

# Affording retirement

**Economic insights into public and private funding options**

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# The Economics of Demography



# ELRU, Productivity Commission and You

- Self-funding vs able 3<sup>rd</sup> party relative
- Destination of funds: provider or Government?

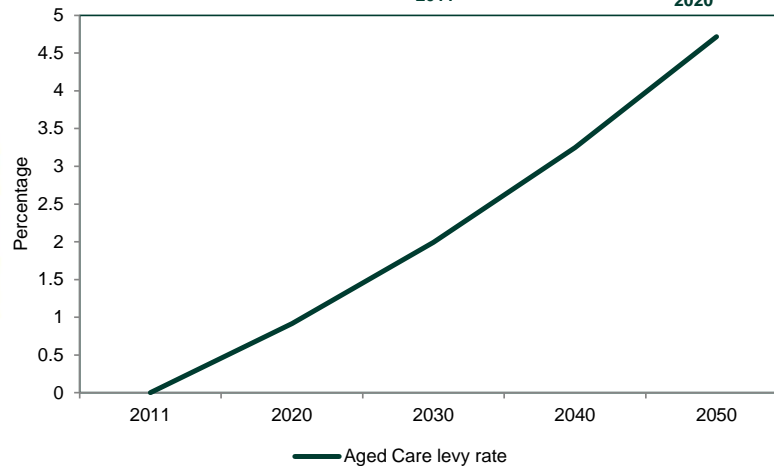
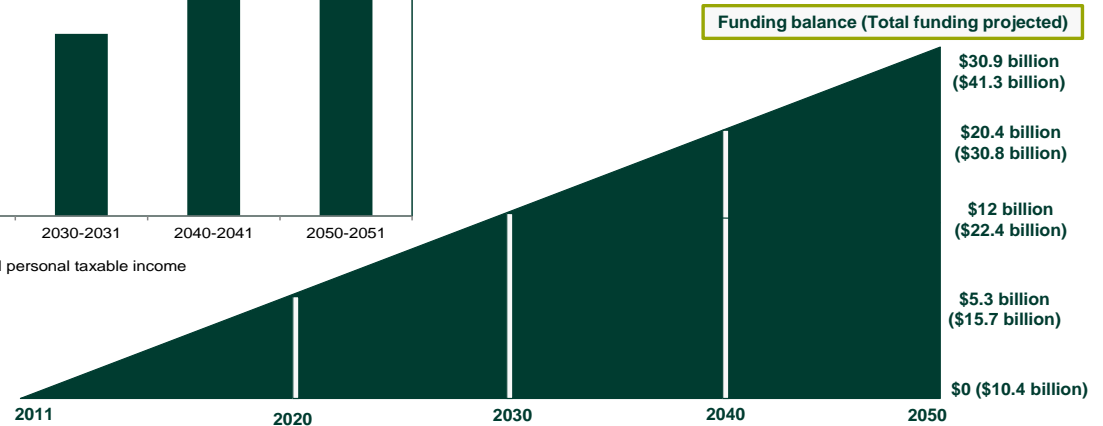
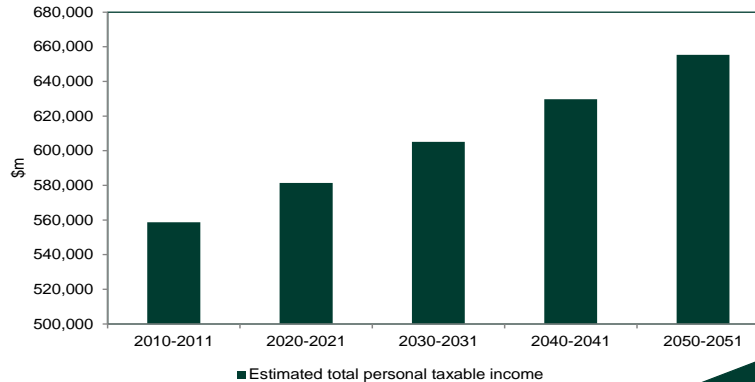


# Options

- Aged care levy
- Tax deduction vs rebate
- Filial responsibility law
  - Offence vs aged care levy surcharge
- FBT
- Return of the death taxes



# Aged care levy - Medicare style – A viable option?



A 4.5% levy on income tax?

