Impact of changes to social care funding/charging on extra care housing post Dilnot

This briefing considers the impact that the new care funding system will have on housing choices made by older people.

The key question addressed in this paper is what effect, if any, will the new system have on the demand by older people for extra care housing? We are attempting to anticipate whether the new funding system contains financial incentives or disincentives to make particular choices.

The paper also comments on the potential impact on social care commissioners but is not intended to be guidance for commissioners and providers. Instead, it summarises what is known about proposed systems, highlights issues and suggests how different stakeholders may behave.

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1. Introduction

Older people who have either developed disabilities or anticipate that they will in the foreseeable future, may consider whether moving to different housing could help them stay independent.

We know that people choose extra care housing for many reasons and want to explore how much weight future financial systems might have alongside factors such as quality of life. Indeed, a move to extra care housing is chosen by some older people as a way to have access to on-site support and other beneficial features while retaining their own front door. Extra care housing is distinct from residential care and, while it is 'specialist', it is closer to ordinary housing.

2. Proposed new system

Following the Dilnot[1] report the government published the Care Bill in February 2013, which contains proposals to cap the financial contribution that individuals are expected to make towards the costs of social care. The two types of care that are explicitly covered by the Bill are residential care and care in people's own homes.

Some of the detailed aspects of the system are subject to consultation between July and at the time of writing October 2013. However, the main changes related to funding are summarised below. The Care Bill will also introduce a national threshold for eligibility for social care.

2.1 Cap on individual contributions to care costs of £72,000 (in April 2016)

- Care costs that count towards the cap will be those assessed by a local authority as necessary to meet **eligible** social care needs.
- It is the cost of meeting those needs which is accumulated, not an individual's financial contribution. The costs will be set by the LA and be reflected in a Personal Budget.
- Where the local authority is contributing to costs, their payments and those made by the service user will count towards the cap.
- The LA will keep an up-to-date record of total costs accumulated over time, called a care account, and this can be frozen if someone becomes ineligible or refuses a re-assessment of their need/eligibility.
- As in their own homes, residents in care homes will be expected to pay living costs suggested as £12,000 per annum.

2.2 Changes to capital (assets/income) limits that determine whether people have to make a contribution towards or pay all care costs.

- The lower capital threshold will increase from £14,250 to £17,000.
- People with assets less than £17,000 will only contribute from their income towards the cost of meeting their eligible needs.
- People with assets between £17,000 and £27,000 who receive care in their own homes will contribute from their capital on a sliding scale.

[1] Department of Health, *Commission on Funding of Care and Support* (2011)

- In residential care, the upper capital thresholds will go from £23,250 up to £118,000 so between £17,000 and £118,000, residents will contribute from their capital on a sliding scale and have a right to defer payments.
- As in the current system, people who ask the local authority to arrange care for them but refuse a financial assessment will pay the full costs irrespective of their income/assets until they reach the cap.

A flowchart of how the process is likely to work for people over state pension age is shown in Appendix 1.

For purposes of this briefing, it is emphasised that the funding of care services in extra care housing will operate generally in the same way - and subject to the same capital thresholds - as care in peoples' own homes elsewhere in the community, but with some potential differences that are considered below.

3. Does the new system make residential care more attractive?

One of the aims of the changes is to reduce the fears of owner-occupiers that going into residential care will mean that they will pay charges for their care that will eat up the entire value of their homes. The aim of the cap is to provide certainty about the maximum anyone will pay and to encourage the insurance industry to offer policies that can insure individuals against costs should people need care.

3.1 Insurance schemes and costs

Insurance against costs is not to be compulsory so policies will need to be sufficiently attractive to people to take up in advance of their later years. The cap for care costs at April 2016 is set at £72,000 and is likely to rise over time. In addition to care costs, people in residential care would need to pay daily living costs at £12,000 per year.

Based on current average charges for residential care (see Appendix 2), it is estimated you would need to live for approx 4 years or more before reaching the cap where the state pays care costs. If you wanted a policy that covered **all** costs then you would be asking for cover of £72,000, plus £48,000 for daily living (and ongoing cover of daily living costs).

