A report for Irwin Mitchell by Cebr

Elderly Care Crisis: A Tipping Point

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Elderly Care Crisis: A Tipping Point

The UK's ability to support tens of millions of elderly people will collapse by 2029 unless the government takes decisive action.

There's been talk about a care crisis for many years – consecutive governments haven't committed to investment and reform and we're still waiting for a green paper promised back in 2017.

The UK has an ageing population. Many of these people will need support from the social care system and are unaware of the sizeable costs of care – and they aren't planning for it. The impact on both the individual and the system doesn't look promising.

The lack of retirement, care housing and assisted living schemes coupled with the shortage of both care and nursing homes means greater burdens. Those providing elderly care services have been pushing for greater funding to maintain their standard of care for many years, but instead we're seeing record rates of insolvency in residential care homes. Demographic change is also putting pressure on the UK social care system's capacity. These pressures are reaching a point where industry bodies expect an imminent crisis of under-provision and worsening care quality.

Having taken a deeper look into the causes of the pending care crisis, our research has revealed a tipping point of 2029 – a time when underfunding and a lack of capacity will culminate in an unmanageable situation for care providers.

With less than a decade to act, the urgency with which the government needs to address the stabilisation of the care system is critical. This action is vital if we're to prevent the crisis reaching a tipping point.

While much of what the system faces can only be remedied with government intervention, individuals and their families must treat planning for their later life, and the realities of paying for care, as a priority.

Emma McCann
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Executive Summary

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We commissioned Cebr to investigate the elderly care crisis facing the UK, and their findings confirm a dismal forecast for the future unless we take action now.

Cebr looked into a number of key themes causing the crisis and have predicted how things will develop over the next decade – unless we see major change on the horizon.

The research shows a sad, but not altogether surprising prediction, that we are heading for a crisis point in 2029 if no action is taken. At which point underfunding and lack of capacity will culminate in an unmanageable situation for care providers and those reaching old age.

Our experts have come together to consider the impact of the elderly care crisis and look at the issues we need to overcome, if the future is to be a brighter one.

Overcoming the challenges

Elderly care is a subject that we care deeply about and one that's created plenty of debate and discussion. However, our focus is always on what we can do, not what we can't, which is why we've provided commentary throughout the report – looking at the issues facing us all and more importantly what we can do to overcome them.

The sector is in desperate need of reform, it's time for change and we're here to help. We end our report with recommendations that we believe will alleviate, if not avert, the impact of a collapse in 2029, benefiting generations young and old.

There are changes we can all make now to help us in the future, but some are out of our control. We're calling on the government and local councils to:

- **Review and reform the care funding system**
- **Change the eligibility criteria for support in paying for care**
- **Require councils to plan and allocate land for retirement, care and nursing homes**
- **Educate workers on the importance of pensions savings**
- **Support informal carers looking after elderly people.**

With care providers being increasingly stretched, the government needs to increase its efforts to prevent the crisis from reaching a tipping point.

Emma McCann

Our Key Findings

Demographic changes and rising life expectancies mean that more people will need elderly care in the future, and need it for longer.

People often pay for their old age care with their pensions but they're simply not saving enough.

The UK will face an upcoming shortage of elderly care accommodation. Current nursing and care home capacity is around 460,000 beds. If we don't increase this, it'll run out by 2029.

Many elderly people are turning to friends and family to help them pay for care. 18% of adults with elderly loved ones receiving professional care have helped to pay for it – that's 4% of all UK adults. The average amount is £5,900.

> Everyone should have a financial plan that adapts to meet their current and anticipated needs.
>
> **Richard Potts**

Government funding isn't rising enough to meet the demand. In 2018, the Local Government Association estimated that adult social care services would face a £1.5 billion funding gap in 2019-20, increasing to £3.5bn in 2024-25.

In England, you only qualify for support in paying for care from your local authority if you have less than £23,250 in savings or assets. This number has been frozen since 2011, meaning the threshold has fallen in real terms and people are missing out on funding.

Fewer pensioners will get defined benefits pensions over the next decade, making it even harder for retirees to pay for care.

The situation is so desperate that we estimate the average worker would have to save £575 more per month to be able to fund a moderate retirement. While this figure isn't realistic for many of us, even a small increase in savings could make a huge difference.

> Much of the focus is on the year 2029 which isn't far away, but it's still not too late to be able to make a real difference if change is made in a structured way.
>
> **Guy Sackett**

We forecast that the real cost for nursing homes will increase 16.1% over next ten years and the cost of residential homes will increase by 14.9%.

45% of councils haven't sufficiently planned for where elderly people in their communities will live, suggesting they may be unable to deal with future demand.

People aged 65 and over could release £1.2 trillion in equity by moving out of homes with two or more spare bedrooms.

The majority of care home residents are aged 85 and over. However, their incomes are far below the cost of residential care, and aren't expected to rise in line with fees in the coming years.

> Moving is expensive, and the government hasn't provided the same level of encouragement to downsizers as for first time buyers.
>
> **Jeremy Raj**

Only around the top 10% of retired households by income can afford to pay for nursing homes using these funds.

Homeowners could release a significant amount of equity from their homes to fund their care. This could mean selling homes with spare bedrooms, downsizing to a smaller property, or moving into retirement accommodation.

2029

We've identified a point when the elderly care sector will reach its tipping point, due to a severe lack of funding and under-capacity.

Unless the government steps in before then, many elderly people won't get the quality of care that they need.

