Facing the Tsunami: The future of Aged Care in Australia

Presentation to Queensland Law Society Annual Succession and Elder Law Residential 2013

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About ELRI

ELRI grew out of the Economics and Law Research Unit (ELRU) at the University of Queensland, which had previously undertaken valuable research into the interface of economics and law and established links with a variety of sources including the Oxford University Centre for Business Taxation. It is dedicated to the propagation of research across applied and socially relevant areas where Law and Economics interact.

The Economic & Law Research Institute (ELRI) is an independent research and advisory institute focussing on the dynamic between the performance of an economy, its relevant laws, legal structures and systems and tax regimes.

Aim of ELRI

ELRI aims to:

- focus on the way in which commercial structures, the relevant laws and taxation outcomes affect and are affected by commercial activities;
- raise for comment and debate ways in which each can or should be modified or improved to create the environment for better business outcomes and to assist in the development of Australia's national wealth; and
- promote the harmonisation of laws and the strengthening of market economies Australia.

Major research themes

The major research themes pursued by ELRI are:

- to identify laws, legal structures and systems and taxation regimes in Australia which adversely impact on Australia's gross domestic product and its international competitiveness, and then to consider and determine what changes should be made; and
- to identify laws, legal structures and systems and taxation regimes in Australia and its trading partners in the Asian Pacific which adversely impact on the development of trade and their economies, and then to consider and determine what changes should be made.

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1.0 Introduction

The Economics and Law Research Institute (ELRI) is researching issues relating to an aging population from a law and economic perspective. Legal issues will be paramount in fashioning the environment in which age related topics such as retirement, aged care and inter-generational transfer of assets will take place; but these legislative requirements will also have significant economic outcomes in terms of public finance, equity, and the role of private capital in aged care provision. The interaction between law and economics has been long recognised but poorly researched.[1] Notable exceptions to this general rule include the work of Posner (1983) and others, as illustrated in his famous book, *The Economics of Justice*.[2] However, such examples are few and far between. In general the two disciplines have operated in different academic paradigms and have been shaped by different aims and objectives. Law is essentially a procedural subject in which precedent and past rulings (lagged observations in economics) play a major role. It is not by its nature, empirical or predictive. Conversely, economics is essentially empirical and attempts to influence private and public behaviour by producing testable hypothesis. Hence there is very little methodological cross-fertilisation between the two subjects. The exceptions being where a law, such as negative gearing procedures, are clearly framed to achieve an economic outcome, but even here there is no real consideration of whether the particular law is framed in a way to achieve the most efficient economic outcomes.

However, the area of demography is one where the two areas clearly intersect. It is the role of government to frame laws that achieve acceptable care for the elderly. However, to achieve this effectively, efficiently and sustainably requires putting the right economic structures in place. The goal of achieving an effective and economically sustainable program for the orderly ageing of the population, which will also achieve community support, will not be achieved without clear legislative provisions being established.

1.1 Aged Care in Australia

Aged care in Australia is delivered by informal and formal carers in residential and community care facilities. The services provided range from everyday living assistance to personal and health care. There are currently 1 million people (1 in 2 elderly people) receiving aged-care services in Australia, with the number expected to rise to 3.5 million by 2050.

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[1] The Journal of Law and Economics, established at the University of Chicago in 1958 is a notable exception to this lack of research. See, http://www.press.uchicago.edu/ucp/journals/journal/jle.html

[2] See, also Posner, R (1987) "An Economic Analysis of Law: Aspen Casebook", New York.

Aged care is paid for through a combination of public and private funding.[3] Government has been the primary provider of aged-care by subsidising residential care and community care packages, contributing, on average, two-thirds of aged-care costs. The rest of the cost is privately financed by older Australians and charities.

Australia's aging population presents the challenge of an increasing and changing demand for aged care services. By 2050 the Australian Government will need to quadruple its aged-care expenditure to $41 billion to simply maintain its current level of service provision.[4]

Consequently a shift to family based care is seen as a necessary option in alleviating the burden on government to provide aged care services in the long term.[5] Changes to the law, particularly those of a commercial nature or those related to inheritance and succession, have profound economic impacts between law makers and the often profound economic changes they help initiate, both implicitly and explicitly.

This is not to argue that laws should be drawn up purely on economic grounds to exclusion of principles of social welfare and equity. However, laws often have unintended economic consequences, which, if properly understood would lead to a modification in either the drafting or the enforcement of the law.