The care costs that count towards the cap are set at the rate the LA would pay. If you aspire to a place in a residential home that costs more than the LA 'rate' then you would also need insurance cover for the excess care costs that the LA will never cover.

3.2 Will insurers enter the market?

There is considerable speculation about whether insurers will see the market for such products as viable. The level of cover that would need to be offered may result in larger premiums than insurers would consider attractive to prospective purchasers. If they do decide to offer products they might incentivise policyholders to choose preventive options that will reduce the risk of needing costly care. Research by the International Longevity Centre (ILC-UK) suggests that someone moving into an extra care scheme can improve their health and wellbeing outcomes by up to15 years.[2] As a result, a case could be made that opting for extra care housing at or before critical life points such as bereavement, diagnosis of long-term illness etc. could warrant a reduction in premiums.

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[2] Kneale D (2011). *Establishing the extra in extra care housing. Perspectives from three Extra Care Housing Providers*, ILC-UK

3.3 Making people more aware of potential charges

The Bill has made and will make more people aware that social care is means tested and that people with assets will have to contribute. The recent consultation paper on the changes states that around 40% of people are not aware that they may need to pay for care. Setting the cap at £72,000 and rising seems likely to incentivise even more people as they get older (and their families) to look for ways to avoid residential care if they are homeowners and/or have savings/income that equate to more than £118,000.

It is conceivable that extra care housing for rent or for sale could become an attractive proposition for many older people who want to downsize and, where relevant, retain some equity to pay for any longer term care and support costs and service charges. Many providers and developers of housing with care are beginning to take a detailed look at this self-funder market and including paying for care assumptions into their business plans.

4. Does the new system make extra care housing more attractive?

People living in extra care housing are classed for most purposes as living in their own home, whether rented, shared ownership or leased. This is distinct from residential care where residents have use of a room and communal facilities but no security of tenure. Critically, from a charging perspective, the main difference is that when someone moves to residential care the equity in their previous home is viewed as a source of funds to meet care and support costs and accommodation charges.

4.1 Extra care housing for rent

Rented extra care housing, largely managed by social landlords at present could be attractive both to older people who have lived in rented and owner occupied housing prior to considering extra care. As recognised in the ILC-UK research, people who are not frail enough to be eligible for social care may favour rented extra care housing as a way to avoid becoming more dependent. In addition, homeowners with fairly low equity looking at extra care housing may see renting as a way to release capital to spend on rent, care and other items (and potentially to reduce their assets below the threshold for contributing to care costs, should they become eligible).

Where people are eligible for social care and considering moving to extra care housing the implications for them will depend on their financial circumstances. If they have been financially assessed by the local authority the individual will be in the same position as they were in their own homes in terms of whether they pay all care costs or contribute something from their assets and/or income. Where a homeowner sells their home to move to rented extra care housing the proceeds will increase the assets to be considered in a Fairer Charging assessment.

There may be a difference in care costs within extra care housing as there will be 24hour cover in addition to care to meet individual needs. The costs that count towards the cap will be based on the local authority 'rate' for home care, which does not usually include 24-hour cover. It is possible that an individual who is in extra care housing will be paying fees in excess of the LA rate for care that will not count towards the cap (see 4.3 for more detail).

The other difference for people moving into rented extra care housing may be an increase in service charges and rent due to features such as communal space, alarm systems, maintenance etc. If the rent in the extra care housing scheme is higher than they paid in their old home and this caused hardship then the increase may be eligible for Housing Benefit (HB). Most rented extra care housing counts as 'exempt accommodation'; meaning that (unless rent and service charges are deemed 'unreasonably' high by the LA) the majority of costs included in rent and service charges will be eligible to be met by HB. At the time of writing, the Government has confirmed the continuation of this policy in the medium term but longer term funding of housing costs in a range of supported housing, including ECH, remains unclear.