> Funding levels have decreased at a time where care is needed more than ever before.
>
> **Mathieu Culverhouse**

Introducing Our Experts

We have a long established reputation for offering legal advice to the care sector. Our experts are passionate about the wide range of issues and want to use their experience and knowledge to make a positive difference. Throughout the report, they share recommendations on how the government, local authorities and each and every one of us can help.

We've seen signs of elderly care heading towards a crisis for some time, which is why the findings, while worrying, aren't unexpected. There are solutions to the problems but we need to work together and act fast to drive change that'll benefit millions of people across the country.

Our experts

Richard Potts
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Richard is the chief executive and chief investment officer responsible for the delivery of our client service, covering both financial planning and investment management.

Guy Sackett
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Guy is a real estate partner and has significant experience in large scale residential and mixed use development schemes. He also heads up our retirement living and care team.

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Emma is a tax, trusts and estates partner and head of later life planning, specialising in issues affecting the elderly, mental capacity law and financial abuse matters.

Jeremy Raj
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Jeremy is our national head of residential property and works with both UK and international clients, property developers and investors.

Penny Cogher
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Penny is a hugely experienced pension partner who works with individuals, employers and trustees on all types of pension issues.

Mathieu Culverhouse
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Mat specialises in community care, patient rights and mental capacity law. He supports a variety of clients, including those seeking to challenge cuts to government funding in health and social care, and those opposing the closure of care and day centres.

Foundations and Themes of the Crisis

Foundations and Themes of the Crisis

This chapter investigates and analyses six of the fundamental factors and themes of the elderly care crisis.

These factors are:

- A lack of pension savings
- The UK's ageing population
- Insufficient council funding and planning
- Reliance on friends and family
- Shortage of elderly care accommodation
- Equity held up in homes

> **It's important that we all accept and anticipate that a move into care is a possibility for us in the future, and preparing for that will mean far less impact on our loved ones.**
>
> **Emma McCann**

17.3m Total active occupational pension membership increased to £17.3m in 2018.

A Lack of Pension Savings

An individual's pension is the primary source of income for their years spent in retirement, and is often needed to cover the cost of care.

The UK's pension policies have had a significant shake-up over the past decade.

In 2011, the default retirement age was scrapped, meaning that employers couldn't retire employees when they reached 65.

Since 2012, employers have had to automatically enrol their eligible workers into a pension scheme and contribute to it.

In 2015, pension freedoms let retirees decide for themselves how they want to use their pensions. People no longer have to buy an annuity when they reach retirement age, but can choose to take their pension as a cash lump sum or drawdown.

Employers switching from defined benefit pension schemes to defined contribution schemes is one key trend in retirement incomes over the past twenty years.

Private sector businesses have drastically scaled back on offering defined benefit schemes due their very high costs. These schemes pay a retirement income based on the worker's final salary and number of years they have worked for the company.

Defined contribution schemes are now standard practice for businesses instead. In defined contribution schemes, employees and employers jointly pay a share of the employee's pre-tax income into a pension pot which they can access when they retire.

In 2006, 3m private sector employees were contributing to or working members of a defined benefit scheme. By 2018, that number had fallen to 1.1m.

On the other hand, active membership of private sector defined contribution schemes increased from 1m to 1.2m between 2006 and 2013. It then increased again to 9.9m by 2018 due to automatic enrolment.

Including the public sector, total active occupational pension membership stood at 17.3m in 2018 - double the 7.8m active members in 2012.

> **Just because defined benefit provisions have fallen it doesn't necessarily mean that individuals will have significantly lower incomes if the right decisions are taken early enough. More education is needed about the need for financial planning. Pensions aren't the only assets you can use when paying for elderly care.**
>
> **Richard Potts**

Occupational pension schemes represent about 70% of workplace pensions. This suggests that the total number of workplace pensions stands at around 25m[1]. However, with 28m employees in the UK in 2019, it implies that many people still don't plan for their future by paying into schemes.

While it's promising that automatic enrolment has dramatically increased the number of people saving for retirement, it also suggests that many weren't saving at all before the reform.

These people will have to save a higher proportion of their income in order to make up for the missed years of retirement savings. If they don't, they could face very low living standards and may not be able to pay for care in retirement.

While they're now only available to a relatively small number of private sector workers, defined benefit schemes are generally the preferred option. This is because they result in higher contributions being paid. For defined benefit schemes still open to new members, the average employer contribution rate was 16.2% in 2018 and employees added 6.9%. That's far higher than the 2.3% employer contribution and 2.7% employee contribution averages for defined contribution schemes in 2018.

In April 2019, minimum contribution rates for defined contribution schemes went up to 3% for employers and 5% for employees, but average contributions are almost certainly still less. As workers on defined contribution schemes reach retirement age, they'll likely have far lower incomes than pensioners on defined benefit schemes, due to these lower contribution rates.

[1] Annual Survey of Hours and Earnings (ASHE) pensions release, 2018, ONS

Figure 1 - Member and employer weighted-average contribution rates as a share of salary to private sector occupational pension schemes by benefit structure and contributor for open schemes, 2018

Source: ONS, Cebr analysis

Minimum contributions for long-term care of 1% employee, 1% employer and 1% government tax relief would kick start the process. Given the importance of getting people to put money aside for their later life, this seems like a no brainer.

Penny Cogher

The total contributions made in the 2017-18 financial year for the 10.4m members of defined contribution schemes came to just under £28bn. This suggests that on average, contributions from employers and workers combined come to £225 a month per worker.

The median level of total accrued pension wealth for households with a private pension was £114,800 for Great Britain in 2014-16. Households in the South East are the wealthiest with median pension wealth at £143,200. Households in the East Midlands have the least saved in their pensions at £88,700.

