ECONOMIC AFFAIRS COMMITTEE INQUIRY INTO SOCIAL CARE FUNDING IN ENGLAND
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Summary

We are researchers from the Health Economics Group at the University of East Anglia, the Personal Social Services Research Unit at the London School of Economics and Political Science and the Pensions Policy Institute. We have undertaken joint research on the interactions between reforms to the State Pension and reforms to long-term care funding. Our research is relevant to the Committee's interests in:

- the funding challenges for social care in England
- how the cost of provision of social care can be fairly distributed
- lessons from elsewhere in the United Kingdom

Our main findings in these areas are:

1. 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 in England is projected to be £8.7 billion in 2020 (0.5% of GDP) and to increase to £15.8 billion (0.7% of GDP) in 2035, all in 2015 prices.

2. If publicly-funded community-based care were to be 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. 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.

3. We project that in 2035 a lifetime cap of £72,000 (£36,000) on individuals' liabilities to meet their eligible care costs would 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 in care homes 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.

4. 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.

5. We also examined funding scenarios similar to the proposals in the 2017 Conservative Party election manifesto to take account of housing wealth in the means test for home care, replace the existing lower and upper capital limits with a substantially higher single limit, with or without a lifetime cap on care costs. The results are complex and depend to a considerable degree on detailed aspects of how such a policy would work in practice.

6. Compared with the current English system, a Scottish style system of 'free personal care', and the Welsh system, which has a maximum weekly charge for home care, are both more generous.

7. The benefits of a Scottish style free personal care system depend on the level of non means-tested state contribution to care home fees. The previously planned English reforms for a lifetime cap on care costs 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 that cap. The Welsh system can be more beneficial than the previously planned English reforms for people who need only home care.

Introduction

1. We are researchers from the Health Economics Group at the University of East Anglia, the Personal Social Services Research Unit at the London School of Economics and Political Science and the Pensions Policy Institute. Since 2014 we have been analysing the interactions between State Pension and long-term care reforms with funding from the Nuffield Foundation through a project called Care and State Pension Reform (CASPeR). The project was conceived when reforms to the State Pension system and to the long-term care system were both planned for introduction in April 2016. Little attention had been given to how the two systems interact with each other. We took as given the structure of the two sets of reforms and examined how they would interact under different assumptions on how the levels of key parameters would be set each year in the future.

2. A single tier State Pension was introduced in April 2016 as planned. Reforms to introduce a lifetime cap on an individual's liability for their care costs were postponed until 2020 and have now been superseded by a forthcoming Green Paper on the future funding of long-term care. Meanwhile alternative options for reforms to the long-term care funding system continue to be suggested. We have examined the likely costs and distributional effects of some of them, compared with a continuation of the present system.

3. Many commentators have argued that, quite apart from how long-term care is funded, there is a need to expand the funding available to Local Authorities to meet rising demand for social care. The House of Commons Communities and Local Government Committee recommended in March 2017 that the Government should 'address the funding pressures being felt now; ensure that funding for social care is linked to need and rising demand ……'. (Communities and Local Government Select Committee, 2017). The Committee urged that the Green Paper, which had been announced by the Chancellor of the Exchequer, should consider 'taking funding from a wide range of sources, including hypothecating national taxation (income tax, National Insurance Contributions, asset taxes, inheritance tax) and all age-related expenditure (the State Pension, including the funding for the triple lock pension guarantee…..)'. More recently a joint Inquiry by the Health and Social Care and Housing, Communities and Local Government Committees concluded that 'Spending on social care needs to rise to: meet the funding gap for the provision of social care by local authorities in 2020; provide the additional funding to meet future demand; meet the care needs of everyone, whether critical, substantial or moderate; and to improve the quality of care delivered …' (Health & Social Care and Housing, Communities and Local Government Select Committees, 2018).

