

10 May 2004

Mr David Tune
General Manager
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600



CATHOLIC HEALTH
AUSTRALIA

Dear Mr Tune

Thank you for the opportunity to comment on the Australian Government's package released on 25 February 2004 titled "Australia's Demographic Challenges". As Australia's single largest ownership grouping of non government health, aged and community care services, Catholic Health Australia has a particular interest in the impacts of changes to our demographic make-up and changing health and care needs.

Firstly Catholic Health Australia makes the observation that much of the language around the issue of a changing age demographic can be the use of terms such as the "pressures" or "concerns" with an ageing population. It is important to ensure a balance in the use of this type of language because it sends the wrong message about how a society should be responding to the needs of an older population. There are many benefits to an ageing population including the greater availability of older people to participate in family and community activities and the wisdom and experience that older people can offer in mentoring and supporting younger people.

Within this context, Catholic Health Australia welcomes the consideration that the Government is giving to considering the needs of a changing age demographic and the resulting public policy issues that must be considered now if Australia is going to be adequately prepared for the future. It is appropriate for the Government to give due consideration to ensuring an adequate taxation basis for the future and for assisting people to plan and save for their retirement.

Catholic Health Australia's concerns with the paper principally relate to the lack of focus on health and aged care issues and the policy responses which will be pursued to ensure older Australians continue to have access to high quality health and aged care when and where they need it. The Section on Health (page 6, *Australia's Demographic Challenges*) quite rightly identifies the importance of good health and wellbeing for all Australians. However, one gets the impression from reading the

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document that the focus on health and wellbeing is discussed principally in terms of labour force participation and productivity as evidenced from the following excerpt:

A key question for Government is how to best make use of available budget funding to maximise the health of the community, thereby enhancing labour force participation and productivity. Clearly, if we can avoid "downtime" from illness, we will be better off as a nation. This emphasises the importance of "value for money" in a health system facing rising costs and an ageing population (p6)

Catholic Health Australia views health as a "social good" – that is, it is a service, not a commodity for maximising profit or simply a factor of production. Social goods form the fabric of our society and should be as available to the poorest person as they are to the richest. Social goods belong to us all, they benefit us all through the realisation of a better society. Catholic Health Australia believes the document would benefit from an increased focus on the social and community benefits that result from a healthier population. This should be Australia's major goal - not the impact on the bottom line of labour force participation and productivity.

In a similar vein, the document refers to an increasing emphasis on individual responsibility for health. While Catholic Health Australia supports measures that will assist people take personal responsibility for maintaining a healthy lifestyle, it is important to maintain a social and collective responsibility for ensuring the best health for our fellow human beings. Health promotion and prevention are vital to a society such as ours and have been under-rated both in terms of the benefits they have for improving individual and community health together with minimising costs at the other end of the health spectrum, in the disability, acute and aged care sectors. Health promotion and prevention activities have received a miniscule proportion of the health budget to date. While individuals should be encouraged and supported to take measures to improve health and wellbeing, we should be very careful about policies that stigmatise or single out people because of some of their health choices. Just as a social good should not discriminate between the richest and the poorest in society, a social good such as health should not discriminate between the healthiest and sickest. In this context, Catholic Health Australia is concerned about the implications of the statement:

With health care resources not being infinite this raises questions as to how and to what extent the focus of the system should be redirected and the importance of individuals adopting healthy lifestyles that support their own wellbeing (p6).

The document clearly suggests a greater focus on individual responsibility for health, but there is negligible reference anywhere in the documents to

planning for health and aged care services into the future. For a document which clearly set out to identify "challenges" from a changing demographic make-up, it is surprising and disappointing that planning for adequate health and aged care infrastructure and services is not a major priority and focus in the document.

In his paper for the Academy of Social Sciences (*The Case for Increased Taxation*), Michael Keating has argued that Australia has set an arbitrary level of taxation and that Australia should frame target levels of government expenditure and taxation by assessing what level of public spending will be necessary to preserve and enhance our society and civilisation. Keating also makes the point which was identified in the *Intergenerational Report* that it is not so much the ageing of the population that will lead to increases in health expenditure but rather it will be advances in medical technology. He argues that it is a rational decision of a richer society to purchase a better quality of life for its citizens taking account of the full advantage of the improvements in medical technology.¹

Catholic Health Australia would support the Commonwealth Government giving greater prominence to the future expenditure needs in the health and aged care sector both because of the changes in population demographics and also allowing for improvements and changes to medical technology that can improve the quality of life for everyone.

The Need for a Savings Vehicle for Health and Aged Care Costs

Catholic Health Australia notes that the Government has given considerable attention to policies and options to assist people save more for their retirement, particularly through more flexible superannuation options. The focus in the documentation is understandably on developing policies which will increase the capacity of people to be independent in retirement and maintain a high standard of living.

Catholic Health Australia considers that there are other broader issues that need to be considered in assisting people to plan for older age and retirement. In recent years, there has been an increasing trend in both health and aged care to shift costs to users. Increasing fees and charges have been part of the health and aged care political landscape for some time. While not condoning this trend, it is likely that this trend is going to continue. It is not reasonable to assume that all people will have adequate assets and superannuation to meet the increasing user charges in health and aged care for older people.

