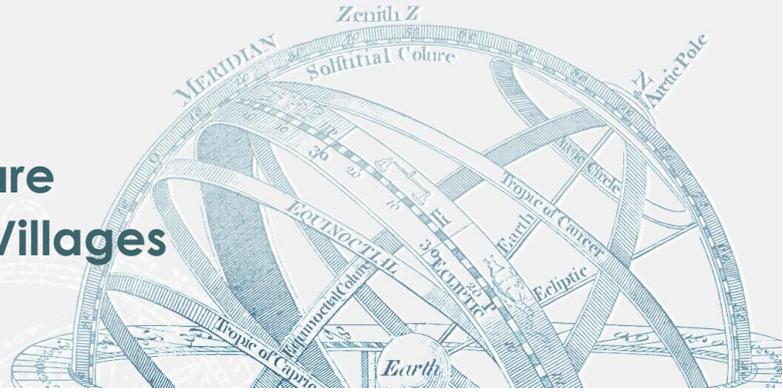


Convergence of Aged Care Facilities and Retirement Villages



Martin Gray is an Executive Director of Armillary Private Capital, was the project manager and co-author of the Aged Residential Care Service Review 2010 and advises a range of operators in the aged care and retirement village sector.

In the first article of this series Martin examined a new service offering in the aged care sector. This development is a function of the convergence of the aged care and retirement village sectors. This convergence is radically evolving the sectors and this article looks at the benefits to both aged care and retirement village operators, ramifications for service delivery and potential outcomes for our older populations.

Observations and Statistics

- Other than a few not for profit facilities there have been no new stand-alone aged care facilities built in New Zealand in the last ten years.
- In the last five years over 90% of retirement villages have included the provision of aged care services as part of an integrated village.
- Over 70% of aged care facilities offer retirement village contracts or premium charging models.
- Occupancy of New Zealand's existing facilities is high, and we face a surge in demand.
- The sector has self-regulated so that retirement village style ORA contracts can be provided in the aged care sector, and vice-versa.
- New build facilities in both aged care and retirement now increasingly target a user pay model where residents pay for a superior level of service than the Government funding will provide.
- The substitution of non-fit for purpose rest homes (predominately converted residential homes) with homecare services that has been seen in the market place for over the last 20+ years has largely run its course, and Government funding for home care services has plateaued.
- Demand for nurses and care givers is high and utilises an increasingly immigrant workforce, with pressure on wages and employment conditions – including the ramifications of the Terra Nova case.
- Increased acuity of residents in aged care requires greater staff ratios.
- The health sector (including aged care) has the greatest future funding requirements of all Government expenditure. Pressure on Government funding is already impacting assessment for aged care, particularly at the hospital level.

Benefits to both aged care facilities and retirement villages

The financial performance, marketability and bankability of both aged care facilities and retirement villages is enhanced by the ability to offer a continuum of care.

Convergence Benefits

Aged Care Facilities

Retirement Villages

Captive residents	Increased catchment area
Utilisation of services (e.g. laundry, catering etc.)	Higher unit sale price
Additional cash flow from ORA model for care	Increased age of entry, lower length of stay
Sharing overhead (e.g. management, marketing, overhead etc.)	Sharing overhead (e.g. management, marketing, overhead etc.)
Improved bankability and financing options	Improved bankability and financing options

Ramifications for service delivery and potential outcomes for our older populations

Residents are paying a larger portion of their aged care as the user pays end of the market expands. This has significant implications for retirement planning.

As the sector grows the services provided by operators is delineating down, and greater specialisation is occurring into different parts of the market.

Only a negligible number of new facilities are being built that do not cater for the user-pays end of the market.

However, less of those reaching retirement age own their own home, and the sheer scale of the baby boomer population means there will need to be solutions for those that cannot afford to pay extra. Solutions around the Government providing a guaranteed annuity style income for new aged care facilities offers opportunities for investors.

For those nearing retirement age – start your planning yesterday, for operators – consider which part of the sector you are targeting, and for Government – the boomer train has left the station.