Five costed reforms to long-term care funding

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Background and scope

As part of its Policy and Practice Development Programme on Long-term Care, the Joseph Rowntree Foundation asked William Laing of Laing and Buisson to estimate the cost of a range of policy changes. This document gives a summary of these costings and how to interpret them.

The data behind these calculations is reproduced in a spreadsheet available on the web alongside this paper. The context of these costings is given in JRF's *Foundations* document, *Paying for long-term care: moving forward*, published in April 2006, which presents the programme conclusions and options for reform.

It should be emphasised that these costings are all *illustrative* rather than precise calculations of what a particular policy would cost. The main objective is to show the order of magnitude of the cost of various changes, in order to open up discussion of the desirability of these options.

Note also that Options 1-4 are suggested as improvements to the present funding system, while Option 5 illustrates the cost of a completely different funding system. The analysis produced by the Foundation makes it clear that marginal improvements will not be adequate over the long term, so the first four options given below should be seen as part of an *interim* rather than a *permanent* solution.

In addition to the work by William Laing, the paper includes one section, Costing 3, which was calculated separately by David Stanton.

I am grateful to William Laing, David Stanton, Sue Collins, Chris Kelly and Helena Herklots for their help and support in this work.

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Costing 1: A Home Equity Loan scheme for buying care in the home

> **Policy**: Allow older home owners paying for home-based care services to defer payment until their home is sold, incurring rolled-up debt charged at base interest rate.

Coverage

England and Wales. People over 65 who fully own their home are eligible. Expenses eligible for these loans to include fees charged by local authorities for their domiciliary services, as well as privately paid charges for personal care and for support services (e.g. house cleaning) incurred as a result of disabilities.

Illustrative costing

If 20% of all domiciliary care fees incurred by home owners (excluding private non-registered services) were paid by such a scheme, annual gross costs to the Exchequer would be about **£100 million a year**. At any level annual cost, by Year 14 the scheme would be self-financing, with more money coming in than going out. Under the existing system of resource account budgeting, the public expenditure cost scored against the departmental expenditure total would be the eventual net discounted cost to government in the year in which the loan was taken out. In the case of student maintenance loans, this equates to 29% of the value of the loan, which would equate to **£29 million** a year in current expenditure.

Assumptions/uncertainties

a) What will the take-up of the scheme be? Given the reluctance of some older home owners to incur debts against their homes if they do not have to, it seems unlikely that take-up would equate to more than 20% of the present amount charged to individuals for registered domiciliary care – even though the scheme would also allow people to use the money for a range of care and practical support and not just towards registered care fees.

b) Further work would be needed to estimate the actual net cost of loans to the Exchequer, as a percentage of the amount borrowed. Compared with cost to the Exchequer of £29 for each £100 borrowed by students for their maintenance, several factors would influence this calculation. The net cost would be higher to the extent that the first repayment would probably come later on average than for a student loan, but lower to the extent that the final payment would on average come earlier

(since when the house is sold, everything gets paid off at once, rather than the gradual repayment schedule of student loans). Rolled-up interest charged at base rates for equity loans would also yield more for the Treasury than the student loan system of increasing the amount owed only with inflation, as long as real interest rates remain positive.

Commentary

The cost of such a scheme could be relatively high if all home owners facing home-care charges used it, if people used such loans to expand their spending on personal care greatly, or if they used it to buy a large volume of support services. However, it seems more likely that usage would be concentrated on a relatively narrow group whose high care needs relative to what they can afford would make such a financing package an attractive alternative to selling their home to go into residential care. This would not only limit the overall cost but also target resources on clients for whom the benefit is greatest: those requiring extra finance to remain in their own homes. A pilot scheme would be needed to test both the level of take-up and the extent to which it influences choices in care consumption.

Overall, this seems like a promising way of leveraging private resources that are locked up in people's homes. This would make a contribution to enabling people to remain in their homes if they wish to do so, for a very modest public cost.

Costing 2: Raising capital limits on local authority support for care home fees

Policy: Double from £21,000 to £42,000 the level of capital that prevents an individual from receiving any support from a local authority in a care home. Reduce the 'tariff' charge on capital above £12,750, from £1 a week per £250 in capital to a rate reflecting the interest that can be earned in a deposit account.

Coverage

UK. Care home users aged over 65.

Illustrative costing

This policy would increase by an estimated five percentage points the proportion of care home users receiving local authority funding. An extra 17,500 residents would be covered, at an estimated annual cost of £310 million.

Assumptions/uncertainties

This calculation is based on a model predicting how many people in care homes will be eligible under different capital limits, considering house prices and owner-occupation rates of older people. The model somewhat under-predicts the number eligible under the present limits – at 56% rather than the actual figure of 66%. This can be attributed to housing assets not being taken into account for particular reasons, for example because of a spouse still living in the care user's home, because of successful divestment of assets, or because of imperfect estimation of the assets profile of those going into care homes. The model should therefore be taken as giving a rough rather than precise estimate of the extra costs of higher capital limits.

One possibility is that this is a considerable overestimate because the net cost to local authorities is assumed to be the same for the extra people who qualify as for existing clients. Since the net cost subtracts from care home fees a means-tested charge on pension income, this cost to the local authority will be lower if the new clients have on average higher incomes as well as greater assets. For example, if the average for these clients were the same as average pensioner income, these 17,000 people would reduce the net cost by £2,200 each per year, and thus reduce the total annual cost to about **£270 million**.

This calculation has not taken account of the tariff income charged on capital for the newly eligible group, or of the reduction in tariff income proposed for the people currently below the lower and upper limits. These two factors will offset each other and the net cost would not be large relative to the overall cost. For example, the tariff charge on 17,000 newly eligible individuals with an average capital sum of £32,000, if the charge were 4% a year for all capital above £12,750, would bring in about £15 million. If the same number of people currently between the two capital thresholds had their tariff reduced from 20% a year to 4%, and their average capital was halfway between the two thresholds (£16,875), the cost to the public purse would be about £11 million.

