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Care and State Pension Reform

Long-term care funding – a comparison between England, Wales and Scotland

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Long-term care funding – a comparison between England, Wales and Scotland

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Summary

This report investigates the financial implications for older people of the differences between the social care funding systems of England, Wales and Scotland. It considers how illustrative older people (vignettes) needing social care would be affected if the funding systems of Wales or Scotland were implemented in England, contrasting that with the effects of the reforms to long-term care funding due to be introduced in England in 2020.

Scotland and to a lesser extent Wales have long-term care funding systems that are more generous than the system currently in operation in England. However, from 2020 the reforms planned for England will put a cap on an individual's liability to pay towards their care.

The main findings of the analysis presented in this report are:

- Compared with the current English system, a Scottish style system of 'free personal care', the Welsh system, and the reforms due to be implemented in England in 2020 are all more generous.
- The benefits of implementing these systems in England would go to people who are not eligible for state support with their care costs – or eligible for support with only part of those costs under the current English system.
- The benefits of a Scottish style free personal care system depend on the level of non means-tested state contribution to care home fees. Under the lower of two levels examined, the lifetime benefits of free personal care might not be any higher than the benefits of the planned English reforms for median earning home-owners.
- The comparisons of the different funding systems depend on the length of time for which individuals need care – especially high intensity home care or residential care.
- The Welsh system, which has a maximum weekly charge for home care, can be more beneficial than the English reforms for people who need only home care.
- The English reforms produce benefits on a par with a Scottish-style system of free personal care only for people who need care long enough to benefit from the cap on care costs.

Introduction

In the UK, publicly-funded health and social care services are devolved functions: each of the countries of the UK can and has pursued its own policy on the funding of adult social care. The main divergence between the countries occurred following the report in March 1999 of the Royal Commission on Long Term Care of the Elderly (Royal Commission 1999). As a result, the extent to which older people assessed as needing social care are required to pay towards its cost varies across England, Wales, Scotland and Northern Ireland.

The Royal Commission recommended that personal care should be free at the point of use[1]. Only Scotland implemented this recommendation. Since 2002 personal care for older people in Scotland has been free in their own homes and attracts a non means-tested contribution in care homes. Help with domestic tasks at home and accommodation and living costs in care homes ('hotel' costs) remain subject to a means test.

The aim of this note is to investigate the financial implications for older people of differences in the social care funding systems of England, Wales and Scotland[2]. To do this we consider how illustrative older people (vignettes) needing social care would be affected if the funding systems of Wales or of Scotland were implemented in England, contrasting that with the effects of the English reforms planned for 2020. The analysis uses the same illustrative vignettes as our first report (Adams et al. 2015).

The Social Care means tests in England, Scotland and Wales

Although there are differences in which components of care costs are means-tested, the structure of the means tests, where they are applied, is broadly similar in England, Scotland and Wales (see Box 1). There are country variations in details (Tables A1 and A2 in the Appendix). Scotland, and to a lesser extent, Wales have more generous systems than England. Within each country Local Authorities (LAs) administer the means tests. National guidance is relatively prescriptive on how they charge for residential care. For home care it generally provides a ceiling on charges but LAs have discretion to be more generous.

England plans to introduce substantial reforms in 2020 as discussed in our previous overview report (Adams et al. 2015) and briefing note (Hancock et al. 2016). The key change is the introduction of a life time cap on an individual's liability to pay towards their care costs on the lines recommended by the Commission on the Funding of Care and Support (CFCS 2011). To benefit from the lifetime cap, a person will have to be assessed by a LA as having eligible care needs. The LA will then calculate the weekly costs of meeting those needs and keep track of the cumulative amount of those costs through the

[1] It also recommended that nursing care in care homes should not be subject to charges. Nursing care provided under the NHS has always been free at the point of use but public support for any element of care home fees attributable to the costs of nursing had been subject to a means test along with rest of the care home fee. All four UK countries accepted that this was anomalous and implemented a non means-tested NHS nursing care contribution (albeit at different levels) for those assessed as needing nursing care in a care home.

[2] In this note we do not consider Northern Ireland in detail, where the means tests for residential care are similar to those in England and Wales but charges for home care have traditionally been low (Law Centre (NI) 2015).

person's 'Care Account'. Until their Care Account reaches the cap, the LA will still apply a means test to determine how much the person must pay towards the cost of their assessed needs. Once the cap is reached, the state will meet the cost of their eligible care needs without a means test. The daily living (or 'hotel') costs component of care home fees will continue to be means-tested. The reforms also increase substantially the upper capital limit in residential care for all except home owners where the value of their home is disregarded.

Box 1: General structure of current means tests for residential and home care for older people in England, Scotland and Wales

In Scotland, means tests apply only to the hotel component of care home fees and domestic help (not personal care) provided to older people in their own home. In Wales a maximum charge is applied to home care charges after the means test has been applied.

