

CASPeR

Care and State Pension Reform

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

November 2015

PENSIONS POLICY INSTITUTE

PPI



UEA  
University of East Anglia



## Interactions between state pensions and long-term care funding reforms

Summary	1
Introduction	2
1. The state pension reforms	2
2. The long- term care reforms	3
3. Interactions between pensions and long term care costs	4
4. Projected future public costs of pensions and long term care for older people	5
5. Vignette analysis	6
6. Conclusions	15
7. Appendix	17
Acknowledgements and contact details	20
References	21

A Research Report by John Adams, Chris Curry, Ferran Espuny-Pujol, Ruth Hancock, Bo Hu, Derek King, Sarah Luheshi, Marcello Morciano, Timothy Pike, Shamil Popat, Raphael Wittenberg

© November 2015

ISBN 978-1-906284-36-7

<http://www.pensionspolicyinstitute.org.uk/casper>

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](http://www.nuffieldfoundation.org)





## 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.

## Introduction

### **Understanding the interactions between state pension and long-term care reforms is a research project funded by Nuffield Foundation.**

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>. 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 long-term effects of both sets of reforms will depend on how details of the systems are set in the intervening years, and on how policies in other parts of the welfare system evolve. We are publishing a series of publications to provide independent analysis of how the two sets of reforms interact and of the consequences of detailed aspects of their implementation. This first report examines how the reforms will affect a series of hypothetical individuals who reach state pension age in 2016. Future publications will cover topics such as regional variations in the impacts of the reforms, projections of their total costs allowing for the interactions between the two systems and potential refinements to the two sets of reforms aimed at making them work better together for the long term.

## The state pension reforms

On 14 January 2013, the Government published a White Paper<sup>4</sup> setting out plans for state pension reforms, which was passed as an Act of Parliament on 14 May 2014. The Act covers the 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). Since S2P will no longer exist, contracting-out<sup>5</sup> of it will be discontinued. Thirty-five years of National Insurance Contributions (NICs) will be necessary to qualify for a full NSP compared with 30 years under the current system and a minimum of 10 years contributions will be needed to qualify for any amount<sup>6</sup>.

The new pension is expected to be set just above the standard Guarantee Credit level within Pension Credit<sup>7</sup>, currently £151.20 per week, although the actual level will be set by the Government closer to the implementation date of April 2016. The Savings Credit (SC) component of Pension Credit will be removed, on the grounds that the full level of the NSP will be set above the minimum income level guaranteed through Pension Credit.

---

<sup>1</sup> John Adams, Chris Curry, Sarah Luheshi, Timothy Pike, Shamil Popat

<sup>2</sup> Bo Hu, Derek King, Raphael Wittenberg

<sup>3</sup> Ruth Hancock, Marcello Morciano, Ferran Espuny Pujol

<sup>4</sup> DWP (2013). The single-tier pension: a simple foundation for saving.

<sup>5</sup> People can currently contract-out of S2P via a defined benefit pension; they and their employer then pay a slightly lower National Insurance (NI) contribution.

<sup>6</sup> While the Pensions Bill states that the minimum number of years needed to qualify for the single-tier pension can be no more than 10, the final number will be decided by the Government closer to April 2016.

<sup>7</sup> Pension Credit is a means-tested benefit for older people which aims to ensure that their incomes do not fall below a minimum (the Guarantee Credit level) and also provides a 'reward' for savings through the Savings Credit component.

The changes will not apply to people who are over State Pension Age (SPA) when the new arrangements are introduced. The accumulated state pension entitlements of those under SPA will be protected. When the NSP is introduced, a “foundation” amount will be calculated for each individual, based on their entitlement built up under the current state pension system. This will be compared to the amount that the individual would have built up in the new single-tier system had it been in place. Individuals will then take forward the higher of the two amounts (adjusted for time spent contracted out of the S2P and SERPS) into the new system. If the foundation amount is higher than the new single-tier level, the amount above the single-tier level will be protected and paid on top of the NSP.<sup>8 9</sup>

## **The long-term care reforms**

The 2014 Care Act introduces changes to long-term care funding in England. Currently when people need long-term care, their Local Authority (LA) applies a means test to establish how much they must pay towards the cost of that care. Those with capital above an upper threshold have to meet all of their care costs and where care is provided in a care home, the value of a person’s home is usually included in their capital. If their capital is below the threshold they have to contribute to the cost of their care from their income. For care received at home, such contributions are set so that the individual’s remaining disposable income is at least 125% of the Pension Credit Guarantee Credit level. Where care is provided in a care home, residents’ contributions from their income must leave them with a small personal expenses allowance.

The 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. To benefit from the lifetime cap, a person will have to be assessed by a LA as having eligible care needs. The LA will then work out the weekly costs of meeting those needs and keep track of the cumulative amount of those costs through the person’s ‘Care Account’. Until their Care Account reaches the cap, the LA will still apply the current means test to determine how much the person must pay towards the cost of their assessed needs. However their progress towards the cap is based on the total costs of their care needs, not the amount they pay towards that cost. Once the cap is reached, the state will meet the cost of their eligible care needs without a means test. The daily living (or ‘hotel’) costs component of care home fees will continue to be means tested.

The long-term care reforms also increase the upper capital threshold for people in residential care. If implemented in April 2016 this increase would have been from £17,000 to £118,000 in April 2016 prices. As now, people who are initially not entitled to public support with their care costs may become entitled to some support if their savings fall below the upper threshold even if they have not yet reached the cap. To reach the cap they will need to have eligible needs for a considerable period (typically around at least 3 years depending on the cost of meeting their care needs).

People with care needs may also be eligible for one of two cash disability benefits – Attendance Allowance (AA) or Disability Living Allowance (DLA)<sup>10</sup>. Receipt of these

---

<sup>8</sup> <http://www.pensionspolicyinstitute.org.uk/publications/reports/ppi-single-tier-series-the-impact-of-the-governments-single-tier-pension-reform>

<sup>9</sup> <http://www.pensionspolicyinstitute.org.uk/pension-facts/pensions-primer-a-guide-to-the-uk-pensions-system>

<sup>10</sup> DLA is in the process of being replaced by Personal Independence Payment.

benefits can also trigger increases in entitlements to Pension Credit and other means-tested benefits through a Severe Disability Addition, currently £61.85 per week, which is added to the standard Guarantee Credit. If someone receives help with care home fees from their LA, payments of AA, the care component of DLA and the associated increase in means-tested benefits cease. Payments to those initially not receiving LA support will cease when they reach the cap and become entitled to LA support.

## **Interactions between pensions and long-term care costs**

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. Thus an increase in state pension income can be wholly or partially offset by an increase in liability for care charges. For those not entitled to public support with their care costs, increases in income can also slow down the rate at which they need to deplete their capital to pay for care.

