Funding High-Quality Aged Care Services: *A Summary*

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A Crisis of Care

Australians have been rightly shocked by exposés of widespread mistreatment, neglect and abuse of elders in our aged care system. Long-standing problems in the aged care system became even more acute during the COVID-19 pandemic, which posed a frightening threat to older Australians (especially those in residential care facilities). Three-quarters of all deaths due to COVID-19 in Australia occurred in aged care facilities – most of those in poorly-managed private homes.

In response to continued scandals, in 2018 the Commonwealth government appointed the Royal Commission into Aged Care Quality and Safety. The Commission held 25 hearings and received over 10,000 submissions. It compiled exhaustive evidence of systematic failures in the aged care system, blaming in particular inadequate government funding, unfair and precarious employment arrangements, and the conflicts of interest facing private for-profit providers.

The Commission's final report, issued in March 2021, included 5 volumes and 2800 pages of text. The Commissioners made 148 specific recommendations to urgently repair the system and better care for Australia's seniors.

Ultimately, aged care must be considered as a public service – and quality care must be provided as a basic right to every older person who needs it, regardless of their financial circumstances. The Royal Commission's clarion call to build an aged care system based around a universal entitlement to high-quality care represents an opportunity to break with this shameful legacy of inaccessible or inadequate care for our elders.

There is no doubt this will require the investment of significant resources. But as with any government expenditure, the matter boils down to a question of social priorities. Given the contribution that our older generations have made to building our country and our economy, laying the foundation for the prosperity that most of us enjoy today, the least we can do in return is ensure they receive high-quality clinical and social supports, dignity, and fairness when they need them.

Our research shows that providing top-quality, universal aged care is economically and fiscally feasible – so long as we make it the national priority it should be. This report describes the existing dimensions of Australia's aged care system, including the 400,000 workers who provide hands-on care to seniors (both in residential facilities and in their own homes). It emphasises that the quality of care is inseparable from the quality of jobs for those who deliver the care. And it shows the Commonwealth government has ample fiscal latitude to fund the Royal Commission's urgent recommendations. Indeed, our report identifies five specific funding options, any one of which would raise enough funds to fix the crisis in aged care — and fulfil our generational obligation to care for those who did so much for us.

This report summarises findings of a detailed 80-page report, Funding High-Quality Aged Care Services, by David Richardson and Jim Stanford, May 2021, published by the Centre for Future Work and available at https://www.futurework.org.au/commonwealth_has_ample_fiscal_capacity_to_implement_aged_care_reforms.

A Vital Service, A Valuable Industry

Aged care services are not just a 'cost item' on the government's budget. They provide vital care that allows older Australians to live their final years with comfort and dignity. Moreover, the aged care sector itself constitutes a vital industry in Australia's overall economic fabric.

About 400,000 Australians are employed in delivering aged care services: both in residential care facilities, and to seniors in their own homes. The industry generates $22 billion in annual GDP. It pays out $20 billion per year in wages and salaries to the workers, across a wide range of occupations, who provide care. That income, in turn, supports additional consumer spending that is vital to Australia's economic well-being. A significant share of that revenue eventually flows back to governments in the form of increased income tax and GST revenues.

For all these reasons, investing in needed repairs to the aged care system will be important in Australia's broader post-COVID recovery. Fixing aged care will lift national incomes, employment, and tax revenues at a time when Australia needs more of all of those. Moreover, strengthening the generational 'pact' which underlies aged care – with each successive generation of elders knowing they will be well-cared for as they age – has valuable and efficiency-enhancing economic effects. It allows Australians to make important decisions throughout their lives (about education, careers, home ownership, investments, and more), safe in the knowledge that they will receive quality, dignified care when they need it.

Aged Care: Economic Importance	
Total Revenues	$27 billion
Value-Added (GDP)	$22 billion
Employment	$400,000
Wages and Salaries Paid	$20 billion
Income Tax Paid	$3 billion
Consumer Spending Supported	$15 billion
Supply Chain Purchases	$5 billion

Fixing a Broken System

The Royal Commission made 148 recommendations covering a wide range of urgent reforms. A central conclusion is Australia must establish a right to quality aged care as a universal entitlement, regardless of a senior's ability to pay. Financial barriers and user fees must be reduced or eliminated over time. This would ensure that every elder Australian receives quality care when they need it.