Residential care

Care home residents with capital assets above an **upper capital limit** have to meet the means-tested component of their fees in full. If they own their home before moving into a care home, its value is usually included in assessed capital. Residents with assets below the upper limit must use all their income except a **personal expenses allowance** towards the relevant component of their fees. **An assumed income from capital** between a lower capital limit and the upper limit is added to assessable income.

Home care

An **upper capital limit** operates in a similar way for home care (excluding personal care in Scotland) but the value of the recipient's home is disregarded. For those with capital below the limit, **disposable income** above the Pension Credit Guarantee Credit level† plus a **buffer** has to be used towards the means-tested part of their home care costs. As for residential care, an **assumed income from capital** between a lower and upper limit is included in assessable income.

Treatment of disability benefits

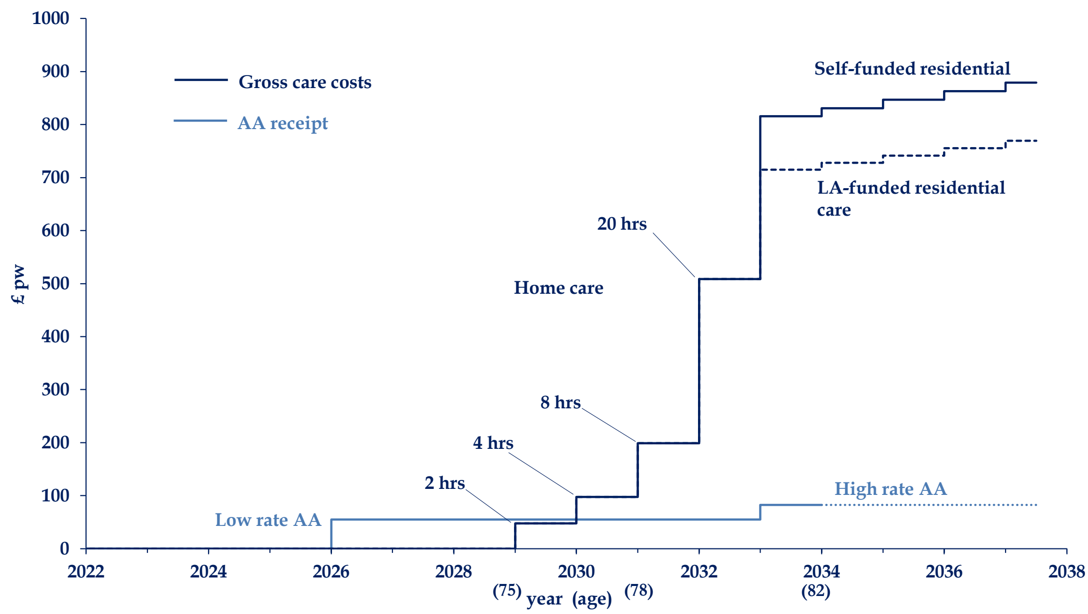
Throughout the UK, people with care needs may be eligible for one of two cash disability benefits – Attendance Allowance (AA) or Disability Living Allowance (DLA)‡. Receipt of these benefits can trigger increases in entitlements to Pension Credit. If someone receives help with care home fees from their LA, payments of AA, the middle or higher rate of the care component of DLA and the associated increase in Pension Credit cease. Thus in Scotland, anyone receiving free personal care in a care home, ceases to receive these disability benefits. Similarly under the English reforms due from 2020, someone paying the full cost of their care will cease to receive disability benefits on reaching the cap.

† Pension Credit is a means-tested cash benefit for older people which aims to ensure their income does not fall below a minimum (Guarantee Credit) level. The level used in the home care means tests excludes any additions above the standard level, such as those for severe disability.
‡ DLA is in the process of being replaced by Personal Independence Payment

Vignette analysis

All vignettes reach State Pension age (SPa) in April 2016 which is 63 for women and 65 for men. Their State Pension entitlements are calculated under the reformed State Pension system which has been implemented for people reaching SPa from 2016 (see Adams et al. 2015). The vignettes have been chosen for illustrative purposes rather than to be representative of the cohort reaching SPa in 2016. Our analysis is limited to single people but also provides a guide to the situation for couples once one partner has died and the surviving partner requires care. The vignettes distinguish men and women and vary in their level of past earnings and private pension accumulation (which vary by gender). They also vary in the financial and housing wealth. Median and high earning vignettes are homeowners, whereas low earners are renters. The vignettes' combination of earnings level, financial and housing wealth, pension accumulation and housing tenure are informed by analysis of the English Longitudinal Study of Ageing. The vignettes all experience the same disability and care trajectories (Figure 1) involving a residential care home stay (without nursing care) of 4½ years. This is above the median observed in practice, but is used for illustrative purposes. If eligible for state help with residential care costs, the care home fee is taken to be the LA rate (lower than the fee they would pay as self-funders) but payment of AA ceases. The vignettes are described in more detail in the Table A3 in the Appendix.