However, households are likely to have saved up more than these median figures by the time they retire. This is because the value of pension savings build over time.

Evidence[2] suggests that UK employees need £799 added to their pension pot every month over a lifetime to get a moderate standard of living when they retire. That's about 26% of average full-time earnings.

While employers must currently put 3% of their employees' income towards their pension, it still leaves 23% to the employee. Considering the average monthly pension savings amount of £225, this suggests that the average person has a monthly pension shortfall of around £575.

The evidence also suggests that savings of £1,755 per month would be needed to achieve a more comfortable standard of living. This would only be achievable for people with higher earnings throughout their life.

People need to save hundreds of pounds a month more than they currently are in order to have enough to live on in retirement. This is especially true for those who'll have to pay for care, and those who weren't saving for a pension before automatic enrolment in 2012.

26% **UK employees need to save about 26% of average earnings for a moderate standard of living when they retire.**

[2] Institute and Faculty of Actuaries, Saving goals for retirement, Policy Briefing, 2019

Pension wealth is a key way in which people pay for their care in old age. While there's a significant undersaving, even with modest amounts individuals can make a difference if there's a clear investment plan.

Even £50 a week for 10 years invested at 4% will produce a lump sum of about £32,000, which goes a long way towards a year of residential care. Save an extra £50 a week for 40 years and you get over £250k – far more than total expected care costs.

Richard Potts

The UK's Ageing Population

With people in the UK living longer, the growing demand for elderly care support has put a considerable strain on the sector. In 2020, the average 65-year-old man can expect to live until they're 84, and 65-year-old women are likely to live until they're 87.

In 2020, the projected number of people aged 65+ will rise to 12.6m and to 15.4m in 2030. People in this age category are expected to account for 22% of the total population in 2030, up from 19% in 2020.

The rising share of people of pension age means that the proportion of the population that's of working age will fall. This is termed the old age dependency ratio.

This old age dependency ratio calculates the number of people of state pension age. In 2000, this ratio stood at 299, and seems to have fallen slightly since then, to 282 in 2020. This fall is partly due to increases in the state pension age for women. However, the Office for National Statistics (ONS) projects that it'll rise to 310 by 2030 and 368 by 2040.

There are multiple factors causing this demographic change. When the modern state pension began, a 65-year-old could expect to spend 13.5 years receiving the State Pension before they died. This has now risen to over 21 years due to improved medical care and healthier lifestyles.

The post-war baby boom (roughly from 1945 to 1965) is now also feeding through into a larger retired population. Those born in 1945 will turn 75 in 2020, and the very youngest of this generation will be 65+ by the 2030s.
In response to these factors, the government has planned to raise the state pension age. Between 2010 and 2018, they raised the age for women from 60 to 65, in line with the men's retirement age. Under current plans, the pension age for both men and women will gradually rise until it reaches 68 before 2040.

This demographic shift towards a larger number of older people creates both opportunities and challenges.

One key example of an opportunity is an increased number of experienced workers who'll work later in life. Economic activity in the labour market for older people has been gradually increasing over the past few decades.

In Q2 1994, 62% of people aged 50-64 were active in the labour market. 25 years later in Q2 2019, this stood at 74%. The same figure for people aged 65+ increased by 7% over the same 25 year period to stand at 12% in Q2 2019.

It's important to support older people in the workplace to realise the full economic benefit of the growing number of people working beyond 65. Policies to retrain workers and make workplaces more accessible will both help maximise the benefits for businesses and the economy. The state pension age rising to 68 will make these measures more important in the years to come.

However, 88% of people aged 65+ are inactive in the labour market – around 10.6m people. They all need income from pensions, savings, investments and the government to cover living expenses and if needed, the cost of care.

Currently, people over the state pension age can claim up to £168.60 per week from the state, totalling £8,767 a year. As the number of people claiming this money rises, so will the government's total state pension bill.

21 years

The number of years you can expect to recieve a state pension if you're 65 or over.

An ageing population means that reforming the strained social care system would be hugely difficult for any government, so the future signs aren't promising.

Emma McCann

The Office for Budget Responsibility's latest estimate is that the government spent £96.62bn on state pensions in the 2018-19 financial year. This is forecast to rise to £110.26bn in the 2022-23 financial year.

The taxpayer will have to pay the cost of state pensions. This means that younger generations must cover the cost of the pensions of the growing number of retired people. The state will also pay higher costs for NHS and state-provided care for older people, because while our lives are getting longer, the amount of years we spend in good health isn't increasing at the same pace.

The 2009-11 Annual Population Survey (APS) shows that UK men at the time had a life expectancy of 78.5 years, with 15.8 years in "not good" health. Female life expectancy was 82.5 years, with 18.6 years in "not good" health.

By the 2016-18 APS results, life expectancy had increased by ten months for men and seven months for women. Healthy life expectancy, on the other hand, only increased by five months for men and actually decreased by two months for women. Therefore, Britons spent longer in poor health at the end of their life, taking up more healthcare resources, which working generations must pay for.

The burden of an ageing population isn't just financial. An ageing population is associated with the verticalisation of families. This is where more generations are alive simultaneously.

Verticalisation can benefit younger generations through positive contributions from grandparents, such as caring for grandchildren. But it may also pressure people to care for elderly dependents for longer, especially as people live in poor health for longer.

Evidence also suggests that unpaid caring responsibilities currently fall on women more than men[3]. Therefore, the increasing elderly dependency ratio may affect women more than men.

