Care and State Pension Reform

Interactions between state pension and long-term care reforms: a summary of further findings

December 2018

Interactions between state pensions and long-term care funding reforms: a summary of further findings

A Research Report by John Adams[1], Chris Curry[1], Ferran Espuny Pujol[2], Ruth Hancock[2], Bo Hu[3], Derek King[3], Sarah Luheshi[1], Marcello Morciano[4], Timothy Pike[1], Raphael Wittenberg[3]

ISBN 978-1-906284-78-7

http://www.pensionspolicyinstitute.org.uk/casper

Funding was gratefully received from the Nuffield Foundation for the study on which this report is based. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project, but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at www.nuffieldfoundation.org

Nuffield Foundation

[1] Pensions Policy Institute
[2] Health Economics Group, University of East Anglia
[3] Personal Social Services Research Unit, London School of Economics and Political Science
[4] Until 31st August 2018: Health Economics Group, University of East Anglia; from 1st Sep 2018: Health Organisation, Policy and Economics research group, University of Manchester.

Executive Summary

In April 2016, major reforms to state pensions were implemented in Great Britain. Reforms to the English long-term care financing system were also to be introduced in 2016 but were postponed until 2020. In December 2016 we published a report summarising the findings from a research project which aimed to promote informed debate on how the reforms could evolve, highlighting the interactions between the two systems[5]. Here we report the main findings from supplementary analyses undertaken in recognition of continuing uncertainty over the direction of reforms to the long-term care funding system in England[6]. Our main findings are summarised below.

Projected future cost of the current state pension and long-term care systems

- The state pension system currently costs about 4.6% of Gross Domestic Product (GDP). The projected rise in people over State Pension age (SPa), even allowing for increases in the state pension age, means this percentage is expected to rise to 5.4% of GDP by 2035 and 6% by 2060, if the policy of triple lock uprating (the highest of earnings, prices and 2.5%) is continued indefinitely;
- If linked to earnings rather than the triple lock, there would be a saving of 0.2% of GDP by 2035 and 0.7% of GDP by 2060.
- A double lock (the higher of prices and earnings without the 2.5% minimum uprating) would save 0.3% of GDP by 2060.
- With no change in the long-term care funding system or in needs-based eligibility for publicly-funded care, the public cost of long-term care for older people is projected to increase from £8.7 billion in 2020 (0.5% of GDP) to £15.8 billion (0.7% of GDP) in 2035, all in 2015 prices.

Expanding eligibility for publicly-funded home care

- If publicly-funded community-based care is extended to all older people with a high level of need (with no change in the means test), the extra cost in 2015 prices to local authorities is projected to be £2.05 billion in 2020 and £3.6 billion in 2035 on top of the £8.7 billion and £15.8 billion respectively that we project without an expansion of eligibility. The number of extra users of community-based care is projected to be 515,000 in 2020 and 705,000 in 2035, in addition to the projected 260,000 publicly funded users in 2020 and 425,000 in 2035 if there was no change in eligibility criteria. The total number with the expansion of eligibility would therefore reach a projected 775,000 in 2020 and 1,125,000 in 2035.
- If publicly-funded community-based care is extended to those with moderate needs the extra cost in 2015 prices to local authorities would be an estimated £2.8 billion in 2020, and is projected to rise to £5.6 billion in 2035. The number of extra users of community-based care is projected to be 620,000 in 2020 and 930,000 in 2035, in addition to the projected 390,000 publicly funded users in 2020 and 575,000 in 2035 if there was no change in eligibility criteria. The total number with the expansion of eligibility would therefore reach a projected 880,000 in 2020 and 1,350,000 in 2035.

---

[5] Hancock R., Wittenberg R., Curry C., et al. (2016) *Care and State Pension Reform - Interactions between state and pension long-term care reforms: a summary of findings.* London: Pensions Policy Institute.

[6] Our analysis of the long-term care system is confined to older people. We do not consider here the system for younger people.

Some revenue raising options to fund extra public spending on long-term care for older people

- Based on data for 2014-15, raising income tax rates by 1p in the £ for those aged over SPa could raise an additional £950 million of revenue. Reducing income tax allowances for people over SPa by £100 could raise around £145 million.
- Levying employee National Insurance (NI) contributions on the earnings of people over SPa could raise £1.4 billion from a base of around 1 million individuals.

How liability for care charges is affected by annual state pension uprating

- The residual income (after care costs have been met) of an example older woman receiving a modest level of home care is projected to generally fall over time relative to average earnings. There is only a one in ten chance that her residual income will rise as fast as average earnings (and by assumption by as much as the cost of her care) over a ten year period. This is mainly because other sources of income rise by less than earnings and the means test income threshold is linked to prices.

Capping individuals' lifetime liabilities for their care costs or introducing free personal care (see box below for scenario details)

- We examined a lifetime cap on care costs (but not daily living costs in care homes) set at £72,000 and one set at half that level. We project that in 2035 a lifetime cap of £72,000 (£36,000) on individuals' liabilities to meet their eligible care costs will lead to an increase of £2.0 billion (£3.8 billion) in the public cost of long-term care for older people, expressed in 2015 prices.
- An 'all inclusive' lifetime cap of £100,000 on daily living costs as well as care costs is projected to add £5.8 billion to the public cost of long-term care for older people by 2035. This is the same amount as we project for free personal care (excluding daily living costs) in which every older person with eligible care needs has the cost of those needs met by the state.
- Our analysis suggests that an all-inclusive cap would need to be set at over £140,000 for the costs to be close to a non-inclusive cap at £72,000.
- Average weekly gains from the lifetime cap and free personal care long-term care reform scenarios are largest for those on higher incomes. However, an all-inclusive lifetime cap benefits care home residents on lower incomes much more than the other scenarios. This is because once the cap has been reached, these scenarios cover 'daily living costs' as well as care costs.
- For home care users, free personal care is the scenario which brings the greatest gains for all income groups. Gains from all these scenarios increase with income.

Thus the two most costly of these scenarios are free personal care and an all-inclusive lifetime cap on care costs combined with an increase in the residential care upper capital limit. Their costs are similar to the cost of extending eligibility for publicly-funded care to those with moderate needs, subject to the current means test.

A lifetime cap on care costs (but not daily living costs) of £36,000, which is close to the level proposed by the Dilnot commission, is projected to cost a similar amount to extending publicly-funded care, subject to the means test, to all older people with high care needs.

A lifetime cap at the level most recently planned by the government (£72,000) combined with an increase in the residential care upper capital limit to £118,000 is projected to be the least costly of these scenarios.

Although we have not made future projections of revenue raising options, the revenue required to fund the additional costs of the highest cost scenarios in 2020 is 60-80% of what might be raised from an additional 1p on the basic rate of tax for all taxpayers. It would be considerably more than is likely to be raised from additional income tax for older people or NI contributions on the earnings of people aged 65+.

Implementing a single capital threshold and including housing wealth in the home care means test with/without a lifetime cap on care costs (see box below for scenario details)

- Implementation of a single capital threshold of £100,000 is projected to lead to an increase of £1.3 billion in the public cost of long-term care for older people in 2035. (Under a single capital threshold the capital and any income from it would be completely ignored in the means test for people whose capital falls below the threshold; people with capital above the threshold would get no state help with their care costs).
- If this were combined with the inclusion of housing wealth in the home care means test, there would be a £0.7 billion saving of public cost in 2035.
- An alternative version which brings half of the housing wealth of couples into the means test for residential as well as home care, but applies a lifetime cap on care costs of £72,000 would be roughly cost neutral by 2035.
- A single capital threshold of £100,000 is projected to benefit older care home residents by an average of £27 a week in 2030, compared with less than half of that (£12) for home care users.
- Home-owning home care users are projected to be £95 per week worse off if housing wealth is included in the home care means test, even with a single capital threshold of £100,000. Applying a lifetime cap of £72,000 reduces this loss to £60 per week.
- Amongst older home care users, gains from a single capital threshold of £100,000 are least for the middle income group, being higher for lower and higher income groups. Losses from including housing wealth in the means test are greatest in the middle income group who lose over £100 a week where there is no lifetime cap on care costs – or £72 a week there is a lifetime cap.
- Care home residents generally gain from the scenarios which include housing wealth in the home care means test since they gain from a single capital threshold at £100,000 and from a lifetime cap on care costs where applied. There is relatively little variation in the effects on weekly income across income groups.

Our analysis makes no allowance for potential changes in behaviour that could result from the reform scenarios or revenue raising options that we have examined. Such change could include: changes in how much people choose to work/earn if they perceive that increases in income tax or NI contributions change the financial return to work; how much people choose to save to meet the costs of their care; and choices between residential and home care.

England has a complex long-term care funding system with interactions with the state pension system. Reform of the long-term care system has been debated for a quarter of a century. We hope the findings contained in this report will be valuable to debate ahead of the Government's Green Paper on social care and to subsequent responses to the proposals it will contain.

<u>Key features of the current long-term care means test and reform scenarios</u>

Current system

Capital test:
A person with capital above the **upper capital limit (£23,250)** is not eligible for any financial help from their Local Authority (LA). Capital below a **lower capital limit (£14,250)** is completely ignored; capital between the lower upper limits is treated as generating a notional income which is counted in the income test (see below). Housing wealth is not included in assessable capital for home care but is for residential care unless a qualifying relative (such as a spouse) continues to live in the property.

