The Treasury

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

Ministry of Health Aide Memoire

From: **Don Gray, Deputy Director-General, Policy**

To: **Hon Jo Goodhew**

Cc: **Hon Tony Ryall**

Date: **14 March 2012**

Revised fiscal effect of stopping the annual increase in the asset threshold for the Residential Care Subsidy

Purpose:
This aide memoire outlines the implication of stopping the annual increase in the asset threshold for the residential care subsidy. It is a revision of the note of 18 January 2012.

Background:
Aged residential care costs around $42,000 a year for rest home level care. A resident's contribution to this cost depends on a legislated asset and income test.

If a resident owns over $210,000 of assets they pay the full cost. If they own less than $210,000 of assets they pay all their income, including their NZ Superannuation, except they are able to retain a personal allowance of $2,100 and $900 of earnings from assets per annum. MSD assesses the amount residents have to pay from their income. DHBs pay the difference between the amount the resident pays and the cost of residential care. The Social Security Act (1964) currently increases the asset threshold by $10,000 on 1 July each year. If a change to the current annual adjustment was made an amendment to the legislation would be required.

In the legislation, the maximum amount a resident pays is termed a "maximum contribution". This is set at the rest home level price. For residents in higher levels of care (dementia units, long stay hospitals and psychogeriatric units) DHBs always pay the additional cost above the rest home level price.

There are around 30,000 people in care at any time. Around 19,000 are eligible for the residential care subsidy.

Summary of the impact of not increasing the asset threshold:
Holding the asset threshold at $210,000 would increase the number of people who would pay the maximum contribution. In the first year, that would affect residents who have assets valued between $210,000 and $220,000 at any time during the year. They would pay the maximum contribution rather than their income. The number affected would increase each year the asset threshold was held the same. We estimate the fiscal effect as follows.

The fiscal effect of retaining the asset threshold at $210,000

	2012/13	2013/14	2014/15	2015/16	2016/17
Asset threshold - current rules	$220,000	$230,000	$240,000	$250,000	$260,000
Asset threshold - constant	$210,000	$210,000	$210,000	$210,000	$210,000
Estimated fiscal gain	**$7m**	**$14m**	**$21m**	**$28m**	**$35m**

Estimates of savings are based on the number of residents that would newly pay the maximum contribution times the difference between the maximum contribution and what they would otherwise pay from their income. The above estimates use an extra 260 residents at any one time in the first year paying the maximum and an *average* $71 a day additional payment. Built in is rest home price increases at the same level at 1 July 2011 (1.72%).

The number of residents affected would increase for each year the threshold was held at $210,000.

Our estimates of the medium term fiscal savings using alternative (reasonable) assumptions are $21m ± $5m in 2014/15, and $35m ± $10 million in 2016/17.

Those affected:
The fiscal savings would come from a relatively small number of people who, under current rules, would qualify for a residential care subsidy, but, under the alternative rules, would pay the full rest home level price. Residents with assets not far above the threshold become eligible during the year as they use up their assets to pay for their care. With rest home care costing around $42,000 a year, residents who start the year with assets of $262,000 could become eligible for a subsidy at some time during the year if the asset threshold was $220,000. Counting these residents, and those newly entering care, about 1,000 residents would be affected at some time in the first year. The extra amount these 1,000 residents will pay will be up to $10,000. These numbers increase each year the threshold is kept the same.

Sensitivity Analysis:
The main driver of this costing is the number of residents in each $10,000 bracket above the current threshold. Our estimates are based on the number of residents who newly qualify for the subsidy on 1 July when the asset threshold increases by $10,000.

Changing assumptions about the number of residents with assets immediately above the current $210,000, increases in the amount of private income, and rest home price increases affect the estimated savings as follows.

	Estimates of savings 2014/15	Estimates of savings 2016/17
Baseline estimate	$21m	$35m
Increase residents affected by 20%	+$4m	+$7m
Decrease residents affected by 20%	-$4m	-$7m
Increase rest home price an additional 1% each year	+$1m	+$3m
Increase private income by 20%	-$3m	-$5m