Figure 1: The projected pathway of gross care costs and Attendance Allowance (AA) assumed within the vignettes



To model the implications for each vignette of replacing the English care charging system with that operating in Wales, we replace the English capital limits, personal expenses allowance and home care charging buffer with their Welsh equivalents. The Welsh maximum weekly charge for home care (currently £60 per week) is then applied. In implementing a Scotland-style version of free personal care in England we assume that all care received at home is personal care and therefore is free. To determine the non means-tested state contribution to care home fees under free personal care, hotel costs are set to the 2015 equivalent of the level of hotel costs that are assumed to apply in 2020[3] when the English reforms are implemented[4]. The non means-tested contribution to care home fees is then derived as the difference between the LA fee rate for a non-nursing care place in a residential care home and this level of hotel costs. This results in a non means-tested contribution to care home fees of about £301 a week in 2015 and is used as a base case for implementing free personal care in England. However, it represents some 58% of the LA fee rate which is considerably more than the equivalent proportion (34%) in Scotland. An alternative non means-tested contribution is derived as 34% of the English LA fee rate. This less generous version of free personal care is used to test the sensitivity of the results to the level of non means-tested contribution to care home fees.

The analysis that follows examines the cumulative state contribution to care costs over the remaining lifetimes of the vignettes under the current English funding system, the reformed English funding system, the Welsh and Scottish systems. It also compares lifetime capital depletion under each system, since concerns that older people may have to use up large portions of their savings to pay for care underlies the English funding reforms. All money values are expressed in 2015 prices. Assumptions on future growth in the Consumer Price Index, GDP deflator and the 'triple lock' for uprating State Pension levels have been taken from the latest Office for Budget Responsibility projections (OBR, 2015 and 2016). The Welsh maximum charge and the non means-tested contribution to care costs in care homes under free personal care are assumed to rise over time in line with growth in care costs. Other assumptions are as set out in Adams et al. (2015) and include real growth in the unit costs of care and in house values.

[3] The equivalent of £12,000 a year (£230.77 per week) in 2016 prices, as originally planned for implementation in 2016 prior to postponement of the reforms to 2020.
[4] Care home fees in England are considerably higher than in Scotland so it would not be appropriate simply to use the Scottish level of this contribution, currently £171 per week.

The financial implications for older people of implementing the Scottish or Welsh long-term care funding systems in England

There would be few consequences for the low earning vignettes (vignettes 1 and 2) of implementing the more generous Welsh or Scottish long-term funding systems. Indeed as we showed in our overview report, these vignettes are also largely unaffected by the introduction of the cap on long-term care costs planned for 2020. Because of their low levels of income and wealth, they are entitled to have all or most of their care costs met from public funding under the current English system. The remainder of this note therefore focuses on the higher earning/higher wealth vignettes.

State contribution to care costs

For all median and high earning vignettes, the base case implementation of free personal care results in the highest lifetime levels of state contribution to care costs while the current English system provides the lowest levels (Figures 2 to 4). The second highest level of lifetime state contribution to care costs is generally the reformed English system with its cap on lifetime costs. An exception is the high earning male homeowner for whom state contributions towards care costs are virtually identical under the Welsh system and the reformed English system by the end of the assumed care trajectory (Figure 4). This is because high earners are liable for most of their home care costs under the English reforms but have them limited to £60 per week under the Welsh system. Indeed for the median earning male homeowner, state support for care costs is higher under the Welsh than under the reformed English system at earlier points on the care trajectory although by the end of the care trajectory the reformed English system delivers higher lifetime state contributions (Figure 2). This highlights the importance of the duration of care needs. For those who do not have care needs for long enough to benefit from the cap on care costs, the Welsh maximum weekly charge on home care is more beneficial.

Figure 2: For the median earning male homeowner, free personal care provides the highest level of lifetime state contribution to care costs, while the Welsh system provides a higher contribution than the current English system.

