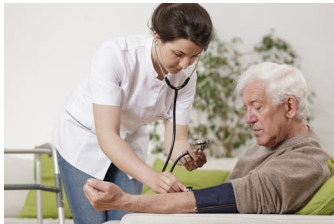


Australians want insurance against the burden of old age

Written by The Conversation



Aged care costs are rising. Shutterstock

With the [cost of caring for the elderly increasing](#) , and the [population ageing](#) , Australia needs new sources of funding for aged care. In many parts of the world some of the cost is borne by private insurance, and [new research](#) shows there is demand for this in Australia as well.

There are several models of insurance to help fund aged care. One model is similar to what is found in the [United States](#) , where a customer pays an insurance premium each year and the insurance provider then covers (at least part) of the actual cost of getting professional care. But this restricts the customer to getting formal professional care if they become disabled or incapacitated.

Another model, somewhat similar to the system in [France](#) , has customers paying a premium each year and then receiving cash payments if they require aged care. Under this arrangement the insurer pays an agreed amount of money each year if the customer is disabled or incapacitated. There is no restriction on how that money might be used. This model is more flexible, and allows the customer choice over who provides care (it might be a family member) and where they reside.

Aged care is costly and growing

People now aged 65 have [close to a three in five](#) chance of needing some type of formal care over the remainder of their lives and around a two in five chance of spending at least some time in residential care.

The cost for this care [can run](#) from around A\$1,000 each year for basic home support, to around A\$65,000 each year for residential aged care. The cost is typically shared between the care receiver and the federal government.

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Home care supports people to live independently in their own home. This can range from help with housework or managing medicine, to nursing services and palliative care. Residential care is for people who depend on ongoing nursing and includes accommodation in an aged care institution.

People on the full Age Pension [pay](#) 17.5% of their pension as a basic fee for in-home care, or 85% of their pension for residential care. Better-off pensioners also pay an additional fee that rises with their income up to certain limits.

But despite the cost sharing, the federal government's share is [high and rising](#) . Federal government expenditure on aged care is now around 1% of GDP and is expected to rise to around 1.8% by 2050.

[Around 80%](#) of people who receive some aged care also get informal help, often from family or friends. While this care is unpaid and hard to value, it is likely to be worth around [4% of GDP](#) and can lead to a loss of earnings and emotional strain for the care giver.

There is demand for insurance

Insurance could be a solution to the scale, scope and cost of aged care. But in Australia, there is little on offer. [Our research shows](#) that a majority of middle aged Australians would purchase aged care insurance in the form of an income stream that pays extra if they suffer ill health.

We asked people to choose between several options for funding their aged care. A life annuity (a regular, life-long income of around A\$25,000 p.a. including the Age Pension), aged care insurance (paying about A\$26,000 in ill health or disability), and an account-based pension (such as superannuation).

Men chose to use 25% of their retirement savings of A\$175,000 on the life annuity, about 15% on aged care insurance and placed the remainder in the account based pension. Women made similar allocations. Overall, people chose insurance payments that were similar to the actual costs of aged care.

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Insurance that provides an income rather than reimbursements suits people who prefer informal, in-home care. This is most likely to be women who think they need high level, informal care. Men who thought they would need informal care did not choose the insurance.

Women's willingness to fund informal care with income could be related to an anticipation that they will outlive their partners, a desire not to "be a burden" to their family, an intention to make gifts to children who care for them, or a wish for flexibility and control.

Large scale, long term aged care expenses are a relatively recent problem - the outcome of population ageing and rising health costs. Our study shows that many people want help to manage these risks. However the current design and marketing of aged care insurance products present an array of difficult financial and communication problems for the financial services sector.

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