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.

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[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.