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Positioning Paper to the Minister for Aged Care
Residential Aged Care Accommodation Pricing Review (2025–26)
Submitted by: Medical & Aged Care Group (MACG)

Executive summary

Australia's accommodation funding settings no longer keep pace with the real cost of providing safe, dignified places to live—particularly for low-means older people—and they are unstable for providers planning refurbishments and new supply. The Government's review presents a timely opportunity to deliver a **fair, simpler and investible** model that supports consumer choice and lifts quality, while protecting the Budget from avoidable shocks.

MACG proposes a package of mutually reinforcing reforms:

1. **Guarantee equity**: introduce a **minimum revenue floor** so providers receive **at least** the Accommodation Supplement equivalent from non-supported residents in the same room class.
2. **Stabilise equivalence**: replace the point-in-time MPIR with a **banded, smoothed equivalence rate** (with a floor and ceiling) tied to a trailing average of the legislated MPIR formula, to reduce volatility and gaming while supporting the pathway away from RAD reliance.
3. **Make prices understandable**: **publish DAPs as the default price** on My Aged Care (with clear RAD equivalents), aligning with how all other resident charges are quoted and making comparisons easier.
4. **Re-target the Accommodation Supplement**: move to a **tiered supplement** reflecting location and cost differentials; uplift rates to meet contemporary asset replacement and compliance costs; and add a **quality top-up** linked to the National Aged Care Design Principles & Guidelines.
5. **Preserve investment signals**: if any step-down to the Higher Accommodation Supplement (HAS) is adopted, **time-limit it no earlier than year 15** and provide **automatic re-qualification** to the higher rate following certified major refurbishments that meet the Design Guidelines.
6. **Strengthen incentives for access**: replace the single 40% low-means threshold with a **graduated schedule** so providers are rewarded for accepting each additional supported resident.
7. **Manage transition risk**: apply **grandfathering** for existing residents; publish a clear transition timetable; and offer a time-limited **liquidity support line** (within existing prudential settings) to manage short-term cash flow effects as payment preferences shift.

These proposals are tightly aligned to the Review's Terms of Reference and consultation questions, and they can be implemented in stages beginning in FY2026–27. The package protects resident choice and rights, addresses inequities, and restores the investment pipeline necessary to meet demand.

Policy context and why action is urgent

- **Scale and public outlay**: As at 30 June 2024, **198,362** older Australians were living in residential aged care. Over 2023–24 the Commonwealth contributed **$21.27 billion** and accounted for **68.2%** of sector income. Residents paying for accommodation are split roughly **19% fully**

supported, 19% partially supported, and 62% non-supported—each with different payment options and incentives (RAD/RAC, DAP/DAC, or a combination).

- **Recent reforms already changing incentives**: The **maximum room price** rose to **$750,000** from 1 January 2025 (indexed to **$758,627** on 1 July 2025). From **1 November 2025**: providers must deduct **2% p.a. RAD/RAC retention** (capped at five years), and **DAPs for new residents will be indexed** on pension indexation days (20 March and 20 September). These settings reshape both consumer choices and provider cash flows.

- **What the Review will cover**: The Review—**led by Nigel Ray PSM and Associate Professor Nicole Sutton**—will examine the **Accommodation Supplement**, incentives to accept low-means residents, and **pricing arrangements (including MPIR)**, with submissions closing **31 October 2025** and a report due by **1 July 2026**. A separate process will consider the future of RADs

Evidence of misalignment today

- **Accommodation Supplement levels**: The current maximum HAS is **$69.79 per resident per day** where ≥40% of residents are low-means in newly built/significantly refurbished homes (with lower rates of **$52.34**, **$45.51**, **$34.13**, **$38.23**, **$28.67** depending on build status and mix). Notably, **62% of services** receiving the supplement are at the top HAS rate; **24%** at the next; **10%** at $45.51; **4%** at $34.13 (see **Table 1, pp. 8–9**).

- **Volatile equivalence**: The **MPIR** equates RADs and DAPs via **DAP = RAD × MPIR ÷ 365**. It is legislatively linked to the **ATO General Interest Charge minus 3%**, and resets quarterly. This volatility shifts consumer payment preferences (more DAPs when MPIR is low; more RADs when it rises), complicating planning and potentially creating liquidity pressures. The Review notes that **when MPIR is low, a DAP can even fall below the Accommodation Supplement for a comparable supported resident**—an inequity that should be removed (pp. 12–16, 18–20).