Simply put, the UK's ageing population contributes to the elderly care crisis because there are more elderly people. Evidence in this section also shows that rising life expectancies have led to people living in poor health for longer at the end of their life. This puts pressure on younger generations to support pensions and healthcare financially through taxation, and also to care for dependent relatives.

88% **Of people aged 65 and over are inactive in the labour markets. They will all need income from pension, savings and investments.**

[3] Future of an ageing population, Government Office for Science, Foresight, 2016

The past decade of austerity has hit the council budgets very hard. This report demonstrates that the combination of the squeeze on local spending together with a rapidly ageing population, will make the current arrangements for later life unsustainable within a matter of years.

Mathieu Culverhouse

Insufficient Council Funding and Planning

Local councils play an important role in supporting the elderly with their housing and care needs.

This section of the report focuses on how councils:

- Fund care for elderly people
- Plan for and provide specialised housing for elderly people.

If an elderly person needs care, they may seek financial support to pay for that care from the state. Local authorities administer public support, which means there's no nationally set budget. Local authorities must therefore make decisions about allocating funds to social care versus other public services.

Local authorities usually give financial support for care on a means-tested basis. If an elderly person in need of care has:

- **Over £23,250 of wealth, they're likely to have to pay for it all themselves**
- **Between £14,250 and £23,250, they'll have to pay for some of it**
- **Less than £14,250, they won't have to pay for care using their assets, but may still have to use their income.**

The value of a house is included in the total value of a person's wealth when they permanently move into a care home or nursing home. For most homeowners, this means the equity they own in their property, or value of their home, minus any outstanding mortgage.

The upper wealth threshold for local authority care funding increased to £23,250 in 2010-2011 and has been frozen since. This means that in real terms, the threshold has been falling.

We estimate that in the 2019-20 financial year, Consumer Price Index for Housing (CPIH) inflation will average 1.9%. So if the threshold had increased with CPIH inflation, it would stand at over £27,700 in the 2019-20 financial year.

Therefore, the criteria for the means test have become harsher over the course of the 2010s. People with wealth of between £23,250 and £27,700 have effectively lost out on funding for their care.

When an elderly person needing care does meet the funding requirements, local councils may end up spending many thousands of pounds a year on their care. Statistics show that in the 2018-2019 financial year, local authorities in England alone spent £18.7bn on adult social care.

61% of expenditure by local authorities for care of people 65 and over goes towards long term physical support. 17% is spent on long term support with memory and cognition.

Although government spending on adult social care has been rising since 2015-16, there's evidence of a severe funding gap. 2018-19 spending was up by 2.6% on the year before, but still 4% lower than 2009-10 in real terms.

Rising demand for care homes suggests that the government isn't allocating enough resource to meet the growing needs. The Local Government Association estimated in 2018 that adult social care services would face a £1.5bn funding gap in 2019-20. They estimated this gap would grow to £3.5bn in 2024-25.

£3.5bn

The Local Government Association has estimated there will be a funding gap of £3.5bn by 2024-25.

Looking at local authority spending on adult care split by region, councils in the South East spend the most in total, at £3.0bn, of which around £1.2bn goes to care for people aged 65 and over. However, when dividing this figure by the number of people aged 65 and over in the South East, the average spend comes to £707 per year, lower than six other English regions. London has the highest spend on elderly social care by local authorities at £955 per 65+ year-old in the capital.

Tower Hamlets is the local authority that spends the most on elderly care per 65+ year-old resident. In the 2018-19 financial year, Tower Hamlets council spent a total of £44m on elderly care, up from £34m in 2017-18. This 2018-19 figure equates to £2,211 per resident aged 65 and over.

The funding system is difficult – local authorities have the obligation to fund those entitled, but they have no control over the amount of people requiring their services that live in their area. Therefore authorities that have an older population, especially in less affluent areas, will struggle to meet the needs.

