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Care and State Pension Reform:

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?

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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?

A report by Ruth Hancock, Bo Hu, Raphael Wittenberg, Marcello Morciano on behalf of the CASPeR team.[1]

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The proposal

The funding of long-term care for older people continues to be the subject of much debate. The Government has announced its intention to publish a Green Paper on the subject in the summer. In England, people needing long-term care in a care home (residential care) or in their own home are entitled to help from their Local Authority with the costs of such care only if they have assets and income below certain levels. For care in a care home, assets include the value of the person's home (after the first 12 weeks in residential care) if they do not have a spouse or other qualifying person who continues to live in the home. Currently, the value of a person's home is not included in the asset test for care provided to people in their own homes.

In May 2017, the Conservative Party published proposals in their election manifesto which would bring housing wealth into the means test for home care, with the possibility of a system to enable payments to be deferred until the home is sold (e.g. on death or entry to a care home). The proposals would also increase the total amount of assets that would be completely disregarded in the means test. Currently, assets (financial and, for residential care, housing wealth) below £14,250 are ignored. Where assets exceed £23,250, no help with care costs is provided by the Local Authority. Assets between these two limits are assumed to generate a 'tariff' income of £1 per week for every £250 of assets. This tariff income is added to other income before applying the income component of the means test. The Conservative Party manifesto proposals would replace these two limits with a single limit of £100,000 below which assets and any income from them would be completely ignored. 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 recently confirmed by the Secretary of State for Health and Social Care (The Guardian, 2018).

Thorny details

If such proposals were to be implemented, a number of decisions would have to be made on detailed aspects of the new means test:

1. In the case of couples, the current home care means test is usually based on the income and assets of only the partner receiving home care. **How much of the value of a couple's (jointly owned) home would be included if housing wealth is included in assessable assets?**
2. If at least some of the value of the joint home of couples is included in the means test for home care, **would the value of a couple's home continue to be completely ignored for the means test for residential care or would the treatment of housing wealth be the same in home and residential care?**
3. The 12 week disregard that applies to housing wealth in the residential care means test is at least in part designed to give the person entering care time to sell their home. The same rationale would not apply for home care as the home would not be being sold.[2] **Would there be a 12 week disregard for home care?** If not it might be hard to justify one for residential care. If a 12 week disregard were applied to home care, **would there also be a 12 week disregard for residential care where one has already been applied for home care?**

[2] The 12 week disregard also gives time to set up a deferred payment arrangement, which could also be relevant for housing wealth taken into account for home care.

Two alternative scenarios for how the proposals would be implemented

In this note, we investigate two alternative scenarios as follows:

- In **both scenarios**, the current capital limits in home and residential care are replaced with a single capital threshold of £100,000. However, in the analysis below, we show the effect of this separately from the effect of the other measures in the scenarios.
- In **scenario 1**, 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 would be a 12 week disregard on housing wealth for home care as well as for residential care.
- In **scenario 2**, there is a lifetime cap on care costs equivalent to £72,000 (in 2016 prices).[3] For home care, housing wealth is included in the means test on the same basis as for scenario 1. 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.

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. We also make no allowance for the possibility that a person entering residential care may have run down their wealth to pay for prior home care. This would be more likely to happen if housing wealth is included in the home care means test.

Who would pay more and who would pay less under these scenarios?

All older people receiving care with assessable assets above the current lower limit of £14,250 would potentially gain from the new single capital limit of £100,000. Even if their assets are initially above this limit, as they run them down they could become entitled to some help with their care costs, depending on their incomes, sooner than under the current system. People who do not own their own homes could gain from the new capital limit and would be unaffected by the inclusion of housing wealth in the means test for home care.

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 Local Authority 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

[3] The operation of this cap follows that previously planned to come into force in 2020. In residential care, the cap would apply only to the care component of fees with means testing continuing for the 'daily living cost' component of fees, assumed here to be the equivalent of £12,000 per year in 2016 prices.

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.

Under scenario 2, 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.

What might be the effects of the scenarios on public spending on long-term care for older people?

The analysis that follows uses two long-term care simulation models which have been described in detail elsewhere (Adams et al. 2016).[4] The models make projections (not forecasts) based on clearly specified assumptions. Projections are shown for total net public spending on social care for older people (including disability benefits used to pay for care) in absolute terms (annual £s billion, 2015 prices) and as a percentage of Gross Domestic Product (GDP) under the current means tests and under the two scenarios described above. Figures are shown for the years 2020 to 2035 assuming that the system is fully mature at the year in question and without allowing for deferred payments. All results relate to people aged 65+ in England and money values are expressed in 2015 prices.