Income test:
For residential care, all income except a small **Personal Expenses Allowance (£24.90 pw)** must be used towards the cost of a care home's fees. The LA meets any shortfall between this income and the care home's fee.

For home care, all disposable income above a threshold (£189 pw) must be used towards the cost of home care, with any shortfall met by the LA. Disposable income excludes certain costs such as housing costs and disability related costs.

Lifetime ('non-inclusive') caps (based on provisions in the Care Act 2014 and the recommendations of the Commission on Care and Support).

Two levels (£72,000 and £36,000) of lifetime caps on eligible care costs are examined. LA help with care costs would remain means tested before the cap is reached, as it would for 'daily living costs' of £12,000 p.a. in residential care both before and after the cap has been reached. The upper capital limit in residential care would rise to £118,000.

Lifetime all-inclusive caps (based on Independent Age and Institute and Faculty of Actuaries recommendations)

A lifetime cap of £100,000 is applied to daily living costs in residential care as well as to care costs, with and without an increase to £118,000 in the residential upper capital limit in the means test until the cap is reached.

Free Personal Care (based on various suggestions for social care to be free at the point of need as is health care)

Eligible care costs are state-funded without a means test. Residential care daily living costs of £12,000 continue to be means tested using the current means test.

Including housing wealth in the means test for home care and implementing a single capital threshold (similar to proposals Conservative Party 2017 election manifesto)

The existing lower and upper capital thresholds are replaced by a single threshold of £100,000 applied in both residential and home care. Capital below this threshold is completely ignored in the means test. A person with capital above this threshold does not qualify for any LA help with their care costs. Housing wealth would be included in the capital test for home care. In the case of couples where one partner receives home care, half of their housing wealth would be taken into account. In a variant on this scenario, half of a couple's housing wealth is included in the means test for residential care where one partner enters residential care (it is currently ignored) but there would be a lifetime cap of £72,000 on eligible care costs.

1. Introduction

Understanding the interactions between state pension and long-term care reforms is a research project funded by the Nuffield Foundation.

In April 2016, major reforms to state pensions were implemented in Great Britain. Reforms to the English long-term care financing system were also to be introduced in 2016 but were postponed until 2020. In December 2016 we published a report summarising the findings from a research project which aimed to promote informed debate on how the reforms could evolve, highlighting the interactions between the two systems[7]. Here we report the main findings from supplementary analyses undertaken in recognition of continuing uncertainty over the direction of reforms to the long-term care funding system in England. We hope these analyses will be valuable to debate ahead of the Government's Green Paper on social care which, at the time of writing, is expected this autumn; and to subsequent responses to the proposals it will contain.

This report sets out key findings from already-published analyses of:

- potential expansion of eligibility, subject to the current means test, for LA-funded home care for older people[8];
- some revenue raising options to fund extra public spending on long-term care for older people[9]
- the likelihood of different 'triple lock' outcomes and their effects on state pension uprating and hence on how much an older person may be required to pay towards their home care[10].

In addition, we report new analyses of some options for reforming long-term care funding for older people that have been suggested, including:

- a lifetime cap on care costs similar to that previously planned for implementation in 2020 and embodied in the 2014 Care Act;
- an 'all-inclusive' cap (covering 'daily living' or 'hotel' costs in care homes in addition to care costs) as recommended by Independent Age and the Institute and Faculty of Actuaries[11];
- the inclusion of housing wealth in the home care means test, together with a single capital limit of £100,000 to replace the existing upper (£23,250) and lower (£14,250) limits which determine entitlement to state help with care costs, as proposed in the Conservative Party's election manifesto in 2017[12];
- 'free' personal care – we take this to be an interpretation of 'social care that is free at the point of use' favoured as a long-term aspiration in a recent report by the

---

[7] Hancock R., Wittenberg R., Curry C., et al. (2016) *Care and State Pension Reform - Interactions between state and pension long-term care reforms: a summary of findings.* London: Pensions Policy Institute.

[8] Wittenberg R., Hu B., King D. (2018) *Projecting the costs of local authority funded home care for older people: the impacts of potential expansion of the eligibility criteria.* London: Pensions Policy Institute.

[9] Pike T., Adams J., Curry C., Luheshi S. (2018) *Indicative revenue effects on pensions and pensioners.* London: Pensions Policy Institute.

[10] Adams J., Wittenberg R., Hancock R., Pike T. (2018) *Care and State Pension Reform: The interaction of inflation indices.* London: Pensions Policy Institute.

[11] Independent Age and the Institute and Faculty of Actuaries (2017) *Will the Cap Fit?* https://www.actuaries.org.uk/news-and-insights/public-affairs-and-policy/ageing-population/social-care-funding

[12] https://www.conservatives.com/manifesto

Housing, Communities and Local Government and the Health and Social Care select committees[13];

- variants on some of these.

The findings presented in this report are based on a number of pension and long-term care simulation models which have been developed by the institutions involved and used in combination for this project. The models are described in a technical report which accompanied our 2016 report[14]. Additionally we have exploited PPI's Economic Scenario Generator[15].

[13] House of Commons Health and Social Care and Housing. Communities and Local Government Committees (2018) *Long-term funding of adult social care* HC 768, page 3. https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/768/76802.htm

[14] Adams J., Curry C., Espuny-Pujol F. et al. (2016) *State Pension and Long-Term Care Funding Reforms: the costs and distributional effects of alternative uprating policies: Technical Report.* London: Pensions Policy Institute.

[15] Redwood D., Carrera L., Armstrong J. and Pennanen T. (2013). *What level of pension contribution is needed to obtain an adequate retirement income?* London: Pensions Policy Institute (see technical annexe).

2. Overview of the current state pension and long-term care funding systems

a. The state pension

For people reaching SPa from April 2016, a new State Pension (nSP) has replaced the basic State Pension (bSP) and the State Second Pension (S2P) and its predecessor, the State Earnings Related Pension Scheme (SERPS). The full level of the nSP has been set just above the minimum guaranteed income for pensioners – known as the Guarantee Credit within the means-tested benefit Pension Credit. Some people retiring from April 2016 will get more than the full level of the nSP – if their accumulated state pension entitlements, at the time the nSP was introduced, are higher than if the nSP had been in place. People will get less than the full level if they have not made – or been credited with – sufficient National Insurance Contributions. The changes do not apply to people who reached SPa before April 2016.

Legislation requires government to uprate annually the nSP, and the bSP for those reaching SPa before April 2016, by at least the increase in average earnings. The present Government has given a commitment to uprate them by the 'triple lock' – the highest of the annual increase in average earnings, prices or 2.5%. S2P/SERPS and any excess over the full level of nSP are linked to prices.

Even if they receive a full nSP, pensioners may be entitled to Pension Credit and means-tested help with their rent and/or council tax.

b. The long-term care system for older people

Currently when people need long-term care in England, their Local Authority (LA) applies a means test to establish how much they must pay towards the cost of that care. Those with capital above an upper threshold, currently £23,250, have to meet all of their care costs and where care is provided in a care home, the value of a person's home is usually included in their capital. If their capital is below this threshold they have to contribute to the cost of their care from their income, with any capital above a lower threshold, currently £14,250, assumed to generate income which is added to their assessable income. Care home residents who have to contribute to the care home costs from their income must be left with a weekly personal expenses allowance (currently £24.90) while those contributing to care at home must be left with a minimum weekly disposable income after contributing to their care costs, currently £189. People assessed as needing nursing care in a care home are eligible for a non means tested contribution (£158.16 per week in England in 2018/19) from the NHS to their care home fees.

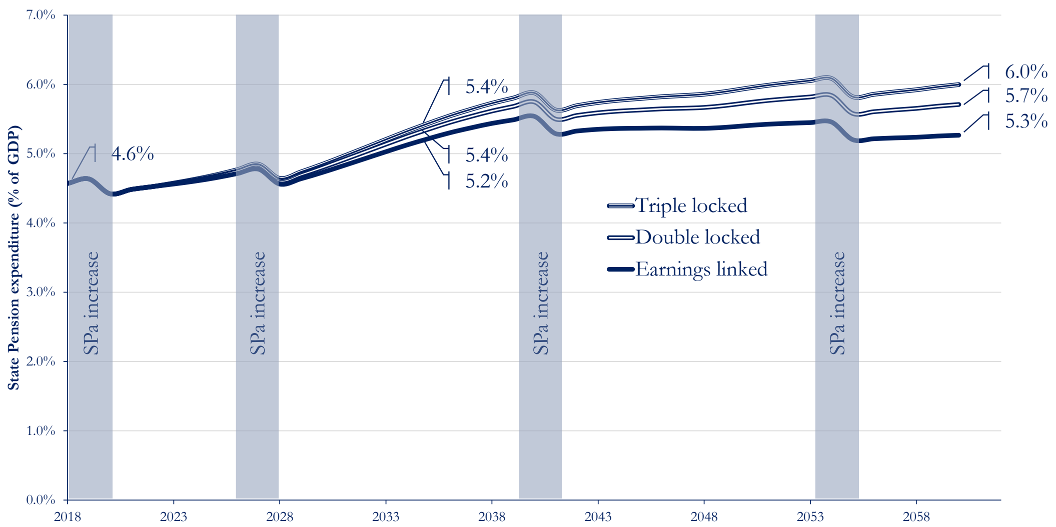
The 2014 Care Act paved the way for reforms to long-term care funding in England. The reforms were intended to introduce a lifetime cap on individual liability for care costs. For care in a care home, only the part of care home fees attributed to care would count towards the cap. The component attributed to 'daily living costs' (sometimes referred to as 'hotel costs') would not count towards the cap and would continue to be means tested even after the cap was reached. To reach the cap people would need to have eligible needs for a considerable period (typically at least 3 years, depending on the cost of meeting their care needs). The reforms would also increase the upper capital threshold for people in residential care.

