Options for care funding: what could be done now?

Solutions
Lessons for policy and practice

March 2009

What's the issue?

The current economic situation could cause the reform of the UK long-term care funding model to lose momentum. According to Government figures the present model is already unsustainable (Johnson, 2008) and funding would need to be trebled (Hirsch, 2006) just to maintain the status quo.

Consensus on the need for reform

- Many experts, the public and the Government agree that the UK needs a new care funding system. The Joseph Rowntree Foundation (JRF) and others have shown that the present system is unfair, unclear and unsustainable (Hirsch, 2005). Stakeholders want clearer entitlements, and would consider a new shared funding contract between individuals and the State (www.caringchoices.org.uk, 2008).
- Recent reports confirm that long-term reform is needed (Resolution Foundation, 2008). In the interim, immediate improvements can be made at modest cost, as shown in this *Solutions*, which updates a 2007 paper.
- In Spring 2009, the Government will produce a Green Paper on its vision for social care reform. Many other possibilities and 'building blocks' for a new system have already been put forward (Lloyd, 2008).
- Immediate change is imperative. It may be a decade before a new system is in place – in the meantime, another generation of older people and their carers will have to cope under the present system, which has been further strained in recent months by the credit crunch.

Author
Sue Collins, Joseph Rowntree Foundation

Ways forward

Fairer and more sustainable methods of funding include:

- **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 the personal expenses allowance** for people living in care homes supported by local authorities;
- **restructuring help for people in nursing homes**, breaking down the barrier between health and social care.

Practice innovations

Pooled risk makes it possible to support those least able to afford care home charges. The Joseph Rowntree Housing Trust's (JRHT) care services demonstrate how some of these solutions work in practice:

- **Co-payments/social insurance scheme** – residents pay a monthly fee according to their age, established at the outset.
- **Loan stock/bonds scheme** – new residents invest in the scheme, giving them a rebate on their residential or nursing care fee.
- **Mixed tenure and affordable housing with care** – as demonstrated by a new partnership scheme in Hartlepool.

The case for change

The current long-term care funding system is:

- **unsustainable. Without changes, older people – including those on very modest incomes – will increasingly have to pay more out of their own pockets;**
- **unfair. It is riddled with inconsistencies that determine who pays what; and**
- **unclear. There is often confusion about whether the health service or local authorities are responsible for payment, and there are different entitlements between local authority areas.**

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 the less disabled, who would have benefited from help like meals on wheels and home helps, do not now receive this help.

- The current economic climate could be said to disproportionately affect older people on low to modest incomes. Those who worked hard and have led 'thrifty lives' (Caring Choices, 2008) are seeing their savings, investments and homes lose value.

- Under new equalities legislation, the current 'fault line' between what is deemed a continuing health need and a social care need will be increasingly challenged, for example those older people with dementia who are deemed ineligible for continuing health care.

- 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 are too often deprived of their dignity. They also often lack the information they need to use services properly, and may have nobody to advise them.

- People believe the system is unfair and unclear (Caring Choices, 2008) – evidence shows that they want State contributions to care costs to be clarified, along with robust advice, information and advocacy.

Costed policy solutions

If reform across the system is to occur, then a fair settlement is needed across all aspects of people's lives. But in the short term it is possible to move towards fairer funding arrangements in specific areas, particularly by ensuring that everyone has basic entitlements.

JRF has drawn up four detailed, costed options which begin to pave the way for a fairer system, even in the current economic climate, whilst more radical reform is worked out. They do not replace the need for more fundamental system changes (Hirsch, 2006).

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. Currently, although poor enough to qualify for pension credit, one million households have housing equity of at least £100,000 (Sodah, 2005). Due to high house price growth rates since these figures were obtained in 2002-03 even the current price fall won't impact adversely on this sum. This may be a credible way to release some income to pay for supplementary domiciliary care. But there are limits to this pot, and equity release on its own cannot fund pensions, care and the next generation.
Cost: possibly £33 million per annum

- **Higher capital limits for care home fees**

This would help those with modest assets by raising the ceiling that dictates whether an individual in a care home receives support from a local authority, from the current level of £22,250 to £42,500. Similarly, the very high deductions from income currently charged on capital over £13,500 should be reduced to a rate that reflects the actual interest that can be earned in a deposit account.
Cost: £280 million per annum

- **Double the personal expenses allowance for people living in care homes supported by local authorities**

Those who go into a care home who depend entirely upon local authority charges must currently give up their entire State pension, leaving them with just £21.90 per week (from April 2009) to cover personal items like clothes and shoes, presents for grandchildren and so on. Doubling the figure to £43.80 per week would give people more personal dignity. Evidence from Age Concern (Age Concern, 2008) has suggested that this figure would give care home residents a more reasonable amount to manage on than the current rate.