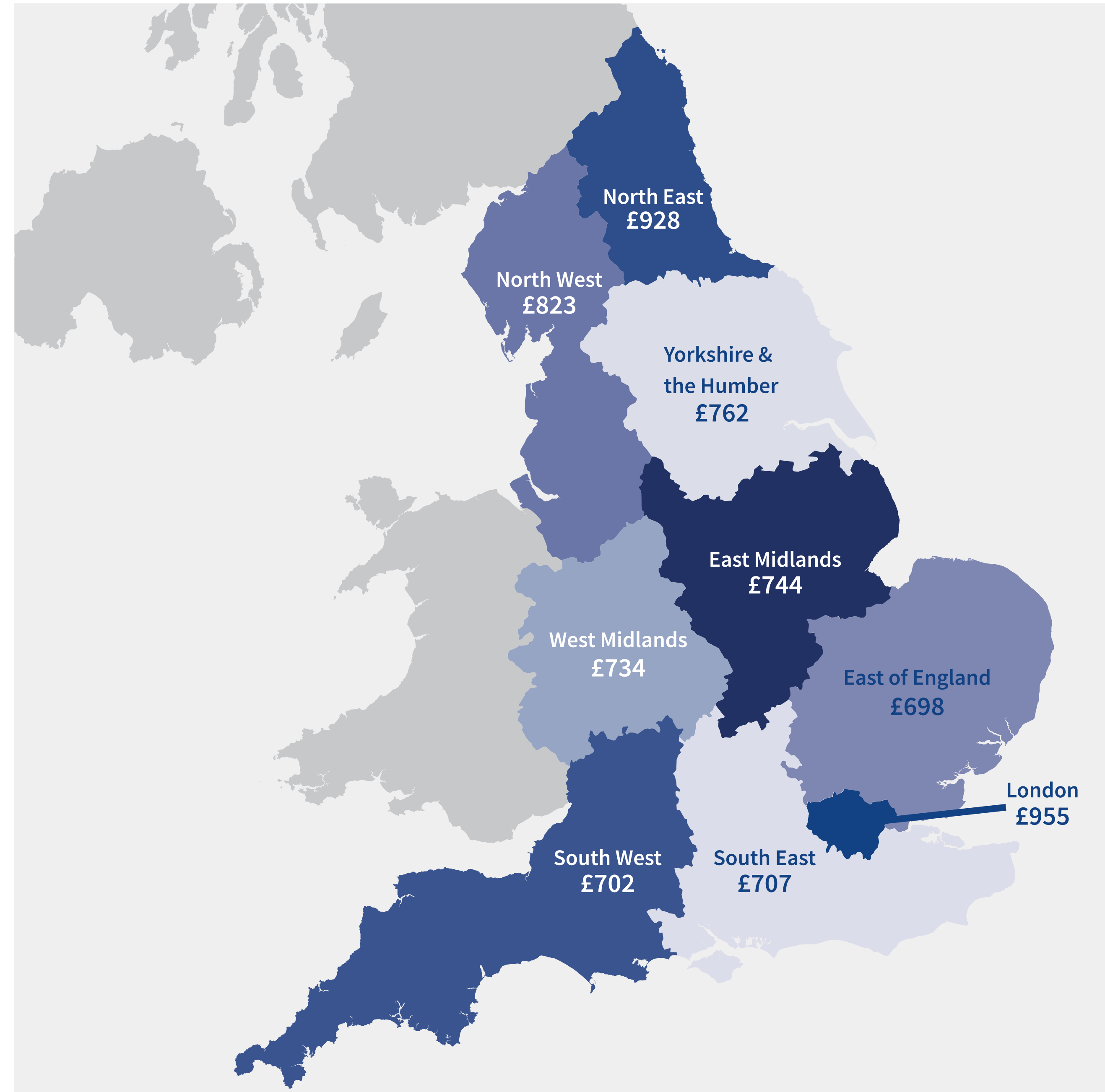
Emma McCann

This increased level of spending may reflect the fact that a relatively high share of elderly people in the area qualify for council support. At the other end of the spectrum, Leicestershire council spends the least on elderly social care per person in the county aged 65 and over, at £487. This may be due to the people who live there being wealthier.

People wishing to ensure that they will receive appropriate care in later life cannot assume that this additional funding will be provided by the government. They can take matters into their own hands by putting aside sufficient funds now to ensure that they can meet their own care needs.

Mathieu Culverhouse

Figure 2 - Council spending on care of people aged 65+ per person aged 65+ in region, 2018-19



Source: NHS digital, ONS, Cebr analysis

Figure 3 - Top ten local authorities for council spending on care of people aged 65 and over, per person in each region, 2018-19

Source: NHS digital, ONS, Cebr analysis

Providing appropriate accommodation and housing is another key role that councils play in elderly people's lives.

Planning for retirement villages and sheltered housing isn't just important to free up space in care homes. These developments also provide key services that can affect quality of life for people needing care. Sheltered accommodation offers many people the freedom to live independently while also getting support from staff who can provide daily checks and care if necessary.

Our Planning for an Ageing Population research looked into how well local authorities in the UK are planning for the needs of the UK's ageing population[4]. It looked at the plans of all 329 local planning authorities to see if they:

- Had policy to allocate where care homes should be located, or
- Allocated specific sites to retirement living or care/nursing home developments.

In 2019, the report found that only 44 authorities have both a clear policy and specific site allocation.

This was 12 more local authorities than the first study in 2017. However, the vast majority of authorities have neither credible policies nor site allocations, with a policy at most limited to generalisations. Overall, 45% of local councils are still not making provision for care homes or retirement housing for elderly people in their local plans.

[4] Planning for an Ageing Population, Local authority provision for retirement living and care homes, Irwin Mitchell, 2019

There are some positives. The research found that the city of St Albans has good plans in place for its elderly population. The St Albans City & District Local Plan[5] has a policy to provide at least 750 bed spaces by 2036. The plan also specifies that these types of accommodations should be in primary residential areas and includes an affordable housing requirement.

East Hertfordshire council also has a comprehensive action plan for elderly care[6]. A key objective in the council's housing and health strategy is to focus on meeting active and frail older persons' housing needs. The East Hertfordshire District Plan contains a policy to provide at least more 530 bed spaces in specialist residential or nursing care accommodation.

Another good example is Warrington. Their local plan for 2017-2037[7] specifies that a fifth of homes in larger residential developments must be suitable for older people.

Despite these examples, many planning authorities still fail to consider the increasing elderly population in their communities and provide too few residential homes and sheltered accommodations. Exeter, Islington, Oxford and Swindon are among 157 councils which fail to have a clear policy or plan for older people's housing.

Overall, insufficient funding and planning from councils for the increasing elderly population in the UK is a key issue contributing to the elderly care crisis.

The criteria for financial support in the means test for adult care have become harsher since 2011, when adjusting for inflation. 45% of councils haven't planned sufficiently for where elderly people in their communities will live. The system seems to be headed towards a tipping point where the task of caring for elderly people and housing will become unmanageable.

Councils must be required to use more specific and detailed assessments when considering the housing needs of older people in a local area. This should cover all types of housing and tenures to facilitate an increase in the provision of housing for the elderly.

The penalties which councils face for failing to meet housing building targets should also apply for failures to meeting specialised housing building targets authorities must be held to account for meeting the needs of their constituents.