Additionally, the residential care means test incorporates a small disregard on income from savings (the 'savings disregard') which was implemented when the Savings Credit was introduced. The savings disregard applies to all forms of savings income and people do not have to receive the Savings Credit to benefit from it. We assume here that since the pension reforms remove the Savings Credit this disregard also ends when the pension reforms come into force although there has been no statement from the Government that this will be the case.

For people entitled to the Severe Disability Addition in Pension Credit, a full NSP will not guarantee that their incomes take them above the level provided by Pension Credit so they may still be entitled to a means-tested supplement to their income.

## **Projected future public costs of pensions and long-term care for older people**

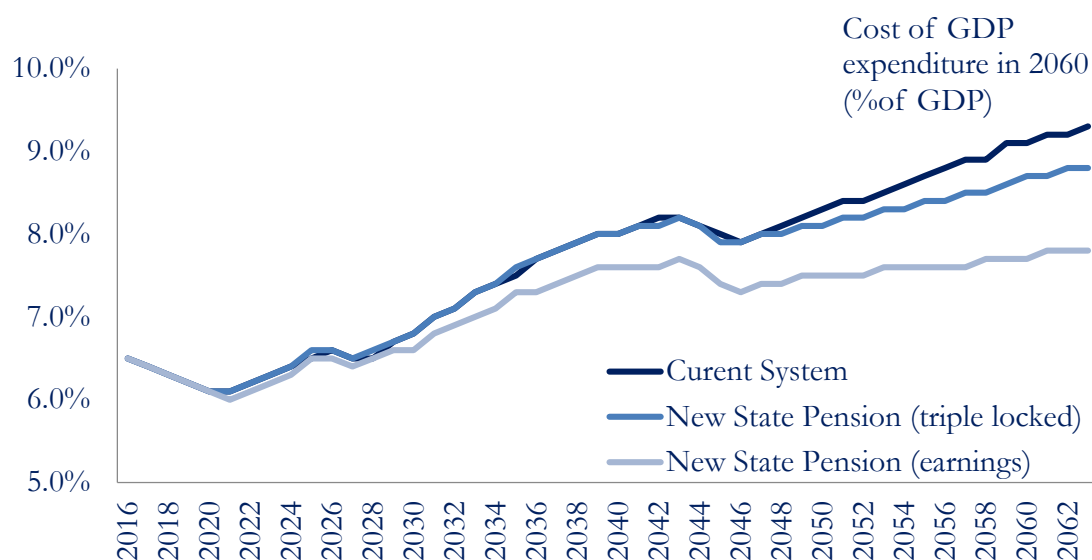
### *State pensions*

The future costs of the pension reforms will depend on how the NSP is uprated over time. Legislation requires the NSP to be uprated in line with average earnings growth but the Government is committed to uprating by the triple lock (the highest of the annual increase in earnings growth, price inflation or 2.5%) for the rest of this parliament. Chart 1 contrasts the proportion of GDP the NSP is projected to cost through until 2062 if it is uprated by the triple lock or by earnings, compared with the current system uprated by the triple lock.

The pension reforms are expected to cost a similar amount to the current system until the 2040s, if the triple lock is applied, before spending rises more slowly than under the current system. If the NSP is uprated only in line with average earnings growth by 2060 spending would be 10%, or 1% of GDP, lower than with the triple lock. This is because in the current system after 2040 S2P matures and would begin to deliver, on a more consistent basis, a state pension to new retirees which, when combined with the BSP, would give a state pension income above the NSP level.



**Chart 1<sup>11</sup>: The New State Pension with triple lock will require a smaller percentage of GDP to pay for it, from around 2046, compared to the current system**



### *Long-term care*

As increasing numbers of people live to late old age, the demand for long-term care is expected to rise. Assuming current age and gender-specific disability rates continue, and the supply of unpaid care keeps pace with increasing care needs, net public expenditure on social care<sup>12</sup> for older people will have to rise from around £6.9 billion in 2015 to £17.5 billion in 2035 (2015 prices)<sup>13</sup> even without the reforms to the funding system (and taking no account of the pension reforms). As a percentage of GDP this represents an increase from 0.43% to 0.69%.

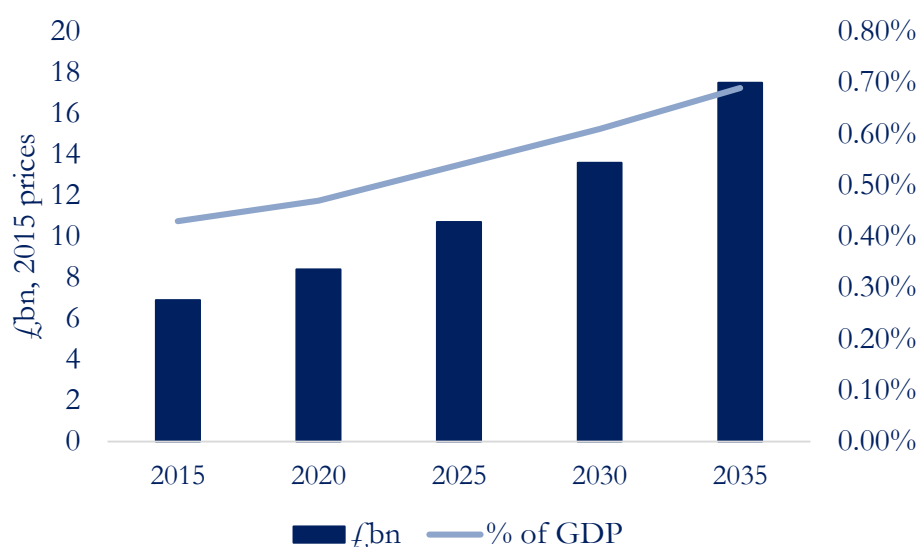
<sup>11</sup> Key assumptions for projections

- Sourced from DWP updated impact assessment of the new state pension
- OBR assumptions from Fiscal Sustainability Report (FSR) 2014
  - Short term economic assumptions
  - Long term economic assumptions
  - 2012 based low migration population projections
- Does not include future longevity-linked SPA increases, does not include Northern Ireland
- Impact of reverting to earnings only uprating calculated from OBR 2015 FSR

<sup>12</sup> Net public expenditure on social care for older people is expenditure made by Local Authorities net of income they collect in user charges. It does not include NHS fully-funded nursing care or the NHS contribution to nursing care in a nursing home.

<sup>13</sup> Other important assumptions are: the number of older people by age and gender rises in line with the latest (2012-based) Office for National Statistics principal population projections; the units costs of care increase in real terms by 2.2% per year; the proportion of older people who own their homes continues to rise (this affects the proportion of older care home residents who have to fund their own care). For further details see Wittenberg R and Hu B (2015) Projections of Demand for and Costs of Social Care for Older People and Younger Adults in England, 2015 to 2035. PSSRU discussion paper 2900.

