Australia: Report recommends "user pays" for aged care

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A major report, entitled "Caring for Older Australians," commissioned by the Labor government recommends that the elderly be made to pay up to 35 percent of their own aged care costs and that they fund that contribution from the value of their homes, using so-called 'reverse mortgages.'

The changes proposed by the Productivity Commission report, which have drawn outrage from pensioner groups, are designed to meet the aged care industry's demand for higher and more secure profits. The homes of the elderly would also become a major new source of profit for the banking sector.

Not least, making the aged pay for their care is essential to Labor's aim (one it publicly shares with all the parliamentary parties, including the Greens) of slashing government spending, starting with the elimination of the federal budget deficit by the 2012-13 financial year. Cuts to aged care and health also set the scene for Labor's promised reductions in corporate tax.

The proposal that elderly homeowners take out reverse mortgages to fund their care costs is in effect a demand that they sell their houses piece by piece during their final years of life. A reverse mortgage is essentially a line of credit for which a fully paid-for family home is collateral. The loan is generally not repayable until a homeowner dies, at which point the house is sold and the lender repaid. The surviving member of a home-owning couple has two choices: watch interest charges on the reverse mortgage eat up the remainder of the home's value or, alternatively, sell the house—the very outcome that a reverse mortgage, according to its advocates, is meant to avoid.

Reverse mortgages are a high-risk/high-interest form of lending, specifically designed to lure retirees in need of emergency funds, especially for health care costs. Consistent with that predatory role, the number of reverse mortgages has accelerated rapidly in Britain, the United States and Australia in the past decade, and exploded since the onset of the global financial crisis in 2008. There are now an estimated 800,000 such mortgages in the US, a trebling since 2006. Their expansion is the direct result of a decision of the US Congress to uncap the availability to lenders of insurance for reverse mortgage loans. In Australia, the number of reverse mortgages grew by 40 percent between 2007 and 2010. By December 2009, Australian lenders had advanced approximately $2.7 billion in reverse mortgage funds.

Even more than traditional mortgages, reverse mortgages involve raw exploitation of the working class by the financial sector. By the time a worker has reached old-age and paid off his or her mortgage, he or she has often paid the lending bank several times the amount originally borrowed. Reverse mortgages give the finance industry an opportunity to profit from the worker a second time, this time at interest rates generally far higher than under a normal mortgage. Moreover, the longer the reverse mortgage remains in place (that is, the longer the borrower lives and the higher their care costs) the more money the lender makes.

The Productivity Commission aims to make this rapacious form of lending more palatable through a government lending scheme that would offer lower interest rates than private lenders. Nonetheless, the scheme's eventual privatisation is already openly discussed by those who speak directly for business. The *Australian*, for instance, editorialised that "reverse mortgaging would begin as a government scheme in order to reassure everyone. But after that it would be privately run."

The Combined Superannuants and Pensioners Association (CPSA), the main representative body for pensioners, described the report as "a declaration of war on older Australians, their children and their grandchildren." It added: "This report abandons aged care as a community service and replaces it with a user pays system funded by flogging the family home... Older Australians should not allow the Gillard Government to bully them into flogging the family home to pay for aged care."

Prime Minister Julia Gillard's government, aware of the popular concern indicated in the CPSA statement, has announced a period of "community consultation." There is little doubt, however, that the government will adopt the report's main features. The report's contents follow closely Labor's terms of reference, as well as its broader political agenda.

The media has applauded the report. According to the *Sydney Morning Herald*, "the Commission is right to expect individuals to meet the responsibility [for aged care costs]." The *Australian*stated that the report "offers much-needed options for a society facing the challenge of who will look after the aged and who will pay."

The report is ostensibly a response to what all the parliamentary political parties say is an impending "social crisis," namely, an ageing population coupled with a dwindling personal income tax base. The report commences by pointing out that "the number of Australians aged 85 and over is projected to increase from 0.4 million in 2010 to 1.8 million (5.1 percent of the population) by 2050." How, the government has repeatedly asked, can society possibly pay for the increased care costs associated with a more elderly population?

In reality, the pro-market restructuring of aged care is part of a far-reaching assault on working people from cradle to grave. Even aspect of social life, from child care and public education, to welfare, health care, pensions and aged care, is being subjected to the "user-pays" principle, the dictates of the market and the extraction of profit by private corporations. Under conditions of deepening global economic crisis, these processes are being accelerated in Australia and internationally.

Even by the report's own estimates, spending on aged care will increase only from 0.8 percent of GDP in 2010 to 1.8 percent in 2050. Far from winding back public spending, it should be substantially extended to provide free high quality care for all regardless of income, paid for by increased taxes on the wealthy. Such a proposal, of course, is not even considered in the report.

According to the Commission, "basic residential care should be considered a normal risk of growing old... people should anticipate that they will contribute to those costs except when they do not have the capacity to pay for the costs themselves." In other words, private for-profit care for all but the most impoverished, who will be relegated to rudimentary publicly-funded facilities.

Underpinning much of the report is the insistence that the aged care system must be made more profitable in order to attract private investors. In fact, many companies are already making substantial profits. The Department of Health and Ageing says financial reports for 2009-10 showed that 'for-profit' providers in the top-performing quartile achieved an average return on assets of more than 11 percent. The top-performing 'non-profit' providers reported an average return of more than 10 percent. The report aims to vastly expand this industry.

While proposing mechanisms for plundering the present generation of the elderly, the report gives no consideration to the next. Because Australia's inflated house prices put home ownership beyond reach for most of those now entering the workforce, many younger workers have little or no chance of entering the housing market. Their future as they become older and require aged care is particularly bleak.