

FINANCING LONG-TERM CARE FOR OLDER PEOPLE

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LONG-TERM CARE

- The Government defines it as ‘care and support [which] enables people to do the everyday things that most of us take for granted: things like getting out of bed, dressed and into work...’ (Caring for our Future, 2012)
- It can include social care, long-term health care, supported housing, disability benefits
- Most of it is provided by unpaid relatives, friends or neighbours

ORGANISATIONAL STRUCTURE

- Central governments in the four UK countries are responsible for overall policy and funding of health and social care
- Local authorities are responsible for assessing needs, setting eligibility criteria and arranging and funding social services locally
- Clinical Commissioning Groups are responsible in England for arranging health services locally
- Social security disability benefits are the responsibility of the UK government

FINANCING SYSTEM IN THE UK

- Health care free of charge at point of use throughout UK
- Nursing care in nursing homes also free throughout the UK
- Personal care free in Scotland but subject to user charges in rest of the UK
- Hotel costs in care homes and domestic help subject to charges throughout UK
- Disability (cash) benefits are not subject to means test, throughout the UK

ELIGIBILITY FOR SOCIAL CARE

- Assessment of care needs: local authorities set their own eligibility criteria within general government central guidance
- Financial assessment: central system for residential care charging across England but local system for home care charging subject to general central guidance

POLICY CONTEXT

- Concern over future affordability of long-term care for older people
 - highly labour-intensive
 - potentially rising expectations
 - increasing numbers living to late old age
 - uncertainty over numbers who will need care
- Debate over the last decade about the appropriate balance between public and private funding

KEY ECONOMIC ISSUES

- Managing risk
- Economic incentives and efficiency
- Equity
- Fiscal sustainability

FISCAL SUSTAINABILITY

The European Commission (2009) project that public expenditure will rise:

- Long-term care from **1.2%** of GDP in 2007 to **2.4%** of GDP in 2060
- Health care from **6.7%** of GDP in 2007 to **8.2%** of GDP in 2060
- Pensions from **10.2%** of GDP in 2007 to **12.6%** of GDP in 2060
- *How are these rises to be funded?*

MANAGING RISK

- One of the key objectives of the welfare state is to pool risks of adverse events such as illness or unemployment
- The risk of needing long-term care in old age seems an obvious risk for the state to pool at least to some degree
- Pooling risks is usually more efficient than each individual taking their own risk
- There are however considerable challenges in insuring the risk of needing long-term care

PRIVATE LONG-TERM CARE INSURANCE

- Around 10% of people aged 65 will have life-time care costs exceeding £100,000
- It is more efficient for risk averse people to purchase insurance than to save for long-term care costs
- Yet, unlike in other countries, private long-term care insurance is no longer available in the UK (except for immediate needs annuities): the market failed following low demand and high costs
- This market failure led the expert Dilnot Commission to recommend in 2011 a cap on life-time care costs

GOVERNMENT REFORMS

- A cap of £72,000 is to be introduced in 2016 on life-time assessed care costs, relating to assessed care costs but not hotel costs in care homes
- The capital limit above which care home residents are not eligible for publicly funded support is to be raised in 2016 to £118,000
- The value of the resident's home will usually continue to be taken into account in the means test but a system of loans will ensure that the home need not be sold during the person's life-time

PSSRU AGGREGATE PROJECTIONS

MODELS OF LONG-TERM CARE

These produce projections of:

- Numbers of disabled older/younger people
- Numbers of users of informal care, formal care services and disability benefits
- Public and (for older people) private expenditure on long-term care
- Workforce providing social care

DRIVERS OF DEMAND FOR CARE

- Life expectancy and mortality rates
- Disability rates - compression or expansion of morbidity and disability
- Household composition and informal care
- Unit costs of care such as the cost of an hour's home care
- Public expectations about long-term care

BASE CASE ASSUMPTIONS FOR PROJECTIONS

- Number of people by age, gender and marital status changes in line with official projections
- Prevalence rates of disability by age and gender remain unchanged
- Unit costs are constant to 2015/6 and then rise by 2.0% per year in real terms
- Patterns of care – formal and informal – and the funding system remain unchanged

DEMAND PRESSURES, OLDER PEOPLE IN ENGLAND, 2010 TO 2030

- The number of disabled older people is projected to rise by 59% between 2010 and 2030 (from 1.0 in 2010 to 1.6 million in 2030)
- This is sensitive to assumptions about future mortality and disability rates
- The number of older users of care services would need to rise by 63% between 2010 and 2030 to keep pace with demographic pressures
- A higher rise would be required if unpaid care by children did not rise in line with demand

PROJECTED PUBLIC EXPENDITURE ON LONG-TERM CARE FOR OLDER PEOPLE, 2010 TO 2030

- Public expenditure in England on long-term health and social care for older people and on disability benefits used towards care costs is estimated to be £12 billion in 2010
- It is projected to more than double by 2030, to £25.5 billion in 2010 prices, to keep pace with demographic and economic pressures
- This would be a rise from around 0.95% of GDP in 2010 to 1.3% of GDP in 2030

FUTURE EXPENDITURE UNDER THE REFORM PROPOSALS

- The Government's reforms are projected to add an extra £1.3 billion to public expenditure in 2020, rising to an extra £2 billion by 2030
- 115,000 people are projected to gain from the Government's plans, mainly people in the higher quintiles of the income distribution of older people

CONCLUSION

The financing of long-term care for raises economic issues on:

- Economic efficiency and incentives
- Equity including intergenerational equity
- Balance of risk between public and private funding
- Sustainability of public expenditures

Decisions require value judgements but should be informed by evidence on the impacts of different approaches

FURTHER INFORMATION

Please see our website www.pssru.ac.uk