**Chart 2<sup>13</sup>: Public spending on social care for older people in England under the current funding system is projected to need to increase by 155% over the next 20 years to keep pace with demographic change, or by 60% as a proportion of GDP**



Implementation of the long-term care funding reforms in 2020 will have little effect on the projected costs in that year as it will take time from that point for people to reach the cap on care costs. However, from 2025 public expenditure on long-term care for older people would be about 16% higher than under the current funding system<sup>14</sup>. Projected expenditure in 2035 would be £20.3 billion (0.80% of GDP) rather than £17.5 billion (0.69% of GDP)<sup>15</sup>.

## Vignette analysis

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. All vignettes reach state pension age in April 2016 which will be 63 for women and 65 for men. In other respects they have been chosen to illustrate important aspects of the reforms rather than to be representative of the cohort reaching SPA in 2016. All but one vignette are single on reaching state pension age. The vignettes distinguish men and women. They vary in their levels of past earnings and private pension accumulation (which vary by gender) and in their financial and housing wealth. Median and high earning vignettes are homeowners whereas low earners are renters. The vignettes’ combinations of earnings level, financial and housing wealth, pension accumulation and housing tenure are informed by analysis of the English Longitudinal Study of Ageing. The single vignettes all experience the same disability and care trajectories. They start to have eligible care needs at age 78 and receive

<sup>14</sup> Hancock R, Wittenberg R, Hu B, Morciano M and Comas-Herrera A (2013) Long-term care funding in England: an analysis of the costs and distributional effects of potential reforms. Health Economics Group at the University of East Anglia working paper 13-01 and PSSRU discussion paper 2857.

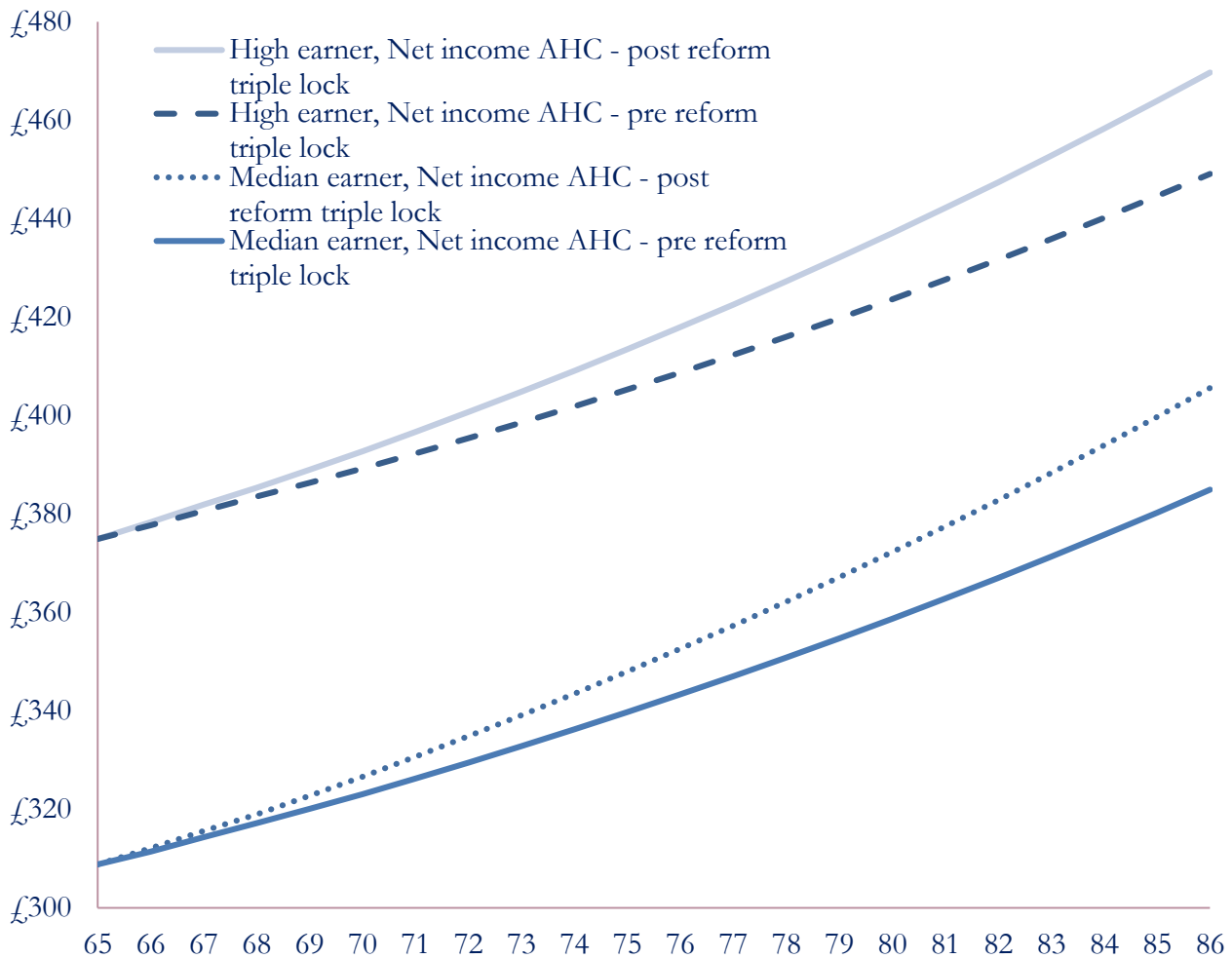
<sup>15</sup> These projections were produced through linkage between an aggregate projection model developed by PSSRU at LSE and a microsimulation model of care charging maintained at the Health Economics Group at the University of East Anglia. See Wittenberg R, Hu B, Hancock R, Morciano M, Comas-Herrera A, Malley J, and King D (2011) Projections of Demand for and Costs of Social Care for Older People in England 2010 to 2030, under Current and Alternative Funding Systems: Report to the Commission on Care and Support, PSSRU discussion paper 2811/2.

gradually rising amounts of home care before entering residential care at age 82 and then dying at age 86½. A care home stay of 4½ years is above the median observed in practice, but is used here for illustrative purposes. For the married vignette we assume that it is the woman who needs care and she enters residential care at age 83, when her husband dies, rather than at age 82. Full details of the vignettes are given in the Appendix.

### Effects of state pension reforms

The median and high earners who own their own homes do well from the reforms as they age (Chart 3). They see an increase in their net weekly income compared with the current system and this increase rises over time. The rise is due to the post-reform triple lock being applied to more of their state pension income: in the current system any state pension above the BSP (mainly SERPS or S2P) increases only in line with prices.

