

The Australian Aged Care System 2.0

Why You Need To Prepare For Change



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The Australian Aged Care System 2.0

Executive Summary

From the late 1990s to early 2000s, the term “Web 2.0” provided a description for the changing nature of the World Wide Web. Social networking, blogs, and an array of web applications shifted how organisations and consumers used the Internet, which in turn transformed the world economy.

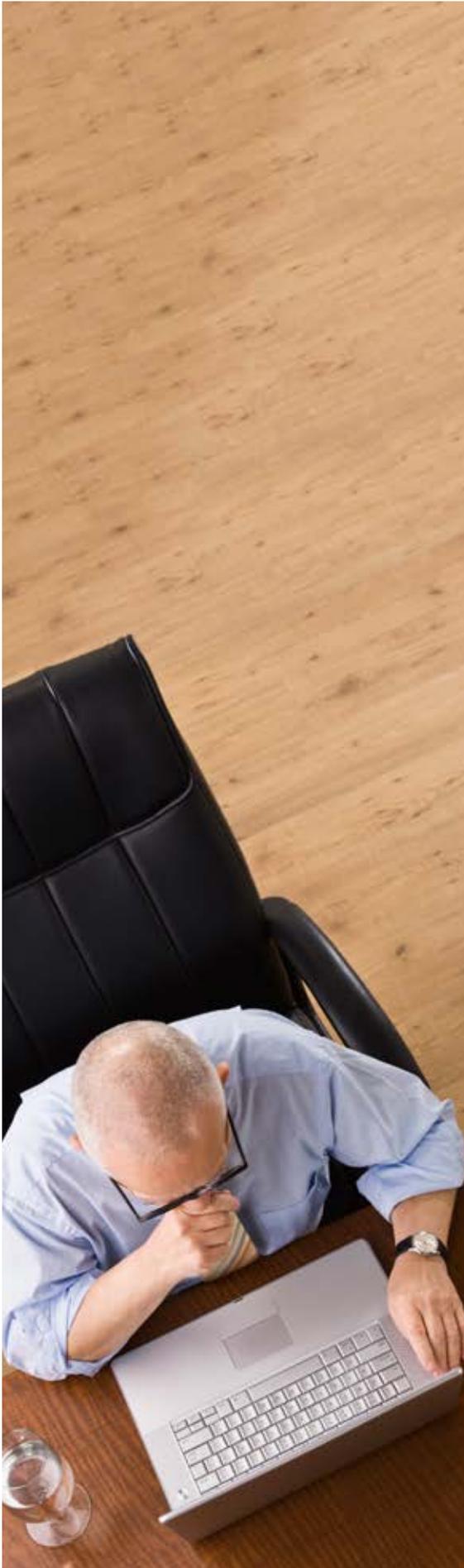
With growing competitive pressure, an ageing population with unique needs and wants, and a changing legislative and funding landscape, the aged care industry is arguably approaching its own transformational era.

As in any industry, there have been challenges, but the Australian aged care system has served the country relatively well up until this point. However, with the above mentioned factors at play, the system is changing. Tomorrow’s successful aged care organisation will be those who take proactive steps today.

A 2018 PricewaterhouseCoopers report highlights that unless Australia’s health and aged care system evolves significantly in the next few years, it will quickly become unsuitable and unsustainable. Without change, Australia will need an extra \$57 billion for aged care and hospital capital costs by 2040, along with an additional \$30 billion annually for operating costs. In this same timeframe, demand for aged care workers will increase by over 400,000 positions¹.

With financial pressures in the system mounting, user-pay models will gain in popularity. The care providers with a well-defined value proposition and high-quality services will experience the most growth and success—particularly since tomorrow’s aged care consumers will have more financial capacity to support their care preferences.

This guide introduces and discusses the changing nature of the Australian aged care industry to help you stimulate relevant discussions within your organisation and shape future plans.



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

A Growing and Ageing Population

Experts project that by 2061, almost one in four (22 percent) Australians will be aged 65 and over. Only a few short years ago, this proportion was one in seven (14 percent)².

With the country's population growth forecast, this could mean an increase from 3.2 million to 10.6 million people.

Across Organisation for Economic Co-operation and Development (OECD) countries, Australians top the list for the number of years spent in ill-health (10.9 years)³. Yet, between 2015–16, more than two-thirds (68 percent) of Australians aged 65 and over did not access government-subsidised aged care services⁴. About 85 percent of older Australians rely on support from family, friends, and neighbours for their mobility, care, and communication needs. However, the Productivity Commission predicts this informal care may decline in the future⁴.

If we see a three-fold increase in the number of older Australians who experience longer periods of ill-health and receive less informal care, the demand for services would overwhelm an already-strained system.

While the Australian aged care system has served the country relatively well, change is likely imminent. Providers need to ensure that their business can adapt to change, make the most of opportunities, and meet the evolving needs of residents. Organisations

In 2015-16
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that resist change will face growing financial and competitive pressures.

