

# WHO CAN AFFORD RETIREMENT HOUSING?

Is retirement housing affordable and by whom? Is it a luxury of richer people with greater wealth or poorer people with access to benefits? Can older people on middle incomes afford retirement housing? What factors affect the cost of living in retirement housing? This study seeks to answer these questions by examining income data, price data and government policies.

## Key points

- The Guarantee Credit component of Pension Credit and other state help provides pensioners with a minimum income 'floor' after eligible housing costs. As such, pensioners *should* be able to live in retirement housing, with a residual income at or above this floor.
- Middle-income pensioners not entitled to state help are liable to spend the largest proportion of their income on retirement housing. But the structure of state help ensures that their remaining income is not lower than those pensioners receiving means-tested benefits.
- Pensioners may find that some retirement housing costs are not eligible for state help, because of their level of savings, their tenure or how these costs are classified.
- Owner-occupiers and private tenants, regardless of income, often do not get help with the many small costs incurred in retirement housing which are covered for most social tenants. Social renters are much more likely to get state help with these costs.
- The complexity and inconsistencies of different eligibility and entitlement systems for state help with housing, housing-related support or home care combine to make the financial prospects of living in retirement housing daunting and uncertain. It is difficult for those considering retirement housing to know if, and at what stage, they would receive any support. Systems also vary across England, Northern Ireland, Scotland and Wales.

## The research

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# BACKGROUND

This study looks at the incomes, benefits and retirement housing living costs of the UK's 10 million people of pension age. Retirement housing is defined as grouped dwellings designated for older people (55/65+). In 2010, there were around 610,000 retirement housing units; 90 per cent were 'with support' (e.g. sheltered housing), and 10 per cent 'with care' (e.g. extra-care housing); 20 per cent were for owner-occupation and 80 per cent for social renting.

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Costs come under three categories: housing (rent, mortgage interest, service charges), housing-related support (e.g. scheme manager, community alarm service) and care (receiving care services within retirement housing). This study does not cover residential care homes. It examined how much people in retirement housing would need to spend on housing, support and care from their own funds.

## Eligibility and entitlement to state help with retirement costs

State help is a major affordability consideration for pensioners, including, for care costs, those with high incomes. The key question is whether particular costs are eligible for state help. Eligibility can depend on tenure and on UK country. If a cost is eligible, how much help a pensioner is *entitled* to depends on income and savings. Pensioners must meet ineligible costs, irrespective of income.

### Eligibility

Ineligible housing costs are mainly an issue for owner-occupiers. Some costs (e.g. contributions to repairs funds) are always ineligible. What counts as eligible varies among retirement housing schemes and among owners within a scheme. For private tenants, a portion of their rent may be ineligible. Social renters are usually eligible for help with housing-related support costs, whereas private tenants and owner-occupiers are usually ineligible. In Scotland, it matters whether a particular care element counts as 'personal social care'. In the other UK countries, it is the level of care needed as judged by the social care authority based on Fair Access to Care (FACS) guidelines: 'critical' and sometimes 'substantial' are eligible, but 'low' or 'moderate' are usually not.

### Help available and entitlement criteria

The Guarantee Credit component of Pension Credit represents a 'floor' below which income after eligible housing costs should not fall. In 2012/13, this is £142.70 weekly for a single person and £217.90 for a couple. Pensioners with lower incomes than this receive state help towards their eligible housing costs and their income is topped up to this level. As incomes rise above this floor, pensioners' contributions towards their housing costs also rise. Social renters receiving housing benefit have their housing-related support costs fully met; other such tenants can still receive help (with some exceptions in both instances).

Help with care costs varies across the UK. England and Northern Ireland have an income floor of Guarantee Credit plus 25 per cent; income after eligible care costs should not fall below this. However, savings over £23,250 disqualify pensioners from help with care costs. In Wales, the income floor is slightly higher (Guarantee Credit plus 35 per cent), the savings cap is again £23,250, and there is a £50 a week cap on the amount all pensioners have to pay. In Scotland, personal social care is free for those aged 65 and above. Table 1 summarises state help for housing, care and support costs.

The complexity of the different systems makes it difficult for those considering retirement housing to know if and when they would receive any support.

### Who pays the extra costs in retirement housing?

A key consideration in deciding on retirement housing is the higher ongoing costs compared with general housing. The study estimated average retirement housing costs and analysed pensioner

**Table 1 Benefit entitlement and conditions for housing, care and support costs**

Tenure	Aspect	Mortgage interest/ground rent/rent	Service charges	Housing-related support costs	Care costs <sup>1</sup>
Owner-occupier	Policy/benefit	Guarantee Credit	Guarantee Credit	Supporting People	Fairer charging (England)
	Conditions	Means tested, tapered	Means tested, tapered	Means & 'tenure' tested, capital limit	Means tested, capital limit
	Scope	For mortgage interest/ground rent	Partial coverage <sup>2</sup>	No help (mostly) <sup>3</sup>	Variable
Social renting	Policy/benefit	Housing Benefit	Housing Benefit	Supporting People	Fairer charging (England)
	Conditions	Means tested, tapered	Means tested, tapered	Means & 'tenure' tested, capital limit	Means tested, capital limit
	Scope	For rent	Partial/full coverage	Some/full help	Variable

Source: New Policy Institute. Note: Care costs refer to England and Northern Ireland; other costs generally apply UK-wide.