3. Projected future costs of the current pensions and long-term care systems

a. State pensions

The state pension system currently costs about 4.6% of gross domestic product (GDP)[16] and this proportion is set to rise over time as the number of people over State Pension age rises, although increases in state pension age cause short-term reductions in cost. The future cost of the state pension will also depend to a considerable degree on how it is uprated each year. If the triple lock is applied indefinitely, the state pension system is expected to cost 5.4% of GDP by 2035 and 6.0% by 2060 (Chart 1). If linked to earnings rather the triple lock, there would be a saving of 0.2% of GDP by 2035 and 0.7% by 2060. A double lock (the higher of prices and earnings without the 2.5% minimum uprating) would save 0.3% of GDP by 2060 (see Box 1 for economic assumptions)

Chart 1: Uprating the state pension by earnings rather than the triple lock would save 0.7% of GDP by 2060.



Note: SPa = State Pension age

b. Long-term care costs for older people

At £8.7 billion in 2020, or 0.5% of GDP, the public cost of long-term care for older people is much lower than the cost of state pensions. Its future cost is affected by various factors including: the numbers of older people, particularly those aged 85 and over; disability rates among the older population; the availability of unpaid care from family and friends; the future level of care home fees and the cost of providing care to people in their own homes.

---

16 These figures relate to the cost of the state pension. Other age-related benefits such as means-tested benefits for older people and Winter Fuel Payments amount to an additional 0.5% of GDP.

Our 'base case' (see Box 1) projection is that if the current long-term care funding system remained in place, the public cost of long-term care would rise to £15.8 billion in 2035 (at constant 2015 prices) or 0.7% of GDP (Chart 2).

Box 1: Base case projections

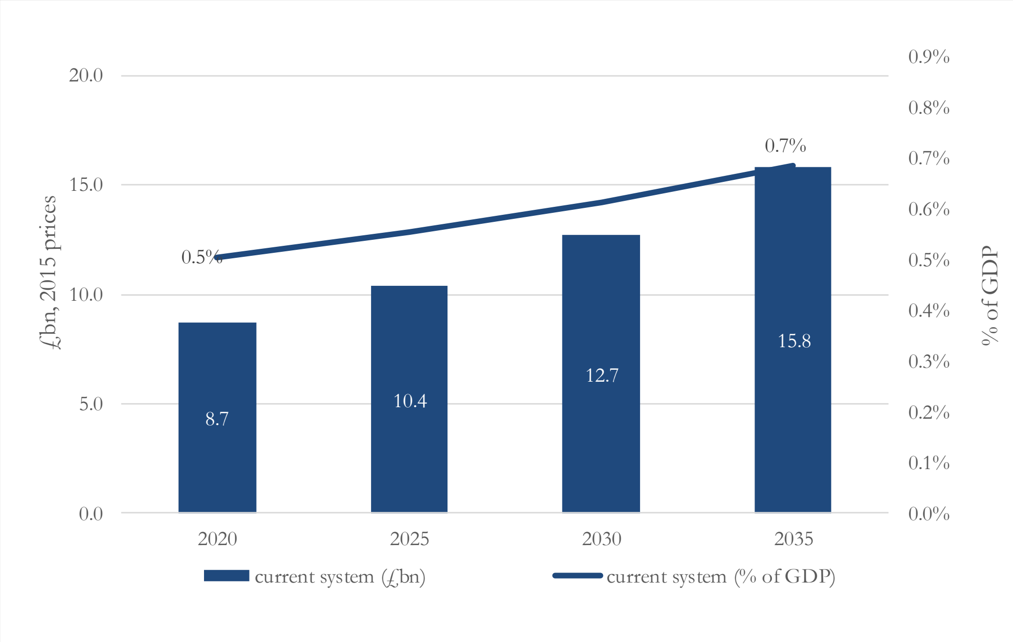
Our base case projections assume that:

- The current state pension system continues. The new State Pension for those reaching state pension age from April 2016 and basic State Pension for those who reached state pension age before that are uprated by the triple lock indefinitely.
- State Second Pension/State Earnings Related Pension for those who reached State Pension age before April 2016 is uprated by prices.
- The current long-term care funding system continues indefinitely with most components uprated by prices. Exceptions are: the NHS contribution to nursing care in nursing homes is linked to earnings; parameters that have not been changed since 2015 which are assumed to be held constant in nominal term until 2020 (e.g. capital thresholds, the personal expenses allowance in residential care, the income threshold in the home care means test). The income threshold in the home care means test is linked to earnings from 2020.
- The number of people by age and gender changes in line with the Office for National Statistics (ONS) 2016-based principal population projections.
- Marital status rates change in line with the indicative 2011-based living arrangements projections for those aged 65 and over in England[a].
- There is a constant ratio of single people living alone to single people living with their children or with others and of married people living with their partner only to married people living with their partner and others.
- Prevalence rates of disability in old age by age group (65-69, 70-74, 75-79, 80-84, 85+) and gender remain unchanged, as reported in the Health Survey for England 2011 to 2014.
- The proportions of people receiving unpaid care, formal community care services, residential care services and disability benefits remain constant for each sub-group by age, disability and other needs-related characteristics.
- Health and social care unit costs rise in real terms in line with July (long-term) and March (short-term) 2018 Office for Budget Responsibility (OBR)[b] assumptions for future trends in productivity, with an uplift for the years to 2020 to take account of the planned rises in the national living wage (except that non-labour non-capital costs remain constant in real terms).
- Real Gross Domestic Product rises in line with OBR projections (OBR 2018)[b].
- The supply of formal care will adjust to match demand and demand will be no more constrained by supply in the future than in the base year.
- The Guarantee Credit within Pension Credit and associated thresholds for means-tested help with rent and council tax are uprated by rises in average earnings. Capital thresholds in means-tested benefits are held constant in nominal terms until 2020 and then price linked.
- Disability benefits for older people are uprated by prices.

[a]. See https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/adhocs/009297adhoc2011basedmaritalstatusandlivingarrangementsprojectionsengland

[b] OBR (2018) Economic and Fiscal Outlook, March 2018 https://obr.uk/efo/economic-fiscal-outlook-march-2018/
OBR (2018) Fiscal Sustainability Report, July 2018 https://obr.uk/fsr/fiscal-sustainability-report-july-2018/

Chart 2: Public spending on long-term care for older people in England under the current funding system is projected to need to increase by over 80% in the 15 years after 2020 to keep pace with demographic change.



Note: long-term care spending includes disability benefits used to pay for care.

We project that the number of older people living in care homes will rise from 350,000 in 2020 to 528,000 in 2035, and the number of older people receiving formal care in their own homes[17] will rise from 376,000 in 2020 to 562,000 in 2035. The private cost of long-term care would rise from £10.1 billion (0.6% of GDP) in 2020 to £18.9 billion (0.8% of GDP) in 2035.

Projecting long-term care expenditure post 2035 is rather uncertain but demographic pressures are likely to continue to rise. We project that the number of older people unable to conduct at least one personal care task or Activity of Daily Living (ADL) without help will rise from 1.9 million in 2020 to 2.4 million in 2030, an increase of 26%. It will then continue to rise beyond the period covered by our expenditure projections to 3.0 million in 2040 and 3.4 million in 2050.

[17] Including recipients of direct payments.

4. Projected costs of local authority funded home care for older people: the impacts of potential expansion of the eligibility criteria with no change to the means test[18]

The number of service users funded by Local Authorities has been falling over much of the last decade due to constraints on local authority (LA) budgets. In 2015 there were 250,000 older users of LA funded community-based services or direct payments (cash for care) and 157,000 LA funded care home residents. The decline in numbers of publicly funded service users has led a range of stakeholders to call for additional resources for social care at least to prevent a further reduction in services if not an expansion of services. We have explored two scenarios on expansion of eligibility for publicly funded community-based care for older people. These are intended to be illustrative, to give an indication of the scale of resources that could be required to meet possible changes to eligibility criteria. We do not in these scenarios assume any change to the means test for community-based care.

