PRESS RELEASE

"The interaction of the new State Pension and long-term care reforms is complex." says the Care and State Pension Reform research team

The Care and State Pension Reform (CASPeR) research team (comprising of members 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) is today publishing '*Interactions between state pension and long-term care reforms: An overview*'. a report which assesses how reforms to the state pension and the English long-term care financing system interact to affect different groups. This report has been funded by the Nuffield Foundation.

The report finds that those most likely to benefit from the reforms are homeowners and high / median income earners. Lower earning renters could lose out from the combination of reforms, if transitional protection is not introduced.

Individuals are able to use the potential increased income from the state pension reforms to pay for care costs which, combined with the introduction of a care cost cap, means some individuals will deplete their capital to a lesser extent. The report found that a median earning female home-owner uses £46,000 less capital and an equivalent high earning male uses £36,000 less capital. Low income renters are more likely to lose out from the pension reforms as they can lose more in means-tested benefits than they gain in state pension.

Chris Curry, PPI director, part of the CASPeR research team said "The combined effects of these two sets of reforms have received little attention despite interactions between them. If an individual's net income changes as a result of changes in their state pension entitlement, the contribution they are required to pay towards their care costs can change. An increase in state pension income can be wholly or partially offset by an increase in liability for care charges."

Ruth Hancock, Professor in the Economics of Health and Welfare at University of East Anglia, part of the CASPeR research team said "Those individuals not eligible for state funding to cover their care costs can use the increases in their state pension income to pay for part of these and, if they hit the care cost cap, reduce their liability. Ultimately this can reduce the amount of capital that they have to use to pay for their care."

"Medium to high earners who own their own homes do well from the state pension reforms as they age. Low earning renters are less likely to benefit or may lose out from the reforms as their entitlements to means-tested benefits can fall because of the removal of the Savings Credit. This risk is increased if there is no transitional protection for housing benefit and council tax support, and if the savings disregard for residential care costs is removed, as we have assumed in our research".

ENDS

PRESS RELEASE

An Executive Summary of the report follows on the next page.

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The report can be downloaded from: www.pensionspolicyinstitute.org.uk/casper

Notes for editors

1. The CASPeR research team comprises members 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.

2. The report has been funded by the Nuffield Foundation. 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.

PRESS RELEASE

CASPeR

Interactions between state pension and long-term care reforms: An overview

Executive Summary

In April 2016 major reforms to state pensions will be implemented in Great Britain. Reforms to the English long-term care financing system were also to be introduced in 2016 but have recently been postponed until 2020. The combined effects of these two sets of reforms have received little attention despite interactions between them. The pension reforms will involve implementation of a New State Pension (NSP) from April 2016 that will replace the current Basic State Pension (BSP) and the State Second Pension (S2P) or its predecessor, the State Earnings Related Pension Scheme (SERPS). The new pension is expected to be set just above the standard Guarantee Credit level within Pension Credit. The long-term care financing reforms being implemented in April 2020 introduce a lifetime cap on individual liability for care costs to provide protection against the risk that catastrophic costs could use up nearly all of an individual's savings.

This note uses a number of hypothetical individuals in different circumstances – vignettes – to illustrate the effects of the state pension and long-term care reforms. Results are dependent on the precise details of the vignettes. However the key findings from the vignette analysis are:

- Gains in net income from the pension reforms are small at state pension age but increase during retirement.
- Lower income renters are those more likely to lose out from the pension reforms as they can lose more in means-tested benefits than they gain in state pensions. Reduced Housing Benefit is a main reason why low earning renters do not benefit from higher state pension income.
- Home-owners tend to gain from both sets of reforms. They do not receive Housing Benefit and so do not lose Housing Benefit if their state pensions increase. Home-owners benefit from the cap on long-term care costs if they have eligible care needs for long enough.
- People on relatively high incomes gain from both sets of reforms, irrespective of the level of their assets. They do not experience offsets on means-tested benefits from higher state pensions; and they currently pay some or all of any care costs so benefit from the cap if they have eligible care needs for long enough.
- People on low incomes who do not claim their entitlements to means-tested benefits can benefit from the pension reforms. This is also the case for those on low incomes who are excluded from means-tested benefits because they have (quite modest) savings.
- A NSP at the level of the standard Guarantee Credit will not eliminate means testing. Our low income renters are all entitled to Housing Benefit before and after the reforms. Disability additions in means-tested benefits can bring people on to means-tested benefits later in retirement if they become entitled to disability benefits.
- We have assumed that the removal of the Savings Credit will lead to the removal of the savings disregard in residential care. This is one reason why the state pension reforms can appear to cause a reduction in state support for care needs. The Government has not yet announced whether the savings disregard in residential care will be removed when the Savings Credit is abolished for new retirees in April 2016.