A room without a view in aged care

Should residents have to pay up to $82,000 a year?

Kathy Spencer

None of us get out of here alive, but some New Zealanders are paying dearly for their care as they exit.

Whether you will be required to pay for care out of your own pocket in your later years depends on the type of care you need, and that's a bit of a lottery.

In their last year of life, over 75% of people were admitted to a public hospital for treatment, according to a study done for the Ministry of Health.

People treated in our public hospitals aren't presented with an invoice when they receive care. Instead, they contribute to the costs of the health system through the second of life's certainties – taxes.

Similarly, people who need support to stay in their own home as they get older – such as help with showering or dressing – receive tax-funded care.

The exception is aged residential care, provided by organisations like Bupa, Summerset, Ryman, and MetlifeCare, alongside their retirement villages. People are often admitted after they've been supported to stay in their own homes for as long as possible, but can no longer do so safely.

Over half of the deaths in the 65+ age group follow a period in aged residential care. Many residents die within only a few weeks or months of being admitted. However, some stay for multiple years, with dementia being a common diagnosis among this group.

People admitted to aged residential care can pay a hefty price. The "maximum contribution" varies around the country, ranging from about $76,000 a year in places like South Waikato, Clutha, and Gore, to $80,000 in Wellington City and $82,000 in Auckland City.

This amount pays for a standard rest home room that typically contains a single bed, a wardrobe, a chest of drawers and a chair or two. About 60% of the rest home price is estimated to be for care, while 40% covers living costs (accommodation, food, cleaning, maintenance, laundry etc), administration, and returns to providers.

When people need higher levels of care – hospital-level, dementia, or psychogeriatric care – the maximum contribution remains the same, with the extra cost of these services being tax-funded.

Taking the simplest example of a single person, an aged care resident pays the rest home rate until their assets (including their house if they have one) are run down to a threshold which is currently $292,000.

About 43% of residents choose to pay an additional premium for a higher standard of accommodation – amenities like a larger room, access to a courtyard, an ensuite, or a view. In one Wellington facility, for example, premiums increase the annual cost by another $33,000 - $43,000.

To me, it is entirely reasonable to expect people to pay for living costs, and for extras like larger rooms, courtyards and views. In my opinion, however, it is unfair to single-out aged care to be so heavily funded by individuals when other types of care are paid for from taxes. As it stands, the system places a particularly high burden on people who need residential care for several years.

The sector is struggling

Since 2010, a number of reports have found that the sector is underfunded, and that there are insufficient beds in some parts of the country, especially in some regional and rural areas. Costs are increasingly being pushed onto residents, with those able to afford to pay for premium rooms being given priority access.

The pressure on the system is reflected in long waits to enter residential care: over half of those assessed as high priority are waiting longer than 12 months to be admitted to a suitable facility.

Too few beds can also mean that an older person has nowhere to go after a stay in a public hospital following a fall, for example. This "bed-blocking" in our public hospitals prevents other patients from accessing the care they need.

The next step

The latest development in this important area is a bipartisan Ministerial Advisory Group announced in October by Casey Costello and Simeon Brown. The Group is chaired by former Labour leader, David Cunliffe, and will make recommendations by the middle of the year.

To achieve the "sustainable supply of aged care beds" that Costello and Brown want, there will need to be a significant increase in the price providers are paid.

Faced with that prospect, my concern is that the Group will recommend shifting even more of the care costs onto residents. A report prepared for Health NZ presents an option where people with assets would pay the full cost of their hospital-level, dementia or psychogeriatric care.

So, for example, the maximum contribution for those assessed as needing hospital-level care would increase from the current $82,000 in Auckland City to around $130,000, with more than $85,000 of that being for care.

In my opinion, the share of costs met by residents should be moved in the other direction, so that more of the care costs are paid for from taxes. An option is to fund this using some of the savings from increasing the age of eligibility for NZ Super in line with increases in life expectancy.

Estimates of the sums involved suggest that the first step – increasing the age from 65 to 66 – would save enough to put aged residential care on a sound footing and shift most, if not all, of the care costs to tax-funding.

Of course, raising the Super age has been suggested many times. But asking the 'young elderly' to wait a bit longer to receive NZ Super, in exchange for more government support if they need residential care later on, may be an acceptable trade-off.

Kathy Spencer worked in public policy for over 30 years, including as a Deputy Director-General in the Ministry of Health, a General Manager in ACC, and a Manager in the Treasury.