



Submission on Residential Aged Care Accommodation Pricing Review

Prepared by
COTA Australia

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About COTA Australia

COTA Australia is the peak body representing the almost nine million Australians over 50. For over 65 years our systemic advocacy has been improving the diverse lives of older people in policy areas such as health, retirement incomes, and more. Our broad agenda is focussed on tackling ageism, respecting diversity, and the empowerment of older people to live life to the full.

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COTA Australia

Suite 13.03

470 Collins Street

Melbourne Vic 3000

www.cota.org.au

Phone: 1300 COTA AU (1300 2682 28)

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Introduction

COTA Australia welcomes the opportunity to respond to the Residential Aged Care Accommodation Pricing Review.

It is critically important that any measures to change aged care fees are fair, equitable and affordable for a diverse range of older people. The system should have strong protections for participants safeguarding them against inappropriate pricing as well as poor provider communication and pricing behaviour.

In residential care, accommodation payments should be made equitable by changing the way we calculate and/or value charges today. A time-based accommodation charge should be the base cost of determining and presenting accommodation prices (e.g. daily, monthly, or fortnightly). While we advocate for accommodation pricing to be represented as a time-based fee, older people (and their families) must not be pressured into a particular payment approach (lump sum/RAD or cash/drawdown/DAP) when entering care. Calculations and methodology for options under the future payment model must demonstrate equity of outcome for older people regardless of the option they choose.

Older people should have choice in the way they pay the time-based accommodation charge. A lump sum should be one way to pay that cost (e.g. RAD). There should be multiple options for payment including:

- Cash (from any source such as bank account, sale of shares, sale of family home, superannuation)
- Lump sum (with a standardised investment return used to contribute towards the accommodation charge, and the lump sum returned)
- Drawdown from lump sum (consumers may choose to pay a lump sum up front and draw down from it to pay their accommodation (if they do not have the full refundable lump sum amount) or to pay other aged care fees)
- Future insurance/pre-purchase financial products (developed in the future)

We note that currently 70% of residents pay a DAP in part or full, while only 30% pay a RAD in full. The fact the majority of people need or choose to pay a daily amount today is an additional reason to change the system to the easier to understand amount. Lump sum payments of a daily accommodation amount must return to full refundability.

No person's access to residential aged care should be reliant on their financial circumstances. People of any means should have the same access to the service they need. The system should provide adequate funding and contain strong measures to ensure that providers do not just cherry pick residents with more wealth and income. While many providers are focussed on equity and access, we hear from older people and their families that they are told they cannot have a place as the combination of their AN-ACC funding and capital contribution means they do not fit the financial profile the home requires. A contributing factor to this is the much lower rate of the current accommodation supplement

compared to a RAD/DAP. The level of access for low means residents must be improved and continually monitored to ensure equity and fairness.

A daughter has been attempting to find a RAC place for her mother (who receives a full pension) but efforts to have her mother considered are proving futile. Local nursing home outright refused to consider the mother as a resident after finding out her full pension status, but following the daughter's advocacy her mother's name is now "on a waitlist." The daughter believes the nursing home is "cherry picking" its residents.

Accommodation pricing should be easy to understand and communicate for aged care participants. Participant contributions should be aligned with Pension / Commonwealth Seniors Health Card (CSHC) status and minimise the need for Services Australia to calculate means testing. There should be a future system where a person enters their information, knows their fees instantly.

It is also important that legislation and regulations require that funds are paid for a purpose and that those funds are spent on that purpose. COTA Australia did not support the introduction of retentions as their rationale and purpose is unclear and unrelated to the cost of the accommodation. It will be important to ensure that accommodation pricing has a clear rationale, purpose. The arrangements determined from this review should remove the requirement for the retention payment to be made. If retention payments are to be maintained a clear explanation of why its required is needed and guidelines on provider usage should be developed.

Older woman (70's) in country Queensland was asked to vacate rental property at the same time as managing a cancer diagnosis. Comprehensive assessment approved HCP and residential care. Alternative affordable rental accommodation could not be found by vacating deadline and HCP package wait times meant services would not be in place to support increased needs. Residential care was only viable option. RACF within 10km radius of her home and close to the hospital and public transport denied woman placement at this RACF. They told her they are a "premium facility" and do not have placement available for full pensioners. Placement was eventually found at an alternative RACF 30 kms from client's community in a secure dementia ward. Woman does not have dementia or cognitive impairment but due to housing instability, took this room on a temporary basis with a view to a room in a general ward coming available in the future.