1.2 The Economics of Demography

Economics and Demography are closely linked. Historically economic outcomes have been tied to age. Age determines legal entry into the workforce and the standard retirement age. Age has also been seen as a critical determinant of consumption patterns with particular ages likely to focus on investment goods (house purchases, paying for education and expenditure related to dependent children) among younger ages and other (older) ages focussing on consumption and health expenditures. Much of contemporary public finance has been based on securing a sustainable replacement ratio[6], in which a sufficient number of persons enter the labour force (and the tax base) to fund the retirement of older workers. As well, in recognition of the aging process and the inevitability of death, laws in most countries have been framed to ensure the orderly transfer of assets across the generations.[7]

In some sense the economy worked better when people had a biblical life span- 3 score and ten. Pensions didn't last for long- so pension schemes were cheap, affordable and predictable, Assets were transferred in a timely and predicable way and the job market was not cluttered at the top with higher paid older workers hanging onto positions. Unfortunately, from the point of view of this orderly state of affairs, the population in general has become voracious consumers of health and, as a consequence, lives longer than previously. This provides economic problems of public finance, in terms of income maintenance, specialized accommodation and health care provision.

[3] See. Aged Care Australia (2012) http://www.agedcareaustralia.gov.au/

[4] See Synergies (2011).

[5] See, Scitovsky, A. Capron, A (1996) "Medical Care at the End of Life", *Annual Review of Public Health* 7 , 59-75.

[6] The term replacement ratio refers to the proportionate relationship between those leaving the workforce (and becoming net borrowers of community and health services) and those entering the workforce, whose taxes will fund these services.

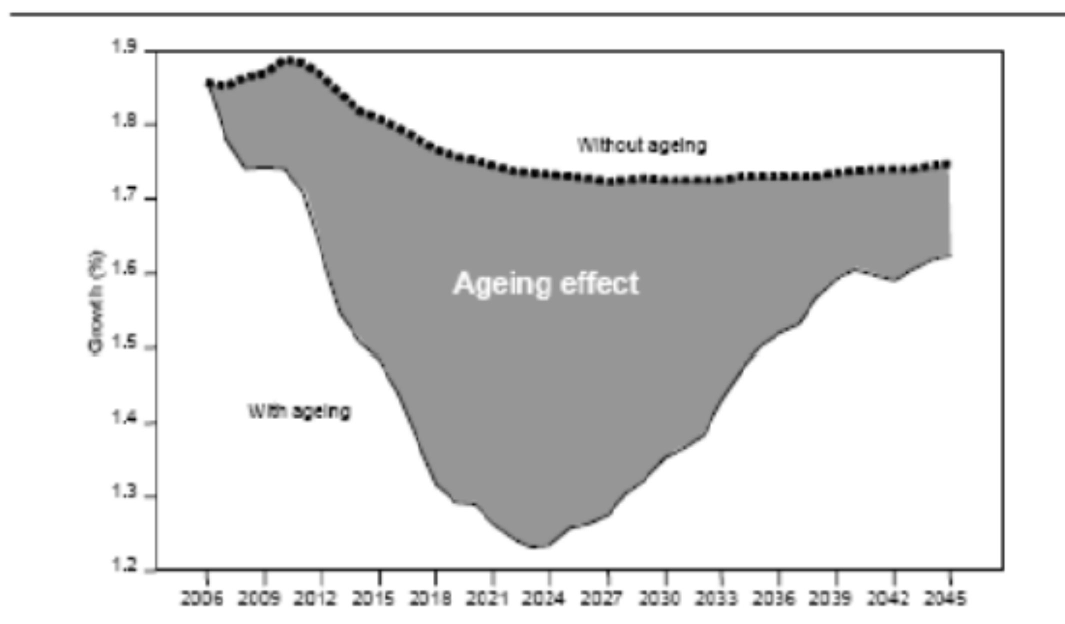
[7] For example, succession laws.

The widely publicised “aging of the population” has placed the capacity of the state to provide these facilities under some strain. Authorities fear that the replacement ration will not be sufficient to fund the public responsibility to retirees without placing unsustainable tax burdens on the active labour force into the future. At the other end of the spectrum, the increased life expectancy of many persons has seen a downgrading of proper provisions being drawn up for the orderly inter-generational transfer of income, a factor that threatens long term economic growth.

This aging effect is widely believed to lower economic growth up until 2050. The Productivity Commission (2005) highlighted this link as shown below in Figure 1.