In several submissions to government on issues related to the ageing of the population including the House of Representatives Standing Committee on Ageing Inquiry into Strategies to Address the Ageing of the Australian Population over the Next 40 Years, Catholic Health Australia has identified the need for a Health Savings Account which is dedicated to

¹ Keating, M, (2004) *The Case for Increased Taxation*, Academy of Social Sciences, 2004/1

helping people meet their out of pocket expenses related to health and aged care in addition to measures which assist with post work living.

The changing demographic of Australia's population needs to be reflected in the Commonwealth Government's commitment to aged care funding. An older age demographic should lead to a commensurate increase in funding for all services provided for older people. As the population ages however, on current trends the total number of users contributing to the costs of their care will increase and Australia currently does not have the infrastructure to support them meet these costs. Further, health and aged care needs are often greater when incomes are lower and assets harder to redeem (such as the family home), that is, if there are any assets to draw upon. Currently in the residential aged care sector, residents contribute about one-third of the full costs of care and accommodation. This equates to about \$2 billion user charging each year.

A recent report by NATSEM and AMP found that many people between 50 and 69 years of age are approaching retirement carrying higher levels of debt than the previous generation and that superannuation is being used to pay off this debt – houses, cars, credit cards etc.² In other words, there is less funding available to actually support living costs in retirement years. This does not bode well for people being able to meet unexpected health and aged care costs.

There are a number of options which could be considered to address some of these issues. Health Savings Accounts could be facilitated as an add-on to superannuation and managed in the same framework with a separate component for private contributions dedicated specifically to building up a reserve for meeting health and aged care costs. In this respect, the funds could accumulate with unused funds becoming part of the person's estate. Another policy response is to supplement the existing superannuation levy by another 2-3% for this purpose. Health Savings Accounts are not intended or likely to replace health insurance. Rather their role would be complementary and in practice would cover the user charging costs of residential and community care which are not covered by insurance. Potentially the Health Savings Accounts could also be used to assist meet private health insurance contributions which can be a substantial proportion of older people's yearly expenses.

Another option to consider is to enhance the existing Medicare Levy to allow for increased health and care costs in older age. This measure would focus less on saving for user charges, but rather would increase the revenue available to governments to contribute to health and aged care costs. As stated by Gray and Kendig:

Popular support for a mandatory, public style approach might be enhanced by wide recognition of a need to increase funding, to have an entitlement to care in the

² NATSEM/AMP, 7 March 2004, "The Lump Sum: Here Today, Gone Tomorrow", *AMP.NATSEM Income and Wealth Report Issue*.

community as well as the residential setting, and by an appreciation that sharing of risk is desirable.³

In summary, Catholic Health Australia reiterates that the Commonwealth Government has the primary responsibility to provide and fund high quality aged care programs and services. It is also recognised that increasing costs will also in part be borne by users of services. Where reasonable fees are charged people with a capacity to pay should have been given the capacity to save. What is clear is that if extra measures are not taken now, users will pay more than they need to in the longer term. As highlighted by the recent Access Economics/ASFA Report on Intergenerational Modelling for Australian Families "essentially, rising aged numbers and health prices will hurt both public and private pockets, but the public pocket must be replenished from the private one".⁴

Finally, Catholic Health Australia would like to point out that any measures adopted by the government to increase private savings including the adoption of a Health Savings Account must make provisions to ensure that people on low incomes are not in any way disadvantaged in being able to access high quality care and health services. In a wealthy country such as Australia, there is plenty of capacity for the government to provide and fund the highest quality care for all its citizens. Within these parameters, there is also potential for those people who have access to greater resources to contribute to some of these costs, and they should be given the infrastructure and support to do so.

Catholic Health Australia's Call for an Aged Care Benefits Schedule

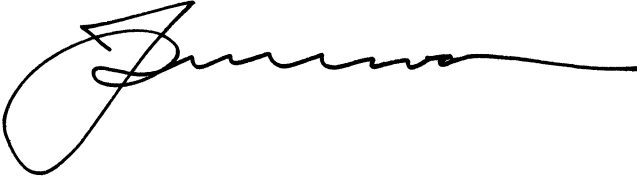
Catholic Health Australia has also given consideration for how funding for aged care could be provided in the future and in this respect has called for the development of an Aged Care Benefits Schedule as a potential funding model for the care of older Australians. Catholic Health Australia believes that the current system of care provision and its funding is not integrated and is complex and difficult to navigate for consumers and providers alike. In particular, there are disparities in the current system between community care and residential aged care which are inequitable and do not encourage consumer choice and transferability of eligibility and entitlement. The attached paper *The Aged Care Benefits Schedule – Development of the Concept* has been prepared to provide some more detail about how an Aged Care Benefits Schedule could work in Australia.

³ Gray, L. & Kendig, H. (2002), *Paying for Aged Care*, The Myer Foundation, p11

⁴ Access Economics/ASFA (22 April 2004), *Intergenerational Modelling For Australian Families*, p7.

Thank you for the opportunity to comment on these issues. If Catholic Health Australia can provide any further information or if you have any queries on the issues raised in this submission, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Francis Sullivan', with a large, stylized initial 'F'.A small, square, greyish mark or stamp containing a handwritten character, possibly a 't' or 'h'.

FRANCIS SULLIVAN
Chief Executive Officer