For all stakeholders, participants, providers and the community, a common factual data set should be released, across all aged care programs, so that everyone can assess Government decisions. This should include the release of estimated asset and income median balances of quintiles of the population. Data should enable assess the impact of costs for people in difference scenarios.

COTA Australia support the focus in the review on analysing all accommodation cost data to understand how different measures align with each other, whether the management of RADs affects reported income and to ensure all expenditure is captured.

Accommodation Supplement for Supported Residents

1. Outline how you think the Accommodation Supplement could be reformed to ensure quality accommodation for residents of low means.
2. Should the value of the Accommodation Supplement be universal or tiered such as by location or proportion of residents or other basis?
3. Should the Higher Accommodation Supplement be staggered over time, so that as the accommodation facilities age the supplement is reduced (with the full value payable again after a new renovation)?
4. How suitable is the current incentive structure to encourage providers to accept low means residents (a discount on the Accommodation Supplement based on a single threshold of 40% supported residents)? How could incentives be preserved or enhanced?
5. How can the Accommodation Supplement be reformed to support an uplift in the quality of accommodation?
6. Outline how the Accommodation Supplement pricing impacts on incentives for capital investment in residential aged care.
7. In what ways could the Accommodation Supplement be reformed to better incentivise capital investment in residential aged care?
8. To what extent are the current rates of the Accommodation Supplement sufficient to cover providers' capital and operational costs relating to accommodation?
9. How does the costs of providing accommodation vary across different operating environments, such as difference in location?

Reforming the Accommodation Supplement to ensure quality accommodation for residents of low means.

All aged care providers receiving government funds should be mandated to accept a proportion of supported / low means residents as part of their social compact for receiving government funds. The differential between DAP and DAC or RAD vs RAC should be seen as the cost of doing business within that social compact between taxpayers and aged care providers.

The purpose and application of the Accommodation Supplement should be based on clearly articulated principles. In the main it should be to repay the organisation for the cost of delivering accommodation services, which may not cover the full market rate (which includes capital raising and profit margins). The rate (or other regulatory mechanism) must ensure that older people with low means have access to residential aged care, and the quality of this accommodation is maintained and/or improved. Provider capital investment and operational costs, whilst related, is a means to an end not the primary purpose.

In keeping with the compact, accommodation pricing must ensure that all providers accept residents where the Government is paying for their care. This could be through adequacy of funding and/or a mandated floor on the % of low means residents each provider must take.

In the current environment, and supplementing incentives available COTA Australia supports the introduction of a mandated floor. Rules and requirements on *all* providers are needed to ensure that residential care access and safeguards and protections for older people of low means. Such a floor would complement and build on the proposed continued incentives for *some* providers to take a higher portion of supported residents and to be fiscally rewarded for that. The future system must include safeguards and protections for older people.

COTA Australia is concerned that access for supported residents will reduce across the system over time if there are not clear obligations on providers. We support continuing the current 25% reduction of the accommodation supplement if residential care facilities do not meet the low means resident ratio. There should also be an obligation on providers to have a minimum ratio of the number of supported residents in their geographic area.

There is existing structural inequity in the provision of residential aged care services.¹ Factors include:

- geographic location where older people in some rural and remote areas cannot access residential care in their community or face longer waiting times,
- people from First Nations and Culturally and Linguistically Diverse (CALD) backgrounds can face delays in accessing residential care, and
- some people with more complex health morbidity, with multiple ongoing health conditions wait longer to receive residential care.

This context further emphasises the need for an Accommodation Supplement based on ensuring equity of access.

There is a need for clarity on who will receive the full accommodation supplement (e.g. full pensioners) and how partial supplement amounts will occur (e.g. part pensioners).

Regular monitoring of the Accommodation Supplement is required to ensure affordability for all older people of low means particularly those who are just over the pension threshold.

Value of the Accommodation Supplement: Universal or tiered?

We are open to independent modelling being conducted that explores a tiered value and/or tiered incentive approach to improving the Accommodation Supplement, but it would need to ensure that low means residents, or where they live or any other factor considered, have access to quality accommodation.

