

## Resolution Foundation briefing on low earners and long-term care October 2008

The Resolution Foundation is an independent research and policy organisation, established in October 2005. Our goal is to improve the wellbeing of low earners in today's mixed economy. We aim to deliver change in areas where this income group is currently disadvantaged by producing new research and actively engaging in the policy-making process.

We embarked on our current project of work which looks at how low earners fare in the long-term care system in January 2008. Our first project explored low earners' access to financial advice.

### 1/ Key points

- 1. Long-term care presents particular challenges for low earners.** We define low earners as those who are mainly independent of state support, but who earn less than median incomes.<sup>1</sup> As such, this group are on the cliff-edge of means testing eligibility – the majority are not eligible for free or subsidised state care, and yet their relatively low incomes make care costs a significant financial burden. This group are likely to spend a larger proportion of their weekly budgets on care than both higher and lower earners.
- 2. Long-term care is a complex mixed market in funding and delivery.** It is driven by public and private funding and delivered by private, public and third sector organisations. The Foundation is particularly interested in how low earners fare in such systems and how mixed market solutions can be developed to improve outcomes.
- 3. Long-term care is becoming increasingly important as a political priority,** with 2008 set to be a crucial year with the recent launch of 'The case for change' and a public debate leading up to a Green Paper in 2009. The Foundation has welcomed this debate but is keen to stress that we can't just talk about 'parts' of the system. The Foundation believes that lasting reform needs to redesign the architecture of how the social care of older people operates. Systemic reform is also needed alongside a new funding settlement if we are to beat a future 'care crunch', where low earners<sup>3</sup> are often 'squeezed' the most:
  - people are not planning for their future care needs - 7 out of 10<sup>2</sup> people have made no provision for their care in old age
  - access to care is being restricted by tightening eligibility criteria and funds – local authorities continue to ration care

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<sup>1</sup> We define this group as those individuals who earn less than median incomes but who are receive less than 20 per cent of their incomes from state benefits. Households earning between around £14k and £23k and individuals between around £7,300 and £12k would fall into this group.

- low earners face particular challenges as they get caught on the cliff-edge of means-testing – over 72% of low earners have assets above the threshold

## **2/ Summary of the Foundation’s work to date**

### ***Lost: low earners and the elderly care market***

The Resolution Foundation has identified that low earners face particular challenges from the long-term care system, and published its first report in February 2008, *Lost: low earners and the elderly care market*. This report identified some of the key weaknesses of current care provision which impact on low earners:

- Low earners are “squeezed” in the current long-term care system: often assessed as ineligible for state funded care, but with relatively low incomes to cover care costs. It is likely they will spend a larger proportion of their budgets on care than both lower *and* higher earners.
- Low earners tend to have lower levels of liquid assets than others relative to their wealth, and keep more equity in their homes. This means accessing their wealth to pay for care is much harder than higher earners.<sup>3</sup>
- Mainly because of the care costs low earners face, but also due to local variability in eligibility and access, the key message from our study was that long-term care is regarded as “unfair” by the majority of low earners.
- The complexity and lack of guidance in navigating their care choices is their single most pressing concern. There was cynicism amongst many low earners that this complexity was used as a rationing tool, by discouraging people from applying for services and benefits.

### ***A to Z: mapping long-term care markets***

Although the Foundation is specifically concerned with the plight of low earners in long-term care, to improve the outcomes of all older people, and any group that may be losing out, it is necessary to consider the system of long term care as a whole.

In this context, the Foundation commissioned Deloitte to carry out some work on the fairness and efficiency of the long-term care market. This was published as part of the Foundation’s report, *A to Z: mapping long-term care markets*, which maps long-term care from the perspective of a mixed market to gain a “whole system” picture, and assesses this map against criteria of efficiency and fairness.