Eligibility for support with housing costs via HB only applies while a person has savings below £16K, unless they are eligible for Pension Credit, which can remove the capital limit; above this level they are liable to pay all of their housing costs. (For further detail on how benefits affect affordability of extra care housing see the Housing LIN guide.[3]) These considerations need to be set alongside the requirement in future for someone living in a care home to meet hotel costs - in both scenarios, people will be making a contribution to the cost of their accommodation, and (subject to different charging regimes and their own circumstances) may receive some state support to meet these costs. However, neither the hotel costs in care homes nor the housing costs in extra care housing will count towards the cap on care costs.

4.2 Shared ownership and full ownership of extra care housing

These options may be seen as providing more security as well as being a capital investment that can be used for equity release or passed on to family in due course. People who are not frail enough to be eligible for social care may move from less suitable housing into extra care housing to maintain their independence and may release capital by downsizing. However it is important to note that until such time as they become eligible any care they purchase will not count towards the cap.

All the time that people remain in extra care housing they can only be made to contribute towards care costs from savings and/or income. People who are not eligible for social care may have care needs (but not enough to meet the eligibility threshold) and costs for care and support will vary according to their needs and the provider's costs.

Where people are eligible for social care and considering moving to extra care, the implications for them will depend on their financial circumstances. If they have been financially assessed by the local authority, the individual will be in the same position as they were in their own homes in terms of whether they pay all care costs or contribute something from their assets and/or income. However, if the care costs in extra care are higher than the local authority rate individuals may have to subsidise these costs (see 4.3 for more detail).

As with people moving to extra care housing for rent, the service charges may be greater than the maintenance costs paid in their previous homes. Providers need to keep these to a minimum and ensure transparency over what the charge covers. People moving to fully owned extra care housing **may** have released equity in the process (e.g. if they have downsized from larger housing in an area with a buoyant housing market).

As in rented extra care housing, there may be some state support for those on lower incomes to meet service charges. In fully owned leasehold property this would be via Pension Credit (though as with HB, not all service charge elements are eligible); in shared ownership, support might be via HB. As with rented 'exempt accommodation', the longer term impact of welfare reform changes on how cost will be covered in leasehold and shared ownership extra care remains unclear. Again, the comparison is between the level of housing costs faced by an individual, and the hotels costs they will have to pay if in a care home.

[3] www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Reports/HLIN_JRF_Affordability_Guide.pdf

4.3 Wellbeing charges in extra care housing

The ‘extra’ in extra care housing has several components and one of these is the availability of general support that any resident can use such as 24hour care, should it be needed, and activities facilitation. The charges for these services are often described as ‘wellbeing’ or ‘core’ charges to distinguish them from charges for a planned care package for an individual. It appears that there are different practices in terms of what costs are included in the core.

For people who are eligible for social care, the issue of whether wellbeing costs count towards spending in their Care Account is important. At the time of writing, we have identified two main approaches currently being taken by local authorities in how they treat wellbeing charges that individuals within extra care housing have to pay:

One approach is to count the wellbeing charge as a disability related expense within the financial assessment thus reducing the disposable income/assets. Under the new funding system this approach would mean people with more than £17,000 income/assets would reach the point where the LA contributes to the cost of any eligible care sooner. However, the wellbeing costs would not count towards the Care Account so people would continue paying for them even when their income/assets were below £17,000. The people disadvantaged by this approach would be those who were eligible for social care and used only the core service. However, if the new national eligibility criteria are equivalent to the current ‘substantial’ level then this group could be very small or non-existent.

The second approach treats the charge as part of the personal budget required to meet eligible needs. In this case, the charge would count towards the Care Account alongside any other care costs so that people with income/assets below £17,000 would get a contribution from the LA towards these costs.

4.4 Behaviour of commissioners of care

Where people are eligible for social care and considering moving to extra care housing, then the local authority will be involved in assessing need and may be assisting in finding suitable support. For eligible people who are contributing towards or paying full care costs, the LA will take on these costs when someone either reaches the £72,000 cap or their assets fall below the relevant threshold. Progress towards the cap or threshold will be calculated based on LA rates (what the LA would normally expect to pay).