Commentary

This policy idea is designed to allow people with savings and capital from their homes to keep more of this capital rather than use up nearly all of it paying for care. This would be expensive if capital limits were abolished or raised to reflect the cost of selling a modest home, but the suggested policy moves some way in this direction at a relatively modest cost. It would in particular benefit people of modest means who feel they are being penalised for saving, or impoverished as a result of their misfortune. The adjustment to the 'tariff' rate is a necessary accompaniment to this reform, since the present tariff would undo much of its effect by requiring people to use up to 20% of their capital each year to pay for care. Under a tariff based instead on the interest that can be earned from the capital, it would avoid the need to run capital down below £42,000 to pay for care costs.

Costing 3: Double the personal expenses allowance for people supported by local authorities living in care homes

Policy: Local authority charges to people being supported in care homes to allow them to retain £39.20 rather than £19.60 per week of their income.

Coverage

UK. All care home residents.

Cost

£250 million.

Commentary

Personal expenses allowances must cover clothes, personal items, spending on family and other costs other than the board and lodging and care services provided in care homes. The low level of this allowance takes away personal dignity of people who have previously had substantial pension entitlements. A higher allowance would help restore this dignity.

Costing 4: Extending free personal care to more people with severe conditions living in nursing homes

Policy: Extend public coverage of care costs beyond those currently classified by NHS as requiring 'continuing care' following hospital treatment. Combine this with charging people receiving continuing care for their non-care costs.

Coverage

England and Wales. People aged over 65.

Illustrative costings

a) A generous version would extend the current 'continuing care' regime, under which all care home/hospital costs are paid in full, to nursing home residents currently classified in the top band for payments of nursing costs. This group is hard to distinguish medically from those who meet the NHS 'continuing care criteria', so arguably should be getting equal treatment. This would cost an estimated **£287 million**.

b) Alternatively, a **zero cost** option would be to impose a charge for non-care costs on everyone, including those meeting the continuing care criteria, subject to means-tested assistance under current local authority rules for those with capital below the eligibility limits. The money saved would allow a personal care subsidy to be extended not just to those in the highest nursing band, but also to **31,000** other people in nursing homes too. This would mean that 98% of people in nursing homes could get both nursing and personal care paid for without a means test. For just **£20 million** in extra public spending, all would be covered.

c) A variation of (b) that would avoid charging people living in hospitals for accommodation, which in the past has proven highly unpopular, would impose non-care charges only on those in nursing homes – which is the majority of those qualifying for NHS continuing care funding. In this case, the **zero cost** option would extend personal care to 87% of people in nursing homes, comprising all those in the top nursing care band, and the majority in the middle band. For an extra **£68 million**, everyone in the middle band could be covered, and for an extra **£124 million**, everybody in nursing homes.

Assumptions/uncertainties

Estimate (a) assumes residents pay fees equivalent to 'fair' nursing home fees (2005/06) in homes meeting all post-2002 National Minimum Standards.

Estimates (b) and (c) require assumptions to be made about the rate at which non-care costs will be recovered from people currently entitled to continuing care. They assume that the income and capital profile for this group is similar to others in all care homes, and that therefore about two-thirds will have their fees funded by local authorities who will impose a charge means-tested on their income, and that the other one-third will have capital and be required to pay all of these non-care costs. If people eligible for NHS continuing care are poorer in terms of either capital or income than others in care homes, the savings will be lower.

Commentary

These costings illustrate how public and private costs might be redistributed within care homes. At present there is no clear rationale for two people with similar high-end treatment in a nursing home having to pay different amounts. Since non-care costs tend to be high relative to care costs, it would be possible to pay full personal and nursing care for most residents if all were to pay for non-care costs such as accommodation – subject to means-tested help for those unable to do so. With a small amount of extra government spending, everybody with nursing needs could receive free care. While this is only one way of redistributing the cost burden, it shows an example of how a different basis for allocation is possible.

Costing 5: Introducing a constant rate of co-payment, shared between individuals and the state for all long-term care services

Policy: Radically redistribute public resources spent on long-term care so that everybody contributes the same proportion of their care costs with a matching contribution from the state.

Coverage

UK. Those aged 65 or over. Looks at all public and private spending on registered and local authority domiciliary services and on care home fees.

Illustrative costing

If all care spending in the above categories were divided at a constant rate between public funding and personal charges, the 'co-payment' rate would be 33 per cent – i.e.

private individuals would have to pay one-third of all costs. This is much higher than the 10 per cent rate in Japan, which operates a level co-payment system of this type.

This would not be affordable to someone on a low income facing an average nursing home fee of over £500, so would require considerable extra means-testing. This would largely defeat the purpose of redistributing money from our current, highly means-tested system. In order to avoid large-scale means-testing, the co-payment in the average nursing home (the most expensive category of care) would have to be affordable to an individual on the minimum income guaranteed by Pension Credit: £109 a week in 2005-6. To pay this and still have £19 remaining (the equivalent of the personal expenses allowance for local authority funded clients under the present system) would require a maximum co-payment of £90 a week, which implies a **19 per cent co-payment rate**. This would require an extra **£2.2 billion** in public spending.

Commentary

This costing is included to illustrate the implications of moving towards a situation, common in other countries, where financing for long-term care is not means-tested at point of use, but private individuals must bear at least some of the cost. It is clear from the calculation that such a system would require more resources to work well in the United Kingdom.

Published by the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP

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JOSEPH ROWNTREE FOUNDATION

April 2006
Ref: 0276