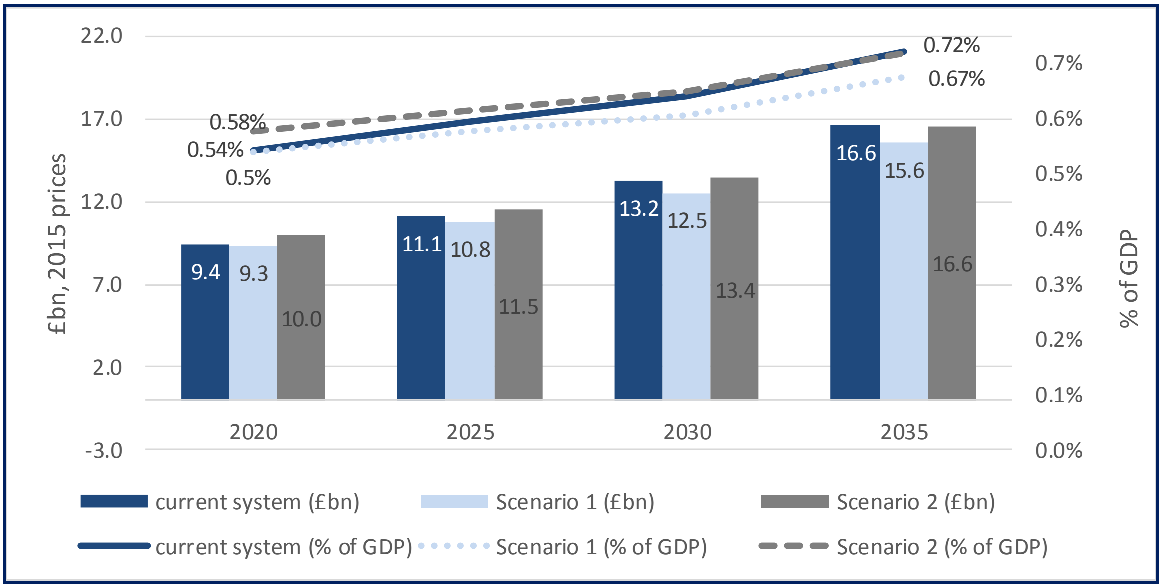
Our latest projections are that, under the current funding system, public expenditure on long-term care for older people would have to rise by 40% between 2020 and 2030, and by a further 26% by 2035, just to keep pace with demographic change and likely real rises in earnings of care staff. This is a rise from £9.4 billion in 2020 to £11.1 billion in 2025, £13.2 billion in 2030 and £16.6 billion in 2035 (all in 2015 prices), and corresponds to a rise from 0.5% of GDP to 0.6% (2030) and then 0.7% (2035).

We project that under scenario 1, public spending on long-term care for older people would be a little less than under the current system with the savings compared to the current system increasing somewhat over time: scenario 1 is projected to save £0.1 billion in 2020, rising to £1 billion by 2035. Scenario 2 is projected to cost 0.7 £billion in 2020, but is cost neutral by 2035 (Chart 1).

[4]Compared with our most recent previously published projections (Adams et al. 2016), the models used here differ as follows: they use the economic assumptions published by the Office for Budget Responsibility in November 2017 and January 2018 (OBR, 2017, 2018); the PSSRU long-term care model's projections are made from a base year of 2016 rather than 2015 using the most up-to-date information on the number of long-term care users and public expenditure published by the NHS digital; allowance is made for the likely effect on the unit costs of care of the National Living Wage; and we do not 'refresh' the sample used in the CARESIM model.

Chart 1: Scenario 2 would be broadly cost neutral in the long run whereas under scenario 1, public expenditure on long-term care for older people would be slightly less than under the current funding system.

Net effect on public spending on long-term care £billion and as a percent of GDP.



Under scenario 1, the cost of the single capital threshold at £100,000 is more than offset by the inclusion of housing wealth in the home care means test such that by 2035, that scenario is projected to save £1.1 billion of public spending on long-term care for older people (Chart 2).[5]

Scenario 2 is projected to cost £0.6 billion in 2020 but over time this cost falls and by 2035, the scenario would cost a similar amount to the current system. Under this scenario, the cost of the single capital threshold and the lifetime cap is eventually offset by the savings from including housing wealth in the home care means test and disregarding only a half of housing wealth (rather than total housing wealth) for couples where one partner is in residential care (Chart 3).

[5] Note that the combined effect of the components of each scenario is not necessarily a simple sum of the separate effects of each component. This is especially true for scenario 2 where the effects of the higher capital threshold, the inclusion of housing wealth in the home care means test and in the residential care means test for couples, would be superseded (except to the extent that they affect the resident's liability for daily living costs in residential care) once the cap was reached.

Chart 2: Under scenario 1, the cost of the single capital threshold at £100,000 is more than offset by the inclusion of housing wealth in the home care means test

Effect of scenario 1 components on public spending on long-term care for older people.

