

# Regulatory Impact Statement: Overview of required information

## Regulatory Impact Statement

**Title of Proposal: Increase to the rate of Personal Allowance for older people in subsidised residential care**

**Agency Disclosure Statement**

This Regulatory Impact Statement has been prepared by Ministry of Health.

It provides an analysis of options for increasing the Personal Allowance for older people in subsidised residential care. The timing and size of an increase is affected by the temporary GST compensation that will be paid from 1 October 2010 to 31 March 2011.

Ministers' choice is whether to increase the rate of the Personal Allowance by an amount equivalent to the temporary GST compensation payment or by a lesser amount. Neither option imposes any costs on businesses, nor affects property rights, competition or common law principles.

The accompanying Cabinet paper also includes consideration of the Personal Allowance paid to people with a disability in residential care, but because those rates are not set by regulation they are not considered in this regulatory impact statement.

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[Signature of person]

[Date]

## Status quo and problem definition

The Minister of Health has responsibility for the residential care legislation under the Social Security Act 1964. The legislation concerns asset and income testing for eligibility for the Residential Care Subsidy and makes provision for DHBs to pay the subsidy to aged care providers for those aged care residents who qualify because their assets are at or less than the relevant asset threshold (currently \$200,000).

A subsidised resident must contribute most of their New Zealand Superannuation/Veteran's Pension (NZS/VP) and any other income towards the cost of their care except for a small amount of Personal Allowance. There are currently approximately 18,000 aged care residents on Residential Care Subsidy. The rate of Personal Allowance is set in regulations under the Social Security Act 1964 (Social Security (Long-term Residential Care) Regulations 2005).

The items that aged care residents pay for from their Personal Allowance are those that are excluded from the contract for aged care services. The contract excludes any personal items such as toiletries, hairdressing, personal telephone and toll calls, newspapers and magazines, gifts for family and friends, insurance for personal items, dental and podiatry services, and any costs incurred while on an outing, such as having coffee/lunch. These residents also receive an annual clothing allowance of \$ 251.75. The monthly cost of items such as these has been estimated by the Ministry of Health to reasonably be as much as \$180-\$200 per month. The amount will vary significantly depending on the relative health and independence of the older person. The current Personal Allowance is \$35.55 per week or \$154.05 per month for aged care residents.

An increase to the Personal Allowance has also been the subject of strong lobbying from Grey Power and Age Concern in recent years both of which consider the current Personal Allowance inadequate for subsidised residents in aged care in terms of the personal items they need to pay for themselves.

The Personal Allowance is adjusted by the Consumer Price Index (CPI) each year as part of the annual general adjustment to all benefits as at 1 April. Based on Statistics New Zealand forecast of the CPI, including the impact of the GST increase, there will be a 5.1% CPI adjustment to all benefits on 1 April 2011. There has never been a real increase in the Personal Allowance effectively since 1993.

The Minister of Health has requested that the Ministry assess options for increasing the Personal Allowance.

A complication has arisen because of the Budget 2010 decision to introduce a six month temporary GST compensation payment for the impact of increasing GST from 1 October 2010, rather than waiting for the CPI adjustment on 1 April 2011. Because of limitations with the IT system residents will receive the temporary GST compensation amount of 2.02% for their full NZS/VP, rather than just 2.02% of their Personal Allowance. The temporary GST compensation will be \$5.06 or \$6.09 a week whereas 2.02% of their Personal Allowance would have been \$0.72 a week.

Table 1 outlines the amounts. The temporary GST compensation will increase funds available for personal spending by \$6.09 a week for single sharing NZS/VP individuals and \$5.06 each for couples. These amounts are higher than the expected 5.1% CPI adjustment to the Personal Allowance of \$1.81 per week. As a result, without any significant increase in Personal Allowance over and above the CPI, subsidised aged care residents will on 1 April experience a fall of \$3.25 or \$4.28 per week in the amount they have for personal spending.