<sup>1</sup> Covers costs of local authority (LA) assessed need level, which varies by LA, severity of need and services required. <sup>2</sup> Wide variation on what charges Guarantee Credit covers. <sup>3</sup> Few leaseholders get financial help through LA (Supporting People); social renters increasingly have to contribute.

incomes/savings to see how much income would remain after meeting the costs of retirement housing which are *eligible* for state help. For most owner-occupiers considering retirement housing, ongoing costs and limited availability are greater deterrents than purchase costs. A typical second-hand one-bedroom retirement home costs around £75,000. Around 95 per cent of owner-occupying pensioner households in Great Britain have more than this in equity.

Just under half of UK pensioners would get help with eligible housing costs if they moved to retirement housing (see Table 2). With a weekly service charge of £44, around a third of owner-occupiers should be entitled to help. With a weekly rent of £65 and service charge of £22, nine in every ten renters would get help. Pensioners receiving help with eligible housing costs would have a residual income at or near the Guarantee Credit level.

Around half a million UK pensioners have incomes low enough to get help with eligible care costs, but would be excluded because of savings (except in Scotland, where personal care is free). A further 2.5 million owner-occupiers could lose their entitlement to help if moving released enough equity to raise their savings above £23,250. This is a major disincentive for owner-occupiers to downsize.

## Trapdoors

The notion that retirement housing is restricted to those on means-tested benefits and those with higher incomes depends on what is measured. In terms of financial sacrifices made by moving to retirement housing, middle-income pensioners have the most to lose. But in terms of remaining income after eligible costs, those on means-tested benefits are at the income floor and therefore the worst off.

However, ineligible costs, savings and tenure can open 'trapdoors', obliging pensioners to use their minimum income or savings for extra costs. The trapdoor for care costs triggered by savings is potentially the greatest. If care costs are high enough, even the wealthiest pensioners must use their savings to meet them. Smaller, more numerous trapdoors of ineligible housing or support costs mainly threaten owner-occupiers and private tenants; regardless of income, they are more likely to have to pay such costs without state help. Social renters are much more likely to get state help with these costs.

**Table 2 Pensioners entitled/not entitled to state help (full/part) with retirement housing costs**

Tenure	Benefit entitlement	Poorest fifth	2nd	Middle fifth	4th	Richest fifth	Total
Owner	Entitled	13%	10%	4%	1%	-	28%
	Not entitled	-	4%	12%	16%	19%	52%
Renter	Entitled	7%	6%	3%	2%	-	18%
	Not entitled	-	-	1%	1%	1%	2%
Total		20%	20%	20%	20%	20%	100%

Costs modelled: renters, weekly £65 rent and £22 service charge; owners, weekly £44 service charge.

## Conclusion and questions for policy

Not all low-income pensioners are fully and equally helped with retirement housing costs, because of tenure variations. Conversely, even those with high incomes/savings may find retirement housing unaffordable because of potentially limitless care costs when savings exceed the threshold. The uncertainty of managing increasing housing charges (and care costs) impacts across the income scale, although people renting privately and those with savings are the most vulnerable. Overall, the complexity of different systems makes it difficult for those considering retirement housing to know if and when they would receive any support.

The affordability of retirement housing is not a straightforward question, given problems of subjectivity, complexity, uncertainty and inconsistency. Can public understanding of retirement housing and state help with costs be improved? How can eligible costs be defined more consistently? How can fair treatment for low-income owner-occupiers be ensured? How can savings be taken into account while avoiding disincentives? What steps are needed in response to changes in state pension age/entitlement to Guarantee Credit?

## About the project

As well as a literature review of research and policy papers, this study, in partnership with AgeUK, analysed pensioner incomes and savings using the UK-wide Households Below Average Income and Financial Resources Survey (both Department for Work and Pensions). Equity analysis used the GB-wide Wealth and Assets Survey. Data on retirement housing rents and service/support charges came from CORE (COntinuous REcording of Lettings and Sales in Social Housing in England). Similar data does not exist for average private sector rents and service/support charges, so this was modelled from CORE data. Care cost data came from the Personal Social Services Research Unit, and Coalition on Charging.

## FOR FURTHER INFORMATION

The full report, **Affordability of retirement housing in the UK** by Hannah Aldridge, Peter Kenway and Jenny Pannell, is published by the New Policy Institute. It is available as a free PDF from <http://www.npi.org.uk/files/New%20Policy%20Institute/AffordabilityOfRetirementHousingInTheUK.pdf>.

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