The Commissioners also specified many needed reforms in governance, transparency, and accountability for aged care providers. It proposed stronger regulatory oversight to ensure quality care, and a star rating system to assist aged Australians and their families access good care.

The Commission made several recommendations relating to employment practices in aged care. The Commissioners noted the quality of care cannot be separated from the quality of work in the sector. The conditions of aged care jobs (including pay, training, safety, and stability) inevitably shape the quality of care those dedicated workers can provide. Commissioners identified that permanent employment (rather than reliance on casual, agency, or gig jobs) is essential for quality care. They also highlighted the need for binding minimum staffing ratios and time allotments, registration and regulation of support workers, and much better training opportunities and clearer career paths.

How Much is Needed?

The Royal Commission report did not explicitly cost its recommendations for improvements to aged care, including the important changes needed in working conditions (such as minimum staffing ratios, training, higher wages, and registration). But the Commissioners did broadly estimate the likely increment in government funding they feel will be required to support necessary reforms. Volume 3 of the report indicated Australians should expect an increase in total government support for aged care of at least $10 billion per year (or around 0.5% of GDP). Other studies confirm that broad order of magnitude of additional resources is needed to improve aged care quality.

$10 billion per year will strike some observers as a large commitment. But in comparison to other countries, and other periods in Australia's history, mobilising resources on this scale to fulfil our obligation to the people who built our economy and society, is in fact very reasonable and affordable:

- Australian government funding for aged care is 0.4% of GDP lower than the median of other industrial countries studied by the Royal Commission.
- Aggregate taxes collected in Australia have declined by close to 2% of GDP since the turn of the century.
- The ratio of aggregate taxes to GDP in Australia is 5 percentage points lower than the average for other industrial countries.

Allocating additional resources worth $10 billion per year to reforming aged care, therefore, is a modest commitment in historical and international context. It would offset only some of the reduction in aggregate tax rates that has occurred in Australia in recent years, and close just one-tenth of the gap in the overall tax base between Australia and other OECD countries. In other words, this commitment is absolutely viable in fiscal terms – and urgent in moral terms.

Options for Funding Aged Care Reform

Given Australia's challenging economic circumstances, as we recover from the COVID-19 pandemic and recession, incremental funding for aged care services should simply be integrated into the Commonwealth government's existing budgetary flows. The government already expects significant deficits for several years. Those deficits are both inevitable and desirable, to support recovery from recession. And the economy needs more government spending, funded through deficits, for years to come. In this context, it is neither necessary nor appropriate to worry about 'funding' each dollar of incremental expenses on aged care (or other public services). So the government must move ahead immediately with implementing the Royal Commission recommendations, without waiting to design and implement special revenue measures.

In the longer-term, as normal economic and fiscal conditions are restored, government can mobilise incremental resources to support these reforms. This report identifies five separate revenue measures, any one of which (or a partial combination of them) would raise at least $10 billion per year in additional revenues to fund repair of aged care services. Two of these measures were in fact proposed by the Royal Commissioners. The others represent additional options for closing tax loopholes and concessions that are both unfair and unimportant — relative to the urgent need to the repair aged care system.

Five Options to Finance Aged Care Reform
Any one of these measures would raise at least $10 billion per year to implement Royal Commission recommendations:
Increase Medicare Levy by 1%
Progressive Aged Care Levy
Retain the 37% Personal Income Tax Bracket
Reform Taxation of Investment and Capital Income
Reform Company Taxes

Option #1:
1% Increase in Medicare Levy
Royal Commissioner Briggs proposed a 1% flat rate levy to fund aged care improvements, similar in structure to the existing 2% Medicare levy. The levy would apply at the same rate to all taxpayers who exceed the normal tax-free threshold (currently $18,200 per year). This would raise over $10 billion per year. This flat-rate system is the least 'fair' of all the revenue measures considered in this report, since it applies at the same rate to all taxpayers regardless of ability to pay. Nevertheless, most Australians in all income brackets have indicated a willingness to support aged care services with modest new taxes (as confirmed by surveys conducted for the Royal Commission). And the combined impact of collecting revenue through a flat-rate levy, and then dedicating it to a universal essential service, would still enhance social equality. In this system, most Australians would pay less than $300 per year in additional tax.