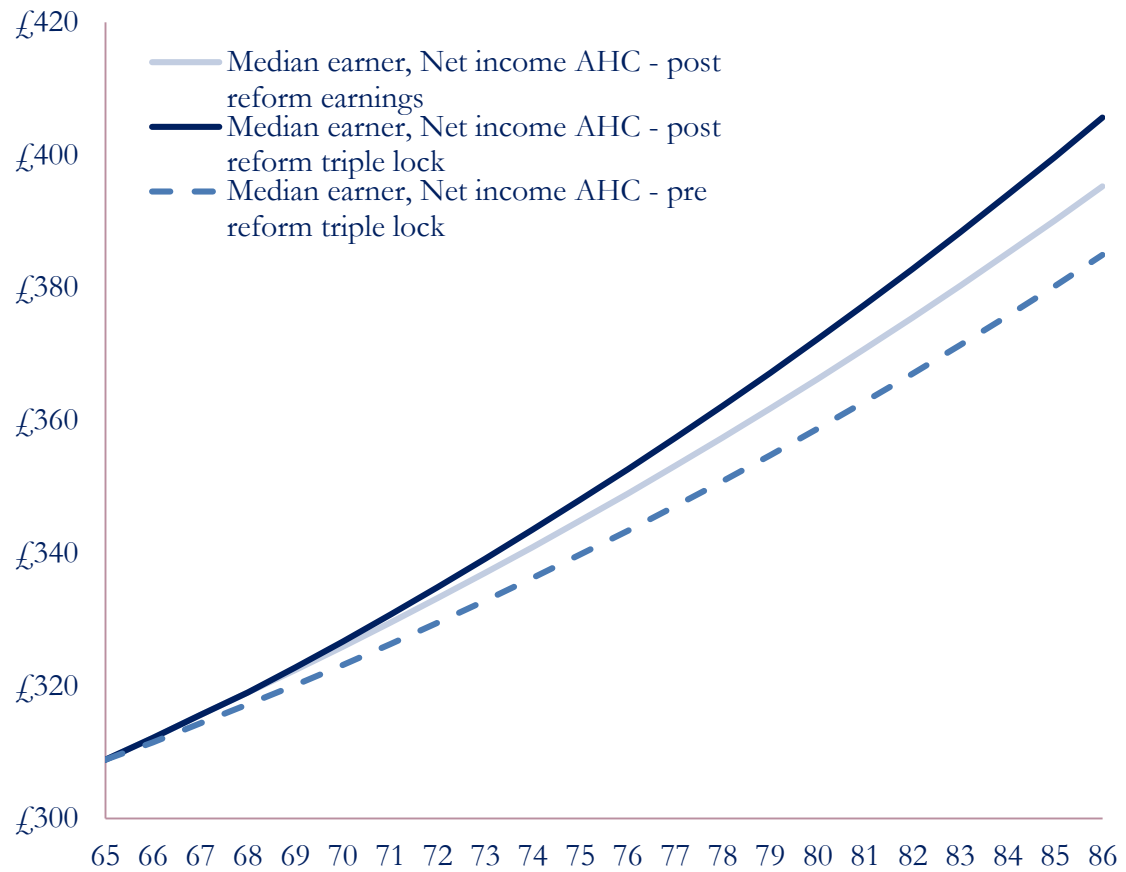
**Chart 3<sup>16</sup>: Both the median and high earning male are better off under the new system (with triple lock)**



<sup>16</sup> Net weekly income after housing costs pre and post reform for a median / high earning man, with private pension, reaching SPA in 2016 (2015 prices)

The gains would be smaller, but still positive and rising with age, if the NSP was increased in line with average earnings (Chart 4).

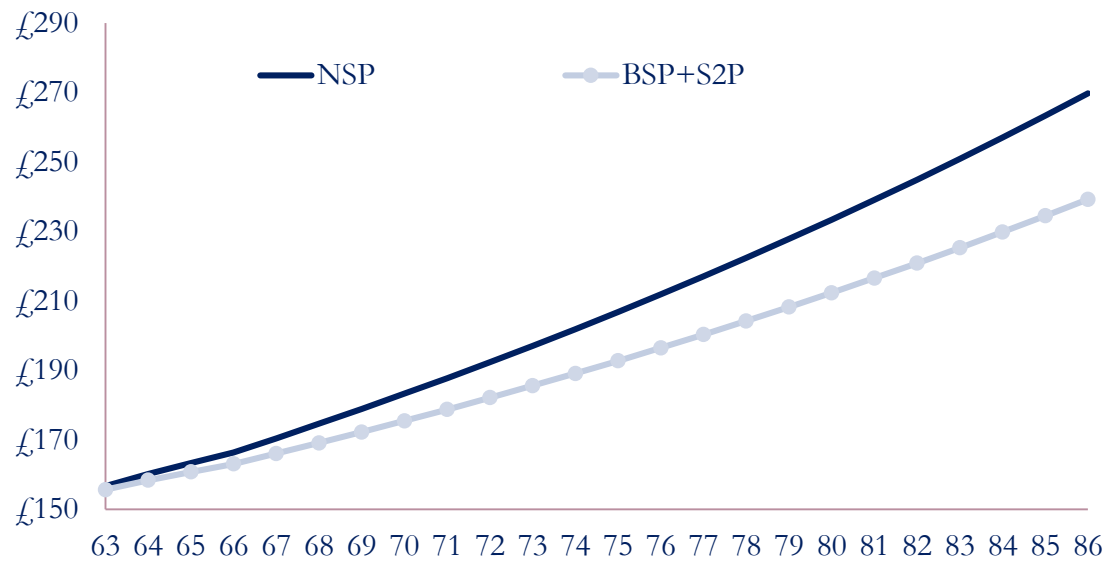
**Chart 4<sup>17</sup>: Increasing NSP in line with average earnings gives a higher income than the current system for a median male earner, but is not as beneficial as NSP with the triple lock protection**



