## BRIEFING PAPER: HOW DO THE CARE FUNDING REFORMS AFFECT THOSE RECEIVING CARE IN THEIR OWN HOME?

***Table 1: Summary of the key changes to care funding for those who receive care at home***

| CURRENT SYSTEM | PROPOSED SYSTEM |
|---|---|
| **Care eligibility** | |
| The council assess how much care is required (or eligible) based on the national guidance *Putting People First*.<br><br>Non-eligible care costs have to be met by the individual regardless of income/savings. | The new system will operate in the same way but with Putting People First replaced with a *national minimum threshold for eligibility*. |
| **Means-test** | |
| Pensioners with capital of more than £23,250 are expected to meet all of their eligible care costs without help. Once savings fall below this threshold are they subject to an income-based means-test.<br><br>Pensioners with capital of less than £23,250 have to contribute towards their eligible care costs until their remaining income is no more than pension credit plus 25% (around £170 per week for a single pensioner). The local authority will cover any of the remaining eligible costs.<br><br>For people with capital of between £14,250 and £23,250, on top of their actual income, are assumed to have an income from their savings of £1 per week for every £250 of capital they have over £14,250.<br><br>(So someone with savings of £22,250 is assessed to as having £32extra income per week). | The basic calculation will work in the same way but with the capital limits increased.<br><br>The upper capital limit will increase from £23,250 to £27,000. The lower capital limit will increase from £14,250 to £17,000.<br><br>It is yet to be determined how income for those with savings between the two capital limits will be calculated.<br><br>Spending on eligible care will be capped at £72,000. Once this cap is reached the individual will no longer have to cover any of their eligible care costs. All spending on eligible care costs counts towards the cap i.e. spending both by the individual and the local authority.<br><br>So once an individual has received £72,000 of eligible care – and irrespective of how much of this they have paid themselves– they will no longer be required to make any further contribution towards eligible care costs. |
| **Limitations and Implications** | |
| There is wide variation in what care needs local authorities assess as *eligible*. Councils facing budget constraints have an incentive to limit what care is eligible.<br><br>The means-test creates a flat income floor which brings everyone to the same income level before they are eligible for help. So even the richest pensioners would have the same disposable income as the poorest if their eligible care costs are high enough.<br><br>The assumed income from savings is unrealistic and can make a substantial difference to how much a pensioner is expected to pay.<br><br>Those with capital above £23,250 fall through a trapdoor having to meet all of their care costs regardless of income. | The new *national minimum threshold for eligibility* aims to limit variation between council areas. But this is unlikely to include all costs that individuals might assume are *eligible*.<br><br>The principle of a flat income floor and a savings trapdoor remain.<br><br>The cap offers those with eligible care costs a guarantee that they won't have to contribute these costs from their own money indefinitely.<br><br>As the cap applies to total eligible care costs rather than individual spending, many pensioners will reach the cap without having to spend £72,000 of their own money. |

## Introduction

This briefing paper provides an overview of how pensioners pay for the cost of care when they live in their own home (not just a home that they own, but anywhere that is not a *residential care home*). It compares the current system with the proposed system[1] that will be introduced in April 2016. It mainly focuses on how the system works in England and the issues of affordability and uncertainty which arose in the Affordability of Retirement Housing the UK report[2]. The table above summarises the main changes. Below we elaborate on some of the implications of these changes.

## What is "eligible" care?

Under the current system, what is determined to be an *eligible* care need varies from one area to another. Local authorities are able to set their own criteria based on the national guidance *Putting People First*[3]. The report *Affordability of Retirement Housing in the UK*[4] highlighted that despite this guidance there were major inconsistencies in what was classified as an eligible need in different local authorities and even within the same council area.

The proposal recognised that the ambiguity in the current guidance created undesirable local variation. As a result the *Putting People First* guidance will be replaced with a *national minimum threshold for eligibility*. This will identify the minimum needs local authorities must count as eligible. It aims to be specific and detailed enough to limit local variation. The new regulations intend to reflect what most councils already offer: that all *substantial* needs count as eligible. These requirements will be consulted on in 2014.

