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MAP2030 Modelling Ageing Populations to 2030

Housing Assets and Long-Term Care in England

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Introduction

The 'greying' of the population in developed countries across the world has focused attention on the need for reform to a range of public services and programmes. In England, in spite of a series of high profile reviews and a Royal Commission, the debate continues about how to fund and resource long-term care (LTC). A green paper, setting out a vision for care and support is expected in summer 2009. But in the current economic and political climate the shape the proposals will take is not clear.

A focal point of the LTC debate is the perceived unfairness of the current system. Many factors feed this perception, including the lack of coverage of the system, and local variations in who receives support. One controversial issue, which has received a significant amount of media attention, is how older people's housing assets are treated in the LA means-tests for public support with the costs of care. Some argue that it would be unfair to younger generations if this source of wealth were not tapped. However, the forced sale of homes to pay for residential care is an emotive subject, and the media has tended to sympathise with older people.

We aim to provide analyses to inform the debate around the use of housing assets in the means-test for public support with long-term care. We model the system of long-term care under changes to the means-test, whereby housing assets are taken into account for all types of care or disregarded for all types of care (see box 1), and estimate how many people would be affected by such changes in the treatment of housing assets. We also draw some conclusions about the effect that such changes would have on the sustainability and fairness of the long-term care system.

Method

To estimate demand and expenditure on LTC and explore the balance of liability between individuals and the state, we link together macro- and micro- simulation models of long-term care financing. The former, the PSSRU model, comprises cell-based modules projecting the numbers of disabled older people, numbers of service recipients, and public and private expenditures. The latter, CARESIM, simulates the incomes and assets of future cohorts of older people and their ability to contribute toward care costs, using pooled data from the 2002/3, 2003/4, and 2004/5 Family Resources Survey (FRS).

To estimate liabilities for charges, the various outputs of the models are combined. The PSSRU model provides a breakdown of the population receiving each type of care (i.e. residential, nursing home, community-based care) by age/gender/marital status/housing tenure for each projection year up to 2027. These act as weights in CARESIM, adjusting the FRS population to more closely resemble the population receiving each form of care.

CARESIM then simulates the financing system under investigation and calculates what each older person in the weighted FRS sample would pay for care should they need it. Projected trends from CARESIM for the percentage of care home residents and home care clients eligible for state support, the average percentage of care home and home care fees met by state supported service users, and the average percentage of user charges and private payments met using social security disability benefits are then fed back into the PSSRU model to calculate total public and private expenditure.

The impact of the financing system on different sections of the income distribution is assessed in CARESIM. Gains and losses for individuals are measured as changes in users' disposable incomes after meeting care costs.**

Projections arising from the reforms are compared to a 'base case', which we set as the regime currently operating in England. The key assumptions for the base case are shown in box 2. To assess the sustainability of options, we compare public expenditure for each of the scenarios in terms of the proportion of GDP.

Box 1. Scenarios involving a change in the treatment of housing assets in the means-test for long-term care

A. Disregard of housing assets in residential care

Housing assets would no longer be taken into account in the means test for personal care costs in care homes but would continue to be taken into account for hotel costs.

We explore two variants:

- Variant 1, user's income would be used first to meet care costs and then to meet hotel costs.
- Variant 2, income would be used first to meet hotel costs.

Fundamental to these options is a split of care home fees between care costs and hotel costs. We distinguish two versions:

- A 'fixed care cost' version where the value of the care cost component would be determined as a matter of policy and would rise in line with general inflation;
- A 'fixed hotel cost' version where the value of the hotel cost component would be determined as a matter of policy.

B. Housing assets taken into account in means test for home care

Housing assets of older people in receipt of home care would be taken into account in the means-test for home care. In this scenario,

- Housing assets would be compulsorily included in the means-test, under the rules for the treatment of assets in the residential care means-test; but
- It is assumed that housing assets would be taken into account for home care in all cases, although in residential care they are disregarded when the home is occupied by the person's spouse (or another older or disabled relative).

Box 2. Key assumptions of the base case

- The number of people by age, gender and marital status changes in line with the Government Actuary's Department (GAD) latest projections for the UK.
- There is a constant ratio of single people living alone to single people living with their children or with others and of married people living with partner only to married people living with partner and others.
- Prevalence rates of disability by age and gender remain unchanged, as reported in the 2001/2 General Household Survey (GHS) for Great Britain.
- Home-ownership rates, as reported in the 2003/4 FRS, change in line with projections produced by the CARESIM model.
- The proportions of older people receiving informal care, formal community care services, residential care services and disability benefits remain constant for each sub-group by age, disability and other needs-related characteristics.
- The funding system remains unchanged as the current system for England. For residential care, the national means test is used. A stylised means test, based on national guidance is used for non residential services.
- Health and social care unit costs rise by 2% per year in real terms (in line with Treasury projections of increases in average earnings, but non-staff revenue costs remain constant in real terms). Real GDP rises in line with HM Treasury assumptions.
- The supply of formal care will adjust to match demand and demand will be no more constrained by supply in the future than in the base year.

