

# Distributional Impact of Means Test Reform in Residential Aged Care

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# Introduction

What is means test?

- Assessment of financial capacity
- Assist with setting adequate co-contribution ratio

Why means test?

- System affordability & sustainability
- Equitable distribution of resources

What matters for means test?

- Equity
- Transparency
- Incentives for retirement planning

# Means Tested fee

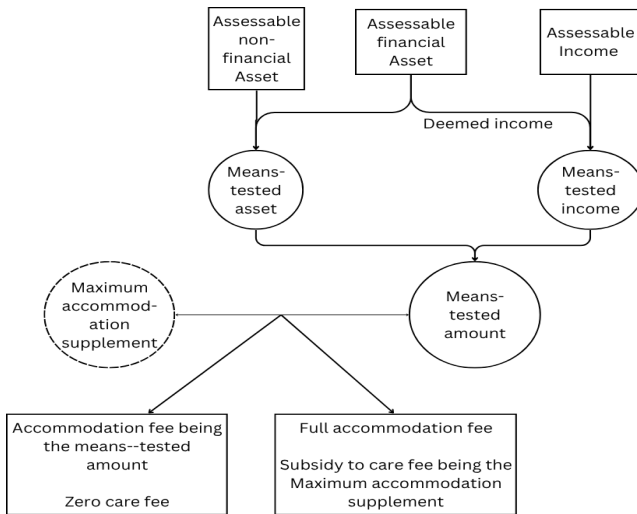
Major fee components for residential aged care:

- Daily fee
- Cost of care
- Accommodation fee

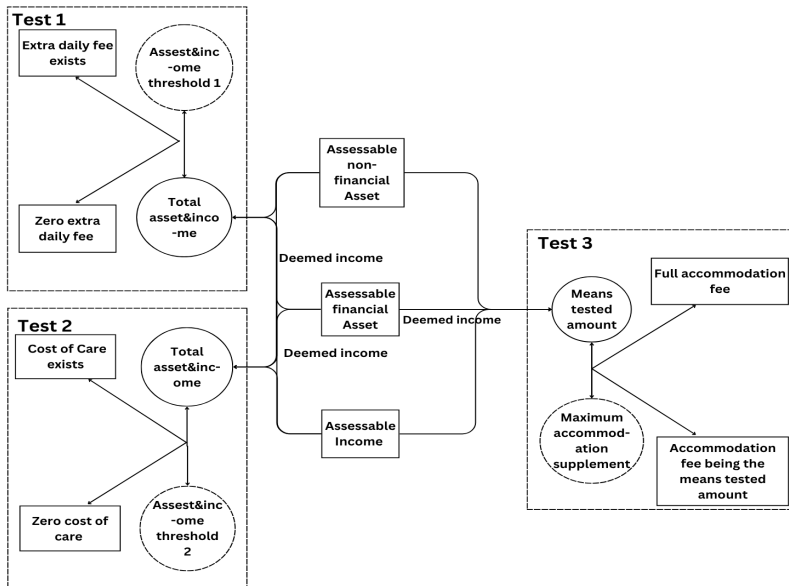
Incoming reform in November:

- **Daily Fee:** New assessment rates introduced; a daily cap is applied.
- **Cost of Care:** Assessment rate changes; annual cap removed, daily cap lowered, lifetime cap increased, and a duration cap introduced.
- **Accommodation Fee:** Assessment rate unchanged; no caps apply.

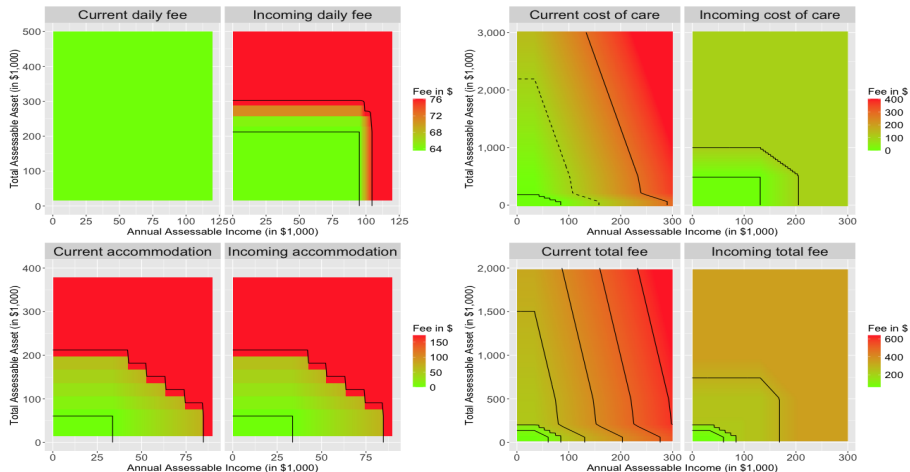
# Current Means Test Scheme



# Incoming Means Test Scheme

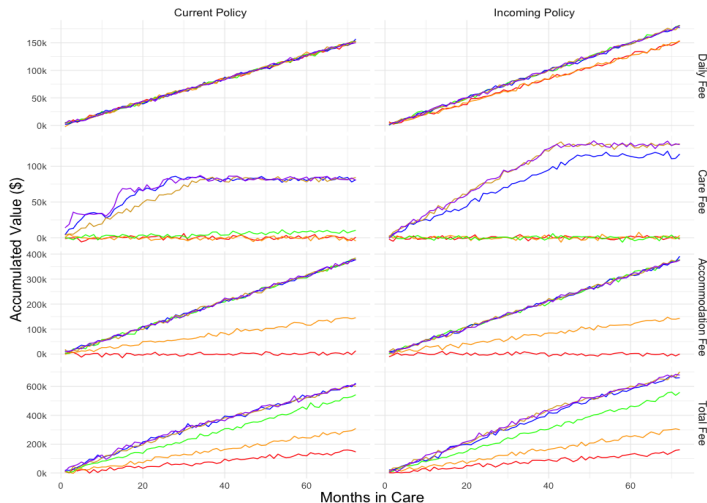


# Simulation I



**Figure:** Static comparison of contributions toward fee components in current and incoming policies for residents with different income and asset levels

# Simulation II



Resident	Total.Asset	Total.Income
Resident 1	34,000	50,000
Resident 2	34,000	200,000
Resident 3	34,000	350,000
Resident 4	120,000	870,000
Resident 5	45,000	1,500,000
Resident 6	100,000	12,000,000

Accumulated Fee Trajectory of each fee component of six representative residents over six-years of stay

# Conclusion

Key takeaways:

- Removing the annual cap improves transparency.
- The equity function of the lifetime cap weakens over time due to convergence in accumulated contributions.
- Introducing a duration cap addresses this limitation.
- Placing greater weight on assets creates incentives for asset annuitisation.

DIY simulation II:

[https://hzhez.shinyapps.io/Residents\\_fee\\_simulation/](https://hzhez.shinyapps.io/Residents_fee_simulation/)



# Thank You!

For your time and attention

*Questions welcome*