It is critically important that the supplement supports both the refurbishment of existing beds and expands the number of beds overall. A more direct link between higher rates of supplement and the building of new bed may be necessary for a period of time, such as for

¹ See AIHW (2024) *Timeliness of access to aged care services in Australia* (Canberra, Australia)

the next decade. One such mechanism that could be included in a tiered approach is a link between higher rates and providers who have turned soil on new beds being built.

While it may not be efficient to regulate prices or tier the value of the Accommodation Supplement by regional areas, there should be some monitoring to ensure that the price charged is reasonable and reflective of the costs and local area values. There should also be a mechanism to ensure that the value of the supplement keeps pace with costs over time.

As a principle the cost of delivering accommodation should be covered by the rate of the accommodation supplement, that is the RAD/DAP and RAC/DAC should be the same amount. But this is not the case today and is said to not be sustainable for Government to match the RAD/DAP price. Further it is stated that it is not viable for the sector to build new beds if the RAD/DAP price were to be regulated to reduce their RAD/DAP to the supplement rate. It is necessary to consider then the different role that accommodation prices (RAD/DAP) have compared to accommodation supplements (RAC/DAC) and within a market driven environment how to ensure that low means residents are not locked out.

In a fiscally constrained environment, the primary focus of the accommodation supplement should be to cover the cost of delivering accommodation services. The supplement may not include it the cost of capital to build new accommodation, brand value and or profit share built into the RAD/DAP room prices. Accordingly, this price signal disparity between those with means and those with low means risks providers choosing not to accept low means clients. This makes it more critical for regulating a mandatory minimum to ensure that providers (who receive high amounts of government funding) are meeting their social license obligations by accepting low means residents.

Should the Higher Accommodation Supplement be staggered over time to ensure capital improvement?

COTA Australia would support the staggering of the Higher Accommodation Supplement over time to incentivise improvement to residential care accommodation. It is important that residential aged care meets design standards and that regular refurbishments enhance and improve the living environment of older people.

Suitability and enhancement of current Accommodation Supplement incentive structure.

Incentives are an important part of funding and regulatory regimes to encourage appropriate behaviours and investments. Unfortunately, history highlights that incentives, on their own, have been insufficient to meet these important objectives of the supplement – that is to ensure that older people of low means are treated equally in the system and can access the services they need. Many older people of low means regularly tell us they have difficulties in accessing residential care and are told they do not meet the financial profile of the residential care home in their area. They are not given a place because the providers

revenue will be less than accepting a person able to pay fees. This may mean they have to move into a residential care home away from their family and other supports.

Obligations will need to be placed on providers to improve access for low means residents. The social compact between taxpayers and aged care providers demands it – both not-for-profit providers, and for-profit providers – all of whom make decisions about how to generate surplus to reinvest. Ensuring that all providers have a mandatory minimum number of low means customers, in return for their receipt of government funds is an appropriate condition of public funds. Providers who wish to deliver a fully private service are not obligated to rely on public funds and may develop a residential aged care service outside of the regulated Commonwealth Aged Care system. How a mandated floor is designed would require further discussion and may include on a geographic basis shared across providers (as occurred under the 1997 Act), through mandating of individual providers across their stable or aged care homes, or through each individual home required to have a minimum number of low means residents. Of paramount concern to any design is that a geographic area has comparable access for low means clients, while recognising that some geographic areas are likely to have higher numbers of low means clients than others. One option would be to weight SEFIA or another appropriate socio-economic indicator across population in a specific area, to will help consistently adjust for a mandated floor in each area based on population and means.

There are providers who seek to service more vulnerable residents and supporting them through financial incentives to lift the number of residents beyond the basic social compact floor, is important. We support continuing the current 25% reduction of the accommodation supplement if residential care facilities do not meet the low means resident ratio.

A combination of base level minimums, along with a tier of incentives could be designed to ensure all providers take some level of low means residents, incentivise providers to take higher than the minimum ratio of low means residents and further incentivise providers with additional funds to build additional beds. Conceptually this combination might look like:

- A% mandated low means residents' floor by all aged care providers.
- B% - C% low means residents – 75% of the accommodation supplement.
- > C% low means residents – 100% of the accommodation supplement.
- > C% low means residents AND new bed builds turned soil – 125% of the accommodation supplement (until 2035).

