



# The Impact of Postponement of Reforms to Long-term Care Financing in England

Care and State Pension Reform (CASPeR) a collaborative project between the Pensions Policy Institute (PPI), the University of East Anglia (UEA) and the London School of Economics and Political Science (LSE), funded over two years by the Nuffield Foundation, investigating the long-term impacts of both long term care and state pension reforms and their potential interactions.



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## Introduction

The UK Government planned to introduce major reforms in April 2016 to both the state pensions system in Great Britain and the long-term care financing system in England. It decided in summer 2015, however, to postpone to 2020 implementation of the reforms to the long-term care financing system. Our study, funded by the Nuffield Foundation, aims to explore the interactions between the state pension and long-term care reforms. It involves researchers from the Pensions Policy Institute<sup>1</sup>, the Personal Social Services Research Unit at the London School of Economics and Political Science (LSE)<sup>2</sup> and the Health Economics Group at the University of East Anglia<sup>3</sup>.

Our first report<sup>4</sup> examined how the reforms would affect a series of hypothetical individuals who reached state pension age in 2016. This briefing note explores how similar hypothetical individuals will be affected by the postponement of the long-term care reforms from 2016 to 2020.

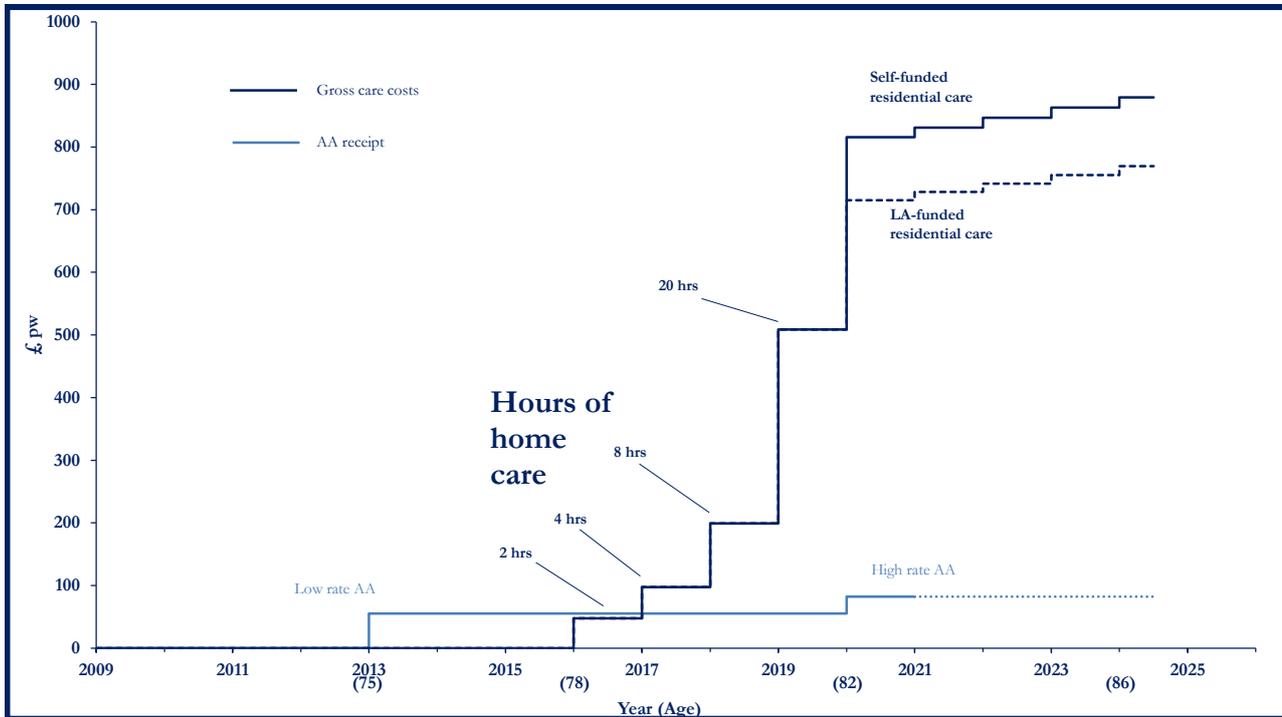
Adult social care in England, unlike health care, is not free at point of use. It is subject not only to an assessment of need but also a financial assessment which takes account of savings and income. A person with savings above an upper capital limit, currently £23,250, is generally not eligible for publicly funded adult social care. For a home-owner entering residential care, the value of their home is normally taken into account unless a qualifying person, usually a spouse, continues to live in the home. A person with savings below this upper capital limit may still need to contribute to the costs of their care from their savings and income.

