its economy and health system have been the subject of considerable analysis [1,2]. The financial implications for individuals of the changes in health status that are often associated with advancing age have been less well studied. This paper addresses that information lacuna by estimating the expected lifetime impact of an 'aged care shock' on an older person's financial position.

Methods

The paper estimates a lower bound on the likely lifetime private cost of aged care for a number of representative individuals by estimating their:

- Lifetime risk of entry to permanent residential care (the most expensive aged care)
- Expected total length of stay in permanent residential care
- Annual private cost of permanent residential care

The lifetime risk estimates are derived using life table analysis [3,4], using the standard Australian 2002–2004 life tables, from unit record data for 2004–2005 collected by the Department of Health and Ageing as an administrative by-product of the Australian Government's role as the principal funder of residential care, including data on 47 766 admissions and 40 927 discharges as a result of deaths. The expected total length of stay estimates are directly derived from data on 44 320 final discharges, where total length of stay is calculated by combining the lengths of stay of all of an individual's episodes of care in residential care.

Results

Estimating the lifetime risk of entry to residential care

As Table 1 shows, some 32.4% of men aged 65 will either already have been a permanent resident of an aged care home (including those who are still residents) or will receive permanent residential care at some time in their remaining life. At age 91, a man's remaining lifetime risk of entry has reached its maximum at 49.7%. In general, women have a greater lifetime risk of entry to permanent residential care than men at all ages, both because they live longer and hence are more likely to live until the ages when entry to residential care is more common and because they tend to outlive their partners and so have less access to informal care. At age 65, an individual woman has a lifetime risk of entry to permanent residential care of 49.9%. At age 92, a woman's lifetime risk of entry has reached its maximum at 66.0%. The lower lifetime risks after that age may reflect data issues, or be an artefact of the small number of people in those age groups, or may reflect an innate health of people who have aged past 90 without requiring residential care.

Estimating the expected length of stay in residential care

The average total length of stay of residents discharged in 2004–2005 was 3.0 years (2.3 years for men and 3.5 years for women). However, as always, averages conceal a wide distribution. In particular, the distribution of lengths of stays is heavily skewed. The median length of stay is 1.2 years for men and 2.4 years for women. That is, almost half of all men stay for less than half the average length of stay for men; the length of stay of more than half of all women is over a year less than the average length of stay for all women. Some 36.0% of residents stay for less than 1 year (45.8% of men and 30.3% of women). Indeed, 17.1% of residents stay for less than 3 months (22.6% of men and 13.8% of women). However, 21.3%

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Table 1: Remaining lifetime risk of receiving permanent residential aged care, by age and sex

	At birth	At age 65	At age 75	At age 85	At age 90	At age 100 or older
Females	46.0%	49.9%	54.0%	62.5%	66.0%	33.0%
Males	28.1%	32.4%	37.0%	45.6%	49.6%	13.5%

Table 2: Distribution of total length of stay (years), by sex

(years)	5th percentile	25th percentile	Median	Mean	75th percentile	95th percentile
Females	0.06	0.70	2.40	3.46	5.13	10.39
Males	0.04	0.30	1.20	2.28	3.13	7.98
All	0.05	0.50	1.89	3.02	4.43	9.74

of residents stay for at least 5 years (13.6% of men and 25.8% of women) and 4.6% of residents stay for at least 10 years (2.6% of men and 5.7% of women). Table 2 provides the lengths of stay for the 5th, 25th, 75th and 95th percentiles of all discharges.

Estimating the cost of residential care

Residents of aged care homes pay a complex of fees and charges for the care they receive. The levels of these fees depend on the resident's income and assets and also on whether they are a pensioner or a self-funded retiree and on whether they first enter permanent aged care to receive high-level (nursing home) care or low-level (hostel) care. For simplicity, the following assumes that residents first enter permanent care to receive low-level care. The cost of care for these residents includes their basic daily fees, any income tested fee they are required to pay, any retention amount deducted from their accommodation bond and the interest they forgo on their accommodation bond [5]. The total annual fee payable by a number of representative individuals would be as follows:

- 1 A full-pensioner with total income of \$A15 000 and assessable assets of \$A65 000 would not pay any income tested-fee and could only be asked to pay a small accommodation bond of around \$A35 000. Their total annual cost would be about \$A15 600.
- 2 A part-pensioner with total income of \$A30 000 and assessable assets of \$A160 000 would pay an income tested-fee and could be asked to pay an accommodation bond of around \$A125 000. Their total annual cost would be about \$A25 900.
- 3 A self-funded retiree with total income of \$A60 000 and assessable assets of at least \$A280 000 would pay a higher basic daily care fee, an income tested fee and could be asked to pay a larger bond (say \$A250 000). Their total annual cost would be about \$A43 200.
- 4 A person with total income of \$A60 000 and assessable assets of at least \$A280 000 who decided to receive care on an extra service basis would pay an additional extra service fee (about \$A20 000 on average). Their total annual cost would be about \$A63 000.

