How can funding of long-term care adapt for an ageing population?

Practical examples and costed solutions

Solutions
Lessons for policy and practice

June 2007

What's the issue?

The current long-term funding model in the United Kingdom is unfair, not clear and unlikely to be sustainable in future.

What are the problems?

- As the population ages, demand for long-term care is growing. By 2050 there will be twice as many people aged over 85 and overall costs will increase fourfold.
- Current spending is too low to provide adequate levels of services.
- Without changes, older people increasingly will have to pay more from their own pockets.
- The present system of paying for care is riddled with inconsistencies in the rules determining who pays what.
- Although the system is designed to ensure support for the worst off, older people with few assets and on low incomes often have no choice over their care or are deprived of their dignity.

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Ways forward

System improvements

Fairer and more sustainable methods of funding, including:

- **Equity release**, allowing older homeowners to pay for home-based care by deferring the costs until their home is sold.
- **Higher capital limits for care home fees** to help those with modest assets.
- **Doubling of the personal expenses allowance** for people living in care homes supported by local authorities.
- **Free personal care for more people in nursing homes** to extend public coverage of care costs.
- **Payment by the State of a fixed percentage of all core costs**, with individual co-payments funding the rest. This would radically redistribute public resources spent on long-term care.

Practice innovations

Pooled risk makes it possible to support those least able to afford care home charges. Through its care provision, the JRF demonstrates how some of these solutions work in practice:

- **Co-payments/Social insurance scheme** – residents pay a monthly fee established at the outset according to their age.
- **Loan stock/Bonds scheme** – new residents invest in the scheme, giving them to a rebate on their residential or nursing care fee. A bursary fund is generated from excess interest earned, which is used to supplement the fees of residents in receipt of State support.

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The case for change

The current social system to pay for long-term care for older people falls short in three main ways:

- **overall funding levels;**
- **coherence; and**
- **fairness.**

The evidence shows that:

- As the population ages, demand for long-term care is growing. By 2050 there will be twice as many people aged over 85 as there are now, and spending on long-term care overall (including what people spend privately) will need to increase fourfold.

- Even today, spending is too low to provide adequate levels of services. For example, councils have to concentrate limited funds on people with very severe needs, so those less severely disabled, who in the past would have benefited from help like meals on wheels and home helps, do not now receive this help.

- Without changes, older people – including those on very modest incomes – increasingly will have to pay more out of their own pockets.

- The present system of paying for care is riddled with inconsistencies in the rules determining who pays what. There is often confusion about whether the health service or local authorities are responsible (their duties overlap), and there are different entitlements in different local authority areas.

- Although the system is designed to ensure support for the worst off, older people with few assets and on low incomes may not have a choice over their care, and too often are deprived of their dignity. They also often lack the information they need to use services properly, and may have nobody to advise them.

Possible ways forward

Costed policy solutions

JRF have drawn up detailed costs for the following policy options, and these are indicated below. For more information, see *Paying for long-term care.*

Improvements to the present system

- **Equity release**
  This would allow older homeowners to pay for home-based care services by deferring the costs until their home is sold (such as when they die or move into care), with debt being rolled-up at a reasonable interest rate. Although there are private sector schemes for advancing loans on a homeowner's property, there are barriers for less affluent owners. This scheme, like loans for students, allows repayment later, enabling those who are capital rich and income poor to tap their hidden assets.
  Cost: possibly £29m per annum

- **Higher capital limits for care home fees**
  This would help those with modest assets by raising the ceiling above which an individual in a care home receives no support from a local authority, from the current level of £21,000 to £42,000.Similarly, the very high deductions from income currently charged on capital over £12,750 should be reduced to a rate that reflects the actual interest that can be earned in a deposit account.
  Cost: £270m per annum

- **Double the personal expenses allowance for people living in care homes supported by local authorities**
  Those who go into a care home and depend entirely upon local authority charges must currently give up their entire State pension, leaving them with just £19.60 per week to cover personal items like clothes and shoes, presents for grandchildren and so on. Doubling the figure to £39.20 per week would give people more personal dignity. Evidence from Age Concern has suggested that this figure would give care home residents a more reasonable amount to manage on than the current rate.
  Cost: £250m per annum

