

# The Treasury

## Budget 2017 Information Release

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[40]	Not in scope	

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Security classification:

File number: AD62-14-16

## Memorandum: Resident subsidy in aged residential care – impact of pay equity negotiations

To: Hon Paula Bennett, Minister of State Services

Cc: Hon Dr Jonathan Coleman, Minister of Health

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### Purpose

This memorandum provides you with information on the potential impact on residents' subsidy in aged residential care as a result of future decisions on the pay equity negotiations.

### *Background to the residential care subsidy*

- Individuals in need of rest home care are assessed for their ability to contribute all or some of the cost of their care.
- It is estimated that over the next five years there will be (on average) 35,088 residents in residential care (across rest home, respite, hospital, dementia and psychogeriatric) and that 11,465 of those residents will pay the maximum contribution for their care.
- If a resident has assets over \$219,889 (the threshold), he/she is required to pay the maximum contribution for their care. As of 1 July 2016 it was in the range of \$884.03 to \$971.53 per week, depending on territorial authority. The maximum contribution is set equal to the rest home price. The rest home price is reviewed each year and the maximum contribution is adjusted accordingly.
- If residents 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 district health board (DHB).
- Residents with assets below the threshold pay all their income towards their care, apart from a personal allowance of \$43.45 a week retained from New Zealand Superannuation<sup>1</sup>. The DHB pays the difference between the resident's contribution and the contracted cost.

### *Impact of the pay equity negotiations for residents*

- Should wage rates for care and support workers increase as a result of resolutions to current wage negotiations, the rest home price will increase and therefore the maximum contribution will increase.

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<sup>1</sup> Small amounts of interest income are not included.

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- As an example and based on the information set out in the joint agency paper “Care and Support Worker negotiations” we estimate the impact for the 11,465 residents who are paying the maximum contribution to be approximately [38] per annum in year five (approximately [38] per week).
- Increases in the rest home price will not increase the amount paid by the two thirds of residents who pay based on their income.
- The above cost estimates do 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.
- Every year, as a result of paying the maximum contribution, a proportion of residents run down their assets to below the threshold and start paying in accordance to their income. Increasing the maximum contribution rate will mean residents deplete their assets more quickly and will come under the threshold 55 days sooner. This will reduce the proportion of residents paying the maximum contribution by a small amount (from 33% to 31% of residents).

***Impact on Crown contribution to pay equity costs***

- The Government will be required to pay the proportion of the increased costs for aged residential care not covered by residents’ contributions.
- Further, should the Government wish to avoid an increase in costs for maximum contribution paying residents, the maximum contribution could be set at a rate lower than the rest home price. This would require DHBs to pay the difference. As an example if threshold rates were changed to reduce the price impact on maximum payers by 25% DHBs would be required to fund an additional [38] million dollars a year in Year Five of the settlement.