Government Funding Pressures

Today, the Australian government provides about three-quarters of aged care funding, while the consumer funds the balance. This ratio will likely swing toward a user-pays system in the years ahead, as our economy cannot maintain the status quo.

The ratio of older Australians to those of working age shaped the current funding structure. In 1970, for each Australian aged over 65, there were 7.5 working-aged people to support them. In 2010, the ratio shrunk to 5 working-aged people for every Australian aged over 65. Reports project the ratio will fall to 2.7 by 2050⁵.

As system financial pressures and costs for residential care increase, care

providers may need to operate with static or reduced funding. Home and community care, therefore, will play an important financial role in the years ahead.

The successful aged care organisations of the future, therefore, will have a culture of innovation and continuous improvement. Equipping your organisation with aged care software which provides advanced analytics can be key to reducing cost, identifying new opportunities, and speeding decision-making.

By 2050, there
will be only

2.7

working aged people to support each Australian aged over 65⁵.

The increasing demand for home care illustrates how Australian aged care is changing.



Download the Epicor ebook, *Why CFO's Can No Longer Ignore the Growth of Cloud*, to learn more.



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

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

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

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

Competitive and Financial Pressures

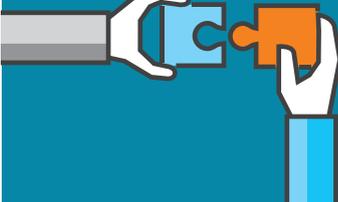
Future growth opportunities in the Australian aged care sector are attracting an array of new market entrants and influencing the services amongst existing care providers.

The industry also saw several mergers, acquisitions, and new partnerships which are reshaping the market. For example, private equity funds are investing across home care and residential care, and property developers are working with aged care providers to create new competitive offerings⁶.

A range of market changes are placing pressures on traditional aged care business models. The StewartBrown Residential Care Report of March 2018⁷ highlights that the average facility earnings before tax (EBT) per bed, per annum, was \$1,348—a 58 percent decrease against June 2017. This decline in earnings can strain operational budgets and limit the industry's ability to generate capital and equity investments.

In such a dynamic market, organisations must monitor and manage performance indicators to remain competitive⁶. Aged care providers need real-time insights into their business. Software tools such as Epicor Data Analytics provide simple real-time advanced business analytics to enable leaders to make sound decisions. Few people have time to analyse large quantities of data, so predictive analytics and visual data dashboards can be vital.

Aged care organisations must retain high occupancy rates to avoid magnifying financial pressures. When occupancy rates drop, the business cannot spread fixed costs across a broad range of residents. Organisations must focus on innovation and cost-effectiveness to weather drops in occupancy. Successful businesses will need to be agile and resident-oriented, with processes and technology that incorporate industry best practices.



The industry has seen a number of mergers, acquisitions, and new partnerships which have evolved the dynamics of how the market operates.

Attracting and Retaining Human Resources

The Australian aged care system is among the country's largest service industries, with more than 366,000 paid workers and a further 68,000 volunteers⁴. Given the predicted future growth of the market, these numbers will increase dramatically.

Without change, Australia's health and aged care system will need 120,000 additional nurses in just 12 years' time.

By 2040, the country will need more than 400,000 additional aged care workers¹. Therefore, organisations will likely struggle to attract and retain skilled and experienced employees in coming years. This worker gap is already straining businesses in remote areas⁴.

As outlined in the Aged Care Financing Authority's Annual Report on the Funding and Financing of the Aged Care Sector, the biggest reported concerns from aged care workers are inadequate levels of staff, remuneration, and a perception that the community did not place a high value on aged care⁴. Despite these concerns, the industry boasts a strong employee retention rate. One-quarter of workers have been in the industry for more than 14 years⁴.

Currently, the average residential care worker is 46 years old, compared with 52 for home support and home care



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6 KPMG, retrieved 13th August, 2018, from <https://home.kpmg.com/au/en/home/insights/2018/04/aged-care-providers-stay-competitive.html>.

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

workers⁴. By 2020, 50 percent of the global workforce will be millennials—a generation which expects their career to progress rapidly whilst being varied and interesting⁸. Additionally, millennials in the workforce expect employers to have user-friendly back-end systems.

Software platforms like Epicor Senior Living Solution (SLS) allow employees to embrace new technology with robust collaboration and communication tools. Epicor SLS combines intuitive functionality with mobile features that help meet the expectations of younger and seasoned employees alike.

Building and maintaining long-term relationships with your residents hinges largely on the quality of service delivered by your staff. To attract and retain leading talent in the future, your organisation must develop solid workforce management plans, provide flexibility, embrace diversity, and build and sustain a positive and inclusive workplace culture.

Changing Resident Profiles

The aged care resident of tomorrow has lived through economic transformation that taught them to seek the freedom of choice.