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. The Government had intended that, before announcing the postponement of implementation of these changes from 2016 to 2020, 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.

This Briefing Note looks at the financial implications of the delay in the introduction of the reforms for individuals who are likely to face care costs which exceed the cap in the interim period between April 2016 and 2020. As in our first report, we use vignettes based on a number of hypothetical individuals in different circumstances to illustrate the effects of the postponement of the introduction of the cap.

If the lifetime cap on liability for care costs was implemented in April 2016, individuals having eligible care needs would have the costs of meeting those needs begin to accumulate in their 'Care Account'. For those needing costly care for long enough, their Care Account could exceed the proposed cap of £72,000 by 2019. The postponement of this reform means that these individuals will now accrue care costs which will not accumulate in a Care Account. Only costs incurred after implementation in 2020 will be eligible to be

Figure 1: The projected pathway of gross care costs and Attendance Allowance (AA) assumed within the vignettes



included in a Care Account and counted toward the cap.

### Vignette analysis

To examine the implications of the postponement of the long-term care reforms vignettes are of hypothetical individuals aged 78 in 2016. This is the age at which we assume, for illustrative purposes, that they start to have eligible care needs. We assume that these individuals started to receive lower rate Attendance Allowance (AA) at age 75 and start to receive low level home care at age 78. We then assume that as they age they receive gradually increasing amounts of home care and move onto higher rate AA, before entering residential care at age 82 and then dying at age 86½ (see Figure 1). If they are eligible for state help with their residential care costs, the care home fee is assumed to be the local authority usual rate but they will lose their AA. A care home stay of 4½ years is above the median observed in practice, but is used here for illustrative purposes as care needs of this length will put an individual’s Care Account above the proposed cap. The vignettes have been chosen to illustrate the situation for

people who are affected most by the reforms and their postponement. Our analysis is limited to single people. This is because 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. However, our analysis does provide a guide to the situation for couples once one partner has died and the surviving partner requires care (or both partners enter residential care).

The vignettes distinguish men and women and vary in their level of past earnings and private pension accumulation (which vary by gender). They also vary in their financial and housing wealth. Median and high earning vignettes are homeowners whereas low earners are renters. The vignettes’ combination of earnings level, financial and housing wealth, pension accumulation and housing tenure are informed by analysis of the English Longitudinal Study of Ageing. Full details of the vignettes are in Appendix 1.

### Effects of postponement of the introduction of the lifetime cap

The low earning vignettes (vignettes 1 and 2) are unaffected by the delay in implementation of the long-term care reforms, on our assumed care



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trajectory. Because of their low levels of incomes and savings they would be eligible for public funding of their care costs whether or not the reforms are implemented. By the time they reach the cap, the state is already meeting all their care costs (except for their user charge contribution from income). The rest of this note therefore concentrates on vignettes 3 to 6.

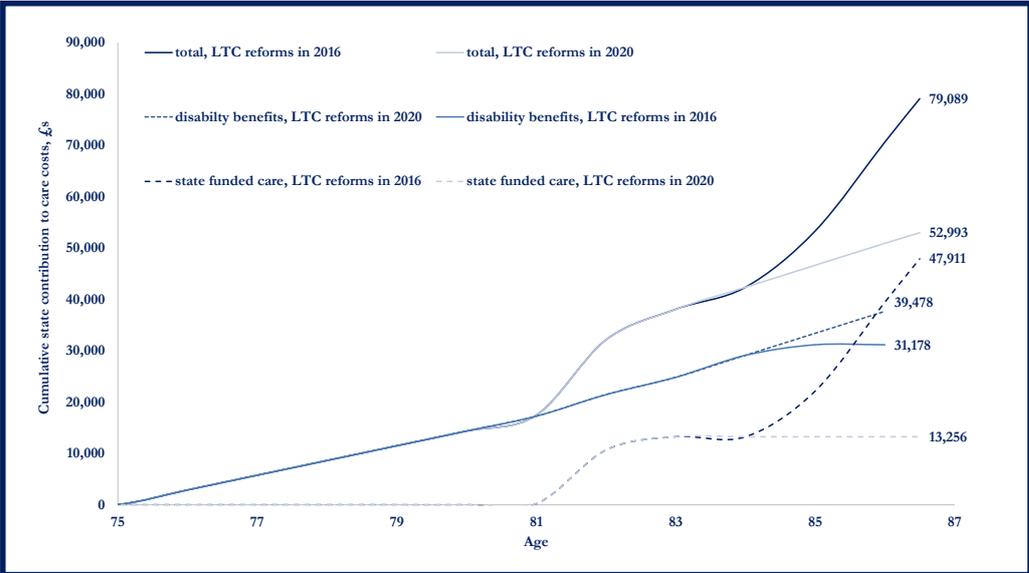
All results are expressed in 2015 prices. Assumptions on future growth in the Consumer Price Index, average earnings, the GDP deflator and the ‘triple lock’ for uprating the basic state pension have been taken from the latest Office for Budget Responsibility projections<sup>5</sup>. Other