The areas identified by this analysis as ones where the long-term care market is weak in terms of efficiency and/or fairness include:

1. Informal care
2. Navigation
3. Funding
4. Local market management
5. Responsiveness of supply

#### **1. *Informal care***

- Informal carers (family and friends) supply a considerable amount of care for free to older people. This reduces the costs to the state, and also meets any shortfalls in care the formal care market may generate. Nevertheless, relying on informal care to such a degree is a high risk strategy, with hidden social

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<sup>3</sup> Resolution Foundation, *Lost: low earners and the elderly care market*, 2008

costs. First, informal care relationships can be fragile, so consistency of care cannot be guaranteed. There is also no guarantee of the quality of informal care, so that a proportion of those currently relying on informal care may not be having their needs met (and storing up problems which the local authority or NHS may have to deal with in the future).

- It should also be remembered that informal care is not “free” – the costs are borne by informal carers who may give up work (and reduce their own incomes) in order to fulfil their caring roles.<sup>4</sup> This can have a particularly significant impact on the financial well-being of lower earners.
- Demographic change may also render informal care a less viable alternative to formal care in the future: there will be an increase in the number of older people with complex care needs, for whom informal care may not be adequate. Also falling birth rates and potentially more mobile populations suggest fewer younger people will be available in the vicinity to care for their older relatives.

## 2. *Navigation*

- There is a shortage of available information and advice regarding long-term care, so older people and their families find it hard to make informed choices about their care and how to fund it.
- In addition, the current system of eligibility and benefits is very complex and locally variable. This means that even with a comprehensive advice and information service available, people would still find it challenging to navigate the care market effectively. The interlinked yet distinct operation of social care and NHS care, one means tested, one free, and with separate delivery systems, also adds to the overall confusion.

## 3. *Funding*

- Tight budgets in long-term care can generate inefficiency. For example, local authorities targeting limited resources on those with most critical and urgent need diverts funding from preventative services, which are more efficient and save money in the longer term. A lack of funding now is likely to lead to more money being spent overall, creating a vicious circle of funding shortages and inefficient spending.
- Private resources are also being used inefficiently due to poor financial planning. Low take up of equity release products means few people are able to access the equity in their homes to pay for domiciliary care if they do not have sufficient liquid savings. A lack of available private resources may be one reason why there are few alternatives to domiciliary and residential care being stimulated.

## 4. *Local markets*

- Much of the local variation in long-term care is driven by local authorities' intermediation role. Variation in needs-based eligibility, commissioning practices and fee rates can lead to geographical variation in access to care, funding available, and fees payable – and therefore variation in outcomes.

## 5. *Responsiveness of supply*

- Care suppliers can meet the volume of demand for formal care, but less effectively adapt to the types of care demanded. There are a number of potential explanations:

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<sup>4</sup> A Carers Strategy is due to be published in May 2008. It is expected this will address issues of financial and other support available for informal carers.

- Considerable reliance on informal care masks latent and unmet demand. Suppliers are therefore unable to identify untapped and niche markets.
- A lack of resources to spend by self-funders dampens demand. For example, low take up of equity release means self-funders are unable to access equity from their homes to spend on care.
- The relatively small number of self-funders maintains the local authorities' position as the largest single purchaser of care. As such, suppliers are incentivised to respond to local authorities' commissioning decisions which, unless based on a thorough whole-population needs assessments, risks limiting the range of services made locally.

The Foundation concluded that the fragile long-term care system faced a likely 'care crunch' where low earners<sup>3</sup> were often 'squeezed' the most, and that this would only be avoided through realistic reform of the long-term care system.

### **The Expert Groups**

The Foundation invited five groups of experts, each with their own specialist perspectives on care, to discuss the vision and architecture for a future care system. The *Redesigning Social Care*<sup>5</sup> Expert Groups were made up of representatives from:

1. The financial services industry
2. Care providers
3. Representative groups of older people and carers
4. Local authorities
5. Care research and policy experts

Discussion 1 - Each group was tasked with designing the new architecture of a care system for older people, which would be able to achieve a better vision of care, based on principles such as independence, choice, clarity and consistency, wellbeing and prevention, as laid out in *A Case for Change*.<sup>6</sup> The main areas raised in the discussion were:

- Care and wellbeing
- Individual responsibility
- Information and advice
- The role of national and local government
- The role of the family and informal care
- Care provision, personal budgets and the workforce
- Funding care