Guy Sackett

[5] St Albans City & District Local Plan 2020-2036
[6] East Herts Housing and Health Strategy 2016- 2021
[7] Warrington Proposed Submission Version, Local Plan 2017 2037, March 2019

Reliance on Friends and Family

An ageing population, insufficient pension savings and a shortage of council funding has left the elderly looking to their friends and family for financial support to fund their care.

Cebr, together with YouGov, conducted a survey to find how many UK adults have friends or relatives in care, and whether they've provided financial support.

The survey results show that:

- Over one in five (22%) adults in the UK have a family member or friend receiving formal, professional care
- 16% of adults have a loved one who lives in a care home or nursing home
- 12% have a relative or friend receiving other paid-for care, including care by a retirement living provider or home visits from a carer or nurse.

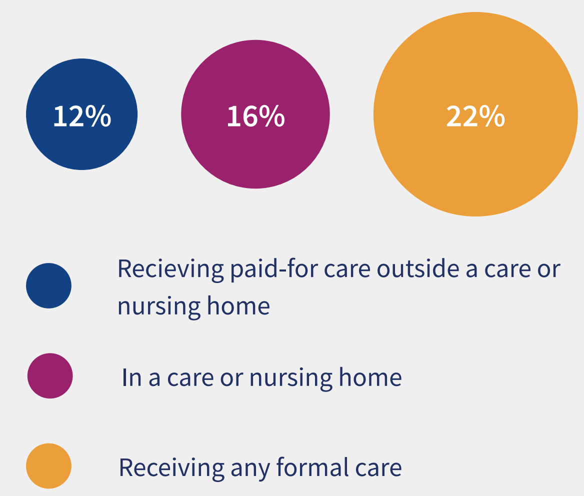
Of the 22% of adults who have loved ones getting professional care, approximately 18% have helped pay for that care. That's 4% of all UK adults. The total value of that support on average is £5,900, with some people giving in excess of £50,000.

1.5% of all UK adults contribute to their parent's professional care, and 0.9% of UK adults help pay for a grandparent's professional care.

People aged 55 and over are the most likely to help with paying for care – 35% of people who've helped pay for a loved ones care are in this age group.

Most people provide financial support on a regular basis. A third of people who give financial support on at least a monthly basis and a further fifth (19%) do so at least twice a year.

Figure 4 - Share of UK adults who have at least one elderly family member or friend receiving care



Source: YouGov survey, Cebr analysis

£5,900 **Average value of total money given by those who have helped pay for loved ones' formal care.**

> **Those who are financially supporting loved ones in care should also consider their own provision, and be careful not to neglect their own future care needs.**
>
> **Richard Potts**

Figure 5 - How often people give money to their loved ones receiving care

Source: ONS, Cebr analysis

If paying for care isn't an option, and council funding for care is too difficult to access, people are caring for loved ones themselves.

The ONS estimated that the total value of informal unpaid care for adults stood at £59.5bn in 2016[8]. Meanwhile, ONS data shows that the number of adults getting informal care grew from 2.1m in 2014 to 2.2m in 2016.

As the UK population ages, evidence shows that the burden of informal care is often falling on older family members. This includes 50 and 60 year olds looking after parents in their 80s and 90s, and older people caring for a spouse.

Across ages, people in their 60s are the most likely to provide unpaid care to friends or family. Just under 1 in 4 (24%) in this age group do so, and 22% of British people in their 50s also provide care. In particular, this burden falls on women. 24% of female workers aged 52-69 provide care alongside working, while only 13% of male workers also provide care [9].

Whether through giving money or time for elderly friends or family, workers in the UK are having to support older people with their care needs. As the elderly care crisis worsens, workers will increasingly have to support their loved ones financially when they need professional care.

[8] ONS Household satellite account, UK: 2015 and 2016
[9] English Longitudinal Study of Ageing

Shortage of Elderly Care Accommodation

A lack of space in suitable accommodation will be a key driver of the elderly care crisis as the number of older people needing care rises. This could mean that in coming years, millions of people will be unable to access suitable care homes, nursing homes, or retirement accommodation.

Data from LaingBuisson shows how the volume of demand has changed over the past 30 years. The latest data demonstrates that in March 2019, there was a total capacity of 463,000 beds across all provider types and 393,000 people were living in residential or nursing homes.

Both demand for and capacity of care homes have been flat lining since around 2012-2013, with little growth in either measure. However, we expect demand to increase substantially in the 2020s, as the number of elderly people rises quickly.

Projections by LaingBuisson[10] suggest that there'll be demand for around 480,000 beds in care homes and nursing homes by 2030. If capacity stays at around 460,000 beds, the UK will reach a shortage of supply in residential homes by 2029.

Care home capacity varies by region. The South East has the most beds in residential and nursing homes, at 68,500, while Northern Ireland has the least, with just 13,000.

Capacity tends to be higher where demand is higher. The occupancy rate of care and nursing homes tends to vary between 80-95% for all regions.

For profit sector occupancy is highest in London, where 88% of beds are full, and lowest in Yorkshire and the Humber (out of English regions). The not-for-profit sector tends to have fewer available beds, and occupancy rates for the sector are highest in the West Midlands, at 92%.

These high occupancy rates highlight the fact that the care sector as a whole has little capacity to absorb significant increases in the number of care receivers.

The current structure of the elderly care market means that care and nursing home providers and investors have little incentive to build new homes. This is because local councils pay a far lower fee for people with state funding than people who pay for their care themselves.

LaingBuisson estimate that it would cost the state £1bn a year to raise the state-funded fee enough to incentive providers and investors to increase capacity[11].