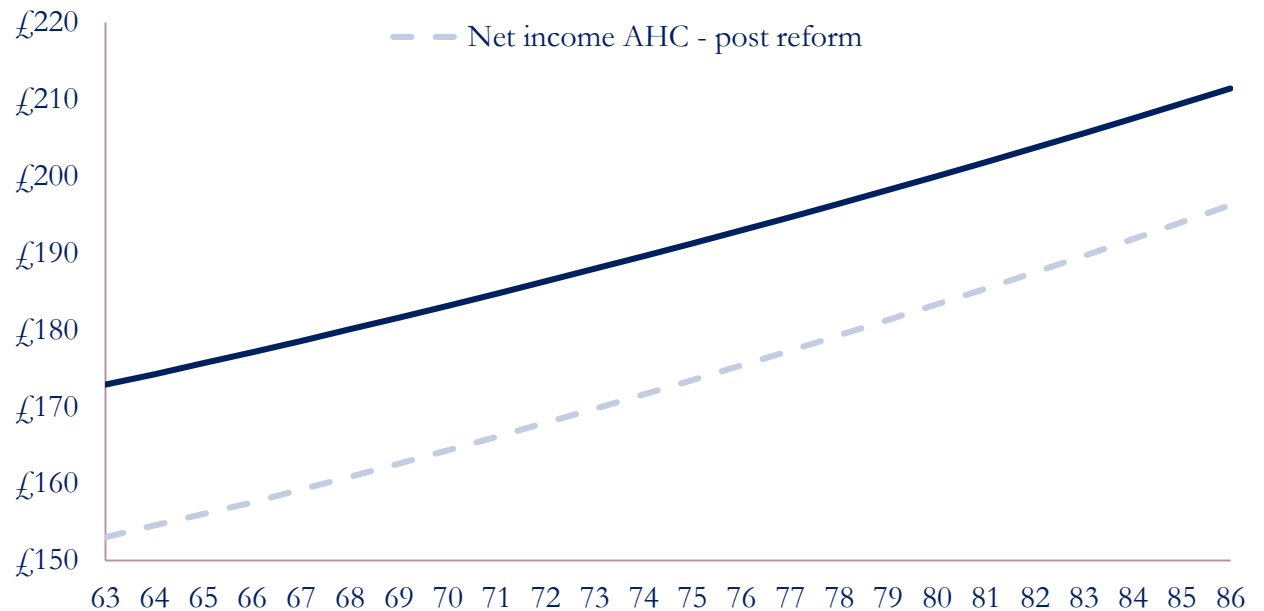
Low earning renters are less likely to benefit from the reforms. Their entitlements to means-tested benefits can fall because of the removal of the Savings Credit and to offset higher state pension. Therefore some individuals, even if they have a higher State Pension (Chart 5), could see a fall in net income (Chart 6). Their entitlement to means-tested benefits is reduced by more than the increase in their state pension income.

<sup>17</sup> Net weekly income after housing costs pre and post reform for a median earning man, with private pension, reaching SPA in 2016 (2015 prices)

**Chart 5<sup>18</sup>: A low earning female renter gets a higher weekly state and private pension income post reforms compared to the pre-reform system (before allowing for means-tested benefits).**



**Chart 6<sup>19</sup>: A low earning woman could be worse off post reform, when means-tested benefits are taken into account.**



<sup>18</sup> Net weekly state pension income pre and post reform for a low income woman with no private pension, reaching SPA in 2016 (2015 prices)

<sup>19</sup> Net weekly income after housing costs pre and post reform for a low income woman with no private pension, reaching SPA in 2016 (2015 prices)

To help to avoid this situation, the Government has said that there will be transitional protection for Housing Benefit (HB) and Council Tax Support (CTS)<sup>20</sup> entitlements for individuals reaching SPA in the first five years after April 2016. Details of this transitional protection have yet to be announced but one possibility is that post reform HB and CTS entitlements could be replaced with pre-reform entitlements. This is illustrated in Table 1 which shows, for all the vignettes, income at retirement and after 10 years under the pre-reform system and under the post reform system with and without this form of transitional protection.

For many of the vignettes the impact of the pension reforms on net incomes is small at SPA. The net incomes of median and high earning home-owners are the same pre- and post-reform at this point. They are not affected by changes to means-tested benefit entitlements; and as they would have received more than the NSP under the current system, they receive the higher amount under the transition to the NSP. Without HB/CTS transitional protection, low earning renters would be worse off at SPA. Transitional protection for HB/CTS reduces but does not eliminate losses for low earners without private pensions as they still lose Pension Credit. However, the low earning renter who does not claim his entitlements to means-tested benefits has the same net income at SPA under the current and reformed pension system and is unaffected by transitional protection.

With transitional protection, all groups benefit from the reforms after 10 years of retirement. Without transitional protection low earners on means-tested benefits can still be worse off under the reforms but after 10 years in retirement their losses are less than at SPA. The vignette who does not claim his entitlement to means-tested benefits is better off 10 years into retirement even without transitional protection. The NSP clearly helps those who do not claim their entitlements to means-tested benefits. It will also help those who would be entitled to means-tested benefits on the basis of their low incomes but are disqualified from benefit by their capital.

---

<sup>20</sup> HB provides help with rent and CTS reduces liabilities for Council tax.

**Table 1: Gains in weekly net income from the pension reforms are small at state pension age but increase during retirement although some low earners may lose from the reforms.**

	At State Pension Age			10 years after State Pension Age		
	Pre-reform income	Post reform minus pre-reform income		Pre-reform income	Post reform minus pre-reform income	
		No transitional HB/CTS protection	With transitional protection		No transitional HB/CTS protection	With transitional protection
Single male low earner, renter, non-take-up of means-tested benefits	£114.74	£0	£0	£115.63	£8.30	£8.30
Single female low earner renter, no private pension	£167.49	-£14.47	-£12.50	£118.58	-£11.86	£4.93
Single male, low earning renter	£181.98	-£9.66	£0	£201.11	-£6.73	£8.30
Single female, low earner, renter	£172.87	-£12.48	£0.80	£187.94	-£10.88	£11.48
Single male, median earner, home-owner	£308.84	£0	£0	£339.77	£8.25	£8.25
Single female, median earner, home-owner	£251.31	£0	£0	£282.65	£8.39	£8.39
Single male, high earner, home-owner	£374.93	£0	£0	£405.28	£8.20	£80.20
Single female, high earner, home-owner	£296.06	£0	£0	£326.98	£8.38	£8.38
Couple: median earners, home-owners	£574.96	£0	£0	£641.83	£16.64	£16.64