In making suggestions about the best care for an individual, local authorities should not be influenced by the financial impact on them. However, if financial considerations did influence commissioners’ recommendations regarding choice of care then they are more likely to favour options where the costs are lowest. Lower weekly rates will prolong the time before people who are contributing to their care reach the cap or their assets fall below the relevant threshold. Where individuals have assets under £17,000 at the time of needs assessment and the LA has to meet all care costs, then they might also favour whichever type of support has the lowest cost.

4.5 Interaction with other public funding

There will be a complex interplay of benefit entitlements, escalators, tapers and thresholds, and care thresholds that apply to residential care vs care at home. These potential financial incentives/disincentives are too unclear to assess at present, particularly because following the next election, current protections for pensioners may be removed, and we don’t know how funding of supported housing and exempt accommodation will play out. At the time of writing, the government is engaging with stakeholders regarding these issues.[4]

[4] Response to ‘Care for our Future’ consultation from the Housing LIN, September 2013

5. Eligibility, extra care housing and prevention

Accrued costs only start to be accumulated towards the cap once someone meets the eligibility threshold for care. The aim of extra care housing is to maintain independence, health and wellbeing and one aspect of this is ensuring a balanced community in terms of levels of need for care and support. On this basis, a proportion of people going in to extra care housing will not be eligible for care within the criteria set. Where people do have eligible care needs the aim of extra care housing is to reduce deterioration. For commissioners, the immediate financial incentives and disincentives need to be viewed in the context of costs to the whole system of not maintaining independence and preventing deterioration.

6. Conclusions

From a financial perspective, the proposed funding system does not seem to make residential care more attractive to individuals compared to extra care housing. The fact that residents in care homes will have to pay living costs and this will not count towards the cap is likely to be a disincentive. Recent suggestions that deferred payment will only be available to some individuals will leave people with similar concerns as they have now about having to sell their home if they require residential care.

The 'extra' elements of extra care housing that make it attractive may bring additional costs compared to staying put, but the combination of age friendly design, 24hour support and opportunities for social contact has a preventive role that individuals and commissioners may see as value for money.