Other recent JRF evidence on minimum household budgets (Bradshaw et al, 2008), based on the views of groups of pensioners, shows that £42 per week is the minimum a single pensioner would need to spend on clothes, personal goods and services and social participation to achieve an acceptable standard of living.
Cost: £250 million per annum

- **Free personal care for people with nursing care**

It is unfair that two care home residents with similar needs can be treated very differently. One might be funded by the NHS while the other would have 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 all those currently receiving nursing care payments, representing people with the highest care needs and with only a modest rise in public spending.
Cost: £212 million per annum

JRF's 'Paying for long-term care' programme identified a range of costed solutions for the future. 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. Following the completion of this programme, JRF joined with 14 other organisations in 2007 to organise a wide-ranging consultation, Caring Choices (see box).

In the five years following the Royal Commission, there had been little political appetite for change. More recently, in contrast, the Government has committed itself to reform. Following evidence from JRF, the King's Fund and others that the system is broken, the 2007 Spending Review accepted that fundamental change in care funding is now needed, and the Green Paper (England, Spring 2009) will set out principles on which this is to be based. The Welsh Assembly is currently consulting on adult social care costs and due to publish (Spring 2009) a Green Paper on the vision for Wales.

At the same time, 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* (Department of Health, 2006). But these ambitions cannot become a reality without an adequate funding system.

Evidence from JRF's research supports current Government policy on the importance of choice and control for older people. Findings from JRF's consumer testing activity and the Caring Choices exercise also underline older people's and other stakeholders' desire for clarity around costs, so that those who need care can make informed choices. Caring Choices also made clear that people are generally favourable to the idea of a partnership in which costs are shared between government and users, provided that the terms of this partnership are seen to be clear and fair.

The Caring Choices coalition: stakeholders agree on some broad requirements for solutions

Caring Choices, a coalition of 15 organisations led by JRF, the King's Fund, Age Concern and Help the Aged, gathered views of older people, carers and others with direct experience of the care system, on who should pay for long-term care and how. During 2007, it engaged with more than 700 individuals at events across England and Scotland and via an interactive website. It concluded:

- that there is almost no support for the current care funding system;
- that stakeholders place great importance on producing a simpler system, in which entitlements are clearer and people are able to plan ahead with greater understanding of what will be on offer;
- that almost without exception, stakeholders do not think that a satisfactory system is possible without spending more money;
- that the prevailing (though not universal) view is that the cost of long-term care should be shared between the Government and the individual;
- that funding 'personal care' is only one issue. To many people, having adequate resources to meet wider needs like practical help with shopping and gardening are of great importance;
- that State support for schemes like equity release, to help unlock private resources, have considerable support. But views on any one option are mixed – pointing to a menu of options available rather than a single means of encouraging private funding;
- that support for unpaid carers is widely thought to be inadequate, and many people feel that this is a neglected aspect of paying for care.

Examples from practice

JRHT, JRF's sister charity, provides a number of care services for older people and people with disabilities in York and the North East of England. 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. More recently, in partnership with local stakeholders, JRHT has also opened an extra care mixed-income community in Hartlepool.

Innovative ways of using capital to fund housing with care for older people are provided in this paper.

Social insurance scheme

Hartrigg Oaks is a continuing care retirement community, consisting of 152 one- and two-bedroom bungalows and 42 en-suite bed-sitting rooms within The Oaks Care Centre. A range of communal facilities are also available for the benefit of residents, including a restaurant, spa pool, community shop and library. Under Hartrigg's scheme, residents pay a monthly fee, established at the outset according to their age. For a 70-year-old this monthly fee is currently £523.25, whilst for a 75-year-old it is £581.50. Residents with higher levels of capital can 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 per cent above the rate of inflation. This scheme is a form of social insurance. By pooling risks, Hartrigg Oaks can fund up to 21 hours of 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 the cost of care in the community should this be necessary. For example, Mrs A pays £225,000 to occupy a bungalow and a monthly fee of £581.50 in the knowledge that her care needs will be met for life. On leaving the community, Mrs A recovers £225,000 and the bungalow will be resold to a new resident at the current value.