Our first scenario involves assuring a minimum level of personal budget[19], subject to the means test, for all older people with a high level of need. More specifically we investigate a scenario under which older people with three or more limitations in Activities of Daily Living (ADLs) (such as bathing, dressing and feeding) would be eligible for 8 hours of home care per week and older people with two ADL limitations would be eligible for 3 hours of home care per week. Personal budgets sufficient to fund these levels of care would be guaranteed for all those who meet both these ADL-based eligibility criteria and the means test conditions (but whose needs were not sufficiently high to receive residential care or high intensity home care). The number of extra users of community-based care is projected to be 515,000 in 2020 and 705,000 in 2035, in addition to the projected 260,000 in 2020 and 425,000 in 2035 if there was no change in eligibility criteria. The total number of publicly funded users of community-based care with the expansion of eligibility would therefore reach a projected 775,000 in 2020 and 1,125,000 in 2035. **The net cost to LA of this scenario would be an estimated £2.05 billion in 2020 and is projected to rise to £2.4 billion in 2025 and £3.6 billion in 2035 (at constant 2015 prices).**

Our second scenario involves extending the eligibility criteria to cover those with moderate needs, again subject to the means test. A study by Fernandez et al (2013)[20] investigated the impact of expanding eligibility for LA-funded care to all older people with moderate or greater needs (as defined in Department of Health guidance[21][22], now superseded by the Care Act 2014). Their analysis showed that this would imply a total of 889,000 older service users in 2010 and 1,075,000 older users in 2020 (including community-based and residential care). The number of extra users of community-based care is projected to be larger than under our first scenario at 620,000 in 2020 and 930,000

---

[18] Full details of this analysis are given in Wittenberg R., Hu B., King D. (2018) *Projecting the costs of local authority funded home care for older people: the impacts of potential expansion of the eligibility criteria.* London: Pensions Policy Institute.

[19] A personal budget is a statement that sets out the cost to the local authority of meeting an adult's care needs (Department of Health (2014) Care and Support Statutory Guidance, p.428)

[20] Fernandez J-L, Snell T, Forder J and Wittenberg R (2013) Implications of setting eligibility criteria for adult social care service in England at moderate needs level, PSSRU discussion paper DP2851.

[21] See Department of Health (2010). Prioritising need in the context of Putting People First: A whole system approach to eligibility for social care.

[22] The categorisation in this guidance is not directly comparable with the definition of high needs used in the first scenario. However as can be seen, older people with needs at the 'moderate' or greater level constitute a larger group than those with 'high' needs as defined in the first scenario.

in 2035, in addition to the projected 390,000 in 2020 and 575,000 in 2035 if there was no change in eligibility criteria. The total number of publicly funded users of community-based care with the expansion of eligibility would therefore reach a projected 880,000 in 2020 and 1,350,000 in 2035. **The net cost to local authorities of this scenario would be an estimated £2.8 billion in 2020 and is projected to rise to £3.45 billion in 2025 and £5.6 billion in 2035 (at constant prices).**

5. Some revenue raising options to fund extra public spending on long-term care[23]

HMRC analysis projects that for the 2018-19 tax year increasing income tax rates for all taxpayers by 1p in every £ would raise £4.8 billion (HMRC 2018) for the UK. As an alternative, a reduction of income tax personal allowances for all taxpayers by £100 would raise £580 million.[24]

If the purpose of the revenue to be raised is to fund higher public expenditure for older people (at least those who need care), and given concerns over intergenerational fairness, it may be of interest to consider how much revenue could be raised from measures aimed at raising revenue solely from older people. We have examined illustrative measures which modify income tax or National Insurance contributions (NI) for people over SPa.

The analysis is based upon 2014-15 income data[25]; we have not attempted to adjust the analysis to current prices or make projections for the future. The analysis is intended to provide an order of magnitude of impact only.

In the 2014-15 tax year, 22% of UK taxpayers were aged over SPa, accounting for 17% of income tax liability. The 22% correspond to 6.8m individuals over SPa (approximately two thirds of those over SPa) and they had a combined income tax liability of approximately £22 billion. Around 83% of this £22 billion tax liability is paid by those in the top 20% of people by income aged over SPa. Around half of the £22 billion income tax liability is paid by those with a higher or additional marginal rate of income tax.

Raising income tax rates by 1p in the £ for those aged over SPa could raise an additional £950m revenue upon their existing £94.5 billion of taxable income. This would affect all of the 6.8m individuals already paying income tax. **Restricting the change to higher and additional tax rates would result in additional income to the Treasury of £200 million, affecting around 570,000 taxpayers over SPa.**

Approximately £145 million could be raised by reducing income tax allowances by £100 for the 6.8 million taxpayers aged over SPa.

Currently, individuals aged over SPa do not pay NI on any earned income. **Levying employee NI contributions on the earnings of people over SPa** on the same basis as for people under SPa, (i.e. applying Class 1 employee NI rates to employee earnings and Class 2 and Class 4 NI rates to self-employment profits) could affect around 1m individuals. It **would result in an average annual NI liability of £1,400 per affected individual in 2014-15, with an aggregate NI revenue of £1.4 billion.**

---

[23] Full details of this analysis are given in Pike T., Adams J., Curry C., Luheshi S. (2018) *Indicative revenue effects on pensions and pensioners.* London: Pensions Policy Institute.

[24] 2018-19, HMRC Direct effects of illustrative tax changes

[25] HM Revenue and Customs. KAI Data, Policy and Co-Ordination. (2017). Survey of Personal Incomes, 2014-2015: Public Use Tape. [data collection]. UK Data Service. SN: 8239, http://doi.org/10.5255/UKDA-SN-8239-1

6. How liability for care charges is affected by annual state pension uprating[26]

To be eligible for local authority support for home care older people need to meet both the eligibility criteria in terms of need for care and the means test. For people whose needs for care meet the eligibility criteria and whose savings are below the current upper limit of £23,250, the amount they need to contribute in user charges depends on their assessed income. The means test takes account of almost all savings other than the value of the person's home and almost all sources of income. They are generally required to contribute all their disposable income above a threshold, up to the full cost of their care. The threshold for a single person is currently £189.00 per week.

For many older people who receive care, their state pension forms a major part of their assessed income. How the state pension is uprated over time therefore directly affects their liability for care charges. Under the 'triple lock' the relative movements in prices and earnings, and whether or not they exceed 2.5% is key.

To illustrate the interaction between the pension uprating and user charges for home care, we analysed the effect of possible future movements in prices and earnings on the income and liability for care charges of an example older person. The income, wealth and care needs of this person were selected to illustrate how future movements in earnings and prices could affect the proportion of her after-tax income that care charges would absorb, and what level of income she would have left after meeting those care charges. We assume that over time the costs of her home care rise in line with average earnings in the economy.

Initially our hypothetical person is required to meet the full cost of (a modest level of) home care. In periods in which prices rise faster than earnings (and by more than 2.5% per year) her income rises faster than the cost of her care. She therefore remains liable to meet the full costs of her care unless and until her needs increase and she is assessed as requiring more costly care. In periods in which earnings rise faster than prices (and by more than 2.5% per year) her income rises more slowly than the costs of her care and in time she could cease to be liable to meet the full costs of her care. Finally, when prices and earnings each rise by less than 2.5% per year the person's income rises faster than the costs of her care and she remains liable to meet the full costs of her care.

Using the PPI's Economic Scenario Generator[27] we find that over a five year period:

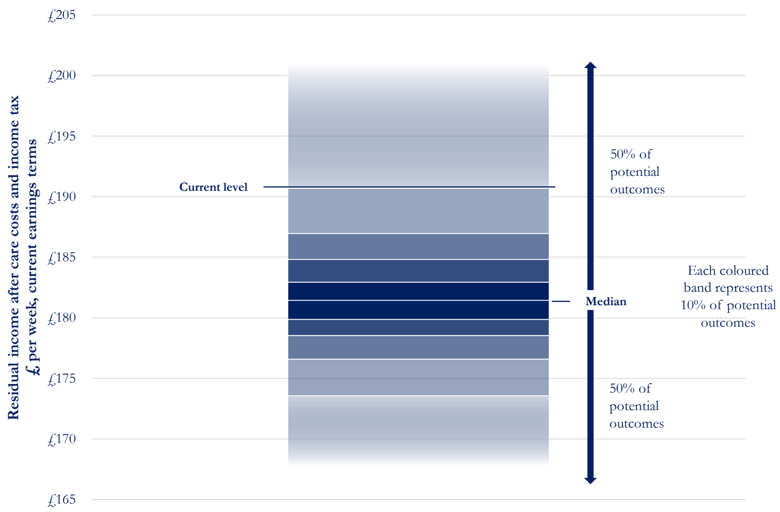
- In close to half (45%) of scenarios, State Pension income linked to the triple lock will increase in line with earnings (i.e. that is, the period contains no years where the State Pension will rise by the Consumer Price Index (CPI) or 2.5%). There is only a one in twenty-five chance (4%) that CPI will increase faster than earnings over a five year period.
- There is only a one in ten chance (10%) of this individual's disposable income (after income tax and care costs) rising at the same rate as average earnings over the period. Thus a higher proportion of their income would be spent upon care costs in nine out of ten scenarios (90%). This is because income other than the state pension is assumed to rise only with the CPI and the means test threshold for income also rises the CPI. As a result, residual income after care costs have been

[26] See Adams J., Wittenberg R., Hancock R., Pike T. (2018) *Care and State Pension Reform: The interaction of inflation indices.* London: Pensions Policy Institute for full details of this analysis.

[27] Past movements in prices and earnings are used to calculate the probabilities of different outcomes under the triple lock (see technical analysis of Redwood D., Carrera L., Armstrong J. and Pennanen T. (2013). *What level of pension contribution is needed to obtain an adequate retirement income?* London: Pensions Policy Institute).

met will fall in current earnings terms (i.e. relative to average earnings). For the middle 50% of outcomes, residual income, expressed in current earnings terms, ranges from £178 to £186 a week (Chart 3).

Chart 3: The range of potential outcomes of weekly income with care costs deducted after five years (current earnings terms).



