

Future costs of long-term care for older people

Projections of future demand and spending on long-term care for older people are important to inform the continuing debate about how best to fund it. Raphael Wittenberg, Adelina Comas-Herrera and Linda Pickard of the London School of Economics and Ruth Hancock of the University of Leicester have produced updated projections. These are based on the latest official population projections and on specific assumptions about future trends in dependency rates and other relevant factors. They found:

-  Long-term care spending in the UK would need to rise by around 315 per cent in real terms between 2000 and 2051, to meet demographic pressures and allow for real rises in care costs, if dependency rates, patterns of care and funding arrangements remain unchanged.
-  On this basis, spending on long-term care would need to increase from about 1.4 per cent of GDP in 2000 to around 1.8 per cent of GDP in 2051, assuming a real increase of 2.25 per cent a year in GDP.
-  This projection of 1.8 per cent of GDP in 2051 using the 2002-based official population projections updates an earlier projection of 1.6 per cent of GDP in 2051 using the 2000-based population projections.
-  These projections are sensitive to assumptions about trends in life expectancy, dependency rates and real unit costs of care, as well as changes in patterns of care and funding systems.
-  Public expenditure on long-term care is projected to reach around 1.2 per cent of GDP in 2051 under current funding arrangements and around 1.5 per cent of GDP in 2051 under a policy of free personal care with an assumed 25 per cent increase in demand for domiciliary services.
-  The share of total long-term care costs met publicly is projected to be almost 80 per cent in 2051 under a policy of free personal care, as against around 66 per cent under current funding arrangements.

Context

How far people should fund their own care and how far they should be publicly funded continues to be a key issue in the debate on financing long-term care. While Scotland has introduced free personal care, England, Wales and Northern Ireland have introduced free nursing care in care homes but not free personal care.

The Joseph Rowntree Foundation (JRF) conducted an Inquiry on meeting the costs of long-term care in 1996. In 2003 JRF commenced a Policy and Practice Development Programme on paying for long-term care, with the aim of seeking consensus around sustainable approaches to funding long-term care. In this context, JRF commissioned the Personal Social Services Research Unit (PSSRU) at the London School of Economics and the Nuffield Community Care Studies Unit (NCCSU) at the University of Leicester to prepare updated projections of future expenditure on long-term care for older people in the UK to 2051.

These two research units had jointly prepared projections for the Institute for Public Policy Research (IPPR). Updating these earlier projections was important because the Government Actuary's Department's latest, 2002-based population projections differed from their earlier projections, with greater increases in the numbers of older people, on the basis of more optimistic assumptions about future rises in life expectancy.

The projections reported here are based on a range of specific assumptions about future trends in pressures on demand for services, and on a range of scenarios for possible future care patterns and funding arrangements. They are not forecasts. They do not, for example, allow for rises in the level or quality of care due to rising expectations.

The central base case

A central base case projection was developed to act as a reference case against which the effect of changes in assumptions can be investigated. The central base case projections take account of expected changes in external factors, such as demographic trends, but hold constant policy factors, such as patterns of care and the funding system (see Box 1).

The latest population projections from the Government Actuary's Department show higher growth than their previous projections in the numbers of older people. The numbers of people aged 65 and over in the UK are expected to rise by 81 per cent over the next five decades: from 9.3 million in 2000 to 16.8 million in 2051. The numbers of people aged 85 and over are projected to grow even faster: from 1.1 million in 2000 to 4 million in 2051, an increase of 255 per cent. Much of the need for long-term care in the older population comes from the latter group.

Box 1: The three key assumptions of the central base case

- The number of older people by age, gender and marital status is assumed to change in line with 2002-based official projections;
- Age/gender specific dependency rates, as reported in the 1998/9 General Household Survey, are assumed to remain unchanged over time;
- Real unit costs of social care are assumed to rise by 1 per cent a year, real unit costs of health care by 1.5 per cent a year and real average earnings and house prices by 2 per cent a year.

The 'elderly support ratio' – the population of working age divided by the population of pensionable age – is projected to fall from 3.35 in 2002 to 3.10 in 2011, 3.09 in 2021 and 2.53 in 2031, before falling below 2.2 in the 2050s and levelling off. This ratio is affected by the rise in the state pension age for women between 2010 and 2020.

In order to keep pace with these demographic pressures, occupied places in residential care homes, nursing homes and hospitals would need to rise from around 450,000 to around 1,130,000 in 2051: an increase of about 151 per cent. The number of home care hours would also need to increase, from around 2.0 million a week in 2000 to over 4.8 million a week in 2051: an increase of around 137 per cent.

Total expenditure on long-term care for older people in the UK was estimated at £12.9 billion in 2000 – this included public spending on the NHS and social services, plus private spending on user charges and purchased care. About £9.8 billion of this total related to care costs, and around £3.2 billion to 'hotel costs'.

