Epicor® White Paper

The Growth and Demand for Home Care

Signals for a changing aged care landscape

Contents

Executive Summary

Australia's population is growing and ageing. By 2040, experts predict that there will be 5 million people in Australia aged 70 and older. On average, their life expectancy will be greater than that of previous generations. In the years ahead, the aged care system will need to undergo fundamental change to cater to a substantial shift in the country's demographics[1].

This new wave of older Australians will be more inclined and financially free to choose their preferred aged care services. The average 55+ Australian household has a net worth of over $1 million. Compared with other generational cohorts, they're experiencing the fastest wealth increases[2]. As a result, many will have the means to select care services which match their wants, not just their needs. These include a desire for a more active lifestyle and a preference to live in their own home longer, which is driving the demand for home care.

In 2015–16, almost 90,000 people accessed home care packages. These services include personal care, support, and clinical services. By 2022, the number of home care packages is predicted to reach 140,000.

Residential aged care supply, however, is growing more slowly. Some reports have shown that residential care demand is mainly in balance with supply[3].

In this guide, we explore some of the key factors that residential aged care providers need to consider as the market continues to transition towards home care.

1 PricewaterhouseCoopers, Practical innovation: Closing The Social Infrastructure Gap in Health and Ageing, February 2018.

2 McCrindle, retrieved 19th August, 2018, from http://mccrindle.com.au/the-mccrindle-blog/ income-and-wealth-distribution

3 Commonwealth of Australia (Department of Health), Legislated Review of Aged Care, 2017.

The Economic Imperative For Change

The Intergenerational Report 2010 outlined that health, age-related pensions, and aged care could receive as much as 50% of government spending by 2050. That's close to double what it was at the time of the report[4]. Essentially, the proportion of older Australians to those of working age will not allow the aged care system to maintain the financial status quo.

A 2018 PricewaterhouseCoopers report[5] states that unless Australia's health and aged care system undergoes significant evolution in the next few years, it will quickly become unsuitable and unsustainable. In just seven years, a substantial financial gap will emerge across community care, residential care, home and community support services, and hospital beds. Funding this gap would take up to $24 billion in capital costs and $12.8 billion each year in operating costs.

Funding the gap that will have emerged just 7 years from now would require up to $24 billion in capital costs and $12.8 billion annually for operating costs[5].

Residential care providers are realising financial pressures, too. Last year, 43.1% of facilities recorded negative earnings before taxes—compared with 33.9% in fiscal year 2017 (FY17). Moreover, 21% of facilities recorded negative earnings before interest, taxes, depreciation, and amortisation (a cash loss)—compared with 16.1% in FY17[6].

During the inevitable period of change ahead, it will be the aged care providers that are both proactive and innovative that stand the best chance for future growth and success.

4 Australian Government, The Treasury, Australia to 2050: Future Challenges, 2010.

5 PricewaterhouseCoopers, Practical innovation: Closing The Social Infrastructure Gap in Health and Ageing, February 2018.

6 StewartBrown, Aged Care Financial Performance Survey, Residential Care Report, March 2018.

Australia's Changing Demographics

By 2061, almost one in four (22%) Australians will be 65 and over, which could equate to as many as 10.6 million people[7].

Our ageing population will also live for longer. Across OECD* countries, Australia has the third highest life expectancy (82.8 years old in 2015)[8]. By 2061, the life expectancy could reach 92.1 years for males and 93.6 years for females[4].

While there will be proportionally more older Australians in the future than there are now, tomorrow's aged care consumers will also bring with them fundamentally different expectations for a duration of healthy living post-retirement[9].

Tomorrow's aged care consumers will bring with them fundamentally different expectations for a duration of healthy living post-retirement[9].

Older Australians want to remain in their homes, not only because of an attachment to their houses but because they feel connected to their communities. Increasingly, government policy and market services are facilitating this desire[10].

This future generation of care recipients will have more choices regarding aged care. According to McCrindle[11], the average 55+ Australian household, compared with other generations, is experiencing the fastest wealth increases.

In an era which will likely have more user-pay models, aged care organisations must present their services as the leading solution for each segment of the broader market of older Australians.

Differentiation Opportunities

As it stands, the government funds about 75% of aged care costs. With the financial pressures on the system, consumers will likely need to cover more than one-quarter of the costs in the future[12]

The Australian health sector was built to manage acute injury and illness. However, in the years ahead, Australia will require a system which more suitably manages complex, long-term care needs—something that the current system is not designed for[13].

A new system with a larger userpay structure will present significant opportunities for care providers to differentiate their organisation from their competitors. There are already many Australian aged care organisations meeting market demands by providing both residential and home care services.