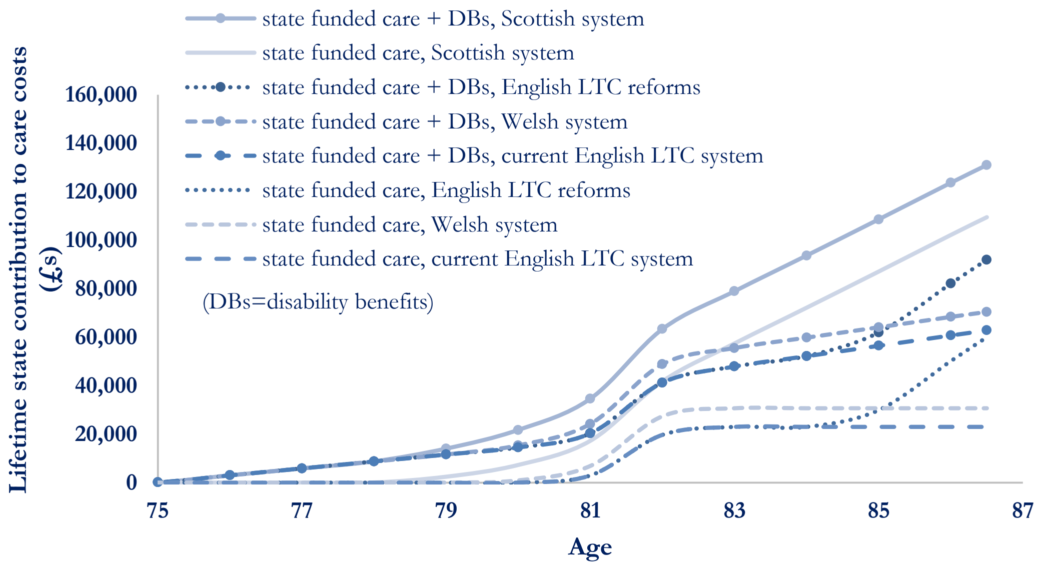


Figure 3: Free personal care also provides the highest level of state contribution to care costs for the median earning female homeowner but the Welsh and current English systems provide almost identical levels.

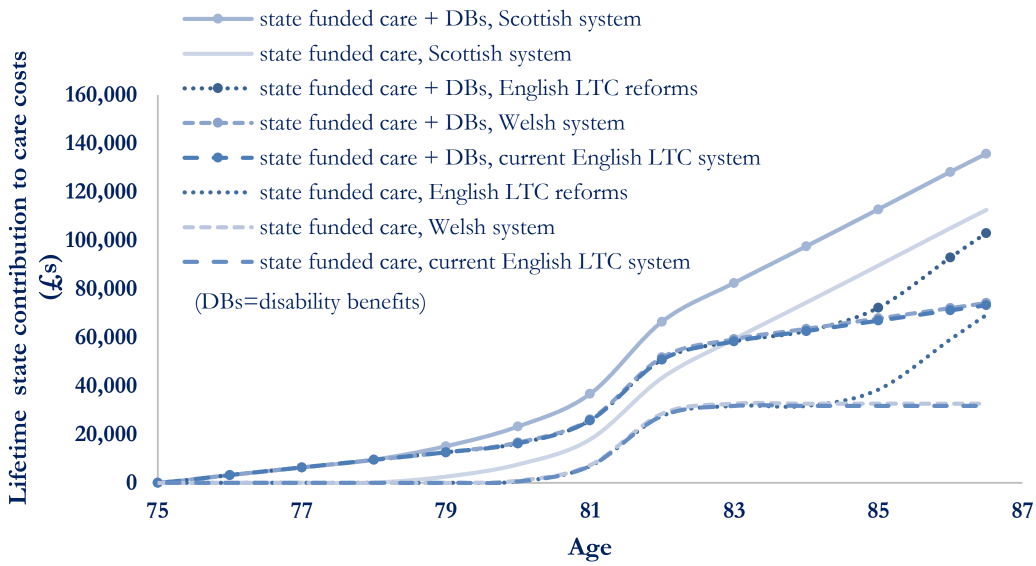
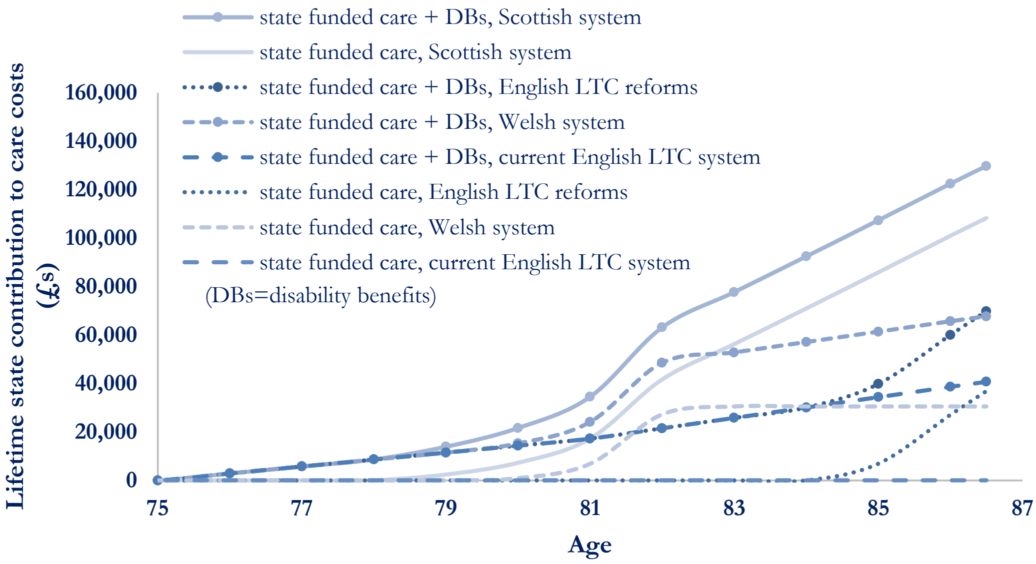