Meeting demographic pressures, and allowing for real rises in care costs – 1 per cent a year for social care and 1.5 per cent for health care – would involve an overall increase from £12.9 billion to approximately £53.9 billion in 2051. But while spending would increase over four times by 2051, the economy is also forecast to expand. Assuming that gross domestic product (GDP) grows by 2.25 per cent a year, long-term care expenditure would rise from about 1.37 per cent of GDP in 2000 to around 1.83 per cent in 2051. The share of long-term costs met publicly is projected to fall from 68 per cent in 2000 to 66 per cent in 2051, mainly due to projected increases in home-ownership.

Variations in life expectancy, dependency and unit costs

The study investigated three external factors that are important drivers of the demand for spending on long-term care: life expectancy, dependency and unit costs. In view of the sensitivity of the projections to these variables, two more base cases are presented.

They cover some plausible assumptions: that future numbers of older people fall within the range of the official projections; that dependency rates either remain constant over time or fall slowly; that unit costs of care either rise in line with average earnings or somewhat more slowly.

The model defines dependency in terms of ability to perform personal care and domestic tasks. The analysis is based on prevalence of physical dependency, rather than of specific diseases. Changes in the prevalence of specific diseases are likely to affect demand for care primarily through their impact on the prevalence of dependency.

Under the low base case assumptions, the numbers of dependent older people would rise by 61 per cent between 2000 and 2051, as opposed to 113 per cent under the central base case. In this scenario, spending on long-term care would represent 1.35 per cent of GDP in 2051 as opposed to 1.83 per cent in the central base case. Under the high base case assumptions, the numbers of dependent older people would rise by 147 per cent, and the percentage of GDP would rise to 3.39 in 2051. These results are shown in Figure 1, which illustrates the extent of uncertainty that surrounds the future costs of long-term care.

Changes in patterns of care

A further set of projections explored three scenarios: a decline in informal care; an increase in support for informal carers; and a change in the balance between residential and home care.

The first scenario assumes a sharp decline in the numbers of older people living with their children and a corresponding increase in residential care. Because the numbers living with their children are already small, such a decline would have little impact on future spending. The second scenario assumes an increase in support for informal carers, and gives dependent older people living with others the same package of home care services as those living alone.

This would increase demand, and increase spending to around 2.0 per cent of GDP in 2051, compared with 1.83 per cent under the central base case.

Using the assumptions made in 2000 by the National Beds Inquiry, which involved a modest package of home care and community nursing, a shift from residential care to home care would lead to a slight reduction in spending.

Changes in the funding system

Free nursing care in nursing homes has now been introduced throughout the UK, with some variations between countries. Variations in the average weekly sum met by the NHS would only have a marginal effect on the public/private spending balance. No effect on overall spending is assumed.

The costs of introducing free personal care would depend on the definition and coverage of personal care, and on the impact it would have on demand. The study followed the Royal Commission’s approach, assuming that older people in care homes would be responsible for housing and living costs. Based on social security benefit rates at 2000 prices, these were assumed to be £135 a week. Older people in their own homes would remain responsible for the costs of meals and domestic help, but not for help with personal care.

Introducing free personal and nursing care would have an immediate effect, increasing public spending in 2000 from around £8.8 billion to about £10.3 billion. Private spending – on ‘hotel costs’ in care homes and on domestic care in the community – would fall from 32 per cent to around 20 per cent of all long-term care expenditure.

The projections suggest that a scenario of free personal and nursing care would increase public spending to £42.6 billion in 2051 (1.45 per cent of GDP) as opposed to £35.4 billion (1.20 per cent of GDP) under the current funding system. These projections do not allow for an increase in demand.