The path of residual income for a person with a lower income, who is liable to pay only part of their home care costs on starting to receive care, depends on how their income changes relative to the care charging income threshold. Any increase in income above the increase in this threshold (which we assume is linked to the CPI) will merely be offset by increases in care charging. So their residual income – after meeting care costs – is unlikely to rise by more than the CPI, resulting in a wider range of outcomes expressed in relation to earnings growth.

7. Costs and distributional effects of reforms to the long-term care means test

In this section we examine the impact on long-term care public expenditure and the distributional effects of potential reforms to the long-term care funding system in England. The scenarios examined are rooted in four recent sets of proposals (Box 2 gives details):

1. The recommendations of the 2011 Commission on Funding Care and Support for a **lifetime cap on the eligible care costs** that individuals would have to meet combined with **an increase in the residential care upper capital threshold**, above which no state help is provided[28]. 'Daily living costs' in care homes would not count towards the cap and would continue to be means-tested even after reaching the cap. These proposals underpinned the Care Act 2014 reforms which were to be introduced in 2016, were subsequently postponed to 2020 and are now superseded by a Green Paper expected in the Autumn of 2018. The Commission recommended a lifetime cap of around £35,000 (2011 prices); the Government had proposed a cap of £72,000 (2016 prices), an increased upper capital threshold of £118,000 and daily living costs set at £12,000 a year (all in 2016 prices).
2. The recommendation contained in a joint report by Independent Age and the Institute and Faculty of Actuaries[29] for an **'all inclusive' lifetime cap** – covering daily living costs as well as care costs in residential care of £100,000.
3. The 2017 Conservative Party manifesto[30] proposal **to include housing wealth in the means test for state help with the costs of home care while implementing a single capital threshold of £100,000** below which assets and any income from them would be completely ignored in the means test. No help with care costs would be available where assets are above £100,000. The Prime Minister subsequently said that there would also be a lifetime cap on an individual's liability to meet their care costs, and this was confirmed by the Secretary of State for Health and Social Care in March 2018[31] [32].
4. The view of the recent joint inquiry by two parliamentary committees who said "*In principle, we believe that the personal care element of social care should be delivered free to everyone who has the need for it, but that accommodation costs should continue to be paid on a means-tested basis*"[33]. The final report of the Lord Darzi Review of Health and Social Care also recommended that personal care should be free at the point of use[34].

---

[28] The Commission on Funding Care and Support (2011) *Fairer Care Funding.* http://webarchive.nationalarchives.gov.uk/20130221121534/http://www.dilnotcommission.dh.gov.uk/our-report/

[29] Independent Age and the Institute and Faculty of Actuaries (2017) *Will the Cap Fit?* https://www.actuaries.org.uk/news-and-insights/public-affairs-and-policy/ageing-population/social-care-funding

[30] https://www.conservatives.com/manifesto

[31] The Guardian (2018) "Jeremy Hunt confirms individual costs for social care to be capped" Guardian 20th March 2018 https://www.theguardian.com/society/2018/mar/20/jeremy-hunt-confirms-individual-costs-for-social-care-capped

[32] Earlier analysis of the costs of these proposals was published in Hancock R., Hu B., Wittenberg R., Morciano M. (2018) *The Conservative Party manifesto proposal to include housing wealth in the means test for home care: how might it affect public spending on long-term care for older people?* London: Pensions Policy Institute. The analysis presented in this report updates that and extends it to cover the distributional effects of the proposals.

[33] House of Commons Health and Social Care and Housing. Communities and Local Government Committees (2018) *Long-term funding of adult social care* HC 768, page 3. https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/768/76802.htm

[34] Lord Darzi (2018) *Better health and care for all: a 10-point plan for the 2020s* https://www.ippr.org/files/2018-06/better-health-and-care-for-all-june2018.pdf

Box 2: Long-term care reform scenarios

<u>Lifetime cap on care costs</u> (**2 versions**)

- A lifetime cap of £72,000, an upper capital limit in residential care of £118,000 and daily living costs in residential care of £12,000 per year. Eligible care costs are state-funded without a means test once the cap has been reached. This is broadly what was expected to be implemented in 2016.
- As above but with lifetime cap to £36,000 (close to the level suggested by the Dilnot commission).

  The monetary values above are taken to be in 2016 prices. Lifetime caps and daily living costs are assumed to be uprated each year in line with average earnings as had been indicated by the government.

<u>Free personal care</u>

- Daily living costs of £12,000 (2016 prices) a year continue to be means-tested. Eligible care costs are state-funded without a means test.

  Daily living costs are assumed to be uprated each year in line with average earnings.

<u>Independent Age/Institute and Faculty of Actuaries proposal (**2 versions**)</u>

- An 'all inclusive' lifetime cap of £100,000. Capital limits and other aspects of the means test remain as now.
- An 'all inclusive' lifetime cap of £100,000, together with an increase in the upper capital threshold in residential care to £118,000.

  The above monetary values are taken to be in 2016 prices. The lifetime cap and the increased residential care capital threshold are assumed to be uprated each year in line with average earnings.

<u>Conservative party manifesto proposals (**2 versions**)</u>

To examine the consequences of these proposals, it is necessary to make a number of assumptions on details of how these would be implemented in practice. We have examined two potential scenarios.

- In **both scenarios** the current capital limits in home and residential care are replaced with a single capital threshold of £100,000 (in 2017 prices). However, in the analysis below we show the effect of this separately from the effect of the other measures. The single capital threshold is assumed to be uprated in line with average earnings.
- In the **first scenario** no other changes are made to the means test for residential care and there is no lifetime cap on care costs. For couples who own their home, half of the value of the home would be included in the means test for home care. For single people, the whole of the value of their home would be included in the home care means test. There is a 12 week disregard on housing wealth for home care as well as for residential care. **In the charts, this is labelled 'v1'**.
- In the second scenario, there is a lifetime cap on care costs equivalent to £72,000 (in 2016 prices[*]). For home care housing wealth is included in the means test on the same basis as for scenario one. Where one partner in a couple enters residential care, half of the value of their home would now be included in the means test. There would be no 12 week disregard of housing wealth in either home or residential care. **This is 'v2' in the charts**.

  We make no allowance for deferred payments – our analysis therefore provides estimates of the accumulation of care recipients' liabilities for payments towards the cost of their care, rather than flows of such payments to Local Authorities.

All monetary values in each scenario are converted to constant 2015 prices in our analysis.

Each option is compared to our base case, which assumes continuation of the current state pension system, long-term care means tests and uprating policies/practices (see Box 1).

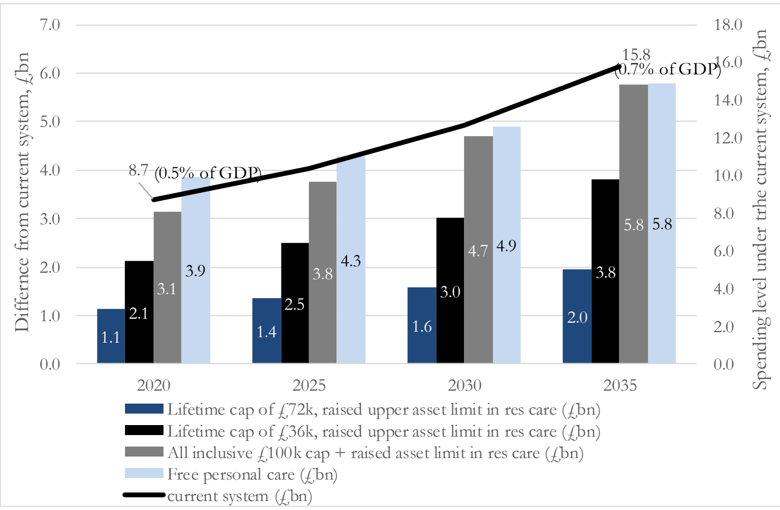
a. Aggregate costs

Lifetime cap and free personal care scenarios

The projected additions to public spending on long-term care needed for the lifetime cap and free personal care scenarios are indicated by the height of the bars in Chart 4, measured along the left vertical axis in £s billion, 2015 prices. For comparison, projections of levels of spending under the current system are superimposed as a solid line, measured along the right vertical axis. Of these scenarios, a lifetime cap on eligible care costs of £72,000 adds the least to public spending on long-term care. In 2020 it is projected to add £1.1 billion to the cost of £8.7 billion under the current system. By 2035, the addition cost is £2 billion higher than the £15.8 billion projected for the current system. Halving the level of the lifetime cap roughly doubles its cost. The most expensive option is free personal care, which is projected to add £3.9 billion in 2020 rising to £5.8 billion in 2035. The 'all-inclusive cap' is considerably more expensive, with or without a raised upper threshold for residential care, than either of the lifetime caps on care costs that we have examined. In fact by 2035, an all-inclusive cap of £100,000 combined with an increase in the residential care upper capital threshold, costs the same amount as free personal care.

Chart 4: The cost of 'free personal care' is similar to that for an all-inclusive lifetime cap of £100,000 combined with a residential care upper threshold of £118,000.

The increase in public expenditure on long-term care for older people required for lifetime caps and free personal care, £s billion, 2015 prices.



Note: Long-term care public expenditure includes disability benefits used to pay for care.