Mixed-income communities

Hartfields, JRHT's scheme in Hartlepool, has been developed in partnership with the local authority, Primary Care Trust and local NHS Trust, and demonstrates how a mixed-income community model can work in practice.

This scheme opened in mid 2008 and is attempting to create a lively vibrant community that offers older people the type of housing with care they prefer: 218 apartments and 34 cottages sit alongside facilities including restaurants, gym and spa, hairdressing and an entertainment suite. The development has also created a local community space providing G.P. services and day care for older people. The health facilities are also open to the public.

This model offers 60 per cent affordable housing: 40 per cent for rent and 20 per cent shared ownership, with the remainder fully owned. This type of mixed-income community shows how schemes can offer housing with care in a localised setting that older people on lower incomes can afford.

The equity appreciation in the housing is shared between JRHT and the resident. The equity share retained by JRHT is used to create a 'sinking' fund for future major repairs.

In effect, JRHT is demonstrating the principle of using an equity release mechanism to keep the fees lower for residents. By using capital appreciation to pay for major repairs the overall service charge can be lowered. This has the net effect of freeing up more disposable income for residents.

Therefore, older people and their carers are more in control of their care, and commissioners have clarity about better outcomes for older people. The barrier between care and support has been removed, creating a flexible pot of money that can be used to achieve the outcomes older people want.

Plans to evaluate the model, looking at the experience of this type of mixed-income community and the impact of extra care housing, are due to come to fruition in the next two years. For example, can we demonstrate a reduction in the need for formal care?

Bonds scheme/equity release

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 that 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 per cent 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 twelve 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 Centre is an integral part of the Hartrigg Oaks community (see page 5).

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 £10,000.

Plans are in place to extend this scheme to help JRHT residents wishing to enter JRHT care schemes that cannot afford care home fees or are not entitled to top-ups by their local authority or the Government.

For example, Ms D enters Lamel Beeches with total assets of £110,000. As her capital assets exceed £40,000, Ms D is only required to purchase loan stock equal to 75 per cent of the remaining £70,000: £52,500 of loan stock. This investment, at a rate of 2.9 per cent, would produce an annual rebate of £1,522.50 – reducing Ms D's care fees by £127 per month.

The benefits of the JRHT schemes are:

- clear models of entitlement;
- transparent 'offer' for older people and their carers;
- it's possible to replicate elements of models elsewhere;
- high levels of user satisfaction;
- the opportunity to positively plan for later life;
- the principle of equity release offered through a trusted provider appears to be more acceptable to older people (Rowlingson, K and McKay, 2005);
- housing with care offer is welcomed by some older people;
- no one needs to leave a JRHT scheme because they cannot afford the fees;
- the ability to use capital to fund care and support;
- the bond and loan stock models keep fees lower for residents;
- pooled funding achieves flexible outcomes for older people, carers and commissioners; and
- they create lively, vibrant communities that offer mixed-income housing with care.

However, downsides include:

- 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 if they leave it might be difficult for them to buy another property.
- At Hartfields, the current economic climate means that sales of self-funded apartments are slower than anticipated.
- Evidence from JRF's Equity Release Task Group (due to complete Autumn 2009) shows that there is increased nervousness among older people about using equity release to fund additional care.

Conclusion: something can be done now…

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, and more focused on individuals' needs as a start towards a more thorough overhaul of care funding. In order to alleviate the worst excesses of the current economic climate, it is all the more imperative that **modest changes** happen now. By pooling risk it is possible to support those least able to afford care home charges in later life. This would move us closer to the situation where some of the most disadvantaged people in our society could receive the kind of flexible support they want. The changes suggested here are not a comprehensive plan for funding long-term care but rather show how early policy and practice changes could help lay the foundation for a fairer and more sustainable system that clearly lays out the State offer towards care costs. In the longer term, **radical reform with resources** is inevitable if we are to face the opportunities and challenges that living well later in life will bring.

About this paper

This overview draws on JRF's research from its 'Paying for long-term care' programme, summarised in: *Paying for long-term care: Moving forward* (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

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

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