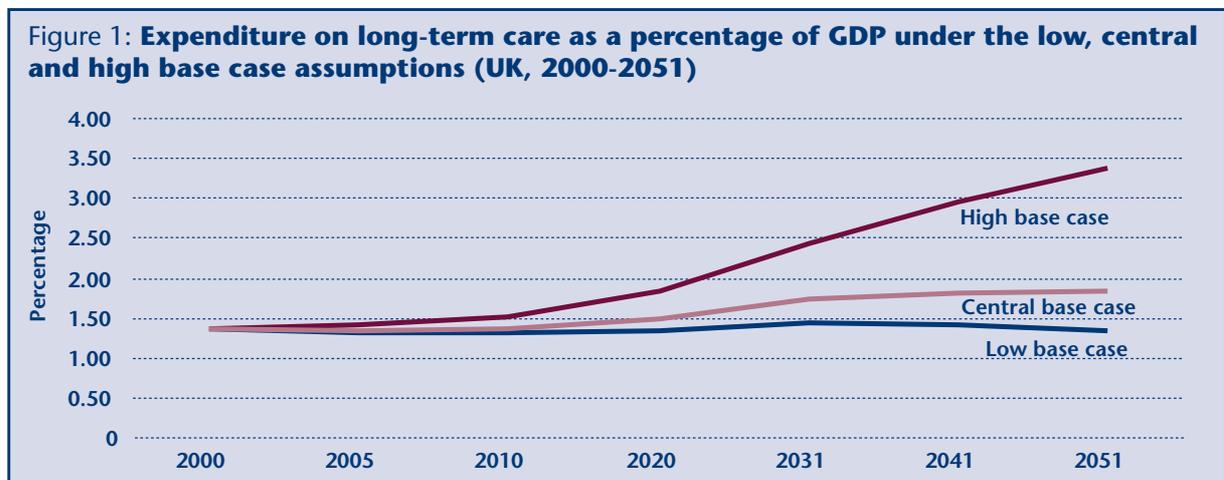
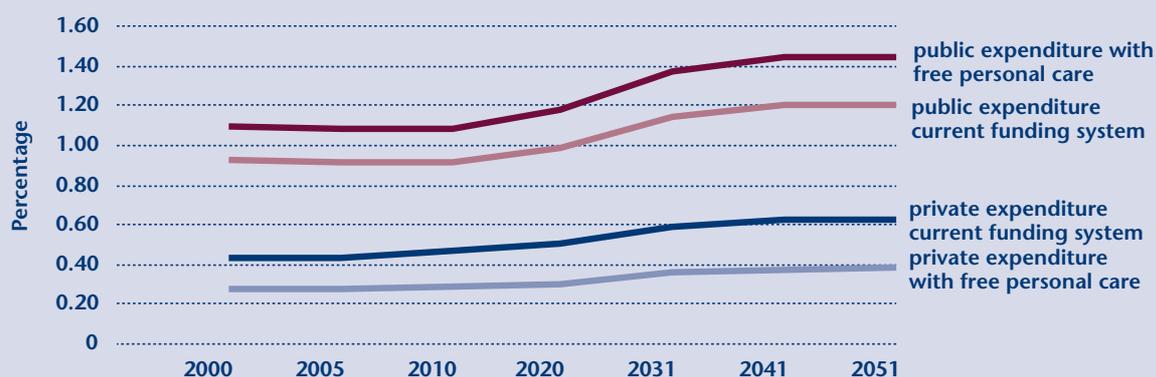


Figure 2: **Public and private expenditure on long-term care as a percentage of GDP under the current funding system and under free personal care (UK 2000-2051).**



If the numbers of people with dependency do not rise as fast as the central base case assumes, then even with a policy of free personal care the percentage of GDP spent on long-term care in 2051 might not be any higher than it is today. If, however, the numbers with dependency and the unit costs of care are higher than under the central base case, the percentage of GDP spent by the state in 2051 would be almost three times what it is today.

Figure 2 shows the changing balance between public and private financing under the current funding system and under free personal care. Public spending would constitute 79 per cent of all long-term care spending in 2051 with free personal care, compared with 66 per cent under the base case.

Introducing free personal care would probably affect overall demand, which would in turn affect expenditure. A 25 per cent increase in demand for home care would increase public spending in 2051 to 1.51 per cent of GDP as opposed to 1.45 per cent when no increase in demand is assumed.

Who would benefit from changes in funding?

The models can be used to investigate the distributional impact of changes to the funding system by considering the effect of such changes for care home residents in each third of the income distribution. Introducing free personal care would have no effect for the lowest income group as current funding arrangements already meet almost all their costs and they only contribute to 'hotel' services. The middle income group would see a small rise in the share of their fees met from public sources. Residents in the highest income group would see their share of fees reduced from 89 to 48 per cent. For nursing home care, the reduction would be from 69 to 34 per cent.

About the project

PSSRU had developed a macrosimulation model to make projections of demand for long-term care for older people under clearly specified assumptions. NCCSU had developed a microsimulation model of long-term care charges. IPPR had commissioned the two units to make projections of long-term care expenditure through innovative linkage of the two models. This project involved an update of the projections produced for IPPR, using the latest official population estimates for 2000 and population projections to 2051.

Development of the PSSRU model was funded by the Department of Health, development of the NCCSU model by the Nuffield Foundation and earlier work linking the two models by the Institute for Public Policy Research. Annabelle May wrote this *Findings*. All views reported here are those of the authors.

How to get further information

The full report, **Future demand for long-term care in the UK: A summary of projections of long-term care finance for older people to 2051** by Raphael Wittenberg, Adelina Comas-Herrera, Linda Pickard and Ruth Hancock, is published by the Joseph Rowntree Foundation (ISBN 1 85935 203 0, price £9.95).