Sources: ATO, RBA, Productivity Commission Report, private models.

# Tax Incentives

## Self-funding – existing obstacles

- Lack of differentiation in product - lack of range of offering - why pay more
- Standardised payments

## 3<sup>rd</sup> party funding

- All the above
- No responsibility at law to provide
- No financial incentive



# Tax Incentives (cont)

## Straight product model

‘I pay because I want the best (or better) for Mum’

- Indirectly reduces Government spend (directly benefits providers)

## Responsibility model

- ‘I pay because I have to, or the economic penalty for not doing so compels me’
- Directly reduces government spend

# Tax Incentives (cont)

## Example – Aged Care Levy Surcharge (ACLS)

- Children\* earning over \$100,000 household income required to pay a ACLS of 1.5% where they have a parent in subsidized care.
  - Over \$150,000 – 2%.
  - Cumulative – each eligible child pays

## Disadvantages

- Determining ‘Children’ and ‘Parent’ strike points
- On the above figures little disincentive to go private - \$700,000 in income before costs alone compel action



# Tax Incentives (cont)

## Example – Tax deduction vs rebate

Again assumes availability of private funding options

Insignificant economic incentive

- Rebates – fixed benefit per \$
- Deductions – increasing benefit per \$ as income increases

Policy question, but outcomes can be quantified



# Fringe Benefits Tax



- Similar considerations as other income incentives
- ‘Out-of-pocket’ factor reduced
- Depend on FBT amounts attributed to Care
- Incentives for employers to provide?

# Death and inheritance taxes

The median household net worth of Australians 75+ in 2005-06 is \$378,819 and is estimated to be \$451,060 for 2011 (adjusted for inflation and other factors).

## Cost of care over lifetime:

Level of Care Required	2011	2020	2030	2040	2050
(Females)	\$	\$	\$	\$	\$
High	237,627	242,907	246,837	265,877	301,868
Medium	79,233	81,018	82,328	88,679	100,684
Low	34,307	35,115	35,683	38,435	43,638

Source: Australian Institute of Health and Welfare, Productivity Commission

Regardless of the likely care cost incurred per person over their lifetime, it is lower than the median household net worth (\$451,060).

Potential room for a death taxes?

# Estimated costs of each option

Cost of care per person assumption of average cost per person \$10,248 (2011); \$12,995

Zero sum rebate/exemption/deduction - \$1 for \$1.

		2011	2020	2030	2040	2050
<b>Tax</b>	Government revenue loss					
	Tax exemption	\$3.28 bn	\$5.82 bn	\$8.31 bn	\$13.89 bn	\$18.59 bn
	Tax reduction	\$3.28 bn	\$5.82 bn	\$8.31 bn	\$13.89 bn	\$18.59 bn
	Tax rebates	\$10.92 bn	\$15.73 bn	\$22.45 bn	\$30.86 bn	\$41.30 bn
<b>Super Family Agreement</b>	Viability test					
	Once-off cost to government	\$44 million				
<b>FBT</b>	Government revenue loss	\$9.5 bn	\$13.6 bn	\$19.5 bn	\$26.8 bn	\$35.9 bn
<b>Care law</b>	Same with tax option					
<b>Aged Care levy</b>	Aged care levy rate		0.92%	1.20%	3.25%	4.72%
<b>Dependency duties</b>	Viability test					

Source: *ELRU calculations*

# Response to Productivity Commission

- \$60,000 limits on self-funded contributions
- Housing and the Aged Care Pensioner Savings Account
- Extra Services Places – further development of concept and options to develop product demand



# Conclusions



- Productivity Commission addresses many immediate concerns of Aged Care System
- Self-funding will be capped while numbers of 'can pay' users that contribute low or no costs will not increase dramatically
- Simple levies and taxes unfeasible as a sole measure

## Conclusions (continue)

- Incentives based on tax models would have increase utility with either social responsibility (laws or social pressures) or economic incentive (surcharges)
- Broader choices for privately-funded services is required to provide product incentive
- Private funding is inevitable – in life or in death