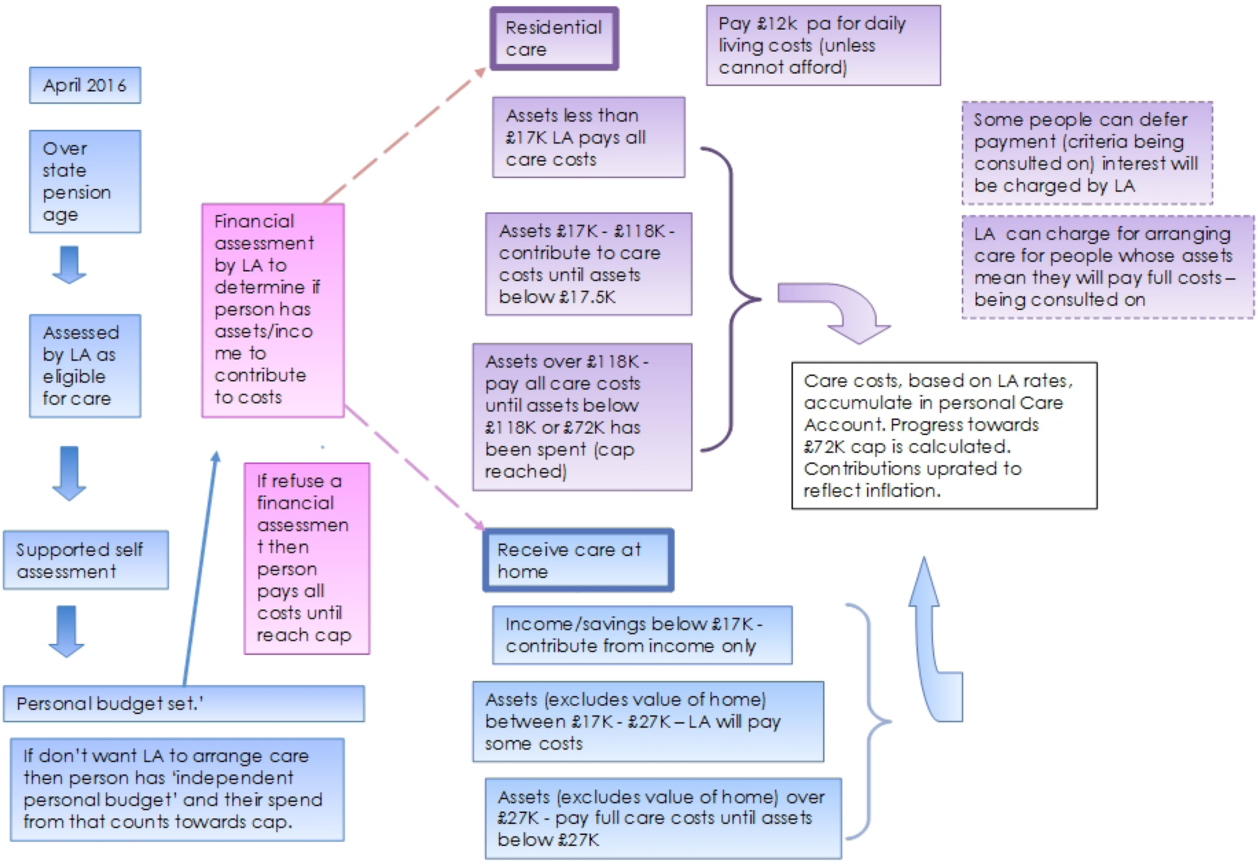
In response to these changes in funding, the priorities for extra care housing providers include:

- Redoubling work and publicity on the evidence base for extra care housing in reducing long-term costs/needs.
- Finding out how local authorities in the areas where they operate or plan to operate are treating or would treat the core costs in deciding on a personal budget. To take account of different approaches it would be helpful if providers were able to identify the care element within any 'wellbeing charges'.
- Breaking down components of 'daily living' costs in extra care housing and how they compare with residential care.
- Spelling out the flexibility and choice available in extra care housing and what this looks like in practice.

If you are a commissioner or provider of extra care housing and would like to comment on this briefing and/or share your views on the impact of changes to social care funding/charging on extra care housing, do post a query on our 'learning lab' discussion board at: www.housinglin.org.uk/Discuss/ or email us at: info@housinglin.org.uk

And finally, next year, the Housing LIN will also be revising its 2010 Technical Brief, Care and Support in Extra Care Housing. The current version can be found at: www.housinglin.org.uk/Topics/browse/HousingExtraCare/ExtraCareProvision/SupportServices/?&msg=0&parent=990&child=1647

Appendix 1



Appendix 2

Calculating care costs in residential care – based on 2012/13 data Laing & Buisson Care of Elderly People UK Market Survey

Area	Average Weekly cost	Average Annual cost	Daily living Costs deducted	Annual Care costs
London	600	31,200	12,000	19,200
England	532	27,664	12,000	15,664
North Eng	464	24,128	12,000	12,128

Note

The views expressed in this paper are those of the authors and not necessarily those of the Housing Learning and Improvement Network.

About the Housing LIN

Previously responsible for managing the Department of Health's Extra Care Housing Fund, the Housing Learning and Improvement Network (LIN) is the leading 'learning lab' for a growing network of housing, health and social care professionals in England involved in planning, commissioning, designing, funding, building and managing housing, care and support services for older people and vulnerable adults with long term conditions, including dementia.

The Housing LIN welcomes contributions on a range of issues pertinent to housing with care for older and vulnerable adults. If there is a subject that you feel should be addressed, please do contact us.

For further information about the Housing LIN's comprehensive list of online resources and opportunities for shared learning and service improvement, including site visits and network meetings in your region, visit www.housinglin.org.uk

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