- **Free personal care for more people in nursing homes**
  It is unfair that two care home residents with similar needs can be treated very differently. One might be funded by the NHS and one having to pay their own costs, despite both having the same income and assets. This measure would extend public coverage of care costs beyond people classified by the NHS as requiring 'continuing care' following hospital treatment. If everyone had to pay for non-care costs such as accommodation – subject to a means test – it would be possible to pay full personal and nursing care for more residents without an increase in public spending.
  Cost: £0 per annum

A more radical long-term change

- **A constant rate of co-payment, for individuals and the State**
  This measure would radically redistribute public resources spent on long-term care so that everybody contributes the same proportion of their care costs, with the remainder coming from the State. This follows the Japanese system. To be affordable to those without any assets or extra income, the individual's payment would need to be less than 20% of the total cost.
  Cost: £2.2 billion per annum

The JRF's work on paying for long-term care

The Joseph Rowntree Foundation's recently completed Paying for Long Term Care Programme identified a range of costed solutions for the future. This paper describes possible solutions and examples of implementation on the ground. The three-year programme examined evidence from overseas and Scotland, where the system differs. JRF looked at previous evidence, including its 1996 Inquiry into Continuing Care and the 1999 Royal Commission on long-term care, and at possible solutions in the private sector.

In the early days there was little political appetite for this topic but the issue has now risen up the social policy agenda. Currently, the Government is promoting important principles for long-term care provision, including choice and control for service users and the importance of early intervention as is evident in its White Paper, *Our health, our care, our say* (DOH 2006). However, there is no room for complacency; to date it is still unclear how the Government will deploy the resources needed to make these ambitions a reality.

Evidence from JRF's research learning supports current Government policy on the importance of choice and control for older people. Findings from JRF's consumer testing activity also underline older people's desire for clarity around the costs of care, so that they can make informed choices.

Examples from practice

In addition to research activities, the JRF provides care services through the Joseph Rowntree Housing Trust (JRHT). JRHT has concluded that pooling risk in relation to care costs is an effective funding mechanism. The continuing care retirement community Hartrigg Oaks, based in York, demonstrates how this works in practice.

Innovative ways of using capital to find care have also been demonstrated and further details are provided in this paper.

Models already implemented by JRHT

Social insurance scheme

Hartrigg Oaks is a continuing care retirement community in York, consisting of 152 spacious one and two bedroom bungalows and 42 en-suite bed sitting rooms within The Oaks Care Centre. A range of communal facilities are available for the benefit of residents at The Oaks centre, including a restaurant, spa pool, community shop and library. Under Hartrigg's scheme, residents within the scheme pay a monthly fee which is established at the outset according to the age of the resident. For a 70-year-old this monthly fee is currently £507.50, whilst for a 75-year-old it is £564. For residents with higher levels of capital it is possible to pay a non-refundable lump sum to reduce the monthly fee. Other than annual inflation adjustments, the same fee is paid regardless of an individual's care needs, even the provision of nursing care. The annual increase in the monthly fee is capped at 3% above the rate of inflation. This scheme is a form of social insurance.

By pooling risks Hartrigg Oaks can fund up to 21 hours' domiciliary care per week, and residential and nursing provision is available for those with higher needs.

In addition to the monthly fee the resident pays an upfront fee to occupy a bungalow. This 'capital' fee is repaid at the original level when the resident leaves the community. The bungalow is then 'resold' to a new resident at a higher price. The community as a whole benefits from the increase in value. This primarily funds major repairs and the cost of capital but also provides an additional resource to fund a resident's care should this be necessary.

For example, Mrs A pays £150,000 to occupy a bungalow and a monthly fee of £564 in the knowledge that her care needs will be met for life. On leaving the community, Mrs A recovers £150,000 and the bungalow will be resold to a new resident at the current value.

Bonds scheme

Bedford Court in Leeds is an integrated care complex for older people. Accommodation consists of 34 bed-sitting rooms, four double apartments and ten bungalows, suitable for a range of older people, from those who have no care needs to those who require full-time care. Bedford Court runs a bonds rebate scheme, meeting a number of purposes. One is to offset the capital cost of building Bedford Court. A second is to create a sense of 'ownership' in the scheme for residents. A third is to contribute to a bursary scheme which will supplement the fees of residents in receipt of State support.