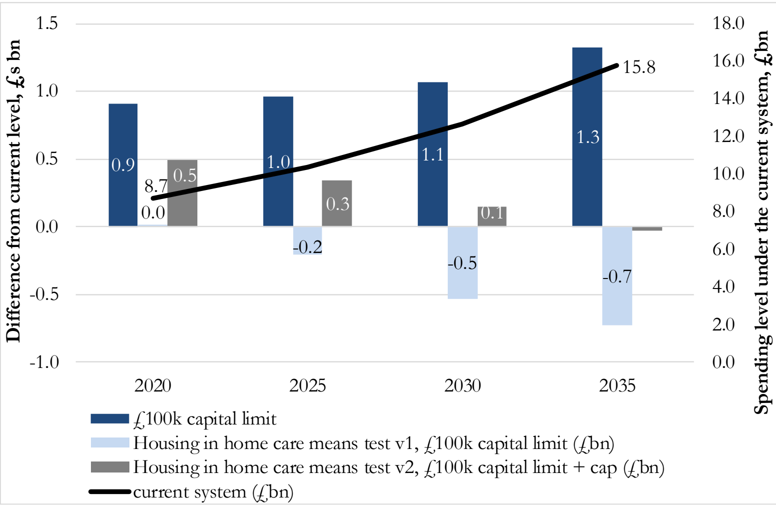
Including housing wealth in the home care means test

Chart 5 is similar to Chart 4 but shows the effect on public spending on long-term care for older people of the two scenarios which take account of housing wealth in the means test for home care. The effect of the single capital threshold of £100,000 is shown separately from the combined effect of introducing such a threshold and including housing wealth in the home care means test, with or without a lifetime cap on care costs.

We project that the public cost of long-term care in 2035 in the scenario of a single capital threshold will be £1.3 billion higher than under the current funding system. But this additional cost is more than offset by the impact of including housing wealth in the home care means test. We project that the combined effect of the two will be a £0.7 billion saving of public long-term care cost in 2035. If a cap of £72,000 is introduced in addition to these two reforms, the public cost of long-term care is projected to be roughly the same as that under the current funding system in 2035.

Chart 5: Including housing wealth in the means test for home care could be cost neutral by 2035 or produce a saving depending on how housing wealth is treated for couples and whether there is a lifetime cap.

Change in public expenditure on long-term care for older people resulting from a single capital threshold and inclusion of housing wealth in the home care means test, £s billion, 2015 prices.



Notes: (1) Long-term care public expenditure includes disability benefits used to pay for care.

b. Distribution of gains/losses by income

The distributional effects of the scenarios are investigated by examining how average gains from the long-term care reforms vary across quintiles (fifths) of the income distribution for the relevant age group. These effects are shown for recipients of residential or home care aged 65 and over in 2030. Gains are calculated by comparing an individual's net income, after meeting care costs, under each scenario with their net income under the base case.

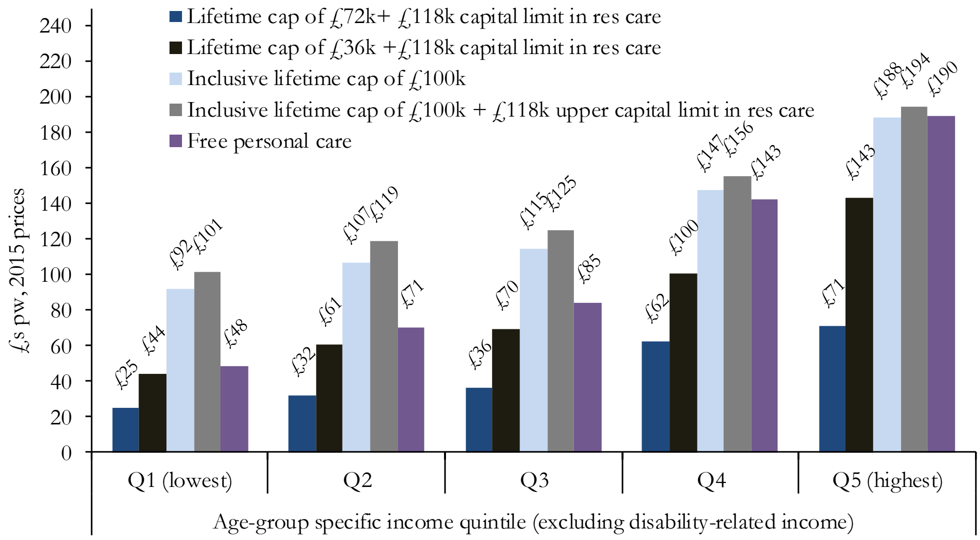
Lifetime cap and free personal care scenarios

All income groups gain on average from a lifetime cap on care costs and from free personal care. People with low incomes can benefit from the introduction of the cap on care costs or from free personal care if they would otherwise be disqualified from help with residential care costs by their housing wealth – even within the lowest income group around two-thirds of older people are owner-occupiers. Chart 6 shows projected weekly gains (£s per week, 2015 prices) for older residential care users in 2030.

Expressed in absolute (£s per week) terms, the weekly gains from the lifetime cap and free personal care scenarios are largest for those on higher incomes. However, all-inclusive lifetime caps benefit care home residents on lower incomes much more than the other scenarios. This is because once the cap has been reached, these scenarios cover 'daily living costs' as well as care costs. Care home residents on lower incomes contribute substantially to their daily living costs under the current system – they are required to contribute all their income except the small personal expenses allowance. But their income is unlikely to cover much of the care component of care home fees. So they do not benefit much from non means-tested help with care costs but do benefit from non means-tested help with daily living costs once the cap has been reached.

Chart 6: Average gains among care home residents are greatest for high income groups. Lower income groups gain more with an all-inclusive cap than scenarios where daily living costs are means tested.

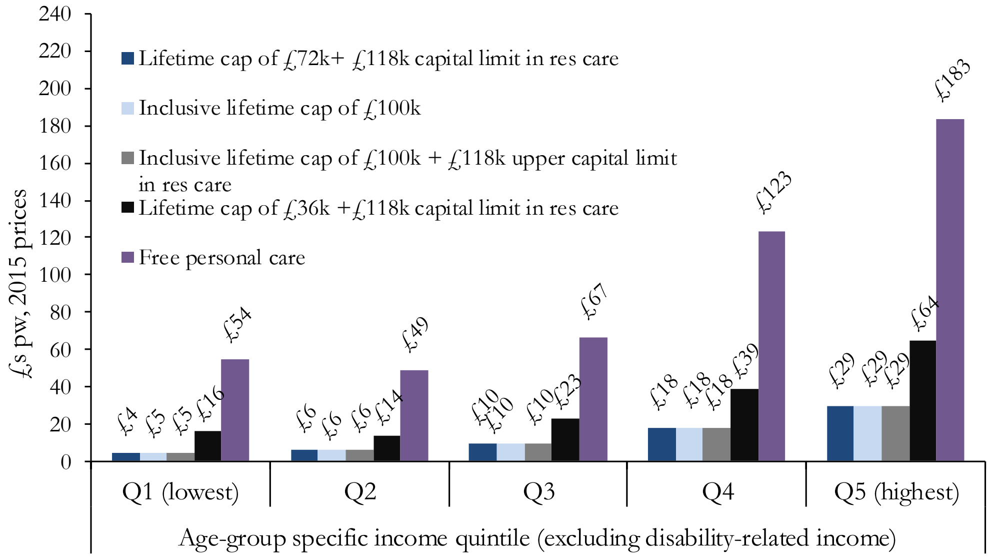
Average weekly gains (£s 2015 prices), users of residential care aged 65+, 2030.



In contrast, for home care users, free personal care brings the greatest gains to all income groups, although gains from all the scenarios increase with income (Chart 7).

Chart 7: Lower income home care users gain much more from free personal care than from lifetime caps.

Average weekly gains (£s 2015 prices) users of home care aged 65+, 2030.



Including housing wealth in the home care means test

Before considering the effects by income group of the scenarios which bring housing wealth into the means test for home care, it is important to note that the scenarios will affect different categories of care recipients in quite different ways.

All older people receiving care with assessable assets above the current lower limit of £14,250 could gain from a new single capital limit of £100,000. People who do not own their own homes would be unaffected by the inclusion of housing wealth in the means test for home care but could gain from the new capital limit.

Single older people in care homes whose housing wealth is already taken into account in the means test stand to gain from the increased single capital threshold. They would not have to run down their assets so much before becoming entitled to LA help with the care home fees (although they would pay more initially for their care if the 12 week disregard were abolished as we assume under Scenario 2).

Older homeowners receiving home care are likely to lose from the inclusion of housing wealth in the home care means test, unless their housing wealth is less than the £100,000 limit (more likely for someone who is part of a couple, under our assumption that only half the value of the home would be taken into account) and they have little in the way of other assets.

Home-owning couples where one partner is in residential care would pay more for their care under Scenario 2, unless and until they reach the lifetime cap, because half the value of the home would be included in the means test whereas their housing wealth is currently disregarded in full. All older people receiving residential or home care and paying something towards the costs of such care, would benefit from the lifetime cap on care costs if they received care for long enough to reach the cap under this scenario. Table 1 below summarises the weekly gains/losses that we project for care recipients who are (or were prior to entering residential care) homeowners compared with those who do not own their homes, and for care recipients who are couples compared to single people, distinguishing care home residents and home care users.

Table 1: Home-owning home care users would lose on average at least £60 per week if housing wealth is included in the home care means test.