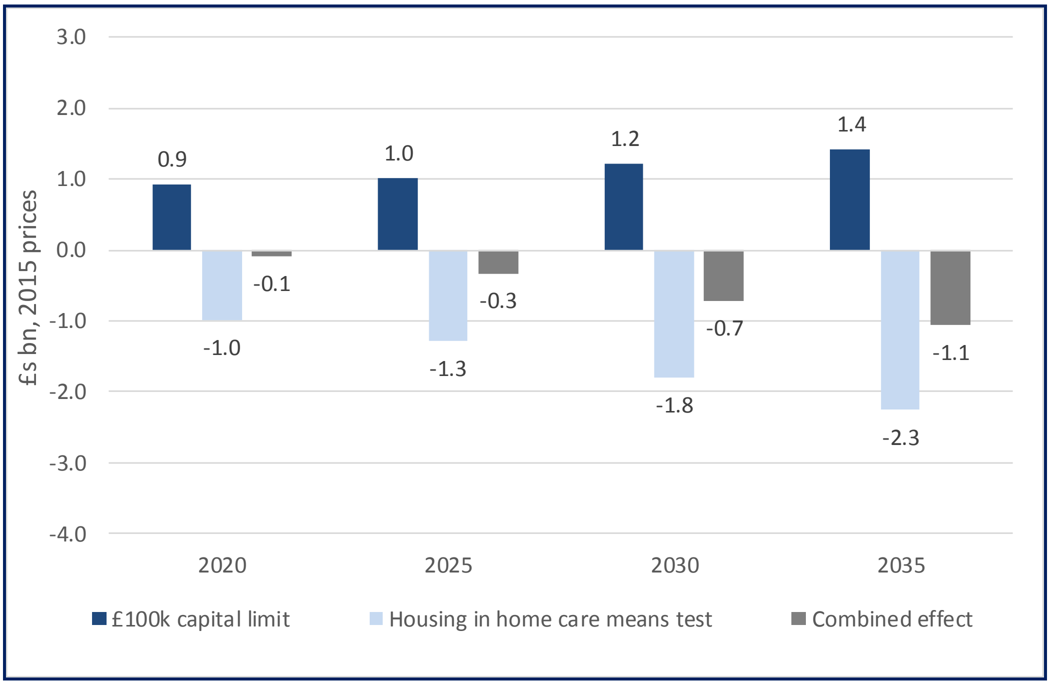
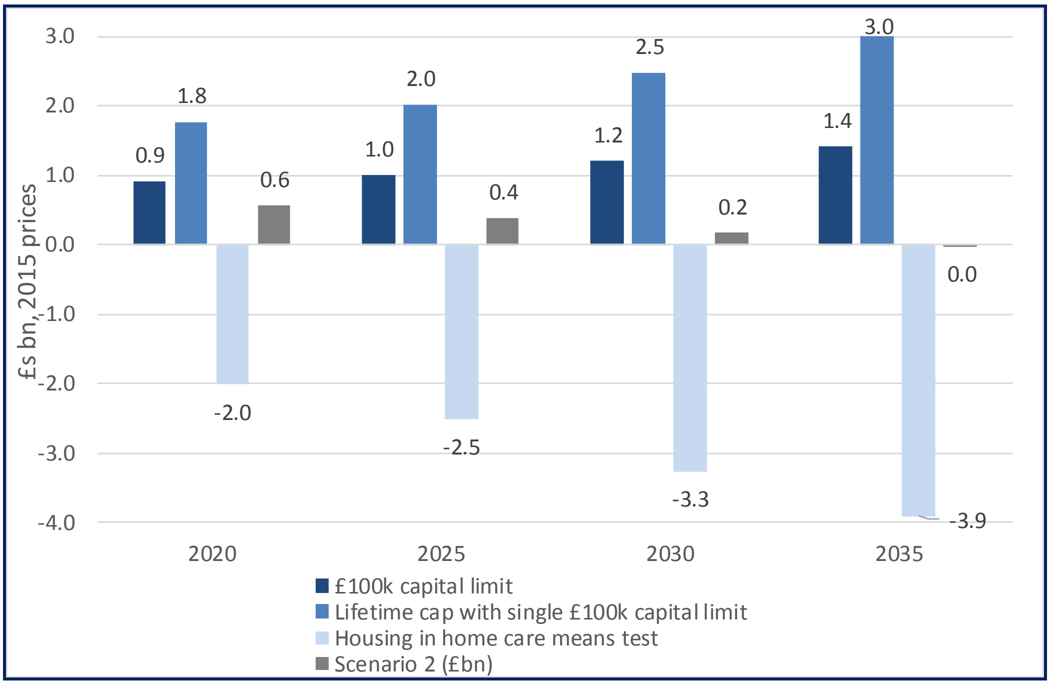


Chart 3: Under scenario 2, the cost of the single capital threshold plus lifetime cap is broadly balanced in future years by the saving from including housing wealth in the home care means test and ceasing to disregard all of it for couples in the residential care means test

Effect of scenario 2 components on public spending on long-term care for older people.



Conclusion

The costs of the Conservative Party manifesto proposal depend very much on details of how it would be implemented. Key details are the treatment of housing wealth for couples – both in home care and in residential care – and whether a lifetime cap is imposed at the same time as bringing housing wealth into the means test for home care. The analysis of two scenarios illustrates that it is possible to design versions of the proposal which cost more, less or a similar amount, in terms of public spending on long-term care for older people, than the current system, depending on the treatment of the housing wealth of couples, whether a lifetime cap on care costs is imposed and whether housing wealth is disregarded from the means test for an initial period. Clearly, the costs would also be affected by the level at which any cap on lifetime costs is set and by the level of the single capital threshold which formed part of the proposals.

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