assumptions are as set out in our first report and include real growth in the unit costs of care and in house prices.

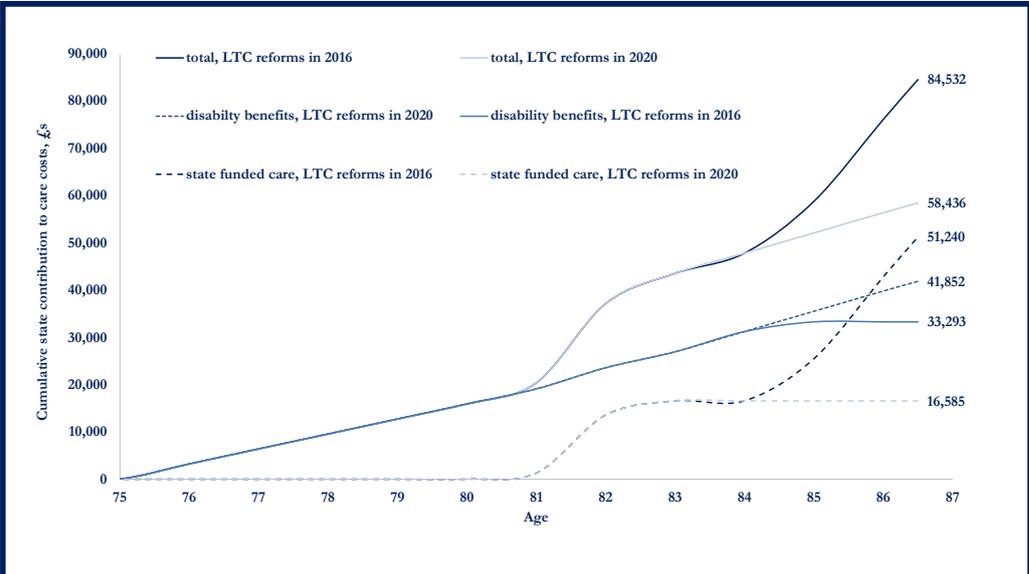
### State contribution to care costs

Median earning vignettes (vignettes 3 and 4) who own their own homes will receive substantially less state contribution to their care costs because of the delay in the implementation of the cap (Figures 2 and 3). With the delay, state contributions to their care do not increase beyond their admission to residential care at age 82. These individuals will not see the cost of their care within their Care Account exceed the cap prior to death. Were the cap

**Figure 2:**  
The delay in the reforms reduces substantially the total state contribution to care costs for the median earning male homeowner.



**Figure 3:**  
The single female median earning homeowner also receives a lower total state contribution to care costs as a result of the postponement of the reforms.





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introduced in 2016, state contributions would begin to increase at age 84 at which time the cumulative cost of care within their Care Accounts would reach £72,000. This pattern is almost identical for single male and female homeowners with median earnings. Cumulative state contributions are slightly higher for this group of women than for their male counterparts due to lower lifetime earnings resulting in greater state contributions over time.

The unmarried homeowner, high earning vignettes (vignettes 5 and 6) will also miss out on state contributions to long-term care because of the delay in the cap. Were their Care Accounts to begin to accumulate in 2016, they would begin to receive state contributions to care costs at age 84 (Figure 4). At this point they will have spent two years in residential care. As with median earning vignettes, high earning vignettes would receive over £34,000 in state contribution to their long-term care were the cap introduced in 2016, which they will now not receive.