Reforming Accommodation Supplement to support an uplift in quality of accommodation.

The provision of the Accommodation Supplement should ensure that people of low means receive a reasonably good quality standard of accommodation. Consideration could be given to linking additional incentive payment components to meeting accommodation standards

for low means residents. We note the consultation paper statement that there is no indication that the voluntary design principles and standards have been widely utilised in designing or building residential aged care accommodation. Incentivising providers through the Accommodation Supplement is one way to encourage improved utilisation which may need to be combined with a range of other regulatory and policy requirements outside the scope of this review.

Provider data on refurbishment projects and planning should be continuously monitored and assessed. An incentivised Accommodation Supplement approach, the 2% RAD retention amount and increasing the maximum room price from \$550,000 to \$750,000 (plus annual indexation) have all been put in place to enabling ongoing refurbishment and accommodation improvements by all providers. Not all these changes have COTA Australia's support but as individuals are paying more for their accommodation and care there is a reasonable expectation that quality will be enhanced.

We recommend that future reviews of the Accommodation Supplement be conducted by IHACPA to ensure that the fee reflects actual costs for both individual and Government.

Accommodation Supplement and aged care provider capital investment and operational costs.

It is important that any changes to the Accommodation Supplement related to provider capital investment and operational costs does not impact on the goals of improving access to residential care for older people with low means and improving the quality of aged care accommodation.

Calculations for investment return (currently the MPIR) should be amended to recognise prudential liquidity regulations (requiring providers to keep some cash at hand to make refunds) and development of a more accurate industry wide calculation of capital costs using a Weighted Average Construction Costs (WACC) methodology to determine a single sector-wide investment return rate – this would include recognition that WACC determines capital costs and that room charge amounts are often higher than capital costs. Accordingly, any sector WACC must discount between cost of capital and room charge amounts.

Pricing for Non-Supported Residents

Suitability of the Maximum Permissible Interest Rate (MPIR) as a measure of payment equivalence.

10. What factors should be considered in setting an equivalence mechanism and rationale for each?
11. What is an appropriate rate of return on lump sum for providers? Is this an appropriate level for setting an MPIR?
12. How does this change with economic conditions? Does the MPIR link to the General Interest Charge represent an appropriate way of adjusting equivalence in line with economic conditions?
13. Would a Weighted Average Cost of Capital be an appropriate equivalence mechanism? If so, how should this be derived?
14. Is there a case for an equivalence range rather than a single point of equivalence defined by the MPIR and why? How might this work?
15. Should the government introduce a mandated minimum accommodation payment that prevents providers receiving less revenue from non-supported residents than they do from supported residents?

Factors in setting an equivalence mechanism and rationale.

There are several factors and/or principles relevant to older people in setting an equivalence mechanism and rationale including:

- Ensuring fairness and equity for all older people accessing residential care particularly those with low means
- Transparency and accuracy of information enabling older people to make informed choices in weighing up the impact of choosing a lump sum payment or a daily payment. This would include investment advice on lump sum payments, impact on the aged care pension, considering the expected length of stay and assessing the influence of the retention payment.
- Addressing market volatility and ensuring pricing stability
- Supporting the preferences of older people to compare accommodation prices for different rooms within the same home and across aged care homes.

Changes to the MPIR should not deter providers from accommodating residents of low means nor impact on the capacity of current and prospective residents to choose their payment approach.

Older people and their families should have transparent information about MPIR calculations to make decisions and to assess issues like the opportunity cost of the lump sum, impact on age pension entitlements and their expected length of stay. They should also be able to consider any provider information about the use of retention funds.

It is important that a key focus of this review is the use of the MPIR as a payment equivalence between the lump sum (RAD) and daily payment (DAP). However, through questions on the Weighted Average Cost of Capital, there is a potential link to a more detailed discussion between the setting of the MPIR and meeting the capital costs of providers.

Whilst the lump sum payment (e.g. RAD) is a larger amount than a daily accommodation payment (e.g. DAP), the amount generated to support capital is less. This means people with wealth (and thus able to pay a RAD) end up paying LESS than people with lower means. The DAP represents a value to the provider; this value is not transparently expressed when considering the lumpsum RAD payment. This leads to confusion for older people and their families about the value of their aged care payments.

