Institute and Faculty of Actuaries

Briefing paper 2

IFoA Social Care Policy Briefing Series

A fairer means test

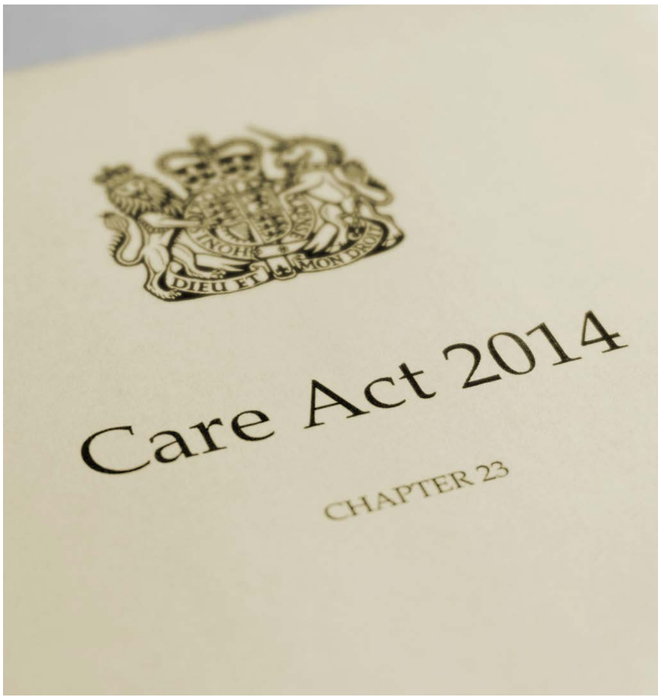
Ageing population

Informing the debate

February 2019

Introduction

In this second social care policy briefing,* the IFoA compares the impact of the current means test on individuals requiring support from their local authority with the new system proposed under the Care Act 2014.



The Care Act 2014 embodies the most recent attempt to reform the social care system in England. But despite making its way onto the statute book, the reforms were subsequently delayed in 2016 and have since been shelved in favour of a new green paper.

Phase 2 of the proposals in the Care Act 2014, which looked at reforms to means testing, were largely welcomed. These included increased means testing thresholds and the introduction of the universal deferred payment scheme. However, the government's decision to defer the planned changes to the means test has meant that some cohorts of individuals requiring care are worse off than if the reforms had been implemented as planned. This briefing highlights the discrepancies between the existing means test and the one proposed under the Care Act 2014 – which would be fairer for most individuals, particularly those with lower levels of assets – and sets out why the government should implement Phase 2 as soon as possible.

* This briefing only considers the situation in England as different rules apply in Scotland, Wales and Northern Ireland.

The means test

How the current means test works

Under the current system in England, an individual's means are tested in a number of ways. The provision of local government-funded social care is decided after an assessment which looks at the severity of a person's needs and their ability to pay. At present, people who apply for adult social care who have capital of less than £14,250 are eligible to have their council pay for their care. For those with capital of between £14,250 and £23,250 the council will pay for some of their care, with the individual expected to pay £1 per week for every £250 of savings (known as tariff income) or eligible assets (which can include cash in a bank account, property, shares, etc). The rules around charging for care are complex. For more information see the Department of Health's document *Social care - Charging for care and support* (**bit.ly/2x7tV0I**).

Councils are not required to provide financial help to anyone with more than £23,250 in capital, so those who fall into this category have to pay for their social care themselves until their capital drops below this amount. Whether or not the value of a person's property is included in the means test depends on whether the care they need is delivered at home or in a residential or nursing home. Anyone requiring care in their home will not have their housing wealth included in the means test, but it is included as an asset for those who need residential care, for example in a nursing home. (Your home won't be included in the means test if you still have a spouse, dependent or partner living there.)

If the council deems an individual to have intentionally reduced their wealth in order to receive council support – otherwise known as deliberate deprivation – then this may prevent them from receiving any form of financial help.

How the proposed means test would work

Under the Care Act proposals, the amount that the local authority would pay towards someone's care and support costs would continue to be means tested dependent on the person's assets and income. However, the intention was that from April 2020, the upper and lower capital limits for means tested support would be increased so that more people would become eligible for local authority financial support. Instead of the current £14,250 and £23,250 limits, the lower limit was due to rise to £17,000 and upper limit to £27,000 (or £118,000 if a person's property is included as part of their assets because they require care at home).

Encouraging savings for care

One of the aims of a reformed funding system proposed in the Dilnot Report (Commission on Funding of Care and Support, 2011) was *'to support everyone in making their personal contribution'*.[i] The government's ongoing policy aim is to ask all individuals, who are financially able, to bear the responsibility of their care costs. In return, these people will have more control over the type and quality of care they receive. If this is to be achieved, then the disincentives within the current system that discourage saving towards the costs of care need to be removed.

Analysis by the IFoA[ii] found that the extended means-testing thresholds as set out in the Care Act provide a greater level of reward for savers than the existing thresholds (although they still act as a barrier).[iii] The research also found that additional money put aside would lead to an increase in the amount that the individual has to contribute to their care costs.