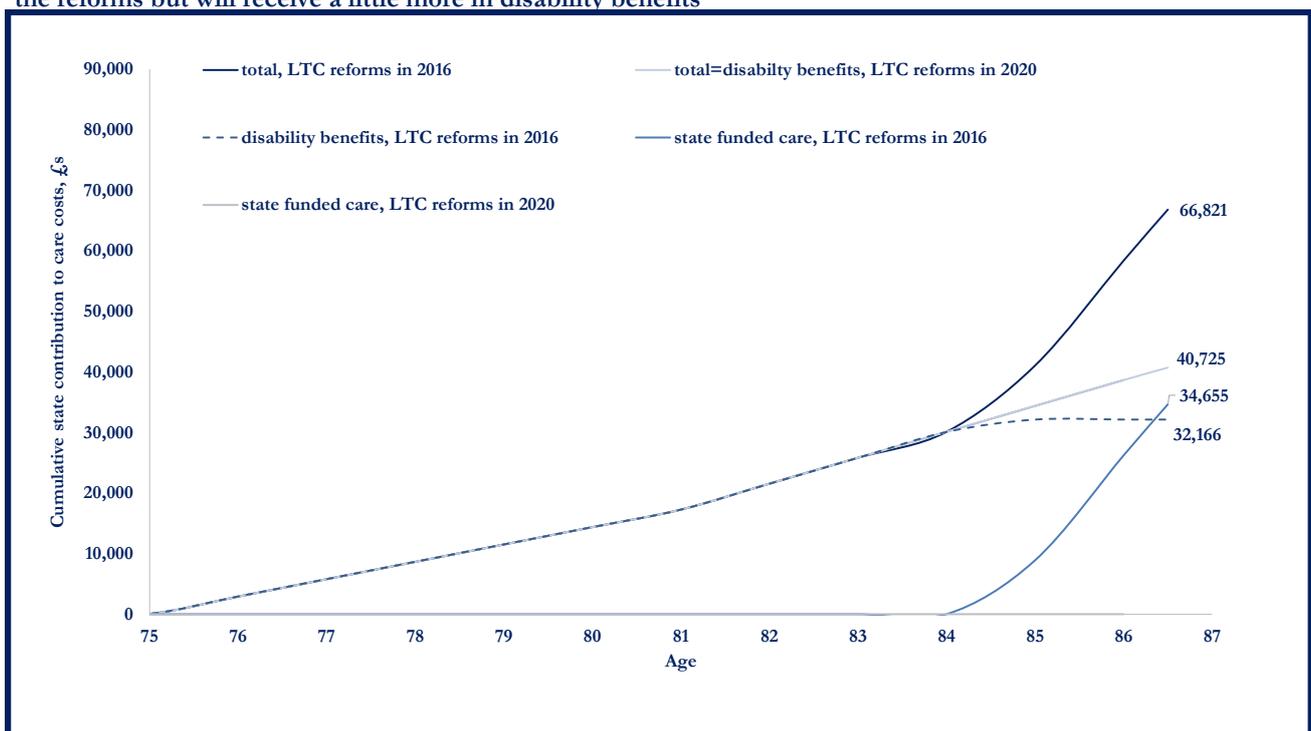
### Capital depreciation

Given that median and high earning vignettes

miss out on state contributions towards their long-term care costs, what does this mean for the depletion of their capital assets? Consider a median earning female homeowner (vignette 4) owning a home valued at £300,000. Had the cap been implemented in 2016, her capital would start to deplete in 2020 on entering residential care (Figure 5). Her capital would have depleted by 10 per cent over the next 3 years and would not deplete further as the cost of her care needs accumulating within her Care Account would have reached the cap. The delay in the implementation of the cap to 2020, and therefore the delay in accumulating cost of care within a Care Account, means that her capital would continue to draw down throughout her time spent in residential care. By the time of her death her capital would have depleted by 20 per cent.

This pattern is very similar for the male homeowner median earnings vignette. Implementation of the cap in 2016 would have led to 9 per cent depletion in capital by the end of his life; the 2020 implementation of the cap results in a 17 per cent depletion in his capital by the time of his death.