Average weekly gains/losses, recipients of residential or home care, aged 65+, 2030, £s per week, 2015 prices.

	home-owner	non-owner	couple	single	ALL
Residential care					
£100k capital limit	£47	£5	£21	£28	£27
£100k capital limit plus housing in home care means test (v1)	£47	£5	£21	£28	£27
£100k capital limit plus housing in home care means test (v2)	£26	£7	-£72	£42	£17
Home care					
£100k capital limit	£14	£2	£16	£9	£12
£100k capital limit plus housing in home care means test (v1)	-£95	£2	-£93	-£67	-£76
£100k capital limit plus housing in home care means test (v2)	-£60	£7	-£61	-£36	-£46

V1: For couples who own their home, half of its value would be included in the means test for home care. For single people, the whole of the value of their home would be included in the home care means test. There is a 12 week disregard on housing wealth for home care as well as for residential care.

V2: There is a lifetime cap on eligible care costs equivalent to £72,000 (in 2016 prices). For home care, housing wealth is included in the means test on the same basis as for V1. Where one partner in a couple enters residential care, half of the value of their home is included in the means test. There would be no 12 week disregard of housing wealth in either home or residential care.

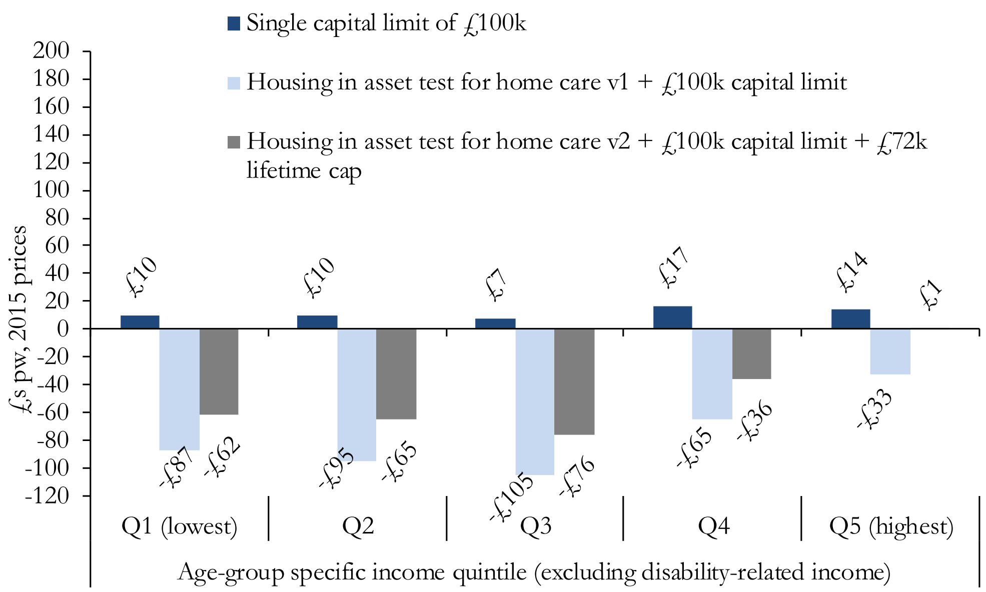
The single capital threshold is projected to benefit older care home residents by an average of £27 a week in 2030, compared with less than half that (£12) for home care users. Home-owning care home residents benefit the most on average, being £47 a week better off on average.

Home-owning home care users are projected to be £95 per week worse off under Scenario 1 where there is no lifetime cap on care costs. Applying a lifetime cap reduces this loss to £60 per week. Home care recipients who are part of couples lose similar amounts. Couples where one partner is in residential care lose an average of £72 per week from scenario 2 under which half of housing wealth is taken into account in the residential care means test rather than disregarding it in full as currently.

Chart 8 shows the distribution of gains and losses for home care users by income quintile. Gains from the single capital threshold of £100,000 are least for the middle income group, being higher for lower and higher income groups, with the largest gains being for the fourth highest income group. Losses from including housing wealth in the means test are greatest in the middle income group who lose over £100 a week under Scenario 1 and this loss is reduced only to £76 by the imposition of a lifetime cap. However, there are also large losses amongst home care users in the lowest two-fifths of the income distribution. Losses are least for the highest income group, who in fact see a marginal gain (£1 per week) under scenario 2.

Chart 8: Losses from including housing wealth in the home care means test would be lowest for the highest income group.

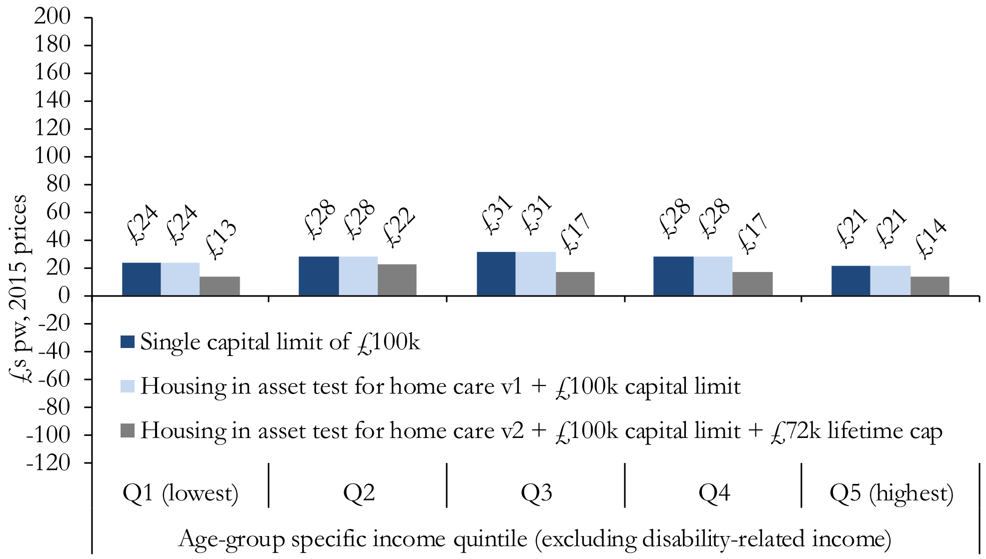
Average weekly gains/losses for home care users aged 65+, 2030.



Amongst care home residents, all income groups gain on average from the single capital threshold and from the scenarios which combine this with the inclusion of housing wealth in the home care means test (Chart 9). Scenario 1 has no effect for care home residents beyond the effect of the single capital threshold. Scenario 2, which brings half of the housing wealth of couples into the means test but implements a lifetime cap, results in smaller gains. Although there is some variation in gains across income levels, the variation is much less than for home care.

Chart 9: Amongst care home residents, the benefits of the single capital threshold are quite evenly spread across income groups.

Average weekly gains for residential care users aged 65+, 2030.



Expressing weekly gains as percentages of income

The analysis of gains and losses from the scenarios has focussed on absolute (i.e. £s per week) gains. Another way to consider the distributional effects of the scenarios is to express gains as a percentage of income. Under scenarios where the 'absolute terms' effects tend to favour higher income groups, this pattern is tempered somewhat if gains are expressed as a percentage of income – a small gain for a low income person can represent a higher proportion of their income than a large gain for a high income person. Conversely if absolute gains are largest for those on low incomes, expressing them as percentages of income amplifies this pattern.

c. Additional variants

Since an all-inclusive lifetime cap set at £100,000 would cost considerably more than a £72,000 cap on only care costs, we sought to find a level of all-inclusive cap which had a similar cost to a non-inclusive cap at £72,000. It did not prove possible to find a single level of an all-inclusive cap which has a similar cost to a non-inclusive cap of £72,000 in every projection year suggesting that the cost of these two types of caps would evolve differently over time. However, our analysis suggests that an all-inclusive cap would need to be set at over £140,000 for the costs to be close to a non-inclusive cap at £72,000.

Compared with the other scenarios examined, a single capital threshold embodying a substantial increase in the lower capital threshold appears to be quite beneficial for those on low incomes. As well as analysing a single capital threshold at £100,000, we therefore examined the effects of a single capital threshold at half that level. Its cost would be roughly half that for a single capital threshold and average gains would be very similar across all income groups.

8. Summary and conclusions

In this report we have summarised the findings from analyses relevant to the continuing debate about the future funding of long-term care for older people, considered alongside the evolution of state pension costs.

The state pension system currently costs about 4.6% of GDP. The projected rise in people over SPa, even allowing for increases in the state pension age, means this percentage is expected to rise to 5.4% of GDP by 2035 and 6% by 2060, if the policy of triple lock uprating is continued indefinitely; or to 5.2% and 5.3% respectively if uprating were by average earnings.

Public spending on long-term care for older people is much lower than on state pensions but will be affected more by substantial growth in the numbers of the oldest pensionsers. With no change in how costs are shared between the individual and the state and no change in needs-based eligibility critieria, we project that the public cost of long-term care for older people will rise in 2015 prices from £8.7 billion (0.5% of GDP) in 2020 to £15.8 billion (0.7% of GDP) in 2035. The long-term care funding debate has raised concerns about the adequacy of the level of publicly-funded services, given that access to publicly-supported services has been increasingly restricted to only those with the highest care needs. For many years, the debate has also considered how the costs of services are shared between the state and the individual. We have examined scenarios relevant to both of these elements of the policy debate.