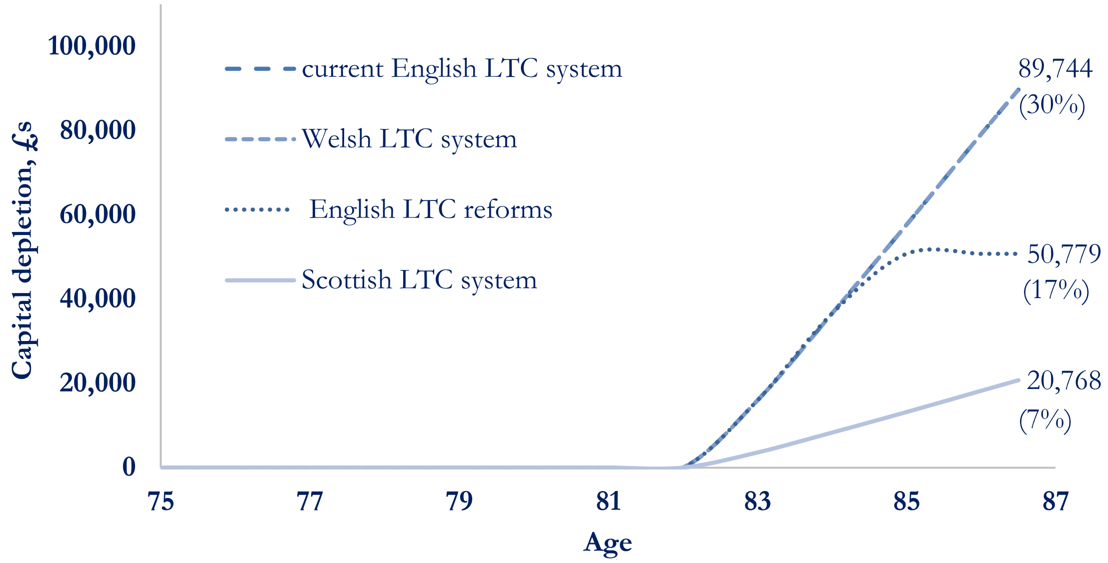
Figure 4: For the high earning male homeowner, the Welsh system and the reformed English system provide similar levels of state support for care costs by the end of the care trajectories, but the Welsh system provides higher levels earlier on.



Capital depletion

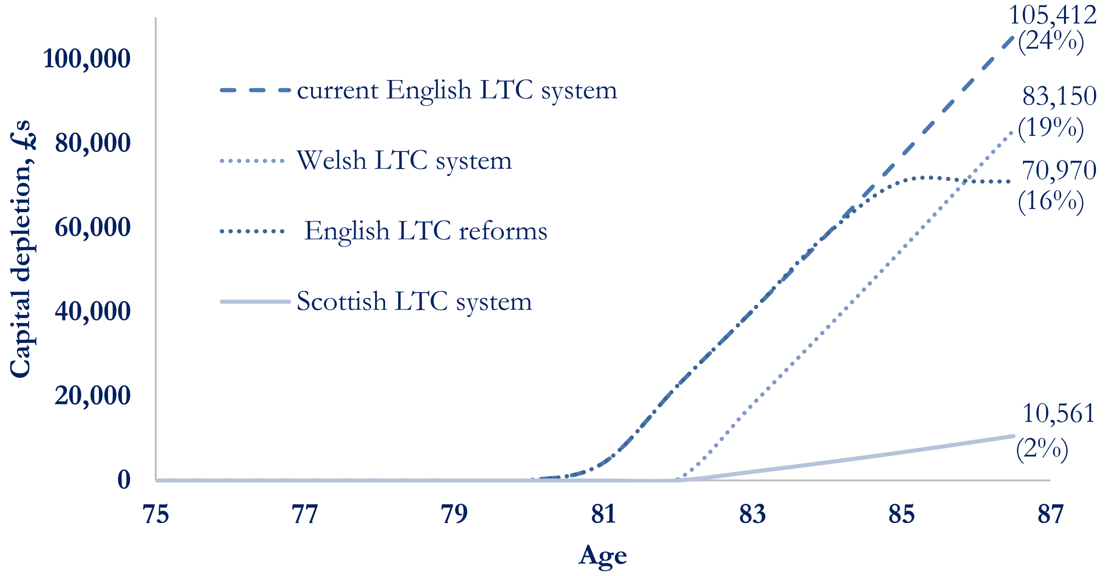
Under the current English care funding system, older people with capital above the upper limit have to draw on that capital to meet care costs if their incomes are too low to cover care costs in full. The situation for the median earning female homeowner, who has a home worth £300,000 and other assets of £8,000 is illustrated in Figure 5. Under the current English system, and also the Welsh system, she has to use nearly £90,000 (30%) of her capital to pay for her care. The English reforms will reduce this to just over £50,000 (17%). If free personal care was implemented in England, she would use up only £21,000 (7%) of her capital towards the hotel component of her care home fees.

Figure 5: Capital depletion for the median earning female homeowner would be lowest under free personal care but would be the same under the Welsh system as the current English system.