**Figure 4: The high earning male homeowner receives no state-funded care as a result of the delay in implementing the reforms but will receive a little more in disability benefits**

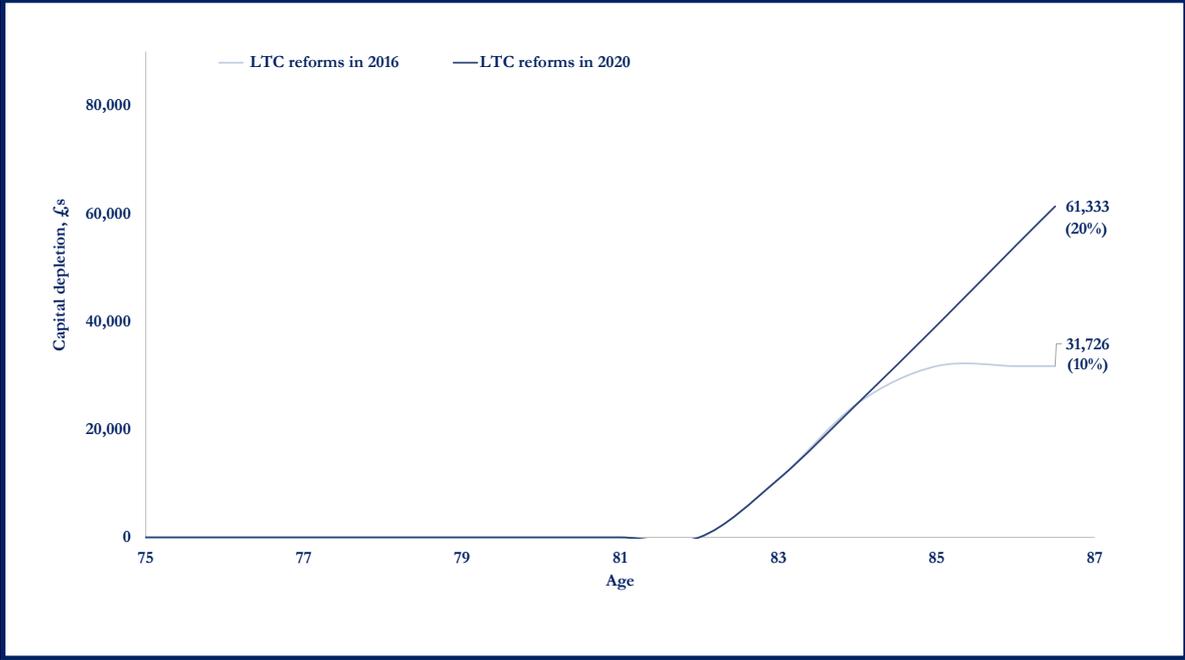


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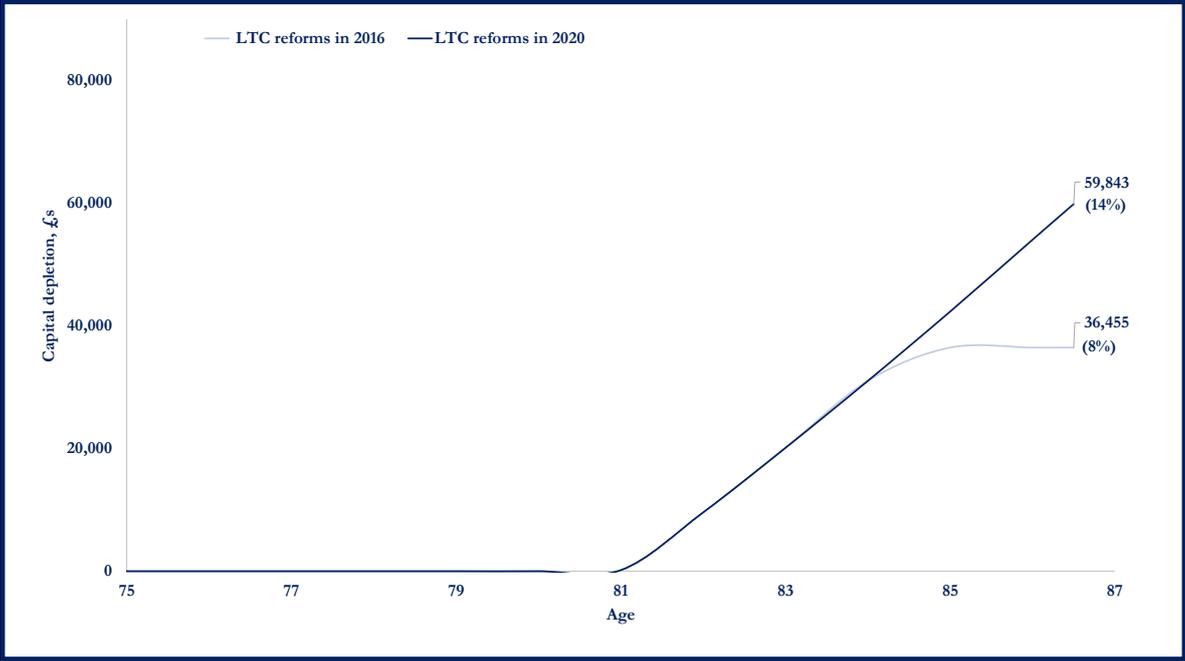
Relative to vignettes whose past earnings were at the median of the earnings distribution, the high earning vignettes experience lower capital depletion over the course of their receipt of long-term care. The single female homeowner with high past earnings (vignette 6) would have experienced capital depletion of 8 per cent had the cap been