Residential care and nursing homes aren't the only type of accommodation that elderly people need. There's also specialised housing such as retirement villages and sheltered housing, extra care housing (which offers flexible care, dependent on need), and care villages.

Around 5% of people aged 65 and over live in a form of specialised housing, but more people would like to[12]. Only 0.6% of over 65s live in extra care housing, which is much lower than in other developed countries.

The Elderly Accommodation Counsel[13] has found that there are approximately 520,000 units of retirement housing in England (including some degree of support or care).

Retirement accommodation with care is one of the most under-supplied areas of the UK housing market in the country, and as a proportion of elderly people in our population increases this will become even more of an issue.

The current estimated annual rate of delivery of new homes specifically designed for the retirement housing sector comes in at under 10,000. This equates to approximately 3% of all new homes across all sectors. Put simply, there's a significant structural supply and demand imbalance in the retirement accommodation sector.

Guy Sackett

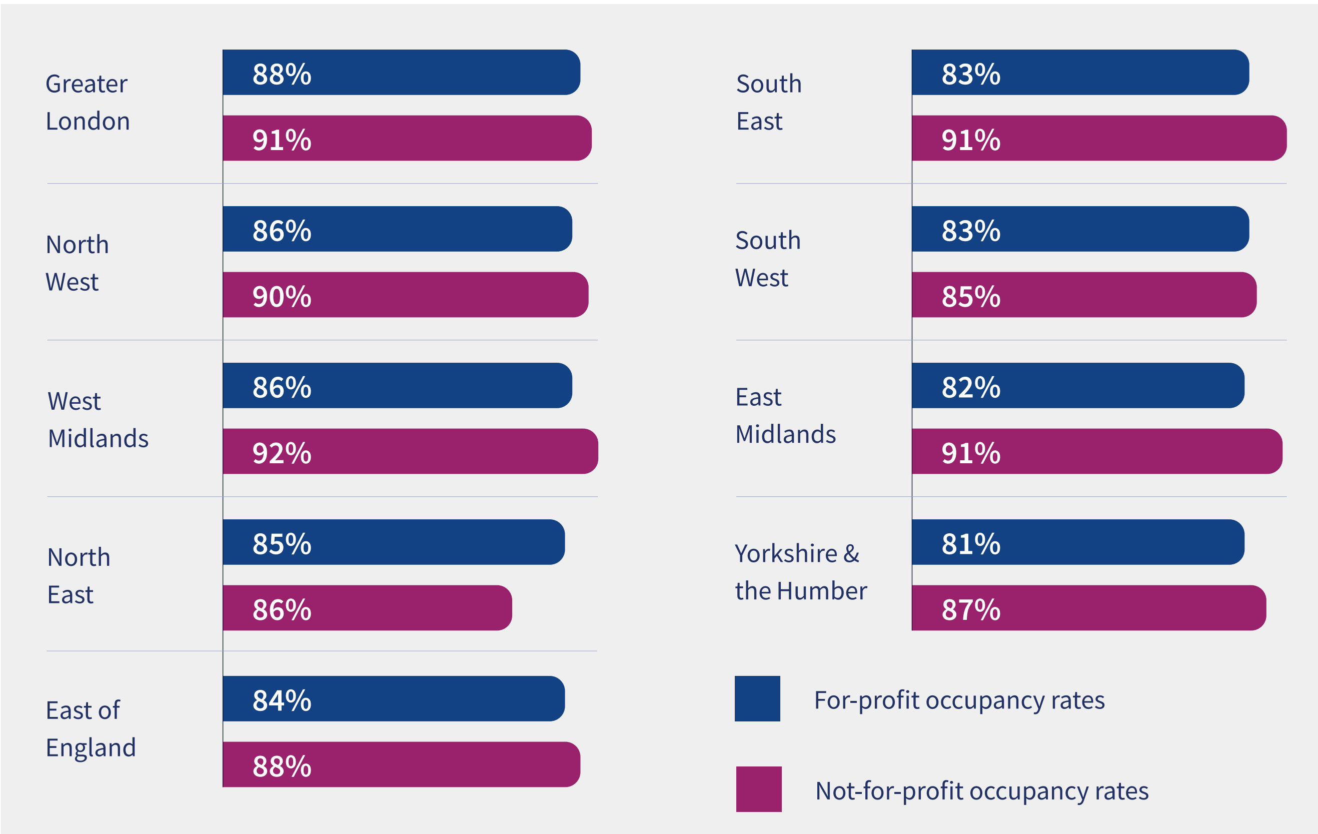
[10] LaingBuisson Care homes for older people, UK market report, 30th edition

[11] LaingBuisson Care homes for older people, UK market report, 30th edition

[12] House of Commons, Communities and Local Government Committee, Housing for older people, Second Report of Session 2017–19

[13] www.eac.org.uk/

Figure 6 - Care home occupancy rates by region of England, 2019



Source: LaingBuisson, Cebr analysis

There's an undersupply of purpose built retirement accommodation, including extra care housing, retirement villages and assisted living schemes, all of which anticipate the future care needs of residents. This, as well as a projected shortage of care and nursing home spaces as we reach 2029, means a significant proportion of the elderly population will continue to live in houses they've likely lived in for decades. This will become gradually more unmanageable as their care requirements increase, and where the necessary care and support isn't always immediately available, especially in more rural locations.

As a result elderly occupiers may well be more susceptible to accidents and injuries in home environments they find increasingly challenging. This leads to stress and worry, which can be exacerbated in circumstances where family and friends have moved out of the area and they feel isolated from the community. All of this will adversely affect both the physical and mental wellbeing of elderly occupiers, which in turn places a greater strain on social and health care resources.

