The impact of postponement of reforms to long-term care financing in England

by the CASPeR Study team

The delay in the introduction of a lifetime cap on spending on long-term care will result in single and widowed homeowners with modest incomes who need care now or in the near future having to use up twice as much of their capital to pay for their care.

With funding from the Nuffield Foundation we have been exploring the interactions between long-term care reforms in England and reforms to the state pensions system in Great Britain. While the pension reforms will come into force this month, implementation of the long-term care reforms has been postponed to 2020. Our first report examined how the reforms would affect a series of hypothetical individuals who reached state pension age in 2016. We (researchers from the Pensions Policy Institute, the Personal Social Services Research Unit at the London School of Economics and Political Science (LSE) and the Health Economics Group at the University of East Anglia) have recently published a Briefing Note exploring how similar hypothetical individuals will be affected by the postponement of the long-term care reforms.

The hypothetical individuals are assumed to be aged 78 in 2016 and start to have eligible care needs at this age. It is assumed that they start to receive lower rate Attendance Allowance (AA) at age 75; start to receive low level home care at age 78; enter residential care at age 82; and die at age 86½. Our analysis is limited to single (including widowed) older people as the main beneficiaries of the reforms are those who are currently required to use their housing wealth to pay for residential care and that excludes couples.

Reforms to the English long-term care financing system, now due to be implemented in 2020, involve two major changes. First, the upper capital limit for people in care homes will be increased substantially. Second, a lifetime cap on individual liability for care costs is to be implemented which will provide protection against the risk that an individual's savings may be almost entirely used up if high costs are incurred. Before announcing the postponement of implementation of these changes, the Government had intended that the new upper capital limit in residential care would be £118,000 and the lifetime cap would be £72,000. Our analysis assumes that these rates, adjusted for inflation, will apply in 2020.

Our analysis examined the impact of the delay on state contributions to care costs, capital depletion and residual income after housing and care costs for each hypothetical individual. Low earners, assumed in the analysis to be renters, are unaffected by the delay in implementation of the long-term care reforms because they are eligible for public funding of their care costs due to their low levels of incomes and savings. This would remain the same whether or not the reforms are implemented.

We found that for median and high earning individuals who own their own home state contributions to their care do not increase beyond their admission to residential care at age 82. Had the cap been introduced in 2016, their accumulated lifetime care cost would have reached the cap by age 84 and they would then receive state support for their care costs. These individuals would have received over £34,000 in state contribution to their long-term care were the cap introduced in 2016, which they will not now receive.

The delay in the long-term reforms will have a significant impact on capital depreciation for single median and high earning home owners. As a result of the delay in accumulating care costs within a Care Account, their capital will deplete for a longer period. The analysis found that the amount of

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capital that would be depleted as a result of payments for care will be almost double what it would have been had the reforms been introduced in 2016. High earners would experience slightly less capital depreciation due to the delay. This is due to their ability to pay for a greater proportion of their care costs from their income. Thus the effect of the delay is arguably highest for median earning individuals. However, the effect of the delay on capital depreciation is substantial for both high and median earners.

We will next explore the consequences for individuals of variations in care home fees and home care costs across England and variations in long-term care charging policies across England, Scotland and Wales. We will then produce projections of the aggregate costs and distributional effects of the combined long-term care and pension reforms under variant assumptions about such factors as future uprating rules for the lifetime cap.

Further information

Visit the CASPeR study webpage.

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