**Table 1: GST Compensation and CPI increase in Personal Allowance Rates**

<b>\$ per week Client eligible for:</b>	<b>Personal Allowance</b>	<b>1 October 2010 GST Compensation [2.02% of NZS/VP]</b>	<b>1 April 2011 CPI increase in Personal Allowance [5.1% of \$35.55]</b>	<b>Reduction in funds available for personal spending on 1 April 2011 if no further increase to rate of Personal Allowance</b>
NZS/VP single sharing	\$35.55	\$6.09	\$1.81	- \$4.28
NZS/VP couple each person	\$35.55	\$5.06	\$1.81	-\$3.25

## Objectives

The objective is to increase the Personal Allowance to meet the personal needs of aged care residents by increasing the funds available for their personal spending from 1 April 2011.

## Regulatory impact analysis

### *Option One (Status Quo)*

Option One is to retain the base rate of Personal Allowance with a CPI adjustment as at 1 April 2011. This does not provide a real increase in the Personal Allowance and will result in a decrease to the funds subsidised aged care residents retain for personal spending. It would be necessary to explain that this was not a cut in the Personal Allowance but that because of IT limitations residents received an additional payment for six months and this has now ceased.

### *Option Two*

Option Two is to increase the Personal Allowance by \$6.09 to \$41.64 as at 1 April 2011 to maintain the funds for personal spending equal to the amount single subsidised residents will receive from 1 October 2010. This will provide a small further increase for NZS/VP aged care subsidised residents on the married rate from that which they receive from 1 October 2010. It is desirable to increase the Personal Allowance for married people by the same amount as for single people to avoid having multiple Personal Allowance rates.

While DHBs will be required to pay more towards the residential care of subsidised residents, they will have had a net funding gain as a result of the increase to NZS/VP from income tax reductions. This option reduces the DHB gain by \$4.4 million from \$7.6 million to \$3.2 million per annum.

### *Option Three*

Option Three is to increase the Personal Allowance by \$4.31 to \$39.81, which would be a real increase of \$2.50 a week on top of the expected CPI impact of \$1.81. This option would reduce the DHB gain by \$2.6 million. It would still result in a reduction in funds for personal spending on 1 April 2011.

## Consultation

The Ministry of Social Development and the Treasury, the Office of Senior Citizens, Office for Disability Issues, Te Puni Kōkiri, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, have been consulted on the proposed increase to the Personal Allowance. The Department of Prime Minister and Cabinet has been provided with a copy of this paper.

## Conclusions and recommendations

The Ministry of Health's recommendation is to amend the Social Security (Long-term Residential Care) Regulations 2005 to increase the Personal Allowance by the higher rate of GST compensation, which is \$6.09, to bring it up to \$41.64 for all subsidised residents in aged care. This will maintain a consistent rate for all aged care residents without regard to their marital status. It recognises the difficulties of making any smaller increases on 1 April 2011 compared to 1 October 2010.

## Implementation

An amendment regulation under the Social Security Act will be required to increase the base rate of Personal Allowance for aged care residents on 1 April 2011 from \$35.55 to \$41.64. This will be CPI adjusted in following years on 1 April as has been the convention in the past.

If Cabinet agrees to increase the base rate of the Personal Allowance for subsidised residents the amendment regulation will be drafted and progressed through Cabinet Legislation Committee to take effect by 1 April 2011.

The Ministry of Social Development (MSD) administers the NZS/VP payments to all superannuitants and also administers the application for the Residential Care Subsidy on behalf of the Ministry of Health. MSD also continues to pay subsidised residents their Personal Allowance from their NZS/VP.

Effectively the only change for single subsidised residents on 1 April 2011 will be that they will receive a Personal Allowance amount of \$41.64 rather than the previous rate of \$35.55 plus a separate amount for the temporary GST compensation.

Those on the married rate of NZS/VP will receive an extra \$1.03 per week included in the new Personal Allowance rate of \$41.64 above what they received for the GST compensation since 1 October 2010. Those on the single sharing rate (majority of aged care residents) will have benefited by receiving the higher amount of \$6.09 from 1 October 2010.

## Monitoring, evaluation and review

The Ministry of Health has responsibility for managing the residential care legislation under the Social Security Act 1964 and will continue to monitor and evaluate the adequacy of the rate of Personal Allowance over time for subsidised aged care residents.