4. In this submission we summarise our findings on:

   i. The scale of funding which might be needed to meet the funding pressures on social care for older people, addressing the Committee's desire to establish **the funding challenges for social care in England** as they relate to older people

   ii. The projected costs and distributional effects of some recent suggestions for reforms to the means tests governing individuals' eligibility for state help with the costs of their care. These include: lifetime caps on individuals' liability for their care costs (including or excluding 'daily living costs' in care homes); the inclusion of housing wealth in the means test for home care and the replacement of the current lower and upper capital thresholds with a substantially higher single threshold (with or without a lifetime cap on care costs); and 'free' personal care for all assessed as needing such care. This aspect of our work is relevant to the Committee's interest in **how the cost of provision of social care can be fairly distributed**.

iii. Analysis of some of the effects of implementing in England the long-term care systems used in Scotland or Wales, given the Committee's interest in **what lessons can be learnt from elsewhere in the United Kingdom**.

5. We also investigated some of the possible ways in which to fund increased public spending on long-term care for older people, whether that extra funding is for an expansion in Local Authority funded services or for changes to the means tests that are applied to establish user contributions towards home and residential care. The findings are relevant to the Committee's interest in **how the funding challenges for social care in England might be overcome**.

6. Most of the analysis is based on a number of linked computer models which make projections of future State Pension costs and future demand for long-term care for older people, covering its total cost and the division of those costs between the public and private sectors under different economic, demographic and policy scenarios. The models allow us to examine the distributional effects, that is, which groups of older people would pay more or less for their care under different forms of the means tests for care. The models are described in detail in Adams et al. (2016a).

7. Where relevant, we assume that the older population of England will increase, by age and gender, in line with the 2016-based Office for National Statistics principal population projection, that age and gender specific disability rates will remain constant and that earnings in the long-term care sector will rise broadly in line with Office for Budgetary Responsibility (OBR) assumptions for average earnings. The economic assumptions underlying the results presented here are consistent with those published by the OBR in July 2018.

8. All the analysis of long-term care presented here relates to the older population (aged 65+) and to England.

9. More detailed papers describing the analysis underpinning this evidence can be found on the CASPeR website (http://www.pensionspolicyinstitute.org.uk/casper) in particular our most recent report which was published in December 2018 (Adams et al. 2018).

Expanding eligibility for publicly-funded home care

10. 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 be £8.7 billion in 2020 (0.5% of GDP) and to increase to £15.8 billion (0.7% of GDP) in 2035, all in 2015 prices. This finding reflects our projection of increased demand for long-term care for older people under current policies and the OBR assumption on rising average earnings.

11. 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.

12. 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 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 880,000 in 2020 and 1,350,000 in 2035.

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

13. 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.

14. 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.

15. Our analysis suggests that an all-inclusive cap would need to be set at over £140,000 for the costs to be close to those of a non-inclusive cap set at £72,000.

16. 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.

17. The two most costly of the scenarios we examined are free personal care and an all-inclusive lifetime cap 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.

18. 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.

19. 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.

20. 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)

21. 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).

22. If this were combined with the inclusion of housing wealth in the home care means test, there would be a £0.7 billion saving to public funds in 2035.

23. 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.

24. A single capital threshold of £100,000 is projected to benefit older care home residents by an average of £27 a week in 2030 but older home care users by less than half of that (£12 per week).

25. 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.

26. 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 if there is a lifetime cap.

27. 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.

28. 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 changes 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.

<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 an Independent Age and Institute and Faculty of Actuaries report (Barnfield et al. 2017))

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.

Some comparisons between the English, Welsh and Scottish systems of long-term care funding

29. 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. In 2016 we undertook some analysis of the financial implications for older people of the differences between the social care funding systems of England, Wales and Scotland. It considered how illustrative older people (vignettes) needing social care would be affected if the funding systems of Wales or Scotland were implemented in England. We contrasted that with the effects of the plans to introduce a lifetime cap on care costs and other related reforms which at that time were due to be introduced in England in 2020. Full details of our analysis, including a comparison of the social care means tests in the three countries, can be found in Adams et al (2016b).

30. Compared with the current English system, a Scottish style system of 'free personal care', the Welsh system and the reforms previously due to be implemented in England in 2020 are all more generous.

31. 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.

32. 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 English reforms previously planned for 2020, for median earning home-owners.

33. 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.

34. The Welsh system, which has a maximum weekly charge for home care, can be more beneficial than the previously planned English reforms for people who need only home care.

35. The previously planned 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.

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Further supporting analysis can be found at http://www.pensionspolicyinstitute.org.uk/casper