## Winners and Losers

As this proposal adds another cushion against care costs without withdrawing anything, all pensioners are either unaffected or better-off as a result of the change. The cap offers those with eligible care costs a guarantee that they won't have to contribute to these costs from their own money indefinitely.

However, it is only those pensioners with high care costs, or those with low care costs over a long period, that are likely to ever reach this cap. The table below shows how many years it would take a pensioner to reach the cap at different levels of eligible care requirements and costs.

| Hours of eligible care required | Eligible care costs per week* | Years taken to reach the cap |
|---|---|---|
| 5 hours | £75 | 18 years |
| 10 hours | £150 | 9 years |
| 20 hours | £300 | 4.6 years |
| 40 hours | £600 | 2.3 years |

*Based on the Money Advice Service which suggest that people should expect to pay around £15 per hour for care at home (www.moneyadviceservice.org.uk/en/articles/care-home-or-home-care)

[1] www.gov.uk/government/consultations/caring-for-our-future-implementing-funding-reform

[2] www.jrf.org.uk/publications/who-can-afford-retirement-housing

[3] webarchive.nationalarchives.gov.uk/+/www.dh.gov.uk/en/SocialCare/Socialcarereform/index.htm

[4] www.jrf.org.uk/publications/who-can-afford-retirement-housing

The pensioners who reach the cap are likely to have quite high care costs. But most will reach the cap without spending £72,000 of their own money. This is because the cap applies to eligible care costs in total, and not just the part of those costs met by the individual. The table below illustrates how this will work for different pensioners depending on their income and savings.

| Income | Savings | Individual contributions to eligible care costs, before reaching the cap |
|---|---|---|
| Low | <£27,000 | The poorest pensioners are un-affected by the proposed changes. The same means-test will deem them unable to meet any of their eligible care costs. All eligible care costs, and contributions towards the cap, are made by the local authority. When these costs reach £72k they will no longer be subjected to the means-test and continue to pay nothing. |
| Average/ High | <£27,000 | These pensioners will be subject to a means test. If care costs reduce the individual's income to less than £170 per week, the LA will cover the remaining costs. Both individual and LA contributions count towards the cap. |
| Average/ High | £27,000+ | These pensioners will pay for all of their eligible care costs for so long as their savings remain above the £27k threshold. |

Whilst there will be no "losers" from this policy (except for the local authorities who will be liable to cover the cost of care once the cap is reached), it is only those who reach the cap that will see a major change in their circumstances. Before reaching the cap, the new system will work in much the same way as the present one, but with a slightly higher capital limit and more consistent criteria for *eligible* care.

Those requiring residential care are the biggest "winners" from these proposals as they are more likely to have care costs high enough to reach the cap. They may also benefit from the proposed 'deferred payment scheme' as an alternative to selling their home to cover these costs. The new system will make little difference to affordability for pensioners with low to moderate care needs, at least in the short term.

## Income from savings

Under the new system individuals with capital savings of between £17,000 and £27,000 are subjected to a means-test to determine how much of their income they should contribute towards their care costs. They are assumed to derive income from their savings which is added to their known income to calculate their means. This is not based on actual income from savings but a predetermined formula.

This occurs under the current system for pensioners with between £14,250 and £23,250 in capital savings. At the moment they are assumed to derive £1 per week in income from every £250 they have in savings over £14,250. It has yet to be decided what income / savings ratio will be applied under the new system in 2016.

If the current £1 / £250 ratio was retained in 2016 it would mean a pensioner with £27,000 in savings would be assumed to derive £40 per week in income from their savings whilst a pensioner with £17,000 would have a savings income of £0. So even if these pensioners had the same actual income and eligible care costs the former would be liable to spend £40 more per week towards their care costs than the latter.