Figure 1. Economic growth in Australia – a 40 year projection, 2005-06 to 2044-45

Per capita GDP



Data source: PC (2005).

Under the scenario envisaged by the Productivity Commission (2006), the aging effect will be symmetrical with a relatively rapid decline in economic growth (37% by 2024) before recovery takes place around 2045. However, the growth rate will suffer a permanent decline from its peak growth rates of the early 2000’s. These types of scenarios inevitably make assumptions concerning entry and exit behaviour, birth rates, migration and technical change, which, in principle, could be modified by public policy. However, in general it is now well established that the population is aging. This quasi-inevitable aging effect has a number of economic implications. Specifically, the current and expected future changes in the age distribution of the population are changing previously established patterns and opening up public policy debates on:

- Workforce retirement ages
- Options for retirement funding
- Replacement rate issues

- The role of the state in aged related health and lifestyle issues
- The orderly inter-generational transfer of assets.

In addition to these more long run issues, perhaps the most pressing economic reality facing contemporary societies is the immediate issue of the provision of adequate care for the elderly, now and into the future. In economic terms the current malaise represents *a market failure*. Market failure results where there is no market clearing price and has the inevitable result of producing either excess demand or excess supply in the particular markets.[8] Currently, in the provision of high-end aged care, it is one of excess demand which will be difficult to reduce in the absence of flexible service provision in terms of price and product mix. Specifically, the current arrangements to move towards a user pays system in these areas are not working due to:

- Segmentation in the market
- Shrinking tax base
- Increasing health costs
- Lack of suitable options in pricing and product differentiation for private providers.

The segmentation in the market results from the creation of artificial barriers to product and payment choices, principally through statutory regulations. While these regulations are framed within the broad context of the public interest, it is inevitable that inflexible regulation that denies consumer choice will create market disequilibrium and inefficiency, resulting in the basic economic principle of *deadweight loss.*[9] The shrinking tax base is driven both by a reduction in tax incidence among the wealthy, a general desire to reduce taxes and shift consumers on to a user pays system for public goods and the growth in tax minimisation strategies.[10] The inflation in health costs, despite an era of notable advances in health technology, results from increased "precautionary" testing, over-prescription and inflation in medical costs, but is ultimately driven by consumer preference to live longer and better.[11] While the factors listed above are important in terms of causing market failure, the biggest impediment to a viable market for health provision is the constraints placed upon providers to vary price and service arrangements to users of health care services. Possibly no other market in Australia is subject to as many constraints and as tighter controls as the health market.[12]

This market failure needs to be urgently addressed by public policy. In this paper we consider a number of potential policy options, specifically via

[8] Unlike popular belief, markets are not always self-adjusting. For example, the celebrated cobweb effect in agricultural markets or hyper-inflation in money market show the possibility of increasing rather than self- correcting movements. In aged care markets, often excess demand is disguised by enforced home care, especially where regulations control the charges private providers can make for their services.

[9] A basic economic tenet where market constraints and the use of market power results in economic costs of resource mis-allocation.

[10] See, "The Salutary Lesson of Australia's Shrinking Tax Base" http://www.taxsifu.com.au/wp-content/uploads/2012/03/GST-base-tax-expenditures.pdf

[11] See, Erixon, F. and van der Marel, E. (2011) "What is Driving the Rise in Health Care Expenditures?' An Inquiry into the Nature and Causes of the Cost Disease" *ECIPE, working Paper* 05/2011.

[12] See, Novak, J., Berg, C. and Wilson, T, (2010) "The Impact and Cost of Health Regulation" *Australian Centre for Health Research (ACHR),*
http://www.achr.com.au/pdfs/The%20Impact%20and%20Cost%20of%20Health%20Sector%20Regulation%20-%20FINAL.pdf

- Taxation policy; tax incentives for carers; aged care levy
- Options relating to superannuation
- Family related options-Family Agreements, Family Caring costs.

2.0 Establishing the parameters of Aging

In terms of policy simulation the analysis in this paper makes a number of operational assumptions. For example, in terms of quantifying the size of the potential market we set 70 years and above as the market threshold.[13] The projected numbers in this group to 2050 are shown in table (2) along with the advanced elderly (85 years+). In terms of those aged 70+, this will rise from 9.24% (2010) of the population to 15.4% in 2050. Similarly the percentages for those aged 85+ will rise from 1.6% to 4.4% respectively. By 2050 those aged over 70 years will outstrip the number of teenagers in Australia.[14] The numbers of persons aged 85 and over is expected to more than quadruple over the next 40 years, to 1.8 million people by 2050. In any market, the sudden increase in the relative contribution of one sector tends to be de-stabilising. In Australia, such trends will place considerable burdens upon health provision and public finance.