As more and more consumers have a financial capability to choose the care they want, providing services such as mobility assistance, home maintenance, social support, occupational therapy, and anything in-between, can facilitate positive long-term resident relationships.

New entrants to the home care market represent over one-third of providers across key locations[14]. As a result, consumers will begin to recognise the greater range of care services available to them. This will only magnify the challenges for organisations that haven't reimagined their suite of services.

Growth and Demand for Home Care

Demand-driven reforms under Living Longer Living Better (2012–2015), saw a substantial increase in the ratio target for home care packages to be achieved by 2022. The target increased from 27 places per thousand people aged 70 years and older to 45 places per thousand. Concurrently, the target for residential care places is to reduce from 88 places per thousand to 80[12].

7 ABS, Population Projections, Australia 2012–2101. Cat. 3222.0. November 2013.

8 Australian Government, Productivity Commission, Shifting the Dial: 5 Year Productivity Review, Inquiry Report, August 2017.

9 National Seniors Australia, retrieved 19th August, 2018, from https://nationalseniors.com.au/be-informed/research/publications/ageing-baby-boomers-australia

10 Australian Government, Australian Institute of Health and Welfare, Australia's welfare 2015, 2015.

11 McCrindle, retrieved 19th August, 2018, from http://mccrindle.com.au/the-mccrindle-blog/income-and-wealth-distribution

12 Commonwealth of Australia (Department of Health), Legislated Review of Aged Care, 2017.

13 PricewaterhouseCoopers, Practical innovation: Closing The Social Infrastructure Gap in Health and Ageing, February 2018.

14 KPMG, retrieved 14th August, 2018, from https://home.kpmg.com/au/en/home/insights/2017/10/home-care-market-competition.html

By 2022, this increased home care target would result in 140,000 packages, representing an 80,000 package increase since 2012–13. Because of Australia's ageing population, the number of residential care places would also continue to grow[12].

The demand and unmet demand for level 3 and level 4 home care packages is increasing, while level 1 and level 2 package demand has plateaued, if not diminished[12]. In line with this trend, recommendations in the Department of Health's Legislated Review of Aged Care, 2017, present the merit of introducing a level 5 home care package. That would, amongst other things, provide an alternative to residential care for consumers with high-level care needs[12].

Changes in the aged care market are also attracting more for-profit businesses to the sector. KPMG researched 20 locations across Australia with a large representation of individuals aged 65 and over. They found that of the organisations new to providing home care services, close to 70% were for-profit businesses[14].

In 2015–16, home care providers generated an estimated $1.8 billion in revenue and $183 million in profit. The average earnings before interest, taxes, depreciation, and amortisation per package, per annum for non-profit providers was $1,824. The earnings from for-profit providers was a much higher average of $4,837[15].

In this same period, 89,000 people accessed care through a home care package and more than 925,000 older people received home support[12]. Since then, the demand to become an approved home care provider has grown significantly. The Department of Health approved over 200 applications for approved partner status in 2017, compared with 75 applications in 2015–16[15].

The Aged Care Financing Authority's 2017 Annual Report on the Funding and Financing of the Aged Care Sector found that the vast majority (approximately 85%) of older Australians receive support from family, friends, and neighbours for their mobility, care, and communication needs. However, some predict that the willingness for this informal care may decline in the future[15].

15 Australian Government, Aged Care Financing Authority, Annual Report on the Funding and Financing of the Aged Care Sector—2017.

In 2015–16, 68% of Australians aged 65 and over did not access governmentsubsidised aged care services. Onequarter accessed support or care at home and the remaining 7% accessed residential aged care[15].

As older Australians prefer to live in their homes longer and informal care declines, home care providers will see growth opportunities.

Home Care Funding

Since February 2017, instead of home care packages being allocated to providers, they have instead been assigned to eligible consumers. They, in turn, can choose their desired provider[16]. In addition to the increased demand that followed, competitive forces were also enhanced by how package funds were treated after the February 2017 changes.

Previously, a provider would retain unspent funds from a consumer who ceased receiving a home care package. However, since February 2017, if consumers change their provider, then after an agreed amount for exiting is deducted, the balance of unspent package funds goes to their new provider. If a consumer is no longer in home care altogether, then any unspent funds (after the exit amount is deducted), is to be returned to the government[16].

StewartBrown home care research[17] found that from July 1, 2017–March 31, 2018, the average unspent funds rose by $1,607 per client (to $5,862).

Unspent funds are ultimately lost revenue, which is a rising concern for providers. In March 2018, the ratio of revenue charged compared with available package revenue was down to 85.5%, from 92.3% in June 2017.

The suite of changes to funding structures, consumer demand, and market supply is presenting dynamically, which highlights the need for care providers to develop and communicate a clear value proposition with its customers.