Estimating the quantum of the 'financial shock' of entering aged care

For a given individual, the expected cost in constant dollars of residential care services (given that they enter residential care) is the product of their expected total length of stay in residential care and their annual cost of residential care.

As residential care tends to be a comprehensive service, some of these costs are costs that individuals would meet in the normal course of living. The average financial impact of a 'residential care shock' can therefore be calculated by discounting these costs by the costs of normal living. For the purposes of this paper, these costs have been estimated as equal to the basic daily care fee component of fees (that is, 85% of the single age pension).

Table 3 provides estimates of the financial impact of a residential care shock together with estimates of the likely spread of those impacts among the different representative individuals given the distribution of total lengths of stay noted earlier in Table 2.

The average financial impact of a residential care shock for a female self-funded retiree with an annual income of \$A60 000 and assessable assets of at least \$A280 000 is more than \$A100 000 if they enter permanent residential low care and more than \$A170 000 if they chose to receive residential care on an extra service basis. The average financial impact for a man with a similar level of income and assets is lower, because of their shorter length of stay.

Some 25% of female and male part-pensioners with total income of \$A30 000 per annum and assessable assets of \$A160 000 who enter permanent residential low care will face an additional lifetime cost of more than \$A77 000 and \$A47 000, respectively. Similarly, 25% of female and male self-funded retirees with total income of \$A60 000 per annum and assessable assets of \$A280 000 who enter permanent residential low care will face an additional lifetime cost of more than \$A153 000 and \$A93 000, respectively. If they choose to receive permanent residential care on an extra service basis, then 25% of women and men with this level of wealth will

Table 3: Average financial impact of a residential care shock (monetary figures in \$A)

Total income	Assessable assets	5th percentile	25th percentile	Median	Mean	75th percentile	95th percentile
Woman who initially enters permanent residential care for low-level care							
\$15 000	\$65 000	\$294	\$3430	\$11 760	\$16 954	\$25 137	\$50 911
\$30 000	\$160 000	\$912	\$10 640	\$36 480	\$52 592	\$77 976	\$157 928
\$60 000	\$280 000	\$1794	\$20 930	\$71 760	\$103 454	\$153 387	\$310 661
Woman who receives high- or low-level care and chooses to receive extra services							
\$60 000	\$280 000	\$2994	\$34 930	\$119 760	\$172 654	\$255 987	\$518 461
Man who initially enters permanent residential care for low-level care							
\$15 000	\$65 000	\$196	\$1470	\$5880	\$11 172	\$15 337	\$39 102
\$30 000	\$160 000	\$608	\$4560	\$18 240	\$34 656	\$47 576	\$121 296
\$60 000	\$280 000	\$1196	\$8970	\$35 880	\$68 172	\$93 587	\$238 602
Man who receives high- or low-care and chooses to receive extra services							
\$60 000	\$280 000	\$1996	\$14 970	\$59 880	\$113 772	\$156 187	\$398 202

face an additional lifetime cost of more than \$A255 000 and \$A155 000, respectively.

Conclusions

The analyses in this paper are intended to address one of the information lacunae at the centre of the apparently contradictory position adopted by many older Australians – a failure to financially plan specifically for the costs of future health and aged care services while recognising that these costs are more likely to be borne by individuals in the future – by illustrating the likely aged care costs that they can expect to face in their retirement. The paper's estimates offer lower bounds on the likely costs that older Australians will face on current policy settings. These clearly indicate that retiring Australians (and especially women) face a considerable risk that they will require aged care services during their remaining lifetime and that the private cost of those services will substantially impact on their finances if they have not planned for those costs. The analysis also indicates that the likely aged care costs faced by retiring Australians are such as to require a considerable planning period if those future costs are to be managed without substantial impact on other activities.

Key Points

- Almost half of women and a third of men aged 65 will enter permanent residential care at some time in their remaining life.
- On average, of those who do enter, women will stay for 3.5 years, while men will stay for 2.3 years. However, half of all women and men stay for less than 2.4 years and 1.2 years respectively.
- For a part-pensioner with annual income of \$A30 000 and assets worth \$A160 000, the financial impact of entering aged care (on top of normal living expenses) would, on average, be \$A52 600 for a woman and \$A34 700 for a man.

References

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