Appropriate rate of return on lump sum for providers.

Setting the appropriate rate of return on a lump sum should be fair to providers but not disadvantage older people. There needs to be a clear basis and evidence for any additional amount individuals are required to pay. Older people ask us regularly about retention payments and do not really understand what they are for or how the deposit is refundable when funds are taken out of it. The review should provide modelling and calculations comparing alternative methodologies including the current MPIR approach and the Weighted Average Construction Costs (WACC) approach. Based on detailed calculations, Government and sector stakeholders should be able to compare and review the effectiveness of different models to meet policy objectives including equivalence between RAD and DAP, addressing capital funding issues and assessing risk for aged care participants and providers.

Calculations for investment return (currently the MPIR) should be amended to recognise prudential liquidity regulations (requiring providers to keep some cash at hand to make refunds).

MPIR and changing economic conditions.

Whilst achieving a level of pricing stability is preferable, older people, if provided, with clear information, can understand and plan for changing economic conditions. Modelling and calculations applying different methodologies should be undertaken to assess the outcome of the current MPIR linked to GIC approach.

Appropriateness of the Weighted Average Cost of Capital as an equivalence mechanism.

COTA recognises the attraction by some in the sector to using Weighted Average Cost of Capital (WACC) as a more accurate cost of capital to build, than the Maximum Permissible Interest Rate (MPIR). The MPIR provides a simple, centrally determined conversion rate between daily accommodation payments (DAPs) and refundable accommodation deposits

(RADs). We recognise that the MPIR was designed for transparency and administrative ease, not as a direct reflection of providers' actual financing costs. While this approach offers clarity and consistency for residents, it does not always reflect the real cost of capital associated with developing and renewing aged care accommodation.

A WACC might be appropriate to use as the starting point for equivalence if:

1. **It is calculated centrally by the Department (or IHACPA-style body), not by individual providers** - in order to reduce the risk of individual providers inflating their WACC calculations with inconsistent inputs. The formula is published so residents can see the logic.
2. **It reflects the sector actual costs** — i.e. standard gearing, standard risk premium, public risk-free rate. Providers supply auditable build/refurb cost data through existing returns – providers do not set the sector WACC.
3. **It is applied only to the capital-financed portion of the accommodation price – not the full accommodation amount** – COTA acknowledges the calls from some in the sector that a WACC-based framework would more closely align to the actual cost of the sector's financing conditions. However, not all of the room price is subject to capital costs and to remain fair to consumers, any WACC approach applied to an aged care room price must be discounted to reflect the difference between the total accommodation price charged to consumers and the components of the accommodation price that is appropriate for WACC to apply to – that is capital-financed build and refurbishment costs. Applying the full WACC to the advertised room price would effectively charge residents a return on non-capital elements, inflating payments / provider profit without improving service quality.
4. **Changes to an equivalence mechanism removes the need for retentions.** The temporary return to allow retentions in Australia for 2025 – 2030, must cease with any change of equivalence mechanisms or setting of daily and lump sum amounts.
5. **Modelling and calculations between methodologies should be the subject of further comprehensive consultation.** The devil is in the detail and specific propositions should be the subject of further testing.

As discussed below, COTA Australia believes the future of room prices should be set off a time basis. In this approach, providers may be able to simply publish their non-refundable lump sum amount that offsets their full daily price. In order to ensure that aged care RADs do not become an inappropriate tax/pension safe haven, along with ensuring that consumers were not charged inappropriate and inflated lump sum amounts to force older people to draw down on their lump sum asset – some regulatory oversight would continue to be needed for any larger than average room rates. This may be geographically tailored to consider the average house prices in the nursing home's area.

Equivalence range versus single point of equivalence.

It is difficult to answer whether an equivalence range is preferable to a single point of equivalence. Presenting calculations and modelling would enable stakeholders to assess this. As a principle we are not attracted to different providers charging different interest rates within a regulated range as this would seemingly encourage providers to simply charge the higher range be it through inflated calculations or simply choosing the upper range.

If variability between providers were to occur a clear time related fee and a clear 100% refundable lump sum in lieu of the fee should be published. Mechanisms to compare these figures should be automated into My Aged Care's system – such as \$/sqm to ensure that a degree of apples with apples becomes available for older people.