Objectives we share with Government

1. **Fairness and access** for low-means residents wherever they live.
2. **Simplicity** for families comparing options at a stressful time.
3. **Sustainability and investability** so providers can refurbish and build to modern design standards as the population ages.
4. **Value for money** and predictable Commonwealth outlays.

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MACG's reform package

1) Introduce a non-supported revenue floor (equity fix)

Proposal: Mandate that a provider's revenue from a non-supported resident for a given room may **not fall below** the applicable **Accommodation Supplement** for an equivalent supported resident in the same room class (e.g., the HAS rate for new/refurbished stock).

Why: It eliminates the inequity identified in the Consultation Paper when MPIR is low, prevents cross-subsidies, and ensures like residents fund like accommodation. The Paper explicitly canvasses a **mandated minimum** (Q15).

How: If the DAP (or DAP-equivalent in a RAD mix) is below the supplement, either: (a) **top-up via the resident's price** to the floor; or (b) **apply a Commonwealth top-up** only in clearly defined hardship circumstances to protect access in thin markets. (Design choice subject to fiscal testing.)

2) Replace point MPIR with a smoothed equivalence band (stability fix)

Proposal: Keep MPIR as the legislated anchor, but set **equivalence within a band** around a **12- to 24-month trailing average** MPIR, with a **floor** and **ceiling** to cap volatility. Publish the band a quarter ahead to aid planning.

Why: The Consultation Paper and prior reviews note MPIR volatility drives payment switching rather than reflecting accommodation cost. A banded, smoothed approach preserves transparency and comparability while reducing cliff-edge effects and liquidity risk (pp. 14–17).

Alternative considered: A WACC-based rate. The Paper summarises concerns with a single sector WACC (heterogeneity and potential competitive distortions). If a WACC path is preferred, use it **only** as a **cross-check** for the band, not as the primary equivalence rate (p. 17).

3) Publish DAPs as the default price on My Aged Care (clarity fix)

Proposal: Make the **daily price the default display and booking price**, with a clearly shown RAD equivalent and combination calculator. Continue to allow any payment method at entry.

Why: All other resident charges are daily amounts; moving accommodation to daily pricing simplifies comparison and total cost visibility—an issue highlighted by the Paper (pp. 18–20). Smoothed equivalence (Recommendation 2) contains the volatility risk that would otherwise shift to RADs.

4) Tier the Accommodation Supplement by operating environment, uplift base rates

Proposal: Move from three flat maxima to **tiered levels** reflecting location (e.g., major city, regional, rural, remote), demonstrable input-cost differences, and occupancy risk. Calibrate base rates to cover prudent depreciation, compliance, and lifecycle refresh.

Why: The Paper invites views on universal vs. tiered rates and recognises cost variation by location (Q2, Q9). Current average accommodation income sits below measured expenses even before capital refresh (Paper, Part 2). A targeted uplift narrows the viability gap where it is most acute while preserving fiscal discipline.

5) Quality top-up linked to the National Aged Care Design Principles & Guidelines

Proposal: Add a **per-diem top-up** for rooms independently certified against key design principles (small-house models, dementia-friendly features, domestic scale, access to outdoors).

Why: The Paper cites the Guidelines (effective 1 July 2024) and seeks ideas to lift quality. A modest, performance-based top-up rewards outcomes that matter to residents and families (pp. 10–11).

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6) Graduated incentive for accepting low-means residents (access fix)
Proposal: Replace the single **40%** cliff with a **stepwise schedule** (e.g., incentives at 20%, 30%, 40%, 50%+) so every additional supported resident counts.
Why: The Paper questions whether the current incentive structure is fit-for-purpose (Q4). Graduated incentives avoid perverse behaviours around a single threshold and better support mixed communities.

7) Preserve HAS as an investment signal—with year-15 step-down at the earliest and re-qualification on major refurb
Proposal: If Government introduces a HAS end-date, align it to realistic asset lives (**no earlier than 15 years**), and allow **automatic restoration** of the higher rate upon certified significant refurbishment meeting the Design Guidelines.
Why: The Paper notes a case has been argued for sunsets as short as 10 years, but also flags this could strain smaller providers (pp. 9–10). A year-15 marker balances asset reality with fiscal prudence and keeps capital flowing to renew stock.

