Advice on Accommodation Payments & Equivalent of Lump Sum & Periodic Payments

Comments from Aged & Community Services WA – November 2012

Maximum Bond Limit, Bond Retentions & Insurance

As noted in the report, feedback from consultation has indicated that the removal of retention amounts will result in providers increasing the amount of lump sum accommodation payments to compensate and that imposing insurance requirements on lump sum accommodation payments will result in providers seeking to recover the costs of insurance from residents.

The maximum bond limit of approximately $500k (set by the Minister as the maximum amount at the 95th percentile of all accommodation bonds for the most recently available year of date) may be inadequate.

The removal of bond retentions and the introduction of bond insurance will have a huge impact on the industry. Bonds would have to increase to compensate for the loss of retention, and if insurance was factored into the bond levels, many providers would easily reach or exceed the $500k limit on some sites. This would be compounded without an indexing factor to ensure movement with inflation. More detail around the approval process for higher bond requests is also required.

As an example:

Current level:	$350,000
Increase to supplement retention	$50,000
Total	**$400,000**

That leaves only $100k to cover the insurance premium. As interest rates start moving up this would need to go up as well.

We are of the view that Government has underestimated the real impact of removing bond retentions. According to the Residential Aged Care Analysis Report in Stewart Brown's Aged Care Financial Performance Survey for the twelve months ended 30 June 2012, the average income from bond retentions is $3.06 per bed per day (average of 607 facilities that participated in the survey). The facility total profitability result compares at $8.24 per bed per day. This means with the removal of bond retentions, facility results would reduce by 35% to an average of $5.18 per bed per day, making it of major significance right across the sector.

Regional, Rural & Remote Providers

The impacts of the removal of bond retentions, period payment options and bond insurance on regional, rural and remote small providers has been underestimated by the Government.

Our providers believe there will be a significant amount of consumers who will choose periodic payments rather than lump sum accommodation bonds. This will make it difficult for small and regional and remote providers who do not keep 100% of their bonds in cash and rely instead on a proportion of new accommodation bonds to pay for outgoing bonds.

There will be significant difficulties in finding insurers to insure bonds for those providers who do not hold 100% of their bonds in cash. The provision of some real estate security to those insurers is unlikely to convince them to take the risk, bearing in mind the small specialised market in aged care real estate. If insurance risk is to be passed on to providers, consideration must be given to an industry fidelity fund with individual contributions by way of cash or bank guarantee. If providers contributed to the fund, it would make provide an easier option for providers over having to make individual insurance arrangements.