The higher earning female homeowner, illustrated in Figure 6, (whose house is worth £400,000 and has £40,000 in savings) spends more of her capital on care than her median earning counterpart although the amounts represent lower proportions of her total wealth. The exception is free personal care where she uses up only half as much capital as the median earning female. This is because it is only hotel costs that have to be met, and she is able to pay for more of them from her income than the median earning female. For the high earning female the Welsh system results in lower capital depletion than the current English system. This is because she has savings (other than in the form of housing wealth) above the upper limit. Under the English system she is therefore liable for all her home care costs, whereas under the Welsh system she has to pay a maximum of around £60 per week.

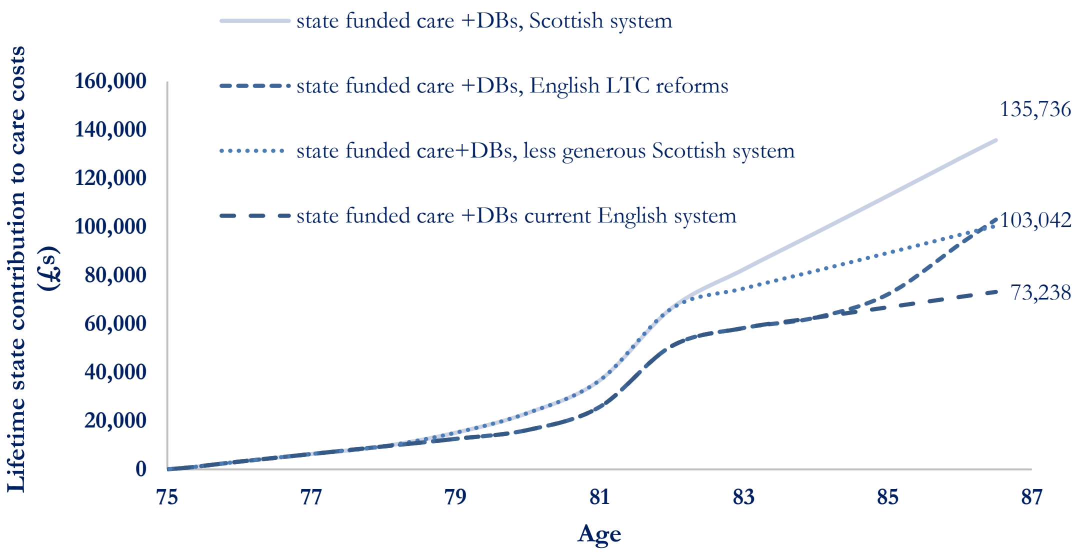
Figure 6: The high earning female homeowner depletes more of her capital than her median earning counterpart except under free personal care where she has to use only half as much.



Alternative implementation of a Scotland-style policy of free personal care

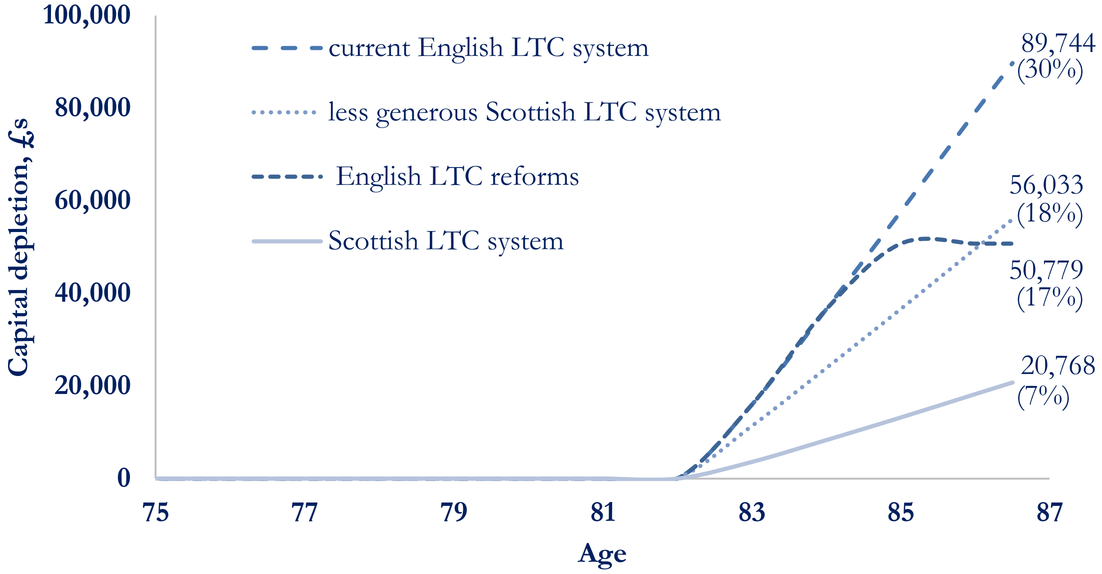
The consequences of implementing a Scotland-style policy of free personal care depend on the level of non means-tested contribution to care home fees which would apply. The lower the level of that contribution, the higher the means-tested component of care home fees. Consider the median earning female homeowner (Figure 7). In the base case implementation of free personal care, the total lifetime state contribution to care costs is around £136,000 but under the alternative less generous implementation, it is only around £103,000 and is close to that provided by the reformed English system. For shorter care trajectories, however, even this less generous version of free personal care is more generous than the reformed English system.