implemented in 2016, but with the delay in implementation will experience capital depletion of 14 per cent by the time of her death (Figure 6). Capital depletion is greater for vignettes whose past earnings were at the median as compared to higher earners because the latter group have higher pension income to put towards their care costs and so draw down less of their capital (Table 2).

**Figure 5: The delay in implementing the reforms almost doubles capital depletion for the median earning female homeowner**



**Figure 6: The postponement of the reforms also results in a substantial increase in capital depletion for the high earning female homeowner.**



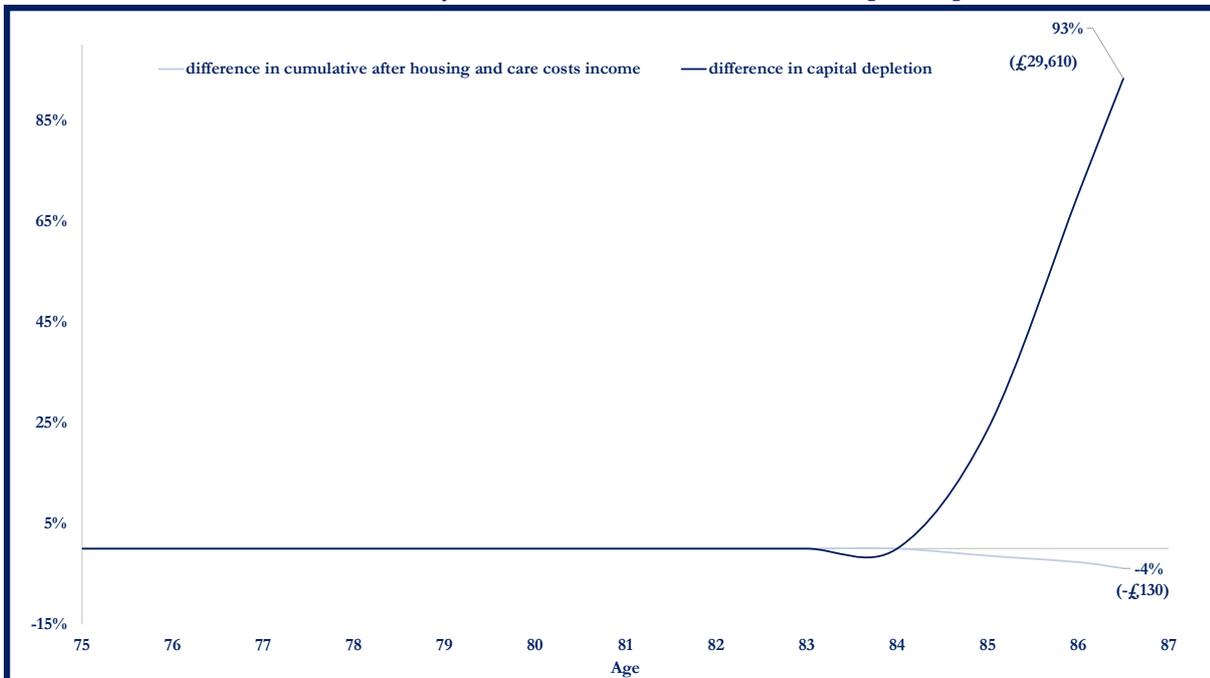


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**Table 2: The delay in long-term care reforms increases capital depletion for all median and high earning vignettes.**

Vignette	Capital depletion	
	LTC reforms in 2016	LTC reforms in 2020
Single male, low earnings	0	0
Single female, low earnings	0	0
Single male, median earnings	£27,054	£52,600
Single female, median earnings	£31,726	£61,333
Single male, high earnings	£27,623	£46,039
Single female, high earnings	£36,455	£59,843

**Figure 7: The single female homeowner on median earnings experiences only a slight percentage reduction in cumulative net income as a result of the delay in the reforms but the increase in capital depletion is substantial**



### *Spend from income and capital*

Figures 7 and 8 graphically illustrate the differences in income (after housing and care costs) and capital depletion attributable to the delay in the implementation of the cap for the single female homeowner vignettes. Figure 7 relates to the single female median earning vignette (vignette 4); Figure 8 to the single female, high earning vignette (vignette 6).