Option #2:
Progressive Aged Care Levy
Commissioner Pagone proposed an alternate approach to funding aged care reforms, through a set of adjustments in existing personal income tax rates and thresholds. (Commissioner Pagone also favours a 'hypothecated' system, which keeps revenues in a separate account to solely and completely fund aged care services, without recourse to other revenue sources; we think hypothecation is unnecessary and inflexible.) A new levy could be designed to preserve (or even enhance) the progressivity of the existing income tax system, so that high-income individuals pay a larger amount to the task of repairing aged

care. By adjusting tax rates at each threshold, the existing progressive distribution of taxes would be maintained – while raising an equivalent amount of new revenues ($10 billion per year). In this system, anyone earning under $170,000 per year would pay less new tax than under a 1% flat-rate levy (while those above that income would pay more).

Option #3:
Retain the 37% Personal Income Tax Bracket
The Commonwealth government has legislated major reductions in income taxes for high-income earners, planned to begin in 2024. The biggest of these 'Stage 3' tax cuts is the complete elimination of the 37% tax bracket, which currently applies to income between $120,000 and $180,000 per year. This measure would reduce federal revenues by at least $16 billion per year. But the savings are tightly concentrated among the most well-off segments of Australian society. Over half the total benefit is captured by the richest tenth of society. 80% of savings are captured by the richest fifth of taxpayers. The bottom 60% of Australians receive absolutely nothing. High-end personal tax cuts are very ineffective at stimulating new spending and growth (since high-income households save much of their tax savings). Merely cancelling this unfair and ineffective tax cut would free up enough revenue to move ahead immediately with repairing aged care services.

Option #4:
Reforming Taxation of Investment & Capital Income
Other very expensive tax concessions also disproportionately benefit high-income individuals — such as various measures reducing taxes on financial investments, investment properties, and other speculative assets. For example, capital gains income for investors is taxed at only half the rate of other income (such as wages and salaries). Dividends from shares are also taxed at much lower rates. Most of these savings are pocketed by the richest 5% of taxpayers (who own a very disproportionate share of financial wealth). Halving those capital gains and dividend preferences (increasing the capital gains inclusion rate to 75% from 50%, and allowing franking of 50% of imputed company taxes instead of 100%) would increase federal revenues by over $10 billion per year, enough to fund aged care reforms.

Option #5:
Reforming Company Taxes
The COVID-19 recession was the first downturn in Australia's history when company profits went up, instead of down. The corporate share of national income reached an all-time record high during the pandemic – over 30% of GDP. Yet company taxes declined, thanks to various credits, incentives, and loopholes. A package of modest measures to strengthen company tax collections (including higher levies on major banks, reforms to petroleum taxes, elimination of access to offshore tax havens, and proportional revenue taxes on global digital giants like Google and Facebook) would also raise over $10 billion per year. Again, that would be sufficient to move forward with implementing the Royal Commission recommendations.

A Matter of Priority

In sum, there is no question that Australia – one of the richest countries in the world – can afford to provide top-quality, safe, respectful care to the elders who built our economy and our society. There are many revenue options readily available to the Commonwealth government to support the ambitious and quick implementation of the Royal Commission's recommendations. That effort must start immediately. Funding to support those reforms can ultimately come from any one of many different sources. The fairest of all would be to simply maintain high-income personal taxes at their existing rates, rather than cutting them as planned. Other options would also ensure that the cost of caring for our seniors is fairly shared among those who can most afford to pay.

There is no economic or fiscal 'constraint' holding us back from doing right by Australia's elders. The only question is whether society, acting through our government, places enough priority on caring for our seniors with the quality and dignity they deserve.

For more details, please read our full report: ***Funding High-Quality Aged Care Services****, by David Richardson and Jim Stanford, available at https://www.futurework.org.au/commonwealth_has_ample_fiscal_capacity_to_implement_aged_care_reforms.*

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