How many people are affected by changes to the treatment of housing assets?

Scenario A: Disregard of housing assets in residential care:

- The short-term effects are very similar for all variants and versions of the scenario. In 2007, we estimate that roughly 30,000 more older people, or about an extra 10% of all care home residents, would be LA-supported.
- The longer-term the effect is more variable. By 2027, we estimate that variant 1 of the fixed care costs version would mean that about 40,000 more people, or 8% of all residents, would be LA-supported. Under all other variants and versions, by 2027, approximately 70,000 more older people, or an extra 13% of all care home residents, would be LA-supported.

Scenario B: Housing assets are taken into account in the means-test for home care:

- In 2007 about 200,000 fewer people are estimated to be LA-supported (roughly 15% of all those receiving home care), but in 2027 this rises to about 400,000 fewer people, or an extra 20% of those receiving home care, who would not be LA-supported.

The effect of a disregard of housing assets in care homes on who pays

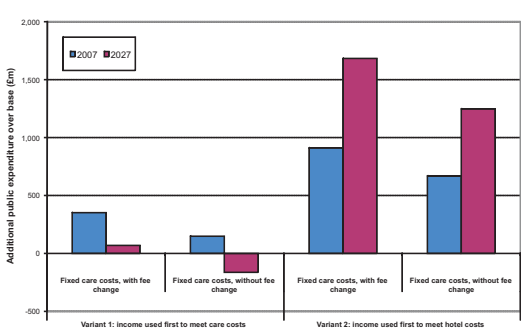
Table 1. Average gains (£ pw) from options, residential care recipients aged 65+, 2007

		Total gain	Gain from higher public expenditure	Percentage attributable to higher public expenditure
Housing disregard, fixed care costs	variant 1	40.4	23.0	56.9%
	variant 2	72.1	51.9	72.0%
Housing disregard, fixed hotel costs	variant 1	53.7	35.7	66.5%
	variant 2	85.1	64.9	76.3%

Not all of the gains realised by individuals are shouldered by the state; a significant portion of the burden (45%) falls to the care home providers. This is because we estimate that self-funders pay roughly £80/week more in fees for care homes than LA-funded residents, rising to £118/week in 2027 – providers are effectively 'losing' income.

A more likely scenario is that such changes would put pressure on LAs to increase the fees they offer care home owners in respect of LA-funded residents. For the fixed care costs version, we modelled a version with different assumptions so that average fee (or provider income) per person rises in line with assumptions about real rises in the unit costs of care. This ensures that the all the costs of the disregard to housing assets are borne by the public purse and not providers.

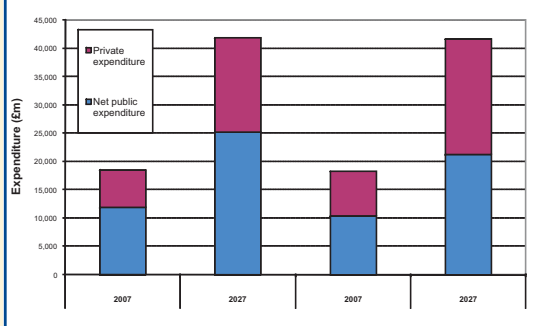
Figure 1. Additional public expenditure over base case for the fixed care costs, housing disregard scenario, with variants showing the effect of a change in the LA-supported care home fee rate



- In both fee rate versions, variant 1 becomes progressively less expensive compared to the current regime over time and variant 2 progressively more expensive.
- Where LA fee rates are increased, variant 1 does not produce savings.

The effect of taking housing assets into account in the means-test for home care on who pays

Figure 2. A comparison of private and public expenditure under the base case and where housing assets are taken into account in the means-test for home care



The main difference is in the balance of liabilities between the tax-payer and the individual receiving care, with a greater proportion of the costs of care being met by the individual under the scenario.

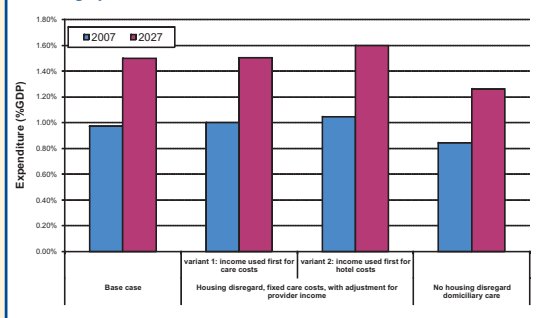
Long-term care services and financing in England: A brief sketch

In England, the formal services associated with LTC provision, i.e. help with domestic tasks, such as shopping and preparing meals, assistance with personal care tasks, such as dressing and bathing, and nursing care are provided by a range of agencies including local authority social services, community health services (under the National Health Service (NHS)) and independent sector residential and nursing homes and home care services. Of these services only nursing care and continuing health care are provided by the NHS free at the point of use. All other services, including those providing help with personal care tasks, are subject to means-tested user charges. Assessment of need for care and means-testing are carried out locally by local authority (LA) social services.