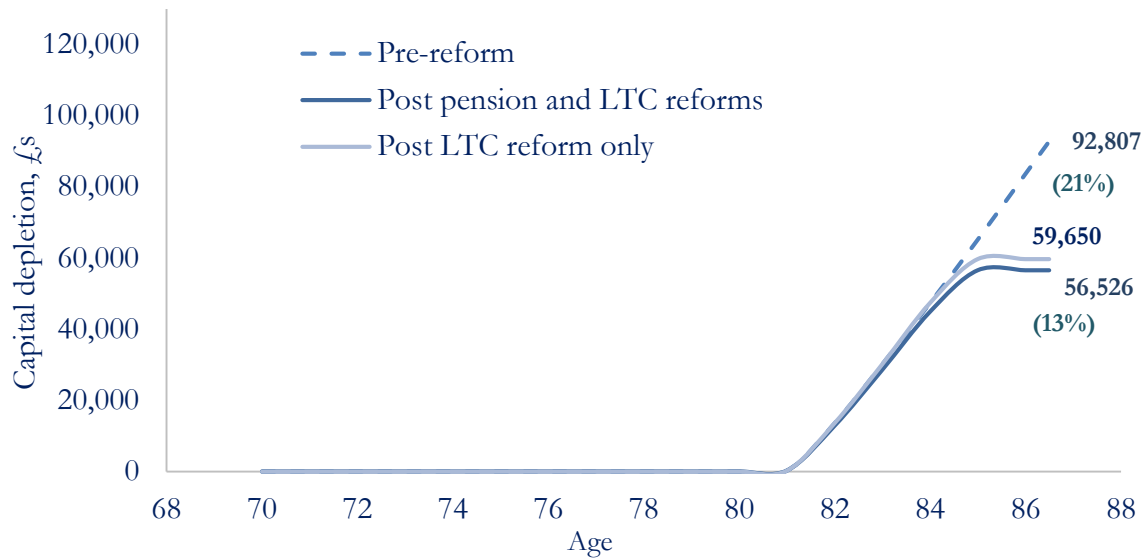
Note: Triple lock uprating assumed for the NSP

### Effects of the long-term care reforms

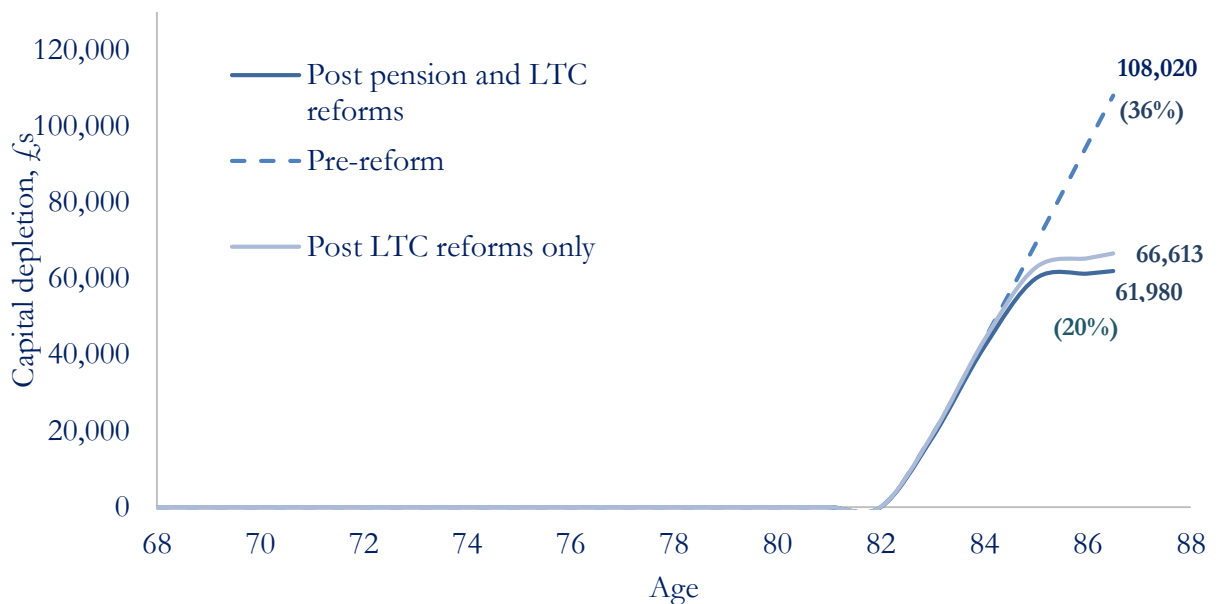
The main effect of the LTC reforms is to reduce capital depletion for those whose capital precludes them from state help with their care costs if they have eligible care needs for long enough to hit the lifetime cap. For example, the long-term care reforms reduce capital depletion for the high earning male home-owner from over £90,000 to just under £60,000 without the pension reforms or to a little less with the pension reforms (Chart 7). The reduction in capital is even greater for the median earning female home-owner (Chart 8) and narrows the gap between her capital depletion and that for her high earning male equivalent.<sup>21</sup>

<sup>21</sup> The analysis of the effect of the long-term care reforms assume the NSP is uprated by the triple lock and there is no transitional protection for HB/CTS.

**Chart 7: The long-term care reforms slow down capital depletion for the higher earning male home-owner**



**Chart 8: The long-term care reforms reduce capital depletion even more for a median earning female homeowner.**

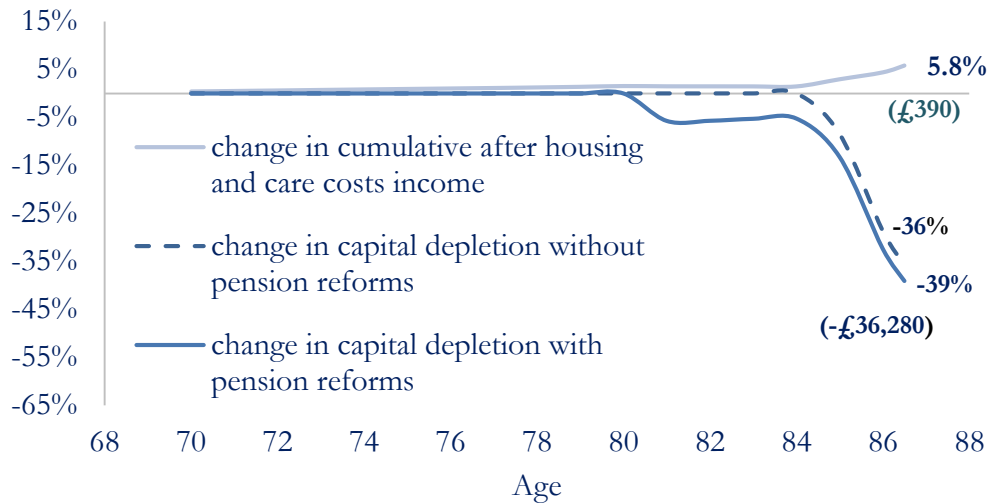


The combined pension and long-term care reforms can also lead to an increase in total (i.e. cumulative) net income received during retirement but the proportionate increase is much smaller than the proportionate reduction in capital depletion. The reduction in capital depletion for the high earning male home-owner is £36,000 or 39% of pre-reform capital depletion. The increase in cumulative net income after meeting care costs is just under 6% (Chart 9). The median earning female home-owner sees only a marginal increase in her net income but depletes her capital by over £46,000 less (43%) as a result of the reforms (Chart 10). Her income is lower than her male counterpart so under both system she depletes her