8) Transition management to protect residents and maintain supply
- **Grandfather** all existing residents' arrangements (the Paper already protects pre-1 Nov 2025 residents; maintain that principle for any new pricing rule).
- **Liquidity support**: establish a **time-limited, opt-in liquidity line** (within current prudential rules and without altering permitted uses) to smooth refunds if equivalence changes accelerate DAP choices.
- **Market guidance**: publish an **annual equivalence outlook** (based on the smoothed formula) and **worked examples** so residents, advocates and providers can plan. (The Paper already provides clear formulas; extend this into routine communications.)

Expected benefits
- **For residents and families**: easier price comparisons, clear consumer protections (revenue floor preventing under-pricing trade-offs), better quality through design-linked incentives, and stable access for low-means residents.
- **For the Commonwealth**: improved policy **equity**, predictable budget profiles through smoothing, reduced risk of provider failure and stranded assets, and tangible progress on **gradually reducing reliance on RADs** without destabilising the sector (consistent with the staged approach foreshadowed in the Paper).
- **For providers**: restored confidence to refurbish and build, fewer cliff-edge incentives, and pricing that reflects cost drivers rather than short-term interest rate movements.

Implementation and timing
- **2026–27** (legislative and systems build): legislate the equivalence band; switch My Aged Care display to DAP-as-default; introduce the revenue floor and graduated low-means incentive; define tiering parameters; publish certification pathways for quality top-ups.
- **2027–28** (go-live): apply new supplement tiers and quality top-ups to newly certified rooms; begin equivalence band operation; activate revenue floor; commence transitional liquidity support (two-year window).

- **2028–29** (refinement): review tiering relativities and quality criteria uptake; publish first annual **Equivalence & Supplement Review**.

Risks and mitigations

- **Liquidity shock if DAP preferences spike** → managed by **smoothing equivalence**, **revenue floor**, time-limited **liquidity line**, and clear **grandfathering**.

- **Regional access risk** → addressed by **tiered supplement**, graduated incentives, and targeted hardship settings for the revenue floor.

- **Complexity creep** → mitigated by DAP-as-default presentation, standardised calculators, and annual public guidance with worked examples (using the Paper's formula base).

Annex A — Responses to key consultation questions

Q1–2 (Supplement design; universal vs tiered): Support a **tiered** supplement reflecting location and cost, with an added **quality top-up** for homes certified against the Design Guidelines. This aligns funding to real cost drivers and community expectations.

Q3 (Staggering HAS over time): If adopted, step-down **no earlier than year 15**; allow **automatic re-qualification** post-refurbishment meeting Design Guidelines; publish a transparent certification and re-certification pathway.

Q4 (Incentives for low-means residents): Replace the single **40%** threshold with a **graduated schedule** (e.g., bonuses at 20/30/40/50%+), avoiding cliff effects and encouraging continuous inclusion.

Q5–7 (Reforms to lift quality & incentivise capital): Introduce a **quality top-up**; embed **design-linked incentives**; and give **regulatory certainty** on equivalence and supplement settings to de-risk financing.

Q8–9 (Adequacy & variation in costs): The Paper notes accommodation **income ≈ $51.45/day** vs **expenses ≈ $59.88/day** on average—both below the current maximum supplement (context for uplift and tiering). Regional and remote operators face higher build and operating costs and thinner demand, justifying tiered rates. *(Part 2 and associated commentary.)*

Q10–14 (Equivalence mechanism): Use a **smoothed MPIR band** (12–24-month trailing, with floor/ceiling) for transparency and stability; employ sector WACC only as a **cross-check**. Publish the band and methodology annually.

Q15 (Minimum payment for non-supported residents): Yes—adopt a **revenue floor** tied to the supplement paid for a supported resident in the same room class to remove inequity when MPIR is low.

Q16–19 (DAP as default): Yes—**publish DAPs by default** with clear RAD equivalence; pair with smoothed equivalence to avoid volatility transferring to RAD prices; maintain full **resident choice** at entry.