Table 1. Australian population statistics

Year	Population	Population 70+	Population 85+
2010	22,673,873	2,092,000	365,000
2020	26,529,200	2,950,000	532,000
2030	30,944,700	4,143,000	802,000
2040	35,414,400	5,286,000	1,319,000
2050	40,086,600	6,232,000	1,815,000

Source: Productivity Commission and ABS

According to Brown and Hartwich (2010) in the absence of high levels of migration, the traditional replacement rate targets for labour market replacement will not be met and the ability of the population to fund traditional aged care scenarios will be greatly reduced. In such cases the Government footprint in retirement funding and aged care provision will be severely diminished.[15]

The Productivity Commission (2011) has made some projections on the expected growth in health care costs as shown in Figure 2.

[13] In view of the move to raise the retirement age for men to 67 in 2020, the use of the age 70 years as the threshold point may seem overly cautious, however this age has been used in a number of overseas studies and its use here will enable comparisons to be drawn.
[14] See, Brown, J. and Hartwich, M.(2010) *Populate or Perish; Modelling Australia's Demographic Futurehttp://www.cis.org.au/images/stories/policy-monographs/pm-112.pdf*
[15] See, "Ageing and Age Care in Australia" *Department of Health and Ageing*, Canberra , 2008 for a discussion of these scenarios.

Figure 2. Expected growth in Health care costs 2010-2050

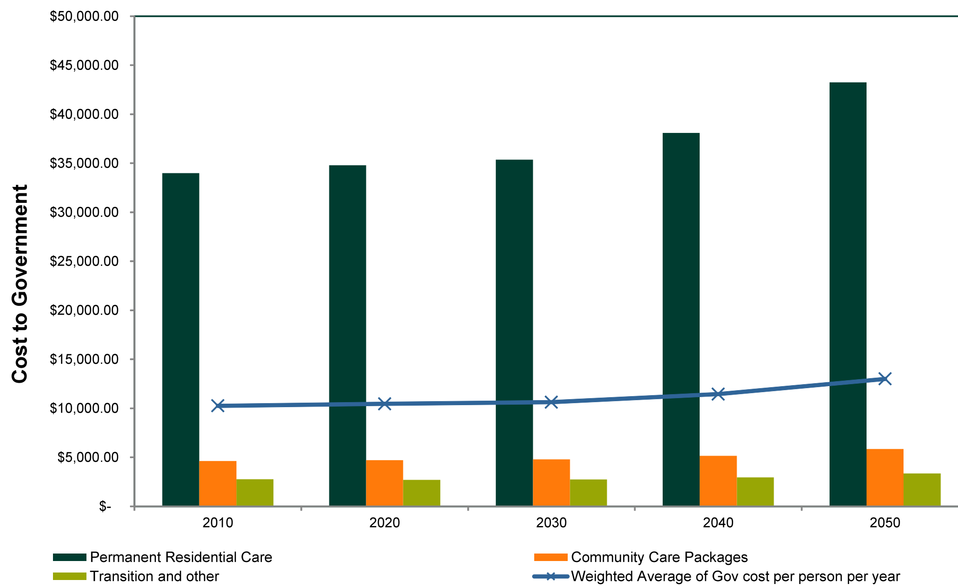


Figure 2 shows that:

- There is a gradual increase in the average cost of care per person for all of permanent residential care, community care and transition care
- The average cost of residential care per person has increased more substantially compared to the other types of care.

The weighted average cost of care per person for the next forty years is presented in table 2.

Table 2. Weighted average of government cost per person

	2011 $	2020 $	2030 $	2040 $	2050 $
Weighted average cost of care person	10,248	10,457	10,626	11,446	12,995

Source: Synergies (2011) calculation from data used in Productivity Commission (2011)

Table 2 shows the weighted average real cost of care increases by 27% from $10,248 in 2011 to $12,995 in 2050.

As well, as the numbers of older Australians needing care increases, the average cost of aged care is set to accelerate. Overall the extent of the current demographic and fiscal challenges have been well summarised by the Productivity Commission (2011). They found the following:

- Aged care in Australia is paid through a combination of public and private funding
- In 2010, 1 million (1 in 2) elderly persons received aged-care services
- By 2050 this will rise to 3.5 million persons receiving aid

- On present estimates this implies annual expenditure of $41 billion to maintain current services or a rate of increase (annually) of 2.5%.