Figure 7: For median earning female homeowner, the less generous version of free personal care results in a similar lifetime state contribution to care costs as the English reforms.



The alternative implementation of free personal care also has implications for the extent to which the capital has to be drawn down to pay for care. Whereas under the more generous implementation the median earning female would need to deplete her capital by only around £20,000, under the less generous implementation she would use up more than twice this amount (£56,000) and indeed that amount would be a little higher than under the reformed English system (Figure 8).

Figure 8: The less generous version of free personal care more than doubles capital depletion compared with the more generous version for the median earning female



For higher earners, even the less generous free personal care system provides more state support for care costs and leads to lower capital depletion than the English reforms. This is illustrated for the high earning male homeowner in Figure 9.
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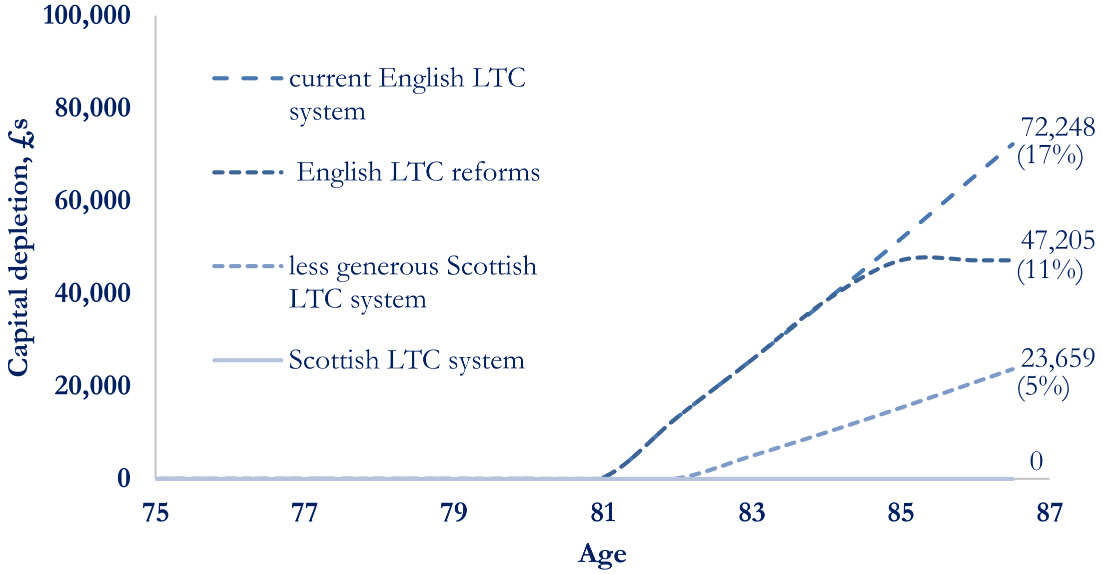
Figure 9: Even the less generous free personal care system depletes capital considerably less than the English reforms for the high earning male homeowner.



Conclusion

Compared with the current English care funding system, the reforms due to be implemented in 2020, the Welsh system and the Scottish system are all more generous. The benefits of implementing these systems in England would go to people who are not eligible for state support with their care costs – or eligible for support with only part of those costs – under the current English system. The benefits of a Scottish style free personal care system depend on the level of non means-tested contribution to care home fees that would be adopted. Under the lower of the two levels examined in this note, the lifetime benefits of free personal care would not be any higher than the benefits of the planned English reforms which cap lifetime costs for the median earning female. However, they would exceed the benefits of the English reforms for higher earners.

Box 2 provides a summary comparison of the different funding systems. The comparisons are dependent on length of time for which individuals need care – especially high intensity home care or residential care. The Welsh maximum weekly charge for home care can be more beneficial than the English reforms for people who need only home care. The English reforms introducing a cap on care costs produce benefits on a par with a Scottish-style system of free personal care only for people who need costly care long enough to benefit from the cap.

Box 2: Overall comparison of the funding systems

Where older people have savings substantially above the upper capital limit and/or high earnings the most advantageous system is:

Personal care at home:	**Scotland** where such care is free
Other care at home *(e.g. domestic help)*:	**Wales** where there is a maximum weekly charge
Residential care for person with short expected length of stay:	**Scotland** where there is a non means-tested contribution
Residential care for person with long expected length of stay:	**Reformed England** system under which the person will potentially benefit from the cap

For older people with savings below the upper capital limit and modest incomes the same broad conclusions hold for home care. The means tests in all countries result in such people contributing only towards the 'hotel' costs in residential care. So there is little difference in practice in what they would pay for residential care under each system.

