

Home truths

Policy snapshot: Better targeting Aged Care support

Amy Auster, Henry Williams, Indra Parta and Nicholas Tarrant

June 2026

Read the full report: www.policyinstitute.org.au/home-truths

© Policy Institute Australia, 2026.

KEY POINTS

- The level of Aged Care support someone receives depends on their income and assets.
- But the value of owner-occupied housing is either excluded completely from the Aged Care assets test or given a capped value of just \$214,884.
- This means that homeowners are treated the same regardless of whether their home is worth \$500,000 or \$5 million, and both are treated more favourably than non-homeowners.
- Our preferred option for better targeting Aged Care supports removes these exemptions and includes owner-occupied housing equity above \$500,000 in the assets tests.
- It would reduce Commonwealth expenditure on Aged Care by around \$6.3 billion a year, and better aligns private contributions with capacity to pay, reducing contributions for households with limited means and increasing them for households with substantial means.
- Around a third of Aged Care recipients would receive reduced government contributions, mostly in the top 20% of the wealth distribution.

1 Better targeting Aged Care support

1.1 Greater inclusion of owner-occupied housing

Like the Age Pension, owner-occupied housing is a significant matter in Aged Care (which includes both Residential Aged Care and Support at Home). The current system either excludes it completely or caps its value at just \$214,884 in the Aged Care assets tests. This means that, in practice, almost all homeowners have the value of their home treated the same (as few homes are valued lower than the cap), while homeowners are treated more favourably than non-homeowners. Caps on private contributions compound this inequity.

Our preferred option to better target Aged Care aims to address this inequity.

- It provides more equitable treatment between homeowners and non-homeowners by removing exemptions that exclude owner-occupied housing wealth from assets tests when the house is occupied by the recipient or a 'protected person' such as their partner.
- It provides more equitable treatment of homeowners with substantial equity in owner-occupied housing, by including its value above \$500,000 in assets tests, in line with the preferred Age Pension approach.
- It better aligns private contributions with capacity to pay by reducing private contributions for households with limited means, and increasing private contributions for households with substantial means.

Table 1 compares our preferred option and the current means test.

TABLE 1

Aged Care means test: current vs preferred option

FEATURE	CURRENT MEANS TEST	PREFERRED OPTION
TREATMENT OF OWNER-OCCUPIED HOUSING IN ASSETS TESTS		
Home equity in assets test	Net home equity is capped at a limit of \$214,884 for the means test	The first \$500,000 of net home equity is excluded. Equity above this amount is included in full
Home exemption	The home is exempt from Aged Care means testing if the recipient or a protected person continues to live there	Exemptions removed
PRIVATE CONTRIBUTION RATES		
Residential – Clinical	Recipients make no contribution to clinical care, regardless of means	Higher means residents can now pay up to the full clinical cost (up to \$250 per day on average)
Residential – Non-clinical	Residents can currently contribute up to about \$200 per day toward non-clinical care costs	Unchanged
Support at Home – Clinical	Recipients make no contribution to clinical care, regardless of means	Higher means recipients can now pay up to 80% of clinical costs
Support at Home – Non-clinical	Higher means recipients can now pay up to 80% of non-clinical costs	Unchanged

Note: Further detail is provided in the full report. Our modelling does not include any change to Aged Care income tests. Private contributions for Residential Aged Care are average benchmarks for modelling purposes, but contributions will vary by location, provider, room type, and care needs.

Source: Policy Institute Australia analysis.

1.2 How would this change affect outcomes across the distribution?

Under our preferred option, Aged Care subsidies for those in the bottom 40% of the wealth distribution would increase, due principally to higher government contributions for Support at Home services for full pensioners.

Aged Care subsidies to those in the top 40% of the wealth distribution, and particularly those in the top 20%, would decrease.

Under the current system, the average Aged Care support recipient in the bottom 20% of the wealth distribution receives about 1.5 times as much as the average recipient in the top 20%. Under our preferred option, this ratio increases to 4.5 times, indicating a significantly more targeted distribution of benefits.