One piece of encouraging news for policy makers is that this $41 billion is still only 3.3% of current (2011) GDP of $1.23 trillion, although it represents a much higher percentage of Government expenditure. Nevertheless, this suggests that considerable scope exists for Government to draft a set of economically feasible ways of making aged care affordable and sustainable. The issues around designing such schemes relate to designing schemes that are equitable, encourage self-reliance and allow markets to function properly and do their intended job of efficient allocation of aged care.

2.1 Policy Options

While projected costs ($41 billion by 2050) are still a small part of National GDP, they are a much larger share of Government Revenue. Consequently governments are increasingly likely to look for ways to shift aged care costs to users or the private sector. The choices then become a trade-off between the level of care and the costs. In this debate it is important to note that in economic modelling-aged care services should not only enter as a cost but also important source of value adding through additional employment and technical progress.[16] With this in mind, current options for changing the funding mix of health care provision involve a mixture of fiscal options designed to change behaviour:

- Taxation policy; tax incentives for carers; aged care levy
- Options relating to superannuation
- Family related options - Family Agreements, Family Caring Costs.

The broad brush use of taxation policy to influence outcomes is littered with policy failure and unintended consequences. Put simply, the tax avoidance industry tends to move more quickly than regulators with the inevitable consequence that the original intentions of the tax change are distorted. Tax systems where possible should be simple and efficient, with few areas for discretion. Tax systems should be derived to raise Government finance, not act as quasi social services. However, in terms of its use in health care provision, the main advantage of a direct use of the tax system is to cut down collection costs and the achievement of widespread coverage.

2.1.1 Tax concessions

These relate to a suite of policies to increase the attractiveness of family based care. Tax exemptions and tax deductions to provide incentives for working age family members to provide more in–house care. The main advantages of such schemes are that it is economically feasible if the marginal tax loss is less than the cost of displaced aged care services and it represents a comparatively easy source of management and payment delivery. Among its disadvantages is that it poses a moral hazard in that there is no effective way of ensuring quality of product or that monies allocated in this way are actually producing the desired behaviours. It also raises the issues of inter-family equity and the fact that family members, by accepting early payment are reducing their expected inheritance pay-outs. It is likely that this option

[16] Employment in the aged care sector remains one of the fastest growing areas of employment, see Access Economics (2010) The Future of Aged Care In Australia, report undertaken for the National Seniors.

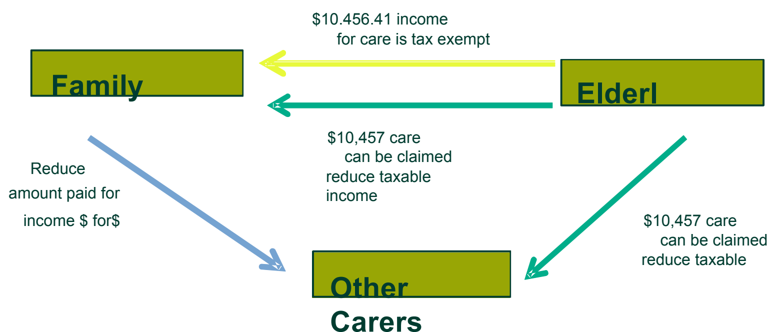
would only have limited applicability, specifically to those family members with low outside employment prospects and whose marginal cost of time is relatively low.

2.2 Modelling Tax Options

For simplicity, we base individual annual income on the annual income of the primary income-earner in a household. The data we use is weekly full-time adult ordinary earnings in public and private sectors of $1,305.40 from ABS Average Weekly Earnings publication, which comes to $67,881 per year. The tax concession estimates are estimated on a per person basis. The 2011-12 tax rates for the income range of $37,001 to $80,000 is $4,650 plus 30% of excess over $37,001.

The evaluation of this option only includes cost estimates for the current year, as the amount of tax payable in the future is subject to the future tax rate, which is difficult to predict and estimate. To this end the tax exemption, tax deduction and tax rebates mechanisms are shown in Figure 2.1.

Figure 2.1. Tax exemptions, tax deduction and tax rebates mechanisms



The issue of tax exemption for payments and/or internal transfers has been raised as a means of inducing family members/friends to take on the active caring, possibly as an alternative to outside work. Tax exemption allows the family carer to receive payments from the care recipient tax free, as seen in figure 3. There are a number of equity and efficiency considerations connected to what seems a relatively straight forward argument. The Productivity Commission has produced some estimates of the potential tax loss from such a policy based upon relatively modest earnings by the family member concerned.