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Appendix

Table A 1: Charging rules for publicly-funded residential care for older people in England, Wales and Scotland, 2015/16

	England, currently	England from 2020 (assumed money values expressed in 2015 prices)	Wales	Scotland
Non means-tested state contribution ("free personal care")	None	Once cap has been reached, difference between LA fee rate (less NHS nursing care contribution if relevant) and hotel costs (£318 per week. in 2020, expressed in 2015 prices).	None	£171 per week
Treatment of the value of the person's home, after the first 12 weeks in a care home.	Taken into account unless occupied by partner or certain others	Taken into account (unless occupied by partner or certain others) until cap reached and thereafter for 'hotel' costs	Taken into account unless occupied by partner or certain others	Taken into account unless occupied by partner or certain others
Lifetime cap on care costs	None	£75,420[a] in 2020, expressed in 2015 prices	None	None
Hotel cost element	None	£ 263.50[b] per week in 2020 expressed in 2015 prices	None	Difference between fee, free personal care contribution and NHS nursing care contribution (if relevant).
Upper capital limit	£23,250	£ 118,000[b] in 2020 expressed in 2015 prices (for renters and homeowners where house value taken into account), £23,250 in other cases	£24,000	£26,250
Lower capital limit	£14,250	£14,250	£24,000	£16,250
Tariff on capital	£1 per week per £250 capital between lower and upper limits		None	£1 per week per £250 capital between lower and upper limits
Personal expenses allowance	£24.90 per week	£24.90 per week	£25.50 per week	£25.05 per week
NHS nursing care contribution in a care home	£112 per week	£112 per week	£140.90 per week	£78 per week

a. Based in previously planned rate for 2016, converted to 2015 prices and then increased by assumed real earnings growth.
b. Based on previously planned rate for 2016, converted to 2015 prices and then held constant in 2015 prices.

Table A 2: Charging rules for publicly-funded social care provided to older people living in their own homes in England, Scotland and Wales, 2015/16.

	England, currently	England from 2020 (assumed money values expressed in 2015 prices)	Wales	Scotland
Free personal care	No		No	Yes: all assessed needs for personal care free for older in their own homes
Life time cap on care costs	None	£75,420 in 2020, expressed in 2015 prices	None	None
Maximum charge	At the discretion of LAs, but assumed no maximum		£60 per week	At the discretion of LAs[c]
Upper capital limit	At discretion of local authorities; must be at least as generous as charging for residential care i.e.£23,250		At discretion of local authorities; must be at least as generous as charging for residential care i.e. £24,000	None [c]
Lower capital limit	At discretion of local authorities; must be at least as generous as charging for residential care i.e. £14,250		£24,000. i.e. If capital is this amount or less it is disregarded and charge is based on income only (£60 maximum weekly charge)	£10,000 recommended [c]
Assumed income on capital between lower and upper limit	£1 per week per £250 capital		None	£1 per week per £500 capital recommended [c]
Exempt disposable income (after meeting net housing costs)	1.25 × Pension Credit Guarantee level [a]		1.45[b] × Pension Credit Guarantee level	1.165[d] × Pension Credit Guarantee level [c]
Treatment of disability benefits in assessable income	A disability related expenses element must be disregarded. Discretionary power to disregard disability benefits.			A disability related expenses element should be disregarded. Discretionary power to disregard disability benefits [c].

a. £151.20 per week for a single person in April 2016

b. Includes 10% above Pension Credit Guarantee level as a minimum allowance for disability related expenditure.

c. Relevant only to domestic care since personal care at home is free of charge.

d. Increased to 1.25 from 2016.

Table A 3: Vignette descriptions

Vignette	Description
Single male, low earner	Career: Retired aged 55 (early retirement due to ill health) Earning distribution: Low earner (30th Percentile) Home: · Renter (£141 pw in 2016 prices, converted wo 2015 prices) · Income linked council tax liability from ELSA Other financial wealth – Income linked from ELSA (£1,000 in 2016 prices)
Single female, low earner	Career: Career break aged 30 to 41, retirement aged 63 Earning distribution: Low earner (30th Percentile) Home: · Renter (£141 pw in 2016 prices, converted to 2015 prices) · Income linked council tax liability from ELSA Other financial wealth – Income linked from ELSA (£1,000 in 2016 prices)
Single male, median earner	Career: Retirement aged 65 Earning distribution: Median Home: · Home owner (£300,000 in 2016 prices) · Income linked council tax liability from ELSA · Income linked house price Other financial wealth – Income linked from ELSA (£8,000 in 2016 prices)
Single female, median earner	Career: Retirement aged 63 Earning distribution: Median Home: · Home owner (£300,000 in 2016 prices) · Income linked council tax liability from ELSA · Income linked house price Other financial wealth – Income linked from ELSA (£8,000 in 2016 prices)
Single male, high earner	Career: Retirement aged 65 Earning distribution: High Earner (70th Percentile) Home: · Home owner (£400,000 in 2016 prices) · Income linked council tax liability from ELSA · Income linked house price Other financial wealth – Income linked from ELSA (£40,000 in 2016 prices)
Single female, high earner	Career: Retirement aged 63 Earning distribution: High Earner (70th Percentile) Home: · Home owner (£400,000 in 2016 prices) · Income linked council tax liability from ELSA · Income linked house price Other financial wealth – Income linked from ELSA (£40,000 in 2016 prices)

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