Under this model, any new resident with capital assets in excess of £40,000 is required to buy a bond. This then entitles residents to a rebate on their accommodation charge (equivalent to a rent). The bonds are invested by JRHT and any excess interest received over the cost of rebates is used to create a bursary fund. This is available to other residents within the scheme who do not have sufficient finances to fund their care.

For example, under this scheme Mr B purchases a bond for £40,000. His full accommodation charges would be £72 per week but he receives a rebate on this calculated against the level of his bond. The annual rebate is calculated as 3% of his bond value, which is £1,200 per annum. This translates to £23 per week, meaning Mr B actually pays a net accommodation charge of £49 per week. On leaving Bedford Court Mr B will have his £40,000 repaid to him, increased in line with the retail price index for periods in excess of 12 months. If, during his stay there, his financial circumstances change there is flexibility to review the level of the bond holding.

Loan stock scheme

Red Lodge is an integrated care facility for older people near York, with 42 apartments for residential care and 21 for sheltered and extra care. Lamel Beeches care home provides accommodation and residential and nursing care for 41 older people. The Oaks care home centre is an integral part of the Hartrigg Oaks community (see above).

These homes use a loan stock scheme similar to the bonds scheme. New residents with capital assets above £40,000 are required to invest in the scheme, which entitles them to a rebate on their residential or nursing care fee. One important difference from the bond is that, on leaving the scheme, residents are only repaid the original amount they invested. Bursaries, funded by the excess interest earned by JRHT over the rebates, are available to those residents who are in receipt of social security benefits and have capital assets of less than £12,750. Currently, plans are in place to extend this scheme to help JRHT residents wishing to enter JRHT care schemes who cannot afford care home fees or third party top-ups.

Under this scheme, Ms D enters Lamel Beeches with total assets of £110,000. After discounting the first £40,000 of this, Ms D is required to purchase loan stock to the value of 75% of the balance. She buys £52,500 of loan stock and a rate of 2.9% produces an annual rebate for her of £1,522.50 from her care fees. Translated into monthly amounts, this reduces her costs by £127 per month.

Pros and cons of these approaches

The positive points of the three JRHT schemes are:

- high levels of user satisfaction;
- opportunity to positively plan for later life;
- clear models of entitlement;
- financial transparency;
- no one need leave a JRHT scheme because they cannot afford the fees; and
- ability to use capital to fund care and support.

However, there are downsides, including:

- The bond and loan stock schemes are non-negotiable.
- Hartrigg Oaks' capital and income threshold reduces the scheme's affordability.
- Hartrigg Oaks residents do not benefit from capital appreciation and purchasing another property if they leave might be difficult.

Conclusion

This paper demonstrates JRF's costed solutions for funding long-term care and practical examples of its approaches in its own care facilities. All of these schemes demonstrate ways that can make the current system fairer. By pooling risk it is possible to support those least able to afford care home charges in later life.

In order to improve funding levels and the coherence and fairness of long-term care, the Government needs to adopt the suggested measures, to lay the foundation stones for a fairer and more sustainable payments system.

About this paper

This overview draws on the JRF's recently concluded research from its Paying for Long Term Care Programme, summarised in:

Paying for long-term care: Moving forward
(http://www.jrf.org.uk/knowledge/findings/foundations/0186.asp)

It also draws on the practical experience of the Joseph Rowntree Housing Trust. Other relevant research can be downloaded free from www.jrf.org.uk

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For more information about the JRHT's care services, visit www.jrht.org.uk

Caring Choices: Who will pay for long-term care? is a nationwide initiative to help shape future policy on long-term care for older people. It is a collaboration of 15 organisations, including the JRF, representing all aspects of the long-term care system. Through a series of seven UK-wide events taking place in 2007, we hope to gain a clearer view on public acceptability in relation to the trade offs they are willing to make to pay for long-term care for older people.

Caring Choices is about raising awareness of the challenges facing the future of long-term care funding. By actively engaging with older people, carers and other key stakeholders, we are exploring views on three big questions that relate to the future funding of long-term care for older people:

1. Who should pay for personal care?
2. How do we encourage people to contribute to care costs?
3. How do we support the provision of informal care?

For more information, visit the website at http://www.caringchoices.org.uk/

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