Care and State Pension Reform (CASPeR) Executive Summary

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.

Executive Summary Abstract
Casper Team. March 2017
http://www.pensionspolicyinstitute.org.uk/casper

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 replaced the 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.

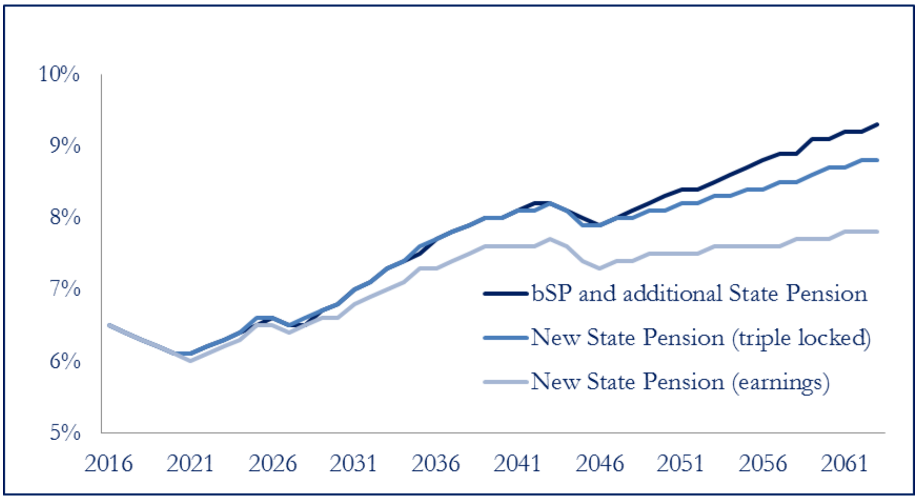
The primary objective of the state pension reforms was to provide a clearer foundation for private pension saving and reduce reliance on means-tested benefits in retirement by setting the level of the new State Pension (nSP) above the level of the minimum income guaranteed by the means-tested benefit 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. The final report summarises the findings from a research project which aimed 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.

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

Chart 1: The new State Pension with triple lock will require a smaller percentage of GDP to pay for it, from around 2046, compared to the basic State Pension
Cost of GDP expenditure in 2060 (% of GDP)



Note: additional State Pension is the total of State Second Pension (S2P), or its predecessor the State Earnings Related Pension (SERPS)

(GDP) as the previous system would have until the 2040s, but its cost will then rise more slowly (Chart 1).
- 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 (Chart 1).
- 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 (Chart 2).

Gainers and losers from reforms under current uprating policies (Chart 3)

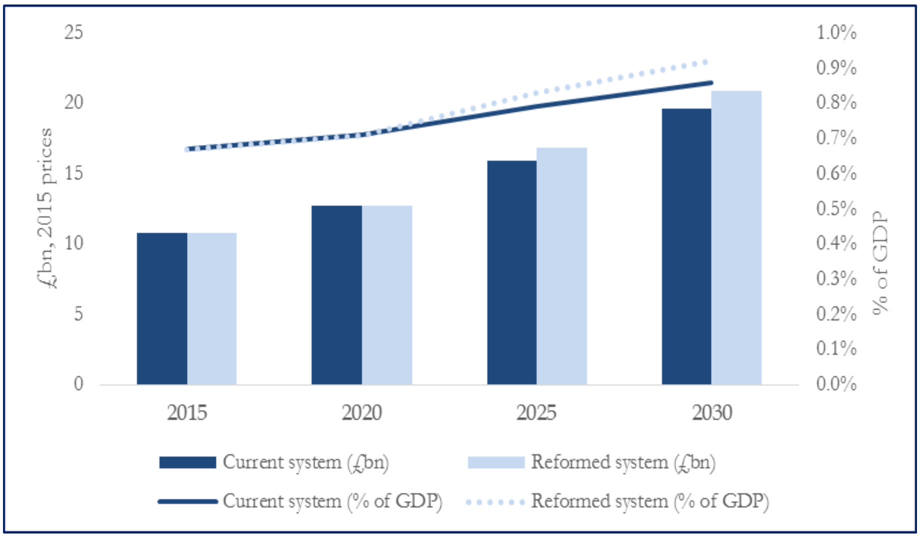
- Gains in net income from the pension reforms are small at State Pension age but increase during retirement.
- Home-owners and people on higher incomes tend to gain most from both sets of reforms. Lower income renters can lose more in means-tested benefits than they gain in state pension income.
- People 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.

