

The Treasury

Budget 2017 Information Release

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| [36] | to maintain legal professional privilege | 9(2)(h) |
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| [38] | to enable the Crown to negotiate without disadvantage or prejudice | 9(2)(j) |
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| [40] | Not in scope | |

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Memorandum: Resident subsidy in aged residential care – impact on TerraNova negotiations

To: Hon Peseta Sam Lotu-Iiga, Associate Minister of Health
Cc: Hon Dr Jonathan Coleman, Minister of Health

Purpose

This memorandum provides you with some additional information on the residents' subsidy in aged residential care for the meeting with Ministers on 15 August 2016 regarding future decisions for the TerraNova negotiations.

Residential Care Subsidy and the maximum contribution

Individuals in need of rest home care are assessed for their ability to contribute all or some of the cost of their care. We note that all residents, regardless of their ability to contribute have been accounted for in the overall estimation of care hours/bed days and therefore included in the overall pay equity costings.

If they have assets over the threshold of \$219,889, then they pay the maximum contribution for their care. The maximum contribution level is reviewed each year. As of 1 July 2016, it increased by 1.0 percent, and ranges from \$884.03 to \$971.53 per week, depending on the territorial authority. This is equal to the rest home price for the region. If they require a higher level of care, such as hospital, dementia or psychogeriatric, then the difference between the rest home price (which they contribute) and the price for their care type is paid by the local DHB.

Residents with assets below the threshold pay all their income towards their care apart from a personal allowance of \$43.45 a week they retain from New Zealand Superannuation (small amounts of interest income are not included). The DHB pays the difference between what the resident pays and the contracted cost.

Costings for Aged Residential Care

The current costings for pay equity estimate an average of 35,088 residents across all types of residential care (including those accessing respite care), with approximately 11,465 residents making the maximum contribution. While this is higher than current occupancy levels, it is in line with the average number of residents over the last five years. As such, we are estimating that about 27% of the cost increase for aged residential care will be covered by the increase to the maximum contribution rate. The five year cost increase for residents is estimated at [38]

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This would mean that on average the annual cost of care would increase by ^[38] in year one, rising to ^[38] above current costs in year five (based on the Ministry's highest cost scenario for an equal pay settlement). This does not replace the normal annual adjustment to the maximum contribution level (typically about 1%), which would be in addition to the adjustment to increase caregiver wages and entitlements, although they will likely be combined for administrative purposes.

Potential for increased payment of Residential Care Subsidy

The increase in the cost of care is unlikely to affect the proportion of people with assets over the threshold as the increased costs only equate to a couple of months of care. For example, the first year increase of ^[38] is equal to approximately ^[38] days of care at current prices. The median length of stay in aged residential care facilities is currently 18 months therefore many residents may not incur increased costs over lengthy periods of time.

Impact on Crown contribution to pay equity costs

We are anticipating that the implementation of an equal pay settlement will require an increase to the bed day price of all types of residential care, which will in turn increase the amount paid by those required to pay the maximum contribution.

However, since not all residents paying the maximum contribution cover the total cost of their care (i.e. those in hospital, dementia or psychogeriatric care), the residents contribution is projected at 27% of the total increased costs for aged residential care. In other words, the Government contribution to the pay equity settlement in aged residential care will be 73% and the residents' contribution will be 27% of total costs. Whereas in the home and community support sector and the disability sector the Government will be paying 100% of the total cost. These factors have been included in all costings.

We do not anticipate that the increase in the costs of care will significantly affect either the numbers of people entering residential care or the proportion of those residents assessed as required to make the maximum contribution to the cost of their care.