Discussion 2 - The Foundation also presented details of its forthcoming research programme:

- Navigating the care system
- Improving innovation and efficiency in care supply
- Local market shaping
- Exploring the vehicles for funding care

These four issues represent just some of the important functions of a care system, but they were chosen from a wider range of issues because it was felt that the Foundation was able to add value to the wider care reform agenda by exploring these particular issues in more detail. The Foundation invited comments and

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<sup>5</sup> Discussions were based around the future of social care for older people in England. However, the visions of future care are applicable to Scotland, Wales and Northern Ireland.

<sup>6</sup> DH, 2008 *The case for change – Why England needs a new care and support system*

feedback from the groups on whether the research was focussing on the most relevant and worthwhile issues. Some of the key issues from the discussion included: reducing the instances of people seeking advice only in times of crisis, better use of information to stimulate local markets, and an exploration of the viability of existing financial products.

#### **4/ Next steps**

The Resolution Foundation believes that it is important that the plight of the expanding numbers of low earners or the “not rich not poor” are not overlooked as a group who often fall into the gap between free or subsidised and more expensive private care provision. The particular challenges faced by low earners suggest that they have very limited options:

- Attempt to pay for care they need but can barely afford,
- Rely on informal care,
- Forsaking their care needs altogether.

The Foundation is now about to hold the second round of Expert Groups. We will use these constructive and forward-thinking debates to inform the next phase of our research programme:

- develop a series of policy solutions around the four key areas it is investigating;
- and demonstrate how these contribute towards a larger programme of systemic reform required to achieve a new architecture for care.

**Please see full write-up for a more detailed overview.**

**For further information on the Foundation’s work please contact Cara Brown on 020 7731 9143 or [cara.brown@resolutionfoundation.org](mailto:cara.brown@resolutionfoundation.org)**

## Appendix 1: The particular plight of low earners

- There are 15 million low earners in the UK, 3 million of which are over 65. The largest number of today's low earners are in the 55+ age bracket, suggesting there will be a significant increase in low earning older people in the next 5 to 10 years.<sup>7</sup>
- Low earners are more likely to have experience of the care system – they are 25% more likely to be carers.
- Low earners say they find the system complex, inaccessible, and unfair with 58% saying they would, or have, found it difficult to get the advice and information they need.
- Low earners' primary source of wealth is their home, often having limited savings.
- 72% of low earners have levels of wealth that can exclude them from free care.<sup>8</sup>
- However, low earners are more likely than average to believe that the individual, other than the very poor, should be making a contribution to their care costs.
- 78% of low earners think that reform of the long-term care system is as or more important than improving hospitals.

The situation for low earning care users, and their carers, is set to become worse: as needs eligibility tightens, the number of self funders with relatively much higher needs will increase. These older people will, by definition, require more intensive and *expensive* care packages. Few low earners will be willing or able to meet these higher care costs. Therefore, tightening needs eligibility is likely to lead to an increasing reliance on informal care<sup>9</sup> (particularly among lower earners), and these carers are likely to be faced with a larger care burden, in which they must provide more hours of more intensive care. Taking time off work to provide such support can have a significant impact on the incomes, pensions contributions and general quality of life of carers, particularly those who may already be on low incomes.

Weaknesses in the current market may have negative consequences for all users, current and future, of long-term care, however, low earners, caught as they are on the cliff-edge of means tested eligibility and often unable to access the capital which drives them over this edge (i.e. their homes), face a particularly challenging situation. Their situation illustrates how the current market's numerous weaknesses are not felt universally – they can converge to the particular disadvantage of groups of older people and their families.

**October 2008**

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<sup>7</sup> Future Foundation analysis of BHPS, Resolution Foundation *Living in the Advice Gap*, 2006

<sup>8</sup> *Lost: low earners and the elderly care market, 2008*

<sup>9</sup> Carers UK estimate there will be 9 million carers by 2037 – see <http://www.carersuk.org/Newsandcampaigns/Mediacentre/Tenfactsaboutcaring>