In the current system, LAs are usually required to take the housing assets of the individual into account when calculating eligibility for public support with residential care costs. Capital below a lower capital limit, set at £13,000,* is disregarded, capital between this limit and the upper limit of £21,500 is demed to provide a notional income and capital above the upper limit renders people liable for all care costs. By contrast, the means test for public support for community-based care, such as home care or activities in day centres, does not take housing assets into account (Department of Health, 2003; Department of Health, 2007).

Comparing the cost to the public purse of the different scenarios

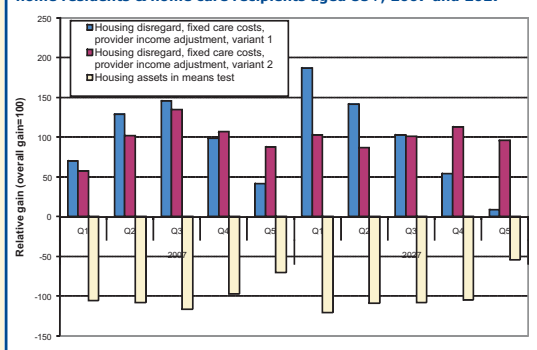
Figure 3. Public expenditure as a percentage of GDP for a variety of financing options



- The scenario where housing assets are taken into account in the means-test for home care leads to a savings to the public purse.
- Variant 1 of the fixed care costs version of the housing disregard in care homes scenario makes an imperceptible impact on public expenditure.
- The most expensive scenario is variant 2 of the disregard of housing assets in care homes.

Who gains or loses from the scenarios?

Figure 4. Relative gains from increased public expenditure: care home residents & home care recipients aged 85+, 2007 and 2027



- For the housing disregard in care home scenarios all income quintiles of older people gains to some extent.
- In 2007, gains are above average for the middle three income quintiles of the older population, but below average for the lowest and highest income quintiles.
- By 2027, the picture is very different, with gains above average for the lowest three income quintiles for variant 1 and very slightly above average for quintiles one, three and four for variant 2.
- Where housing assets are taken into account in the means-test for home care all income quintiles lose to some extent. Losses are greatest in 2007 and 2027 for the lowest income quintiles.

Conclusions

Overall the changes associated with these scenarios affect only a small proportion of those receiving services. Those who are affected most significantly tend to be in the lowest bands of the income distribution. This means that the scenarios that disregard housing assets in the means-test benefit for residential care the poorest more than the richest; and the scenarios that include housing assets in the means-test for home care hit the poorest more than they hit the richest. Variant 1 of the housing disregard scenario is particularly interesting since over time it favours the lowest income quintiles to a greater extent.

Those who are affected are likely to be the group of people identified as 'housing-rich, income-poor'. Since this group is projected to grow over time, it is not surprising that these scenarios increasingly appear to target those on lower incomes. Whether the 'housing-rich, income-poor' should be expected to draw on their housing wealth to fund their care is a moral as well as political issue.

The cost of disregarding housing assets is fairly minimal compared to the projected costs of grander schemes such as the partnership model (Wanless, 2006) which assumes an expansion of service provision or free personal care (Royal Commission on Long Term Care, 1999). Given the controversy around the inclusion of housing assets in the means-test and the relatively low cost of implementation, the housing disregard scenarios may prove politically attractive. They are, however, unlikely to solve all the problems of how best to fund long-term care: the scenarios do nothing to address such issues as unmet need within the population. Some commentators (Lloyd, 2008) have suggested that housing assets should be drawn on to contribute towards an insurance premium for long-term care. Since this would make a wider section of the older population with care needs eligible for free personal care, while drawing on the housing assets of older people, it would have a more significant impact.

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Notes and acknowledgements

*All monetary values are presented in April 2007 prices.

**Where individuals are classified by income level, the measure of income used for the purpose of the classification is the net income (before housing costs) of the family unit (single older person or older couple) that they would receive when living in their own homes without any care needs. That is, it excludes Attendance Allowance and the Pension Credit Severe Disability Premium. Income is adjusted for family size using an equivalence scale of 1 for the first adult, 0.6 for each subsequent person aged at least 14 years and 0.4 for each child aged under 14.

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