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Increasing the State Pension each year by less than the triple lock would allow the government to boost long-term care and disability benefits uprating. Over time, this would enable resources to be more closely targeted on the minority of pensioners with care needs, finds the Care and State Pension Reform research team

The Care and State Pension Reform (CASPeR) research team is today publishing two reports. These reports include new analysis quantifying the cost to the Exchequer and identifying those who stand to gain and lose from the state pension and long-term care financing reforms. It contextualises these results with earlier findings of the CASPeR research team.

'Interactions between state pension and long-term care reforms: a summary of findings' summarises the findings from the research project which aims to promote informed debate on how the reforms could evolve, highlighting the interactions between the two systems.

'The costs and distributional effects of alternative uprating policies' details the projected impacts of the reforms showing that the effects of both sets of reforms will depend on how details of the systems are set in future years, and in particular how components of the systems are adjusted each year – 'uprated' – for inflation. This has been achieved through development and linkage of three simulation models: the PPI's dynamic microsimulation model; the PSSRU's (aggregate) long-term care projections model; and UEA's microsimulation model, CARESIM, which simulates long-term care charges.

This modelling analysis has shown that home-owners and people on higher incomes tend to gain most from both sets of reforms. Lower income renters can lose more in means-tested benefits than they gain in state pension income from the state pension reforms. People who already had care needs in April 2016 are the group most affected by the delay in implementation of the long-term care reforms: the cap would have particularly helped to protect the savings of those on modest incomes who are currently funding their care from their savings.

The more generous care uprating scenarios all increase public spending on long-term care by 2030. They significantly reduce the extent to which the planned long-term care reforms they tend to favour those on higher incomes: they render the impact of the reforms less uneven across income groups. By 2030, uprating the state pension by earnings rather than the triple lock, which the Chancellor implied in the Autumn Statement could be the policy of a future Conservative administration, would go some way to paying for the more generous long-term care uprating scenarios. Uprating pensions by prices – although not allowed under present legislation – would more than pay for more generous uprating of the care system.

Ruth Hancock, Professor in the Economics of Health and Welfare at University of East Anglia said

"There is an active debate on uprating the state pension by the triple lock but much less discussion of how to uprate the long-term care and disability benefits systems. The cap on care costs planned for 2020 generally favours the better-off. If a future government decides to move towards less generous uprating of state pensions, our research finds that using some of the savings on more generous long-term care and disability benefits uprating would particularly help lower income older people needing care"

Raphael Wittenberg, Associate Professorial Research Fellow from the Personal Social Services Research Unit at the London School of Economics said

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"Our research highlights the value of analysing state pension and long-term care reforms in tandem. There is a policy choice about what proportion of total public expenditure on pensions, long-term care and disability benefits for older people should be specifically targeted on those with care needs. Our analyses show how the annual uprating rules for pensions, long-term care and disability benefits could be changed to increase the proportion targeted on people needing care."

Chris Curry, Director of the Pensions Policy Institute said
"Outcomes from state pension reform and long-term care reform are linked, and the impacts of reforms in these areas need to be considered together. While removing the triple lock would reduce the cost of state pension provision, it would also increase state spending on long-term care costs. "

ENDS

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

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The reports can be downloaded from: http://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.

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The Foundation's funding of the research does not imply agreement with, or support for, the analysis or findings from the project.

Executive Summary

In April 2016 major reforms to state pensions were implemented in Great Britain. Reforms to the English long-term care financing system were also to be introduced in 2016 but have been postponed until 2020. The state pension reforms replace the existing two-tier state pension system with a single tier pension set just above the minimum income guaranteed through means-tested benefits. It affects only people reaching State Pension age from April 2016. The long-term care reforms introduce a cap on lifetime liability for care costs. To reach the cap, people will need to have eligible care needs for a considerable period, typically at least three years.

The primary objective of the state pension reforms is to provide a clearer foundation for private pension saving and reduce reliance on means-tested benefits in retirement by setting the level of the new State Pension (nSP) above the level of the minimum income guaranteed by the means-tested benefit Pension Credit. The long-term care reforms introduce a lifetime limit on individual liability for care costs to provide protection against the risk that care costs could use up nearly all of an individual's savings.