The consultation paper states that it is reasonable to assume those with higher savings can earn interest on those savings are able therefore more able to pay for their care than those with fewer savings, so it is fair to take this into account. However, the £1 / £250 ratio was derived in the early 1990s when interest rates were much higher and such earnings from savings, although still optimistic, were not unheard of.

Given that around 600,000 pensioners (7%) have between £17,000 and £27,000 in savings[5] this is an important component of the system that is yet to be decided.

## How does the proposed system compare to the alternative systems in Wales and in Scotland?

The report Affordability of Retirement Housing in the UK looked at how the system of paying for eligible care costs differs in Scotland and Wales. In Scotland eligible personal care is provided for free to pensioners. In Wales the system is similar to the current one in England except for two major differences:

- the *income floor* is higher at pension credit plus 35% and;
- individual contributions to eligible care costs are capped at £50 per week.

Unlike the proposed English system, in Wales the cap is on contributions made by the *individual* to eligible care costs (rather than those costs covered by the local authority as well), and the cap is on *weekly* spending (rather than a cumulative lifetime spend).

With this £50 cap in place it would take at least 27 years for an individual to spend £72,000 of their own income on eligible care costs in Wales. Under the new system in 2016 the majority of pensioners would still spend less on eligible care costs in Wales than in England. In more detail:

- A pensioner at the lower end of the income distribution and with few savings would not have to pay for any of their eligible care cost in England, Wales or Scotland.
- A pensioner with high levels of saving or a high income can expect to spend less of their own money on eligible care in Wales than in England.
- Pensioners with middling incomes would in most cases spend less on care in Wales than in England. However, those with care needs over a long period might end up spending more in Wales than in England. For example:

Mrs A has eligible care costs of £500 per week…

In England she is assessed as being able to spend £100 per week of her own income to meet these costs. After 2.8 years she reaches the £72,000 cap having spent £14,400 of her own money. At this point she no longer spends any more of her own money on eligible care costs.

In Wales Mrs A only spends £50 per week on care. After 2.8 years she has spent £7,200 on care and after 5.6 years she has spent £14,400. She continues to spend £50 per week on care costs indefinitely.

[5] NPI analysis of FRS 2010/11

## How will the thresholds be up-rated/changed?

The level of the cap on care costs and capital limits will be adjusted annually in line with average earnings. For those who have already made some progress towards the cap, the costs counted so far will also be adjusted proportionally (someone who is already 50% of the way towards the cap will remain at 50% of the way towards the cap even after up-rating).

The proposal argues that using only one index to uprate all of the components of the scheme will make the system simpler. An average earnings index was chosen as they are it is also linked to the annual adjustment of state pension, so reflects changes to pensioners' incomes. Average earning and care costs are also linked as labour is a substantial portion of the cost of care.

Under the current system there is no mechanism to uprate the capital limits so introducing one in April 2016 will be beneficial for those pensioners with care costs.

## How will the proposed system work for those under pension age?

Anyone with care costs before the age of 18 will not have to pay for their care costs throughout their life. Those who have eligible care needs before reaching state pension age will have a lower cap than £72,000. This is intended to reflect the fact that younger people will have had less of their working lives to save for possible future care costs. The exact level of the cap for those who develop care needs between the age of 18 and 64 is yet to be decided. It is intended that the level of the cap is based on the age of a person at the point at which they are assessed having eligible needs. So the level of the cap will be higher for those who develop care needs later in life.

## Conclusion

For people requiring residential care, who face much higher care costs and the possibility of having to sell their home, the new system will provide much more certainty than the current one. But in terms of care at home the proposals confirmed so far make little difference as it is only those whose care needs later escalate, possibly resulting in a move to residential care, that are likely to ever reach the cap.

At the onset of a care need pensioners will continue to face depleting their savings or coping on the income floor for at least the short-term. It is at this stage when the components of the system that have yet to be decided are the most important:

- What care costs will count as eligible and how will the variability be limited?
- How will the income from savings for those with savings between £17,000 and £27,000 be calculated?