If consumers change their home care provider, then after an agreed amount for exiting is deducted, the balance of unspent package funds goes to their new provider.

Developing Long-Term Relationships

In an increasingly competitive market, developing and maintaining strong relationships with residents throughout their whole aged care journey is paramount.

Delivering a client experience which supports long-term relationships is not possible unless you truly understand your residents. Organisations need to keep pace with their residents' evolving needs and wants or risk losing them to an alternate provider who better illustrates how they can satisfy the residents' requirements.

The cost of acquiring new customers can be between 5–25 times the cost of retaining existing customers[18], and in today's consumer-driven environment, 82% of people are moving away from businesses because of a bad experience[19]. This illustrates the imperatives of managing customer relationships effectively, as your residents' needs continue to change.

Through a diversified service mix such as providing both residential care and home care services, you can develop and maintain a relationship with a resident who may commence as a home care client and later transition to residential care.

16 Australian Government, Aged Care Financing Authority, Annual Report on the Funding and Financing of the Aged Care Sector – 2017.

17 StewartBrown, Aged Care Financial Performance Survey, Home Care Report, March 2018.

18 Harvard Business Publishing, retrieved 20th August, 2018, from https://hbr.org/2014/10/the-value-of-keeping-the-right-customers

19 KPMG, retrieved 13th August, 2018, from https://home.kpmg.com/au/en/home/insights/2017/06/customer-experience-aged-care.html

Leading customer relationship management (CRM) software provides a 360-degree view of the resident's client profile. The software includes reporting tools which add context to that data, providing insights pivotal to cultivating such relationships. This 360-degree view of the resident's profile not only provides a single source of truth, but it also enables a proactive approach to care needs, effective business decision-making, and customer segmentation. It is vital that CRM is integrated into the core enterprise resource planning (ERP) systems so businesses can see the full picture and avoid duplication of work.

Navigating Change Through Software

Regardless of what your business plans are, you will need to retain flexibility and agility if you are going to compete in a market that is likely to experience such significant change.

Your organisation's aged care software is a pivotal component of navigating this dynamic commercial landscape—whether that is to broaden your organisation's services, increase your focus on existing services and market segments, or make any other strategic decision.

Tools which allow you to drill down to a granular level can provide key operational insights, and dashboards that provide executive summaries at-aglance can be a foundation from which to grow.

Moreover, aged care providers who innovate with holistic ERP software designed for the market may find they are better equipped to capture the opportunities presented than organisations running a suite of individual applications for each business function.

Solutions like Epicor Senior 20 Australian Government, Productivity Commission, Shifting the Dial: 5 Year Productivity Review, Inquiry Report, August 2017. Living Solution provide industry-specific features for the aged care markets.

Most organisations have a wish list for the solutions that their software can deliver—including functionality in the application, quality of support from the vendor, or their internal capacity to get the most out of the platform. Creating a "must-have" list and separating it from your "nice-to-have" list is an important step in effectively benchmarking software solutions.

In our eBook, 'Aged Care in Australia Beyond 2020' we help you to evaluate whether your aged care software will be a handbrake for your longevity or facilitate your ongoing success.

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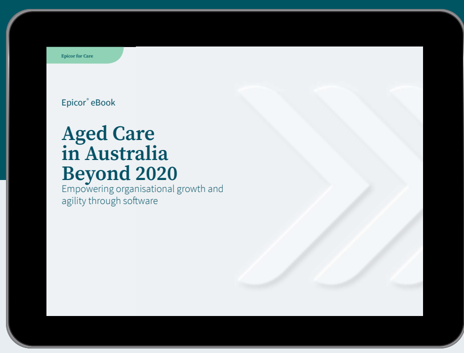

Summary

Whether your organisation elects to provide home care services or not, there is no denying home care is growing as a result of sustained demand and changes to aged care funding structures. As such, the fundamental imperative for your organisation lies in how you prepare for the changing aged care landscape.

With more and more market entrants and a diversified suite of service offerings, developing a clear value proposition which serves a welldefined target market is part of a solid foundation from which you can compete and grow.

Technology, particularly aged care software, is an essential component of navigating the changing aged care landscape, running a more productive organisation, and delivering your value proposition in a resident-centric manner.

The Productivity Commission has recognised that Australia's health system has significant issues to overcome. Notably, they recommend that within five years the government re-configures the health system to be "patient-centred"[20]. The aged care providers which already place the resident at the centre of all they do will be well placed to take advantage of such an industry-wide alignment.

20 Australian Government, Productivity Commission, Shifting the Dial: 5 Year Productivity Review, Inquiry Report, August 2017.

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