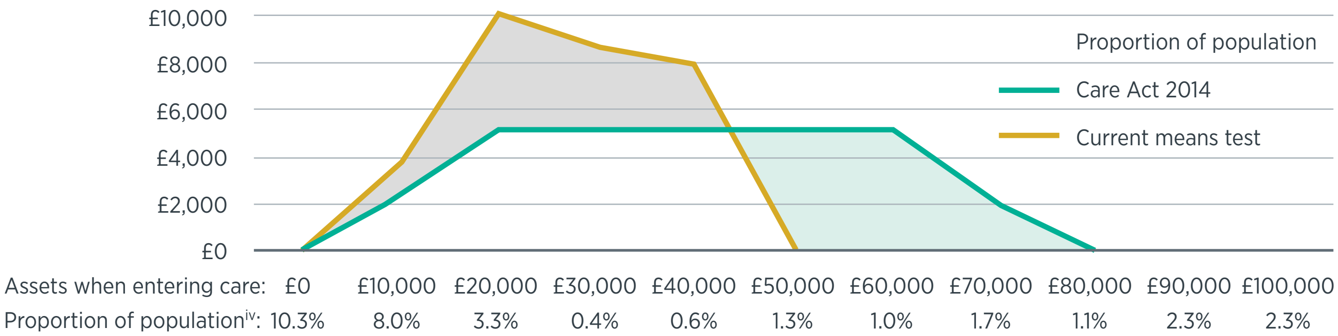
As with any means test there will be winners and losers. The more even rate of contribution under the Care Act will provide a greater level of incentive for people to provide for themselves. The IFoA has modelled the impact of the proposals under the Care Act on the incentives to save. Our modelling shows that over a ten-year time horizon the current means test has a significant impact on the incentive to save for those individuals with assets of £110,000 or less at the point of entering care. Any additional money put aside leads to an increase in the amount that the individual has to contribute to their care costs. This is because a proportion of the additional savings replace the Local Authority funding that would otherwise have been provided under the means test arrangements. In effect, these individuals will pay more for their care without the extra savings being available to improve the type and quality of care they receive.

Why save more?

Figure 1 shows the impact of the current and Care Act means test on the incentive to save. The graph plots the rate at which contributions to care costs are required at rising levels of saving. It shows that under the current system if individuals with between £20,000 and £40,000 in capital save an additional £10,000, they can expect to see their personal care costs increase by between £8,000 and £10,000. This means the individual will lose means-tested support worth up to the entire value of their extra savings, and at least 80p for every extra £1 saved by the time they have been in care for three years (the average length of stay in residential care). They would therefore only have a maximum of £2,000 to spend on improving the type and quality of care they receive from their additional £10,000 saving. Under Phase 2 of the Care Act, the loss of means-tested support would reduce to a maximum of 50p for every extra £1 saved.

Therefore, if individuals with capital between £20,000 and £60,000 save an additional £10,000, their personal care costs would increase by £5,000 and they would have £5,000 remaining to improve the standard of care received. It is only for individuals with capital above £80,000 where additional savings do not directly replace Local Authority funding. This is the point at which no means tested support is received over a three year period. Above this level of assets the extra savings are fully available to be used for other reasons such as improving the standard of care received or leaving a larger inheritance.

Figure 1. Increase in personal funding over the first 3 years, for £10,000 of additional savings under existing and proposed means test limits



Recommendations

In order to create a system that works more fairly and efficiently for individuals requiring care, particularly those with lower savings, the IFoA proposes the following recommendations:

1. **The government should remove biases in the means testing system that penalise less wealthy savers**

   The government should implement Phase 2 of the Care Act as soon as possible to reduce the disincentives to saving towards the cost of care. The new proposed means-testing thresholds provide a greater level of reward for savers and may increase the level of saving for care. The government should also ensure the impact of the new financial thresholds is communicated to those who will be affected.

2. **The government should consider the introduction of new categories of financial products that allow savings to be exempt from the means test up to a specified threshold**

   There would be a greater incentive to save by introducing a social care category of products that allow individuals to save money without it being included in the means test. This would address the issues raised above for the specific purpose of long-term care saving. It would also raise awareness among the public of how care is funded. We would recommend that a limit be placed on the amount that can be set aside in these products in order to prevent them being used as a mechanism for deliberately subverting the means testing rules.

3. **The government should reconsider the existing exemptions from the financial assessment for some existing products**

   New savings products for social care could be useful in helping encourage those in low and middle wealth brackets to save towards an improved quality of care. The cost of doing so could be met by removing existing loopholes for investment bonds and life assurance products in the financial assessment, as these products can allow a person to qualify for financial help while having significant assets saved. These exemptions could lead to wealthier individuals qualifying for financial help under the means test even when they have significant assets saved in insurance and savings products that could be used to pay for care. New exempt products could fund care needs more fairly than the current rules allow.

Next steps

Our members are working on further analysis as the government continues to look for ways to meet the changing needs, demands and expectations of the health and care system in England as a result of changing demographics. We would be happy to discuss any of the information in this briefing in more detail. For more information about the IFoA's work on social care, please contact **policy@actuaries.org.uk**.

References

i. Fairer Care Funding – The Report of the Commission on Funding of Care and Support (July 2011): **https://webarchive.nationalarchives.gov.uk/20130221121529/https://www.wp.dh.gov.uk/carecommission/files/2011/07/Fairer-Care-Funding-Report.pdf**

ii. *The Future of Social Care Funding - Who Pays?* (**bit.ly/2Gt1HDH**)

iii. The analysis is based on the means test limits set out as part of Phase 2 of 'the Act' and assumes that the other elements of Phase 2 are implemented, including the £72,000 cap. The analysis considers an individual entering care without nursing at age 85 incurring the average care costs for England and found that incentives to save for long-term care varies according to the wealth of an individual.

iv. English Longitudinal Study of Ageing: Waves 0-7, 1998-2015. **http://doi.org/10.5255/UKDA-SN-5050-13**

Institute and Faculty of Actuaries

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The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

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