The long-term effects of both sets of reforms will depend on how details of the systems are set in the intervening years, and in particular how components of the systems are adjusted each year – 'uprated' – for inflation. This report summarises the findings from a research project which aims to promote informed debate on how the reforms could evolve, highlighting the interactions between the two systems. Amongst other things, the study has analysed the impact of the reforms to 2030 under uprating assumptions consistent with current policy and under alternative uprating assumptions. A separate more detailed Technical Report of the analysis is available.

Public expenditure effects under current uprating policies

- If the triple lock (the highest of growth in earnings, prices or 2.5%) is applied indefinitely, we project that the reformed pension system will cost a similar proportion of gross domestic product (GDP) as the previous system would have until the 2040s, but its cost will then rise more slowly.
- If uprated by earnings, the reformed pension system will cost less than the previous system from about 2030. By 2060, the saving would be equivalent to about 1% of GDP.
- If the long-term care funding system is reformed according to previous government announcements, we project that public spending on long-term care for older people would reach 0.92% of GDP by 2030 compared with around 0.67% in 2015, and 0.86% in 2030 if the current funding system continued.

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Gainers and losers from reforms under current uprating policies

- Gains in net income from the pension reforms are small at State Pension age but increase during retirement.
- Home-owners and people on higher incomes tend to gain most from both sets of reforms. Lower income renters can lose more in means-tested benefits than they gain in state pension income.
- People who had care needs in April 2016 are the most affected by the delay in implementation of the long-term care reforms. The cap would have helped to protect the savings of those on modest incomes who are funding their care from their savings.

Alternative uprating scenarios

It could be argued that resources for older people should be more focused on the risk of requiring costly care in late old age. We therefore examined a number of more generous uprating scenarios for the reformed long-term care system, some in combination with less generous uprating of the state pension system.

- The more generous care uprating scenarios all increase public spending on long-term care by 2030 but unlike the long-term care reforms themselves, they tend to favour those on lower incomes.
- By 2030, uprating the state pension by earnings rather than the triple lock would go some way to paying for the more generous long-term care uprating scenarios.
- Uprating pensions by prices – although not allowed under present legislation – would more than pay for more generous uprating of the care system.

Comparisons between England, Scotland and Wales

The long-term care systems in Scotland and Wales differ from that in England. Scotland has introduced ‘free personal care’. Wales has a similar system to the current English system, but is more generous in some respects, e.g. it has a maximum weekly charge for home care. We therefore examined the effects on individuals of each system and found that:

- The effects of differences in the funding systems depend on the length of time for which individuals need care – especially high intensity home care or residential care.
- It is only for people who need care for long enough to benefit from the cap that the English reforms produce similar reductions in lifetime care costs to a Scottish-style system of free personal care.
- The Welsh system’s maximum weekly charge for home care can be more beneficial than the English reforms for people who need only home care.

Regional variations within England: should the planned cap on care costs be uniform across England?

We collated data on regional variations in care home fees, incomes, wealth, home-ownership and disability-free life expectancy. It is clear that the effects of the long-term care reforms will vary regionally. The lower care home fees and lower wealth in more deprived areas raises the question of whether there is a case for the cap to be lower in more deprived areas and higher in more affluent areas. In particular, regional differences in care home fees mean that people in more affluent areas reach the cap more quickly than people in less affluent areas. It could however be argued that uniformity across the country in the level of expenditure on care required before reaching the cap is more important than uniformity in the duration of care before meeting the cap.

The case for a lower cap in more deprived areas and a higher cap in more affluent areas is that:

- Differences in life expectancy with disability suggest that people in more deprived areas may need care for longer periods.
- Difference in care home fees mean that people in more affluent areas reach the cap more quickly than people in less affluent areas.

- Differences in older people's incomes and savings mean that people in more deprived areas will in general spend-down a higher proportion of their savings before reaching the cap than residents in more affluent areas.

But

- A cap which varies regionally would be complex to administer.
- Uniformity across the country in the level of expenditure on care required before reaching the cap may be regarded as more important than uniformity in the duration of care before meeting the cap or in spend-down of savings.

The choice depends on which dimension of equity is considered more important.