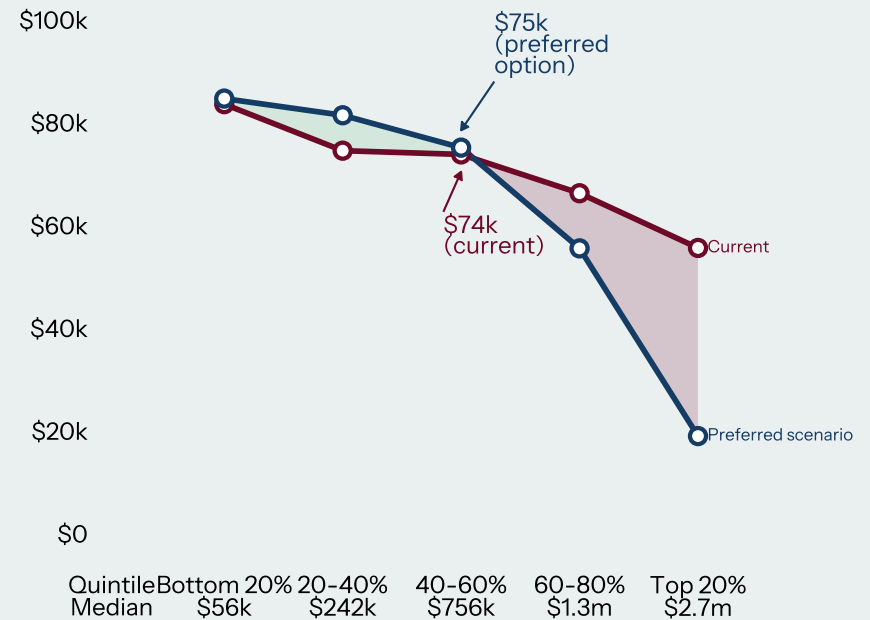
In total, our preferred option would reduce Commonwealth expenditure on Aged Care by around \$6.3 billion a year, with about \$5.2 billion in reduced expenditure for the top 20% of the wealth distribution. These are households with more than \$1.8 million in net assets.

The fiscal savings are significant, though less than for the Age Pension. This reflects the size of the program, and the design of our preferred option, which reflects the particulars of Aged Care. It is partly needs-driven, where people receive care because they have functional, health or daily-living needs. Nonetheless, a better targeted means test should ask those with substantial housing and financial wealth to make a larger contribution to costs that better aligns with their capacity to pay.

FIGURE 1

Reform better targets Aged Care support at those with greater need

Average annual Aged Care benefit per current recipient, by wealth quintile



Source: Policy Institute Australia Microsimulation Model (PIAMM).

Currently, around 200,000 people are in Residential Aged Care, and about 380,000 receive Support at Home.¹ Under our proposed changes, around two thirds of these Aged Care recipients would either receive a higher government contribution or see no change – including most of those in the bottom 60% of the wealth distribution, with household wealth of less than \$978,000.

Around a third of Aged Care recipients would receive reduced government contributions. Most of these are in the top 20% of the wealth distribution (Figure 2). A relatively small number of lower wealth recipients of Support at Home also see a reduction in benefits, where their household income makes them ineligible for a full pension (for example, their partner may still work full time); they pay a higher private contribution under our preferred option (Table 1).

The change in contribution varies across recipients. The most significant reductions are for those with substantial wealth, especially those with substantial net equity in owner-occupied housing.

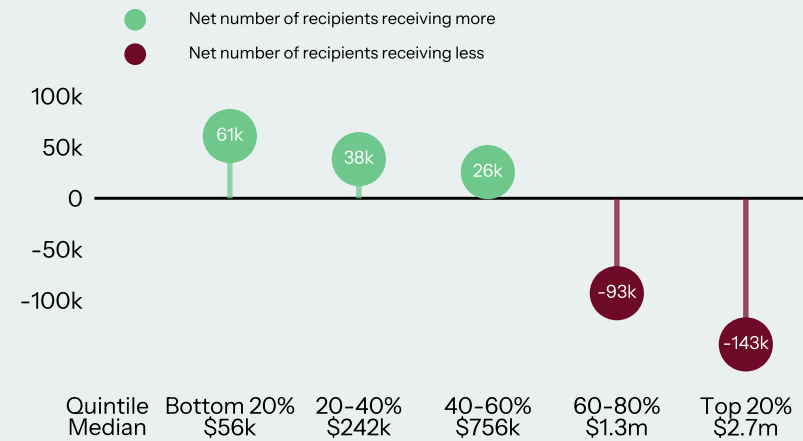
For Aged Care recipients in the top 20% of the wealth distribution, average annual Aged Care support would fall from around \$55,000 per year to around \$19,000. For those in the 60–80% quintile, it would fall from around \$66,000 per year on average to around \$56,000. While for those in the bottom 60% of the wealth distribution, it would increase from around \$77,000 per per year on average to around \$80,000 per year.