Additional consumer protections in aged care to ensure price gouging does not occur must be considered. This includes such things as IHACPA approvals, additional transparency etc.

Mandated minimum accommodation payment for non-supported residents.

We do not believe it necessary or appropriate to say that a provider cannot charge a non-supported resident, less than the supported resident supplement amount. It seems unlikely that this would ever occur, however, this should be carefully monitored. We note that your consultation paper states that it is rare that the MPIR is at low rates this can result in non-supported residents paying less for their accommodation as a DAP than the government would pay in Accommodation Supplement for a supported resident in the same room.

Daily payments as the default room price

16. What are the advantages and disadvantages of moving the MPIR-related fluctuations in pricing from the DAP to the RAD?
17. Would setting the DAPs as the default make accommodation pricing easier to understand for prospective residents and their families/
18. Are there other relevant factors to consider in relation to setting the DAP as the default payment type?
19. Do you think the DAP should be set as the default payment type? Why?

Advantages and Disadvantages of moving MPIR related pricing fluctuations from the DAP to the RAD.

Moving the MPIR (or other) related pricing fluctuations from the DAP to the RAD by setting the daily payment as the default price will make pricing clearer and easier to understand for older people and their families. It will more closely reflect the rental housing market, does not impact the costs of residents already in care and does not limit resident choice. A minority of people currently pay via a lump sum only (approximately 30%). It is important that the option remains available both for consumer choice, but also for the very real impact on individual pension and other financial arrangements that can occur.

A potential disadvantage is that it may make RADs more complicated to understand for older people, particularly as they now must factor in the 2% per annum retention reduction.

Daily payment as default room price easier to understand for residents and their families.

RADs can be seen as confusing for some older people as the figure seems high, particularly comparing paying for a room/ensuite as opposed to a house in the private market. Using a RAD price to set the value sets up a comparison with the value of a home.

Many older people express dissatisfaction that they must pay as much (if not more) than a larger entire home is worth. Other people see the RAD as just one of the costs to enter aged care and the high lump sum amount becomes part of their holistic value for money assessment of their aged care experience, not just the accommodation. The cost of the room becomes linked in their view of the quality of services and the overall amount they are paying.

While a RAD/DAP contributes towards shared facilities (like an apartment levy for maintenance of communal areas and amenities) this is not specifically or sufficiently explained, and many older people tell us that they do not believe they are getting value for the high cost of entry. Greater consideration into explaining this needs to occur with explanations on costs improved.

Other relevant factors in setting the DAP as default payment type.

Setting daily payments as the default room price brings forward a recommendation from the Aged Care Taskforce to change the basis of the calculation. The change would be included in accommodation agreements and there would be no financial impact on aged care providers.

The Government has announced that RADs will be indexed once a year, with DAPs indexed twice a year. This will lead to inconsistencies between the RAD and the DAP at different points of the year. It will be critical that the more accurate price as expressed in the more frequently indexed DAP be used to displaying accommodation payment amounts.

In addition, we believe that future methodology to calculate the lump sum payment amount for the daily accommodation price should remove retention amounts and restore lump sums to be fully refundable in the way it is calculated. This may be through adjustment to the discounted formula being applied to the full room price, or only a portion of the room price.

Should DAP be set as the default payment type?

COTA Australia supports setting a time based amount amount) as the default 'room price,' as distinct from the default 'payment type.'

Presenting (and calculating) a room price should be done as a shorter time based period (daily, weekly, fortnightly). This should make fee payments clearer and easier to understand and address the issue that older people raise about the value of the room and why they are paying the same or more for an ensuite room than a house. Further work is required to identify older person preference to see the amount presented as daily (as other aged care fees are today, weekly (more akin to the way rental properties are advertised) or fortnightly (to align with household pension budget cycles) may be needed.

Presenting the amount in a particular way, however, should not automatically equate a default *payment type*. A broader range of payment options are necessary, including:

- Cash (from any source such as bank account, sale of shares, sale of family home, superannuation)
- Lump sum (with a standardised investment return used to contribute towards the accommodation charge, and the lump sum returned)
- Drawdown from lump sum (consumers may choose to pay a lump sum up front and draw down from it to pay their accommodation (if they do not have the full refundable lump sum amount) or to pay other aged care fees)
- Future insurance/pre-purchase financial products (developed in the future)