Chart 2: Public spending on long-term care for older people in England under the current funding system is projected to need to increase by 80% in the next 15 years to keep pace with demographic change, or by over 90% if the reforms are implemented in 2020



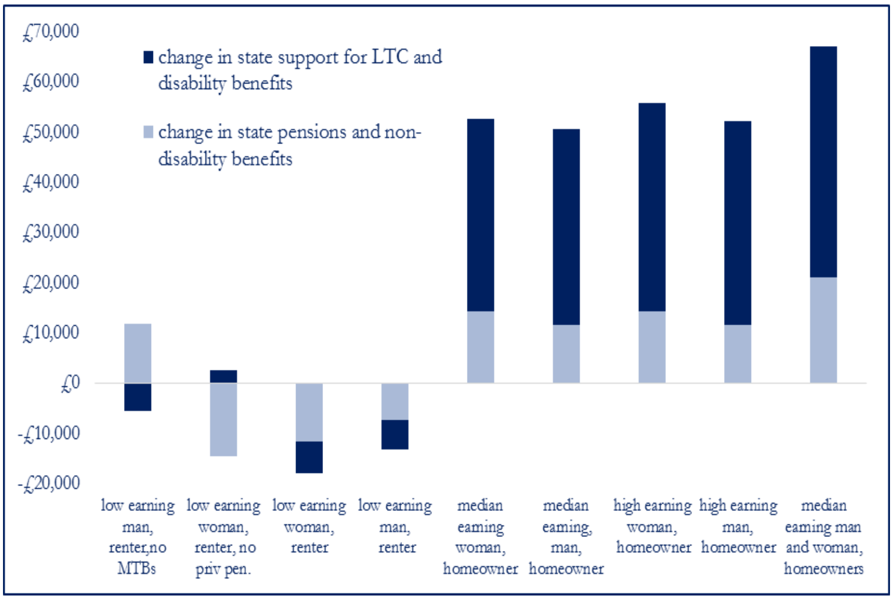
Note: long-term care spending includes NHS-funded care and disability benefits

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

Chart 3: Net lifetime gains from pensions and long-term care reforms are highest for high earning/high wealth 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?

Data was collated 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.

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Acknowledgements and Contact Details

The research team are very grateful to Trevor Llanwarne for his wise advice and invaluable help throughout our study. We appreciate the advice and comments provided by all the members of the study Advisory Group and by those who attended our workshops. The study has benefited greatly from their input.

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

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List of other project publications

- Adams J., Curry C., Espuny-Pujol F. et al. (2015) *Interactions between state pension and long-term care reforms: an overview.* London: Pensions Policy Institute. http://www.pensionspolicyinstitute.org.uk/casper.
- Adams J., Curry C., Espuny-Pujol F. et al. (2016) *Long-term care funding – a comparison between England, Wales and Scotland June 2016.* London: Pensions Policy Institute. http://www.pensionspolicyinstitute.org.uk/casper.
- Adams J., Curry C., Espuny-Pujol F. et al. (2016) *State Pension and Long-Term Care Funding Reforms: the costs and distributional effects of alternative uprating policies: Technical Report.* London: Pensions Policy Institute. http://www.pensionspolicyinstitute.org.uk/casper.
- Adams J., Curry C., Espuny-Pujol F. et al. (2016) *Care and State Pension Reform: Interactions between state pension and long-term care reforms: a summary of findings.* London: Pensions Policy Institute. http://www.pensionspolicyinstitute.org.uk/casper
- Hancock R., King D., Popat S. et al. (2016) *The impact of postponement of reforms to long-term care financing in England.* London: Pensions Policy Institute. http://www.pensionspolicyinstitute.org.uk/casper.
- Wittenberg R. et al. (2016) *Should the planned cap on liability to meet care costs be uniform across England?* London: Pensions Policy Institute. http://www.pensionspolicyinstitute.org.uk/casper

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