¹ Australian Institute of Health and Welfare (2025).

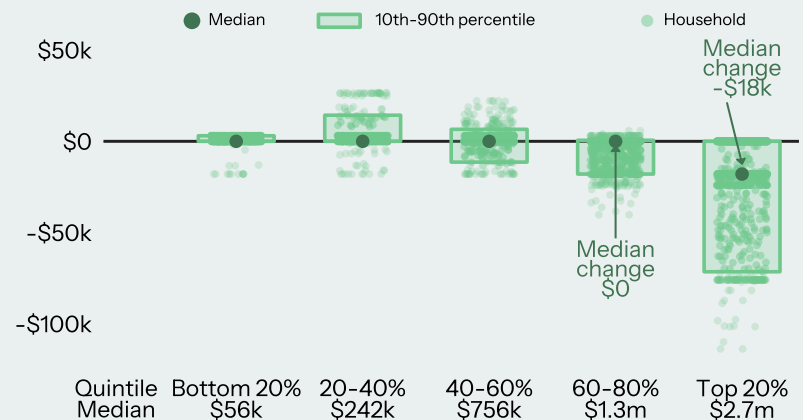
FIGURE 2

Effects vary across the wealth distribution

Net number of current Aged Care recipients receiving more/less, by wealth quintile



Distribution of Aged Care payment changes among current recipients, by wealth quintile



Source: Policy Institute Australia Microsimulation Model (PIAMM).

1.3 Alternative options

Our preferred option aims to strike a balance between addressing the horizontal and vertical inequities identified above, while taking account of the particular characteristics of owner-occupied housing and the role of owner-occupied housing for older Australians.

We have modelled two alternative options. Our alternative options match our preferred option, except for how equity in owner-occupied housing is counted in the means tests. Results for all three are presented in Table 2.

The **Full Home Equity** option has the same increase to assets test thresholds for homeowners, but includes the full equity value of owner-occupied housing in the asset test. This option fully addresses the horizontal inequity between homeowners and non-homeowners, and the vertical inequity that follows from treatment of households with different value homes.

The **Home Equity >\$1 million** option has the same increase to assets test thresholds for homeowners, but only the net value of owner-occupied housing above \$1,000,000² is included in the assets test. While this option represents a smaller change than our preferred option, it still has the effect of more than doubling the ratio of benefits going to bottom 20% of the wealth distribution, relative to the top 20% (from 1.4 to 3.4).

As noted in relation to the Age Pension, one option would be to set a higher threshold such as \$1 million but to fix it in nominal terms so a greater proportion of owner-occupied housing value is counted over time as house prices rise.

² Broadly equivalent to the Australia-wide median home price of \$930,000.

TABLE 2

Aged Care means test: alternative options compared

FEATURE	FULL HOME EQUITY	PREFERRED: EQUITY >\$500K	EQUITY >\$1M
2025–26 savings	\$8.8 billion	\$6.3 billion	\$3.1 billion
Recipients receiving the same or more support	64.8%	67.0%	77.2%
Share of savings from top 20% by wealth	65%	87%	130%
Ratio: bottom 20% to top 20% avg. support	4.8 (curr. 1.4)	4.5 (curr. 1.5)	3.4 (curr. 1.4)
Number receiving less	298,000 people	279,000 people	193,000 people
Home equity where residential support may reduce (couple)	Above ~\$120k	Above ~\$620k	Above ~\$1.12m
Home equity where 'Support at Home' may reduce (couple)	Above ~\$730k	Above ~\$1.23m	Above ~\$1.73m

Note: Percentages for people receiving less are shares of modelled Aged Care recipients, estimated using calibrated care-type rates. Savings shares can exceed 100% where lower-wealth groups receive net increases, reducing aggregate net savings.

Source: Policy Institute Australia Microsimulation Model (PIAMM).

References

Australian Institute of Health and Welfare. (2025). *People leaving aged care*.