As a result of the delay in the implementation of the cap, the cumulative income of vignette 4 will decrease by 4 per cent (Figure 7). Capital depletion for this illustrative individual is 93 per

cent higher as a result of the delay. Relative to the single female homeowner, median earnings vignette, the effect of the delay in the implementation of the cap for the high earnings vignette is a greater decline in cumulative income but a smaller decline in capital depletion. For the single female homeowner, high earnings vignette (vignette 6), the delay in the cap results in cumulative income, after housing and care costs, 8 per cent lower than had implementation occurred in 2016 (Figure 8). For this individual, capital depletion is 64 per cent higher as a result of the delay in the implementation of the cap.



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## Conclusions

The impact of the delay in the implementation of the long-term care funding reforms, in particular the lifetime cap on individual liability for care costs, will be felt the most by people already receiving care in 2016 who have enough income or capital to contribute substantially towards their care costs under the current funding system.

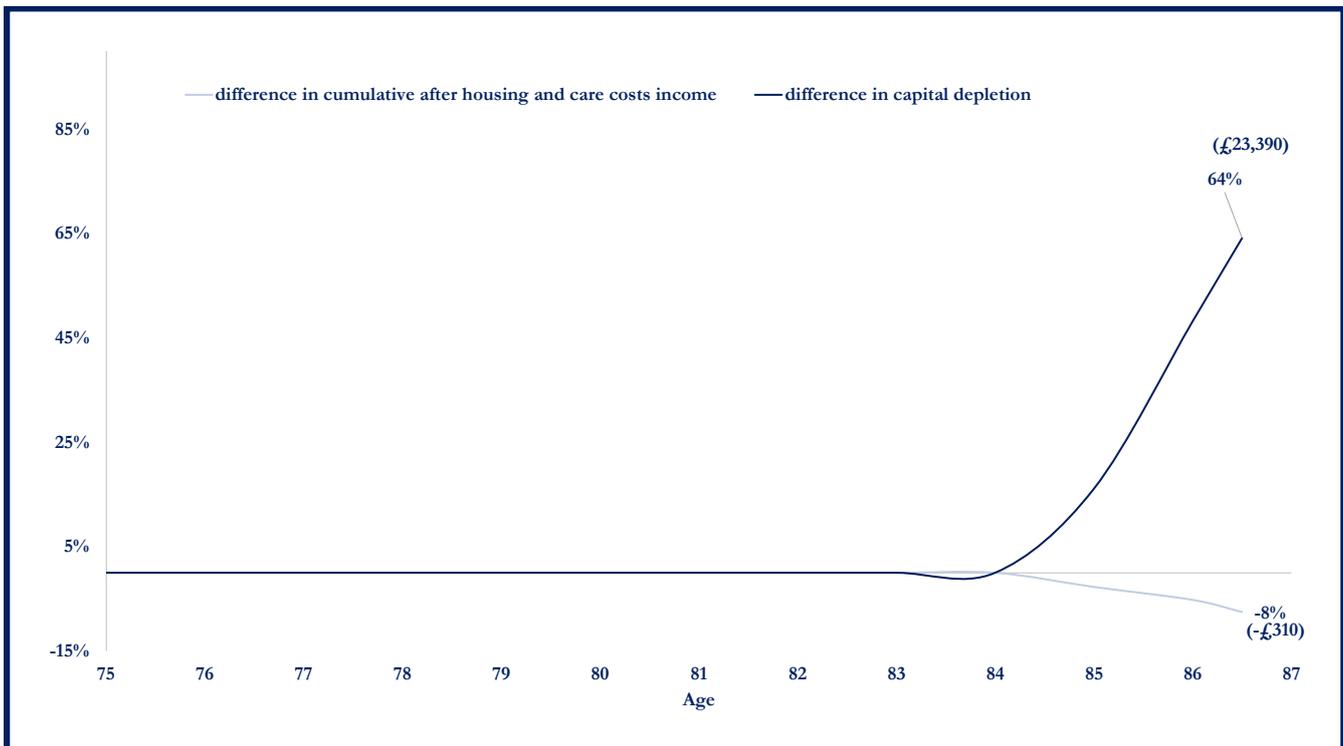
The delay significantly affects median and high earning vignettes who own their home but low earning vignettes who rent their home are unaffected.