Table 3. Tax exemption result for 2011[1]

			Family Carer	Government
Per person	**No tax exemption**			
	Taxable Income	$67,880+$10,248=$78,128		
	Tax		$16,988	$16,988
	Tax exemption			
	Taxable Income		$67,880	
	Tax		$13,913	$13,913
	Tax Savings/Loss		$3,074	$-3,074
Total	**Government revenue loss**			$-3.28 billion

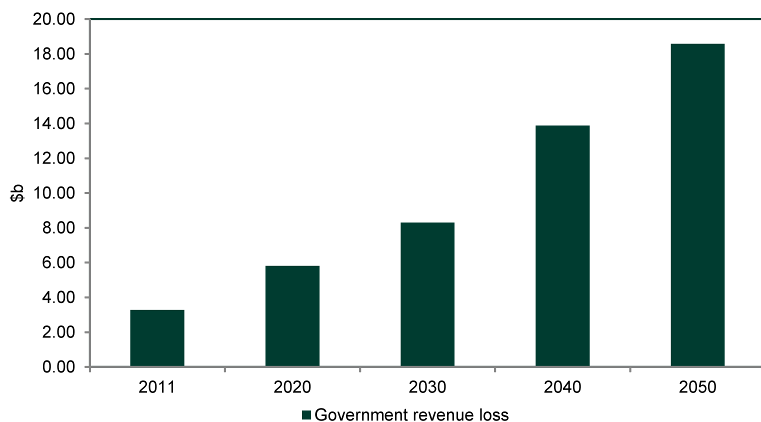
Note: 1 Negative number means expenditure and positive number means income.

Source: Synergies calculation

Based on Productivity Commission Modelling:

- Family members providing care will increase their after tax income, on average, by $3,074.
- The cost of option to Government is estimated to be $3.28 billion in 2011.Government foregone revenue will reach 18.7 billion at 2050, as is shown in figure 2.2.

Figure 2.2. Government revenue losses from tax exemption, 2011-2050



Data source: Synergies calculation

For this type of policy to be effective would need a number of factors to come into place. The first would be adequacy of earnings. Caring for aged relatives has high opportunity costs in terms of lost wages and or lost leisure time. It is doubtful, both in terms of the capacity to pay from the elderly or in terms of lost tax revenue, whether such a scheme could ever deliver financial outcomes comparable to paid employment. In such circumstances the recipient would need to have some pre-disposal to the caring function with the tax-exempt payments acting as a below-market rate or

threshold compensation. The issue of equity is also important with not all family members being able to be chosen to receive payments. In such circumstances the selection process of the most suitable carer would need to be developed. Finally, the relationship between these quasi-users pays system and the current carers pensions would need to be clarified to avoid double-dipping with tax payer funds.

2.2.1 Tax deductions

A tax deduction allows care recipients to claim their care expense to reduce their taxable income, as seen in figure 3. Table (4) examines the fiscal implications of the proposed tax deduction scheme.

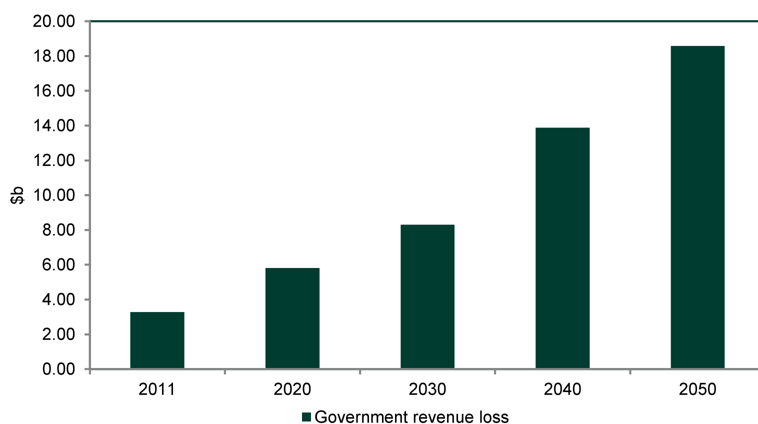
Table 4. Tax deduction result for 2011

		Elderly People (65+)	Government
Per person	**No tax deduction**		
	Taxable income	$67,880	
	Tax	$13,913	$13,913
	Tax deductions		
	Taxable income	$67,880-$10,248=$57,632	
	Tax	$10,839	$10,839
	Tax Savings/Loss	$3,074	$-3,074
Total	**Government revenue loss**		$-3.28 billion

Source: Synergies calculation

- This reduces the cost of care to elderly Australians paying for their care, on average, by $3,074 per year
- The cost of option to Government is estimated to be $3.28 billion in 2011
- Government foregone revenue will reach 18.7 billion at 2050, as is shown in figure 3.