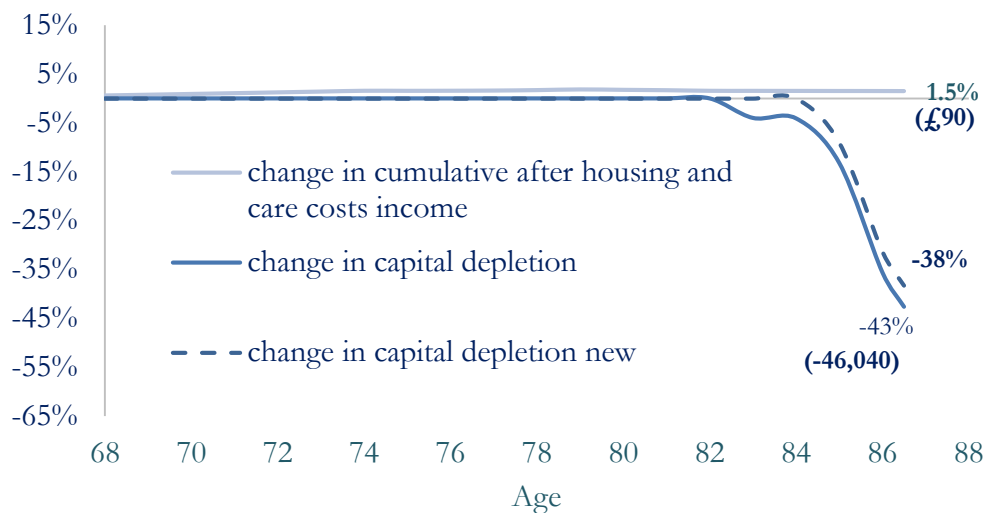


capital by more than he does, but the reduction in capital depletion resulting from the reforms is greater for her than it is for him.

**Chart 9: The change in capital depletion resulting from the reforms is much greater than the change in cumulative net income for a high earning male home-owner**



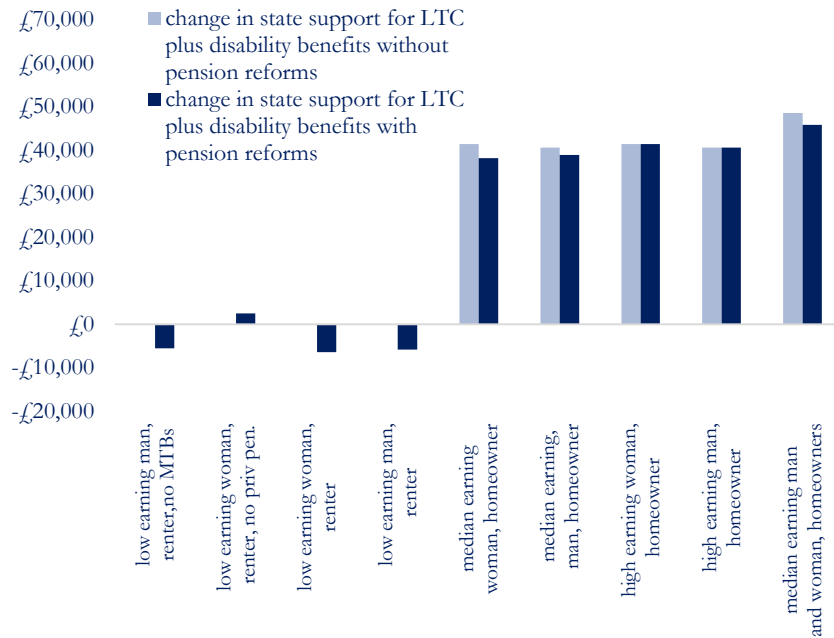
**Chart 10: The median earning female home-owner experiences only a marginal increase in her cumulative net income but a large reduction in capital depletion**



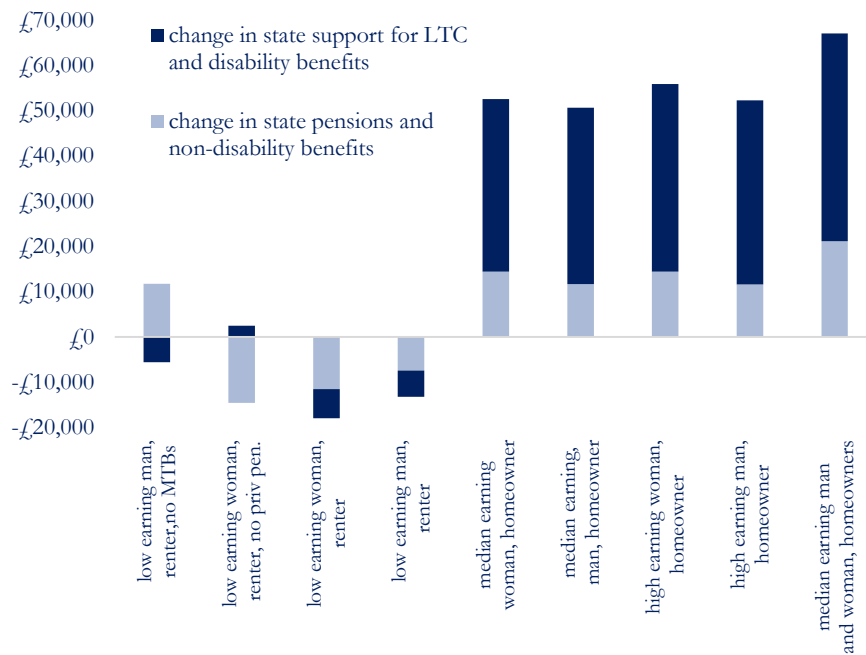
The effect of the reforms on total state support for care needs through the long-term care and disability benefits systems is very small for low earning renters (Chart 11). Without the pension reforms they are unaffected. With the pension reforms they can see a fall in the level of their support for care needs as a result of the assumed removal of the Savings Credit and associated savings disregard in residential care.

The net lifetime gains from the pensions and long-term care reforms are greatest for higher income/high wealth individuals. Low income renters can lose from the pension reforms, especially if there is no transitional protection for HB and CTS and from the assumed removal of the savings disregard in residential care (Chart 12).

**Chart 11: The long-term care reforms increase total (lifetime) state support for care costs for home-owners.**



**Chart 12: Net lifetime gains from pensions and long-term care reforms are highest for high earning/high wealth individuals**



## Conclusions

The state pension reforms will result in expenditure on state pensions rising more slowly as a proportion of GDP compared with the current system from around 2040. This is the case whether the triple lock is applied to the NSP indefinitely or the NSP is uprated in line with earnings. After 2040, S2P would have matured and, combined with the BSP, it would have started to deliver state pensions to new retirees which were more consistently above the NSP level. The current state pension system uprated by the triple lock would cost around 9.1% of GDP by 2060 compared with 8.7% for the NSP uprated by the triple lock, or 7.7% if uprated by earnings.