Our projections of the additional costs of these scenarios are summarised in Table 2. The two most costly are free personal care and an all-inclusive lifetime cap on care costs combined with an increase in the residential care upper capital limit. (By 'all-inclusive' cap we mean a cap which covers daily living costs as well as care costs in care homes.) We project that by 2035 each of these would add £5.8 billion, in 2015 prices, to public spending on long-term care for older people. Extension of eligibility for publicly-funded care to those with moderate needs, subject to the current means test, is projected, in the scenario we examined, to cost a similar amount (£5.6 billion) by 2035. An all-inclusive cap with no other change in the means test would also add more than £5 billion to the public cost of long-term care for older people by 2035.

A lifetime cap on care costs (but not daily living costs) of £36,000, which is close to the level proposed by the Dilnot commission, is projected to cost a similar amount to extending publicly-funded care, subject to the means test, to all older people with high care needs. Each of these would cost about £2.1 billion in 2020 rising to £3.8 or £3.6 billion by 2035. A lifetime cap at the level most recently planned by the government (£72,000) combined with an increase in the residential care upper capital limit to £118,000 is projected to cost significantly less at just over £1 billion in 2020 rising to £2 billion by 2035.

Although we have not made future projections of revenue raising options, the revenue required to fund the additional costs of the highest cost scenarios in 2020 would be 60-80% of what might be raised from an additional 1p on the basic rate of tax for all taxpayers. It would be considerably more than is likely to be raised from additional income tax for older people or NI contributions on the earnings of people aged 65 and over.

Part of the 2017 Conservative Party manifesto proposal on long-term care financing was to replace the lower and upper capital limits in the long-term care means test with a single much higher limit of £100,000. We project this would increase public spending on long-term care for older people by £0.9 billion in 2020 and 1.3 billion by 2035. This is less than any of scenarios involving lifetime caps that we have examined. When combined with the inclusion of housing wealth in the means test for home care, the proposal would be broadly cost neutral or reduce public spending on long-term care for older people, depending on the details of how it was implemented, including whether or not there would also be a lifetime cap.

Table 2 There is a trade-off between expanding eligibility for services, subject to the existing means test, and reforming the means tests to reduce the burden of long-term care costs on individuals.

Projected annual addition to public spending on long-term care for older people, 2020 and 2035, £s billion, 2015 prices.

	2020	2035
Free personal care	3.9	5.8
All-inclusive lifetime cap of £100,000, with upper capital limit in residential care increased to £118,000	3.1	5.8
Extension of eligibility for publicly funded community care to older people with moderate needs, no change in means test	2.8	5.6
All-inclusive lifetime cap of £100,000, otherwise no change in means test	2.8	5.3
Lifetime (non-inclusive) cap of £36,000, with increase to £118,000 in upper capital limit in residential care	2.1	3.8
Extension of eligibility for publicly funded community care to all older people with high needs, no change in means test	2.1	3.6
Lifetime (non-inclusive) cap of £72,000, with increase to £118,000 in upper capital limit in residential care	1.1	2.0
A single capital limit of £100,000 with no other changes	0.9	1.3
Housing wealth brought into means test for home care, with a single capital limit of £100,000		
half of housing wealth of couples included in means test for residential care, £72,000 non-inclusive cap on care costs applied	0.5	-0.03
no change in treatment of housing wealth in residential care	0.0	-0.7

The scenarios we have examined also differ in their distributional effects. Lifetime caps tend to be of more benefit to people who need residential care than those who only need home care; the latter group are much less likely to reach a cap unless it is set at quite a low level. Lifetime caps also tend to benefit those on higher incomes (and wealth) more than those on lower incomes who pay relatively little towards their care costs under the present system. An 'all-inclusive' cap, however, is more beneficial for those on lower incomes than a non-inclusive cap. Under the current means test, those entitled to public support with their care home fees usually have to contribute nearly all their income towards a care home's fees and this would not be the case once an all-inclusive cap was reached.

Inclusion of housing wealth in the means test for home care affects home care users on the highest incomes least because they pay most towards their home care (from their income and non-housing wealth) under the current means test. Home care users on low to moderate incomes tend to lose from including housing wealth in the home care means test even when it is combined with a single capital limit of £100,000.

On its own, a single capital limit of £100,000 benefits all income groups and the variation across income groups is much less than for the other scenarios. Indeed for care home residents the lowest income group gains more from this scenario on average than the highest income group, although gains are highest for the middle income group. An important point to note about a single capital limit set at a higher level than the current upper limit is that it means not only that people previously having to meet all their care costs themselves could get some help with those costs from the public purse but also that people with modest savings are helped since the amount of capital which is completely ignored in the mean tests is substantially increased.

Under current uprating policy and practices for state pensions and long-term care, differential movements in prices and earnings, and whether or not they exceed the 2.5% floor embodied in the triple lock, can affect how the income an individual has left after meeting their care costs changes as they age. We examined the situation of an example older woman who is initially required to pay something towards a modest level of home care. Based on past movements in prices and earnings, and assuming the triple lock is used to uprate her state pension but her private pensions rises only with prices, there is only a one in ten chance that the income she has left after paying towards her care will rise as fast as average earnings.

Our analysis takes no account of possible changes in behaviour resulting from any of the scenarios we have examined. There are a number of possible sources of behaviour change that are relevant. Any change in income tax or NI contributions could affect how much people choose to work and earn. If they perceive that the financial return to working has fallen as a result of an increase in tax or NI, they may choose to work and earn less, thereby reducing the revenue that can be raised from the measures we examined in Section 5. Any increase in the generosity of public support for care costs could mean people decide to save less because they expect the state to meet more of their care costs than it does now or to save more since they will be able to retain more of their savings if they need care in later life. Changes which affect the balance of costs between residential and home care – for the individual and/or for LAs – could affect choices between residential and home care. For example, currently because housing wealth is not included in the means test for home care, it can be cheaper for a LA to encourage a person who owns their own home to choose a care home than to offer them care in their own home. Including housing wealth in the home care means test could mitigate against this incentive which is counter to the general policy of trying to enable older people to remain in their own homes as long as possible. From individuals' perspectives, staying in their own homes rather than entering residential care would no longer protect their housing wealth.

England has a complex long-term care funding system with interactions with the state pension system. Reform of the long-term care system has been debated for a quarter of a century. We hope the findings contained in this report will be valuable to debate ahead of the Government's Green Paper on social care and to subsequent responses to the proposals it will contain.

List of other project publications

All CASPeR publications are available from the CASPeR website: http://www.pensionspolicyinstitute.org.uk/casper.

New CASPeR publications

Pike T., Adams J., Curry C., Luheshi S. (2018) *Indicative revenue effects on pensions and pensioners*. London: Pensions Policy Institute.

Hancock R., Wittenberg R., Curry C., et al. (2018) *Health and Communities and Local Government Select Committees joint inquiry into long-term funding of social care*. London: Pensions Policy Institute.

Wittenberg R., Hu B., King D. (2018) *Projecting the costs of local authority funded home care for older people: the impacts of potential expansion of the eligibility criteria*. London: Pensions Policy Institute.

Hancock R., Hu B., Wittenberg R., Morciano M. (2018) *The Conservative Party manifesto proposal to include housing wealth in the means test for home care: how might it affect public spending on long-term care for older people?* London: Pensions Policy Institute.

Adams J., Wittenberg R., Hancock R., Pike T. (2018) *Care and State Pension Reform: The interaction of inflation indices*. London: Pensions Policy Institute.

Previous CASPeR publications

Adams J., Curry C., Espuny-Pujol F. et al. (2015) *Interactions between state pension and long-term care reforms: an overview*. London: Pensions Policy Institute.

Adams J., Curry C., Espuny-Pujol F. et al. (2016) *Long-term care funding – a comparison between England, Wales and Scotland June 2016*. London: Pensions Policy Institute.

Adams J., Curry C., Espuny-Pujol F. et al. (2016) *State Pension and Long-Term Care Funding Reforms: the costs and distributional effects of alternative uprating policies: Technical Report*. London: Pensions Policy Institute.

Hancock R., King D., Popat S. et al. (2016) *The impact of postponement of reforms to long-term care financing in England*. London: Pensions Policy Institute.

Wittenberg R. et al. (2016) *Should the planned cap on liability to meet care costs be uniform across England?* London: Pensions Policy Institute.

Hancock R., Wittenberg R., Curry C., et al. (2016) *Care and State Pension Reform - Interactions between state and pension long-term care reforms: a summary of findings*. London: Pensions Policy Institute.

Hancock R., Wittenberg R., Curry C., et al. (2017) *Care and State Pension Reform (CASPeR) Executive Summary*. London: Pensions Policy Institute.

Acknowledgements and Contact Details

The research team are very grateful to Trevor Llanwarne for his wise advice and invaluable help throughout our study. We appreciate the advice and comments provided by all the members of the study Advisory Group and by those who attended our workshops. The study has benefited greatly from their input.

Where we have analysed reforms suggested by others, responsibility for the interpretation of how those reforms would be implemented in practice rests with the authors as do editing decisions and the authors take responsibility for any remaining errors or omissions.

Contact:

Ruth Hancock

Professor in the Economics of Health and Welfare

Email: R.Hancock@uea.ac.uk

Telephone: +44 (0) 1603 591107

Health Economics Group

Norwich Medical School

Faculty of Medicine and Health Sciences

University of East Anglia

Norwich Research Park

Norwich, UK NR4 7TJ