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JU&A James Underwood & Associates Pty Ltd

Ageing Matters

NEWSLETTER

IMPACT OF THE PROPOSED AUSTRALIAN PENSIONER BONDS

Possible reduction in bond holdings as a result of the draft Productivity Commission (PC) recommendations.

The PC recommendations so far appear likely to reduce availability of bond lump sums to many providers. The PC goes through examples of "super bonds" where some bonds paid are much larger than the actual cost of providing accommodation. The PC also notes the huge growth in amounts of bonds held and the very large amounts held by a handful of the biggest provider groups. The PC then goes on to explore options that can be used in addition to or instead of lump sum bonds.

The PC recommends having a "published" periodic payment (as a replacement to the accommodation charge) that is not "capped" and is for use with for all new residents, not just low care and extra services residents. A lump sum bond that is equivalent to, but not more than, the published periodic payment can also be offered. Retentions are recommended to be abolished.

Persons could sell their homes and place the proceeds in an Australian Pensioners Bond – a Government scheme – that is exempt from the Centrelink assets and income tests and indexed to a consumer price index to maintain real value. The periodic payment could be drawn down from this scheme.

So, what happens if the Productivity Commission recommendations encourage a large proportion of new residents to make use of the **Australian Pensioner Bond** scheme and they pay periodic payments in lieu of lump sums? Well, at first glance, providers will have to encourage financiers to accept an income stream to pay off the principal and interest on loans, instead of large chunks of lump sum payments. This is not necessarily a bad thing, as the income stream can now correctly meet the actual cost of provision of accommodation. (I.e. a periodic payment can now be set which accurately meets a provider's cost of building the new service.)

However, what about existing services? Currently there's probably around $12billion held in bonds in Australia. If 25% of those bond-payers die or depart in the first year of operation of the Australian Pensioner Bond scheme, then some $3billion may be paid out. If the interest rates are at the CPI level, or, at best, neutral between bonds and periodic payments, then perhaps only half that $3billion – i.e. $1.5billion – may come in to providers as replacement bond lump sums. Bond holdings for current residents could reduce by $1.5billion. Now, much of that $12billion bond money is actually expected to be in banks paying down borrowings used to build those services or actually in the "bricks and mortar". That is, after all, the primary purpose of bonds.

So, let's say two-thirds of bond money is used to reduce borrowings and one third is just in investments earning interest for providers.

The upshot is that Australia's residential aged care sector would have to borrow a further $1billion in just 12 months to cover the reduction in current bond holdings. That would mean borrowing $1billion in one year that would not be used for any new buildings or upgrades at all – just to refinance reductions in bond holdings on existing bed places.

The most recent Department figures (2009/10) identify that c.$1billion was spent in one year on building new residential aged care places.

So....a successful Australian Pensioners Bond scheme coupled with a low CPI-type interest rate for "grossing-up" periodic payments could give rise to a doubling of monies needed from financiers: $1billion for building new places and $1billion to refinance depleted bond levels.

The need for residential aged care is going to grow (excellent demographics!) and the market will remain vibrant and strong and the uncapping of accommodation payments will be very positive to the growth of high care services. **However,** existing operators that **already** have only bonded residents and supported residents (i.e. that have **no** accommodation charges, e.g. Low Care and partial extra services High Care facilities) may suffer significant reductions in levels of bond holdings. This could be challenging indeed!

INSIDE THIS ISSUE:

OF INTEREST:

Accommodation Charge Payable on Transfer

If a resident moves between services (within 28 days), the maximum accommodation charge will not change, ie. the maximum accommodation charge payable by the resident at the new RACF will be the charge that was being paid at the previous

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