Figure 3. Government revenue losses from tax deduction



Data source: Synergies (2011) calculations

The implications flowing from this scheme flow mainly from its low scale. A post tax income boost of only $3,000 approximately will not provide much in the way of additional health care, particularly for those persons with health issues who are unable to work to full capacity. As with other tax based options, these seem to be basically playing at the margins and will only beneficially impact upon relatively few of the target population.

2.2.2 Tax rebates

A tax rebate would enable the family carer to reduce their tax liability by the exact dollar amount they spent caring for their elderly relative. A one on one tax deduction is a particularly generous deduction of approximately 300%[17].

Table 5. Tax rebates result for 2011

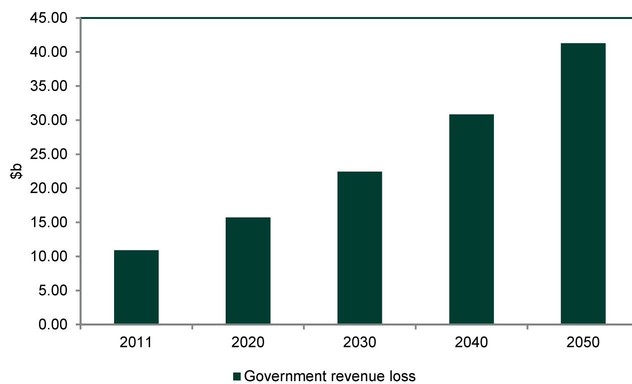
		Family Carer	Government
	No tax rebates		
	Taxable Income	$67,880	
	Tax	$13,913	$13,913
Per person	**Tax rebates**		
	Taxable Income	$67,880	
	Tax	$13,913-$10,248=$3,665	$3,665
	Tax Savings/Loss	$10,248	$-10,248
Total	**Government revenue loss**		$-10.9 billion

Source: Synergies calculation

- With the rebate policy, the family carer's tax liability would reduce, on average, by $10,248.
- The cost of option to Government is estimated to be $10.9 billion in 2011.
- Government foregone revenue will reach 40.3 billion at 2050, as is shown in figure 4.

[17] Based approximately on an effective taxation rate of 300%.

Figure 4. Government revenue loss from tax rebates



Data source: Synergies calculation

This option represents a much more substantial economic incentive for the beneficiary and consequently a large tax loss impost upon Government. In general economists are opposed to tax exemptions because of their capacity to induce rorting and avoidance into the system. In this particular case it is difficult to see the advantage of rent-seeking on the part of the claimant. Moreover, it introduces a strong element of consumer choice into the types of health care sought. The unknown issue relates to the efficiency of the scheme. In other words, does it represent the least cost per dollar of supplying the same level of care? As well there are equity issues with the highest income earners (tax–payers) getting the greatest benefit.

3.0 Superannuation death benefit tax exemption

This option assesses the feasibility of introducing a tax exemption for death benefit received by adult children in return for the adult children accepting responsibility for their parents care. Again, on the face of it, it appears a simple means of indirect Government funding of aged care through providing incentives by the removal of tax liabilities. As such, this scheme is subject to the same moral hazards and efficiency and equity arguments described above. For example:

- Would there be a cap on the amount of superannuation that would be passed on tax free?
- How would Governments monitor the scheme to ensure the quality of the care provided?
- Would the scheme be subject to a cost benefit appraisal both in aggregate and on an individual basis.

Industry and taxation data on potential amounts of death benefit are not available. However, it is likely to be sizeable and, in principle, would go a long way to providing adequate long term health care for those with significant amounts of superannuation. The problem is that most Australians do not have adequate superannuation.

