

FINANCING LONG-TERM CARE IN THE UNITED KINGDOM

RAPHAEL WITTENBERG

PERSONAL SOCIAL SERVICES RESEARCH UNIT
LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

ILPN CONFERENCE

2 SEPTEMBER 2014



ACKNOWLEDGEMENTS

- Funders: Department of Health, UK Research Councils, AXA Research Fund
- Research Team:
 - London School of Economics: Adelina Comas, Bo Hu, Derek King, Raphael Wittenberg
 - University of East Anglia: Ruth Hancock, Marcello Morciano

FINANCING LONG-TERM CARE

- We have conducted a range of studies on the financing of long-term care, including international comparative studies
- Our aim is to inform decisions by providing evidence on the costs, benefits and other impacts of different ways of financing care
- The key issue addressed by a series of reviews in the UK is the balance between public funding and private responsibility

FINANCING SYSTEM IN THE UK

- Health care free of charge at point of use throughout 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
- The means test takes account of savings and incomes above set thresholds
- The value of a person home is usually taken into account for residential care but not for community care
- Disability (cash) benefits are not subject to means test, throughout the UK

BALANCE OF CARE AND FINANCE FOR OLDER PEOPLE

- 325,000 older people in care homes in England: 170,000 funded by local authority, 25,000 by the NHS and 130,000 privately (estimates)
- Some 500,000 older people receive publicly funded community care, including 265,000 receiving home care or cash payments
- At least 150,000 receive privately funded home care, possibly more (estimate)
- Older users of local authority funded care meet over one-third of costs of residential care or one-eighth of costs of community 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

MARKET FAILURES AFFECTING PRIVATE INSURANCE

- It seems common for people to underestimate their risk of needing costly long-term care and to misunderstand the means test
- Data are lacking to make robust estimates of life-time costs of care and insurance premiums
- Premiums were high relative to the pensions of most older people
- This market failure led the Dilnot Commission to recommend a cap on life-time care costs

STUDY OF PRIVATE LONG-TERM CARE INSURANCE

- AXA Research Fund commissioned a study from the LSE, University of East Anglia, Nuffield Trust and University of Barcelona.
- Its aims included:
 - to present estimates of the expected life-time costs of care for older people in the UK under different patterns of care
 - to present estimates of possible premiums for different potential types of private or private/public insurance policies

ESTIMATES USING PSSRU AGGREGATE PROJECTIONS MODEL

- Data from analyses carried out with the PSSRU aggregate model, on use of services and on disability by age and gender
- Augmented life table using Sullivan's method to estimate expectation of life with disability and expectation of life in receipt of home care and residential care
- Unit costs are applied to each person's care pathway to yield estimate of life-time from age 65

KEY BASE CASE ASSUMPTIONS

- Mortality rates fall in line with ONS 2010-based principal population projections
- Disability rates by age and gender remain constant
- Patterns of care remain unchanged
- Unit costs of care remain constant at 2010/1 prices or rise by 2% per year in real terms
- Hotel costs in care homes (assumed to be £10,000 per year) are excluded
- Real interest rates are zero

ESTIMATED LIFE-TIME COSTS OF CARE

Estimated mean life-time costs of care at age 65, 2010/1 prices, under variant inflation assumptions

	ALL	MALE	FEMALE
0% real rise	37,000	25,000	48,000
2% real rise	58,000	39,000	77,000

ESTIMATES UNDER VARIANT MORTALITY SCENARIOS

Estimated mean life-time costs of care at age 65,
2010/1 prices, zero real inflation, under variant
mortality assumptions

LIFE EXPECTANCY	ALL	MALE	FEMALE
Low	41,000	29,000	53,000
Principal	37,000	25,000	48,000
High	34,000	22,000	44,000

ESTIMATES UNDER VARIANT DISABILITY SCENARIOS

Estimated mean life-time costs of care at age 65,
2010/1 prices, zero real inflation, under variant
disability assumptions

DISABILITY	ALL	MALE	FEMALE
Constant rates	37,000	25,000	48,000
Continued trends	45,000	30,000	60,000

ESTIMATED COSTS UNDER VARIANT ELIGIBILITY CRITERIA

Estimated mean life-time costs of care at age 65,
2010/1 prices, zero real inflation, payment of
£350pw on failing 2 Activities of Daily Living

	ALL	MALE	FEMALE
Current care	37,000	25,000	48,000
ADL failure	37,000	23,000	51,000

Failure of an ADL means inability to perform it
without help or residence in a care home

ESTIMATED INSURANCE PREMIUMS

- Premiums need to take account not only of the expected benefits paid to enrolees but also various costs including admin costs and opportunity costs of reserves
- In the USA loss ratios, that is proportion of premiums paid out to enrolees, are 60% for individual policies but more for group policies

ESTIMATED INSURANCE PREMIUMS

- If life-time costs of care are in the range of £25,000 to £35,000 and loss ratios in the range 60% to 70%, lump sum premiums at age 65 would be in the range **£35,000 to £60,000**
- If it was assumed that care costs are likely to rise by an average of 2% per year in real terms but real interest rates remain constant, lump sum premiums at age 65 would be in the range **£50,000 to £80,000**

ESTIMATED INSURANCE PREMIUMS

- In the USA most enrollees pay regular monthly payments, or at least a combination of a lump sum and monthly payments, rather than lump sums at age 65
- Estimated monthly payments, on the basis of 2% real rise in care costs, would be in the range of **£210 to £335 per month** at constant 2010/1 prices

LIFE-TIME CAP ON CARE COSTS

- The Commission on Funding of Care and Support (2011) recommended a life-time cap on care costs of between £25,000 and £50,000
- The Government decided to introduce from 2016 a cap on life-time care costs of £72,000
- This will provide a wide pooling of risks of catastrophic costs, subject to user meeting an excess
- It will provide scope for private insurance to cover the excess, to cover hotel costs and/or to cover costs above those normally met by local authorities

STUDY OF THE COSTS OF THE LIFE-TIME CAP ON CARE COSTS

- The Department of Health commissioned the Economics of Social and Health Care Research Unit and the University of East Anglia to produce projections of the costs of care under current and alternative funding systems
- The research team produced projections to inform the deliberations of the Commission on Funding of Care and Support and further projections to inform debate of their proposal

METHODOLOGY

Use of two linked models:

- Caresim, University of East Anglia, microsimulation model of resources of older people and charging for care
- Personal Social Services Research Unit at LSE, aggregate model of long-term care for older people

Innovative combination of macro and microsimulation models

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 (0.95% of GDP)
- It is projected to more than double by 2030, to £25.5 billion in 2010 prices (or 1.3% of GDP), to keep pace with demographic and economic pressures
- Implementation of the Government's reforms will add an estimated extra £2 billion in 2030 to bring the projection to £27.5 (1.4% of GDP)

CONCLUSIONS

- Private long-term care insurance is not currently available in the UK because of market failures
- If it were available, premiums might be in range £210 to £335 per month (at 2010 prices) for cover purchased at age 65
- The Government has decided to introduce a life-time cap on care costs of £72,000, in effect public insurance subject to a large excess
- The reforms are projected to add an extra £1.3 billion to public expenditure in 2020, rising to an extra £2 billion by 2030