The delay in the implementation of the cap means that care costs incurred between 2016 and 2020 will not contribute to Care Accounts. The

cohort of people receiving care in 2016 will be affected most by this delay. Among them, under the current system, state contributions to long-term care costs are much lower for median and high earning vignettes than they are for low earning individuals. Median and higher earning individuals therefore stood to benefit most from implementation of reforms in 2016 and so are affected most by the delay in implementation.

The effect of the delay is arguably highest for the median earning vignettes. Compared to higher earners, they currently meet a greater proportion of their care costs by drawing down on their capital. However, the effect of the delay on capital depreciation is substantial for both.

Figure 8: The single female homeowner on high earnings experiences a larger percentage decrease in cumulative net income but a smaller increase in capital depletion than her median earning equivalent.



## References

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<sup>5</sup> Economic and Fiscal Outlook November 2015. Fiscal sustainability report June 2015. <http://budgetresponsibility.org.uk/>



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## Appendix 1: Description of vignettes

Vignettes	Description
1. Single male, low earnings	<ul style="list-style-type: none"> <li>- Career: Retired aged 55 (early retirement due to ill health)</li> <li>- Earning distribution: Low earner (30<sup>th</sup> percentile)</li> <li>- Home: <ul style="list-style-type: none"> <li>Renter (£133 pw in 2016 prices, converted to 2015 prices)</li> <li>Income linked council tax liability from ELSA</li> </ul> </li> <li>- Other financial wealth – Income linked from ELSA (£1,000 in 2016 prices)</li> </ul>
2. Single female, low earnings	<ul style="list-style-type: none"> <li>- Career: Career break aged 30 to 41, retirement aged 63</li> <li>- Earning distribution: Low earner (30<sup>th</sup> percentile)</li> <li>- Home: <ul style="list-style-type: none"> <li>Renter (£133 pw in 2016 prices, converted to 2015 prices)</li> <li>Income linked council tax liability from ELSA</li> </ul> </li> <li>- Other financial wealth – Income linked from ELSA (£1,000 in 2016 prices)</li> </ul>
3. Single male, median earnings	<ul style="list-style-type: none"> <li>- Career: Retirement aged 65</li> <li>- Earning distribution: Median earner</li> <li>- Home: <ul style="list-style-type: none"> <li>Home owner (£300,000 in 2016 prices)</li> <li>Income linked council tax liability from ELSA</li> <li>Income linked house price</li> </ul> </li> <li>- Other financial wealth – Income linked from ELSA (£8,000 in 2016 prices)</li> </ul>
4. Single female, median earnings	<ul style="list-style-type: none"> <li>- Career: Retirement aged 63</li> <li>- Earning distribution: Median earner</li> <li>- Home: <ul style="list-style-type: none"> <li>Home owner (£300,000 in 2016 prices)</li> <li>Income linked council tax liability from ELSA</li> <li>Income linked house price</li> </ul> </li> <li>- Other financial wealth – Income linked from ELSA (£8,000 in 2016 prices)</li> </ul>
5. Single male, high earnings	<ul style="list-style-type: none"> <li>- Career: Retirement aged 65</li> <li>- Earning distribution: High earner (70<sup>th</sup> percentile)</li> <li>- Home: <ul style="list-style-type: none"> <li>Home owner (£400,000)</li> <li>Income linked council tax liability from ELSA</li> <li>Income linked house price</li> </ul> </li> <li>- Other financial wealth – Income linked from ELSA (£40,000 in 2016 prices)</li> </ul>
6. Single female, high earnings	<ul style="list-style-type: none"> <li>- Career: Retirement aged 63</li> <li>- Earning distribution: High earner (70<sup>th</sup> Percentile)</li> <li>- Home: <ul style="list-style-type: none"> <li>Home owner (£400,000)</li> <li>Income linked council tax liability from ELSA</li> <li>Income linked house price</li> </ul> </li> <li>- Other financial wealth – Income linked from ELSA (£40,000 in 2016 prices)</li> </ul>

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