4.0 Establishment of an Aged care levy

In many countries taxes are collected and kept separate from general revenue to fund particular activities. The UK employment supplement scheme, whereby temporarily unemployed workers can have their unemployment benefits supplemented by past contributions, is probably the best known. A similar levy scheme has been suggested to fund

aged care. These schemes have the advantage of general simplicity and universal coverage but, as with all insurance schemes, only benefit those that make claims, which tend to be the lower paid or those in more precarious jobs. In other words those that contribute most, in general benefit less. This is clearly an inequitable and inefficient scheme. Such a levy would also be contrary to normal practice in Australia.[18] Conversely, any attempt to limit the benefits an individual can receive to the extent of their contributions plus interest would significantly reduce the effective spread that such a scheme could have. By making broad brush charges on all tax payers there is a welfare loss through inequity. The chief advantages of a levy are that they are relatively easy to administer and they allow relatively accurate modelling of expected revenue. This is turn assists with policy development and budgetary considerations.[19]

4. 1 Family Care Arrangements

This funding option involves family members providing aged care with the proviso that they will share in the estate. The big advantage here is that no public money need be involved. However, by internalising aged care arrangements, Governments would be removing formal quality controls. Moreover, such arrangements could not be universal and necessitate at least several forms of aged care system coinciding. The system would seem ripe to legal challenge by disaffected family members.

4.2 Introduction of a Care Law combined with tax cuts

This scheme would make it mandatory for families to care for aged relatives with the Government providing some tax relief to help fund the care. Once again a major problem would exist in ensuring adequate care standards were adopted as well as the problems of default. There is also a moral hazard generated in that those least able to pay may also belong to families in most need. This would reinforce equity costs and tend to make the system unpopular and open to abuse. As well, Governments would still be required, by duty of care requirements, to provide care for those persons whose children were unable or unwilling to pay. Finally there may be legal issues in establishing parenthood.[20]

5.2 Assets of older Australians

Many older Australians have sizable financial and property assets. Especially in recent years, there has been an increasing concentration of wealth and assets among older Australians, particularly through home ownership. Approximately 80% of people aged 65 years and older own their own home outright, compared with 25% of those aged under 65.[21]

Data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey conducted in 2006 suggests that the medium net worth of households headed by a person aged 65-75 years was $443,000 and $332,000 for those headed by a person aged 75 years plus.

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[18] A notable exception being the flood damage levy recently levied in response to the Queensland floods.

[19] See, Lloyds Bank (2011) Financial Taxes and Levies; http://www.lloyds.com/the-market/operating-at-lloyds/regulation/government-policy-and-affairs/international/financial-taxes.

[20] See, The Economic Analysis of health Care Law (2011) Georgetown Law; http://apps.law.georgetown.edu/curriculum/tab_courses.cfm?Status=Course&Detail=1067

[21] ABS, 4102.0 – *Australian Social Trends*, 2005 Housing arrangements: Housing for older Australians (2005); ABS, *4102.0 – Australian Social Trends,* 2009 Household debt (2009), 31-34.

According to an AIHW report[22], in 2005-06, households with a person in the age group 55-64 years had the highest average household net worth of $824,000. The average net worth of households with a reference person in the age group 65-74 years was $743,000, and that of households with a reference person in the age group 75 years and over was at $575,000.

A NATSEM (National Centre for Social and Economic Modelling) report[23] estimated that the wealth held by older Australians is currently 22% of total household wealth and that this will increase to 47% by 2030. This growth is estimated to increase the total household wealth potentially available for transfer by bequests, from $8.8 billion in 2002 to more than $70 billion in 2030. As assets of older Australians increase, they are more likely to seek more active and formal asset management, including an EPA. 2005 data[24] suggest that 15.4% of the Australian population used an EPA attorney to manage their financial affairs.

In summary, proposals to raise additional finance for health funding appear to favour providing economic incentives, via tax and or superannuation concessions to induce impacted persons (normally family members) to take on more personal responsibility in caring for aged persons, therefore reducing the call on the state. Such schemes are only viable if the cost of the concessions is less than the savings in public provision costs. So far no study has shown this to be the case. A prerequisite for the introduction of any of these schemes would be to satisfy the marginal revenue gain test.

The natural solution to this problem is a deregulation of the aged care industry to allow various product offerings in terms of cost and service mix, with the proviso of a safety net in place for those unable to pay.

[22] Older Australians at a glance (4th edition), Australian Institute of Health and Welfare (AIHW), November 2007.
[23] Kelly, S. 2002*, Simulating Future Trends in Wealth Inequality*, Paper presented to the 2002 Annual Conference of Economists, Adelaide, South Australia, October.
[24] C Tilse, J Wilson and D Setterlund, 'Older People's Assets: A Contested Site' (2005) 24 Australasian Journal on Ageing Supplement 51.