Long-term care for older people costs much less than state pensions but is projected to rise substantially even under the current funding system due to the rising numbers of people at the ages where care needs are greatest. In contrast with the state pension reforms, the long-term care financing reforms to be implemented in 2020, are projected to increase public expenditure on social care for older people from about 2025 compared with the current system. By 2035 net public spending on social care for older people is projected to be 0.80% of GDP under the reforms compared with 0.69% for the current financing system. These projections do not take account of the state pension reforms<sup>22</sup>.

The results of our vignette analysis are inevitably dependent on the precise details of the vignettes. For the long-term care reforms, results are particularly dependent on the assumed disability and care trajectory. 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 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.

---

<sup>22</sup> This will be addressed in a future briefing note.

- 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.

## Appendix

### Vignette Modelling

The modelling is designed to illustrate the combined effects of pensions and long-term care (LTC) funding reforms for a number of illustrative vignettes who vary in terms of: work and earnings histories, and hence state and private pension entitlements; housing tenure and housing wealth; and financial wealth. We have imposed the same disability trajectory on each single vignette and a slight variant on that for each couple. The trajectories have been chosen to illustrate the effects of the LTC reforms rather than to be representative. The trajectories were varied by varying the disability trajectory and the (somewhat arbitrary) disability thresholds for receiving Attendance Allowance (AA) (lower and higher rates), 4 different levels of home care, residential care and death. Each vignette starts at state pension age in 2016, the year the reforms start.

This produces the following trajectories:

Single people:

- Age 75 (2026 for male vignettes, 2028 for female vignettes): starts to receive lower rate of AA
- Age 78: starts to receive low level home care (2 hours per week)
- Age 79: starts to receive medium level of home care (4 hours per week)
- Age 80: starts to receive high level of home care (8 hours per week)
- Age 81: starts to receive higher level of AA and very level of home care (20 hours per week)
- Age 82: enters residential care
- Age 86.5 (mid-way through 2037 for males, 2039 for females): dies.

Couples, woman with care needs:

- Age 75 (2028): starts to receive lower rate of AA
- Age 78: starts to receive low level home care (2 hours per week)
- Age 79: starts to receive medium level of home care (4 hours per week)
- Age 80: starts to receive high level of home care (8 hours per week)
- Age 81: starts to receive higher level of AA and very level of home care (20 hours per week)
- Age 83: enters residential care
- Age 86.5 (mid-way through 2039): dies.

These are quite extreme trajectories, with 4.5 years in residential care for single people and 3.5 years for the surviving partner, assumed to be the woman, for couples. There would be only small effects from the LTC reforms for shorter lengths of stay.

For each vignette (see table below),

- We apply the reformed state pension system and the existing system continued indefinitely.
- For the low earners, we consider the situation with and without private pension provision. Private pension income is assumed to be:
  - Pension pot accumulated at 12%
  - Index linked annuity, single life

<b>Vignettes</b>	<b>Description</b>
Single male, low earner	<ul style="list-style-type: none"> <li>- Sex: Male</li> <li>- Career: Retired aged 55 (early retirement due to ill health)</li> <li>- Earning distribution: Low earner (30<sup>th</sup> Percentile)</li> <li>- Marital Status: S</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>
Single female, low earner	<ul style="list-style-type: none"> <li>- Sex: Female</li> <li>- Career: Career break aged 30 to 41, retirement aged 63</li> <li>- Earning distribution: Low earner (30<sup>th</sup> Percentile)</li> <li>- Marital Status: S</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>
Single male, median earner	<ul style="list-style-type: none"> <li>- Sex: Male</li> <li>- Career: Retirement aged 65</li> <li>- Earning distribution: Median</li> <li>- Marital Status: S</li> <li>- Home: <ul style="list-style-type: none"> <li>• Home owner (£300k 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 (£8K in 2016 prices)</li> </ul>
Single female, median earner	<ul style="list-style-type: none"> <li>- Sex: Female</li> <li>- Career: Retirement aged 63</li> <li>- Earning distribution: Median</li> <li>- Marital Status: S</li> <li>- Home: <ul style="list-style-type: none"> <li>• Home owner (£300k 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 (£8K in 2016 prices)</li> </ul>
Single male, high earner	<ul style="list-style-type: none"> <li>- Sex: Male</li> <li>- Career: Retirement aged 65</li> <li>- Earning distribution: High Earner (70<sup>th</sup> Percentile)</li> <li>- Marital Status: S</li> <li>- Home: <ul style="list-style-type: none"> <li>• Home owner (£400k)</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 (£40k)</li> </ul>

Vignettes	Description
Single female, high earner	<ul style="list-style-type: none"> <li>- Sex: Female</li> <li>- Career: Retirement aged 63</li> <li>- Earning distribution: High Earner (70<sup>th</sup> Percentile)</li> <li>- Marital Status: S</li> <li>- Home <ul style="list-style-type: none"> <li>• Home owner (£400k)</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 (£40k)</li> </ul>
Couple, both median earners	<ul style="list-style-type: none"> <li>- Career: Retirement aged 63</li> <li>- Earning distribution: Median Earners</li> <li>- Marital Status: Married</li> <li>- Home <ul style="list-style-type: none"> <li>• Home owner (£300k)</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 (£8K in 2016 prices )</li> </ul>

## Acknowledgements and Contact Details

We are grateful for comments received at a round table discussion with stakeholders held in February 2015 with representatives from academia, government departments, industry and the voluntary sector.

Editing decisions remain with the authors who take responsibility for any remaining errors or omissions.

Contact:

Ruth Hancock

Professor in the Economics of Health and Welfare

Email: [R.Hancock@uea.ac.uk](mailto:R.Hancock@uea.ac.uk)

Telephone: +44 (0) 1603 591107

PA: Val Knights ([v.knights@uea.ac.uk](mailto:v.knights@uea.ac.uk)) +44 (0) 1603 593602

Health Economics Group  
Norwich Medical School  
Faculty of Medicine and Health  
Sciences  
University of East Anglia  
Norwich Research Park  
Norwich, UK NR4 7TJ



## References

DWP (2013). *The single-tier pension: a simple foundation for saving.*

Hancock R et al (2013) *Long-term care funding in England: an analysis of the costs and distributional effects of potential reforms.*

PPI (2014) *Single tier series: the impact of the government's single tier state pension reform.*

PPI (2015) *Pension primer: a guide to the UK pensions system.*

Wittenberg R et al (2015) *Projections of Demand for and Costs of Social Care for Older People and Younger Adults in England, 2015 to 2035.*

Wittenberg R et al (2011) *Projections of Demand for and Costs of Social Care for Older People in England 2010 to 2030, under Current and Alternative Funding Systems: Report to the Commission on Care and Support.*

Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.