Of those reaching retirement age, many bring with them unique life experiences and expectations for a duration of healthy living post-retirement⁹. Rising property prices are one factor shaping people's

expectations. According to McCrindle¹⁰, the average 55+ Australian household has a net worth of over \$1 million, and—compared with other generational groups—is experiencing the fastest wealth increases.

Australians aged 65 and older are as diverse as any other subset of the population¹¹. Their needs and wants vary. Furthermore, with their increasing financial capacity to choose their preferred care services, aged care organisations must present their services as the leading solution for each segment of the market.

Tomorrow's residents will be willing to pay more for better services. 85 percent of people today are willing to pay 25 percent more for great service, and 82 percent of people move away from businesses because of a bad experience¹². As more organisations incorporate user-pay models, the care providers with a clear value proposition and high-quality

services will be best positioned for growth and success.

Traditional strategies will do little to attract, engage, and retain the modern aged care resident. Care providers that rely on limited customer relationship management (CRM) platforms and outdated value propositions will see their market positions decline. Integrated CRM solutions help you meet your changing resident needs. System's such as Epicor SLS deliver a 360-degree view of current residents so you can tailor their communication and service appropriately.

Adopting a Resident-Centric Approach

A 2018 PricewaterhouseCoopers report emphasised that Australia's health and ageing system needs to transfer to a wellness-oriented model—as opposed to one that focuses on illness. In other words, it should emphasise prevention, integration, and outcomes¹.

The Productivity Commission also recognised that Australia's health system has significant issues to overcome, noting its minimal focus on the patient experience³. As a result, the Commission recommended that within five years the government re-configures the health system to be "patient-centred³." The aged care providers that place the resident at the centre of all they do will be well-positioned in an industry-wide realignment.

KPMG found that in retirement living, 80 percent of operators did not answer calls, and 50 percent of customers messages did not receive a returned phone call¹². In a home care setting, 60 percent of operators were not able to adequately



8 PricewaterhouseCoopers, Millennials at work: Re-shaping the workplace, 2011.

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

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

11 KPMG, retrieved 13th August, 2018, from <https://home.kpmg.com/au/en/home/insights/2017/12/understanding-aged-care-customers-through-research.html>.

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

answer queries and 30 percent of operators did not return calls. In residential care, 78 percent of operators' knowledge about fees was either low or moderate.

In a market with financially secure consumers who have high expectations, complacent aged care organisations will lose customers to competitors. Therefore, developing and maintaining relationships with residents throughout their aged care journey is paramount.

In a changing market, the organisations which aspire to grow will require a

comprehensive CRM strategy and software system.



Download the Epicor eBook, *The Importance of Customer Relationship Management in a Changing Australian Aged Care Market* to learn more.



For example, diversifying your service mix—such as providing both residential care and home care services—helps you develop and maintain a relationship with a client who may start as a home care client and later transition to residential care.

Business Enablement Tools

Technology is essential for businesses navigating the changing commercial landscape, running a more productive organisation, and providing better services for residents.

The right aged care software will help you analyse and identify opportunities for innovation. With sophisticated reporting capabilities, you can drill down to a granular level for key operational insights and view dashboards that provide at-a-glance executive summaries. Your software can form a foundation for growth through integrations and data analysis tools.

Providers who use integrated and holistic enterprise resource planning (ERP) software have better visibility into all areas of the business to see and seize opportunities. If your current aged care software was not built as a senior living solution, but rather adapted as an afterthought, consider whether it will boost or limit your capacity to navigate the transformative era ahead.

When you harness the value of an integrated business suite which helps manage multiple applications in a single platform, you drive efficiency and automation throughout your operation.

Aged care providers who innovate with industry-specific software

are often better equipped to capture the opportunities presented to them.



As your organisation grows and changes, you need a solution that can grow and change with you. For example, if your organisation has limited IT resources, you may opt to deploy your ERP software in a hosted model or cloud model. As your business changes, you may want to deploy your aged care software on premises.

Adapting to the Changing Australian Aged Care System

As we discussed in this guide, the current aged care sector is expected to struggle to meet the growing and ageing population. The system needs substantial adjustment, and the organisations that resist change will face growing financial and competitive pressures.

While the current challenges facing the aged care sector can seem overwhelming, the market is bursting with opportunities for innovation and growth.

Successful aged care organisations will be those that effectively balance business needs with a resident-centric quality of care. These organisations will also need a robust and flexible ERP system built for the nuances of the aged care sector, such as Epicor SLS.

New market entrants, strategic partnerships, mergers, and service diversification will continue to disrupt the aged care system status quo. As organisations seek to fill care roles, they will face increasing pressure

to develop a value proposition for their employees and customers.

When entrenched in the everyday operations of a business, it's difficult to view your core competencies, opportunities, and threats objectively. However, because the aged care system will likely have its "Aged Care 2.0" moment in the near future, now is the time to define your strategic plans and align your key internal stakeholders to the organisation's vision.

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50,000 residents,

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the aged care industry.



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