Guy Sackett

There'll be a substantial shortfall of nearly 400,000 units of specialised housing by 2035.

Private retirement homes make up approximately 23% of the total stock of retirement housing units in the UK. According to EAC data, the South East has the most private retirement housing, at 43,838 units, followed by the South West with 26,225 units.

A report for Homes for Later Living found that the NHS and social services save on average £3,490 per year per person living in specialist housing for older people[14]. This is because their specialist housing provider can care for them more efficiently. They're also less likely to have falls and injuries in accommodation designed specifically for their age bracket.

The report also finds that building 30,000 Homes for Later Living per year over the next ten years would save the government £2bn a year. However, these savings need planning and support from local authorities and the government, who must come together to face the upcoming care crisis.

We need to meet the rising demand for spaces in care homes, nursing homes and retirement housing as the number of older people increases. However, with the system near capacity, and councils unable to incentivise more care and nursing home development, we desperately need reform.

£2bn **The government could save £2bn a year if 30,000 specialist homes for older people are built each year for the next 10 years.**

[14] Healthier and Happier, An analysis of the fiscal and wellbeing benefits of building more homes for later living, WPI Strategy, Homes for later Living, September 2019

Equity Held Up in Homes

Due to the high cost of care, many elderly households don't have the income to cover costs. However, when you include their house as part of their wealth, the cost of care becomes more attainable.

When applying for council support in paying for care, wealth is the main criteria for receiving support, and under the current system, housing wealth is taken into account if someone will be receiving care in a residential home. This section of the report looks at the total value of equity which is held up in housing owned by people aged 65 and over, with a focus on spare bedrooms, to highlight the amount of value elderly people could release from their homes.

Data analysis shows that in 2017-18, there were 9.3m spare bedrooms in homes owned outright by people aged 65 and over. There were 4.7m households with at least one spare bedroom and 3.4m households with at least two spare bedrooms.

Someone who's 65+, has two or more spare bedrooms, and owns their home outright has on average £350,000 in equity in their home. The total for all people in this category was £1.2tn in 2017-18, up from £1.0tn in 2015-16. This rises to £1.5tn when including people with any spare bedrooms at all.

Figure 7 - Spare bedrooms in households aged 65+ who own their home outright

Source: English Housing Survey, Cebr analysis

Therefore, homeowners could release a significant amount of money in equity by selling homes with spare bedrooms, and downsizing to smaller properties or moving into retirement accommodation. However, many older people are very reluctant to sell their home even though they don't need all of the space. We found a fifth of parents want care home fees to come from somewhere other than their estate, which would include their property, as they want to leave the value of their assets to their children as inheritance[15].

An additional barrier to people moving in order to release equity to pay for care is a lack of suitable homes. Many older people are put off from moving home because there aren't enough smaller homes available that they'd be willing to live in. "No-one will be tempted to move into a new home that's worse as well as smaller"[16]. This highlights the need for suitable elderly accommodation.

Some people choose to extract equity from their home without having to sell through an equity release mortgage. This is a loan secured on the property and paid back when the house is sold, or if the owner dies or moves into residential care.

It's an increasingly popular option, with a 23% increase in numbers of customers year-on-year in the second half of 2018[17]. In 2018 as a whole, total lending activity for the year grew for a seventh consecutive year to reach £3.94bn.

Equity release may free up cash, but it doesn't make use of the millions of spare bedrooms which would be more efficiently used by families. This is inefficient – the equity value of these bedrooms could be going into the cost of care or retirement residences.

Overall, this highlights the exceptional amount of equity held up in underused homes. Older people are averse to downsizing because they want something to leave as inheritance, they're put off by stamp duty, and there's nowhere suitable to move to. However, better incentives, such as stamp duty tax breaks, could convince elderly people to free up equity in their homes. This could be a source of care funding, taking pressure off councils and family members.

£1.2tn **Total value of equity in homes owned outright by people aged 65 and over, with two or more spare bedrooms.**

[15] Later Life Insight: Autumn 2019, Irwin Mitchell
[16] House of Commons, Communities and Local Government Committee, Housing for older people, Second Report of Session 2017–19
[17] Equity Release Council Spring Market Report 2019

"We would urge the government to address the exponential rise in Stamp Duty Land Tax since many elderly homeowners bought the homes that they now wish to downsize. There's an imbalance in the incentives for first time buyers and downsizers that has no real logic. Throwing money at first time buyers and developers alone will not break the log-jam if other homeowners are discouraged from moving. If greater mobility in the housing market is to be fostered – and it should be – then people at both ends of their journey in the property market need to be encouraged.

Accommodation for those entering later life need to be more attractive to foster downsizing. Many elderly people would far rather stay in their homes alone despite having insufficient income to maintain them as they would wish, than downsize and free up family homes that are far better suited to others' needs. They need to be encouraged, incentivised and given better options to ensure the nation as a whole is getting the most appropriate use out of its housing.

Jeremy Raj

The Future of **the Elderly Care Crisis**

The Future of the Elderly Care Crisis

We now consider the question of when the crisis, or tipping point, in this sector is likely to happen.

In 2016, the Care Quality Commission's (CQC's) annual assessment of English health and adult social care also found that the market is approaching a tipping point. Pressures on the demand for, access to, and cost of care were all identified as factors.

The key factors are:

- Cost of elderly care
- Forecasting incomes of people aged 65 and over
- Forecasting wealth of people aged 65 and over
- The government funding gap
- The tipping point for the elderly care sector

For years now we've been raising awareness of the impending care crisis the UK is facing. The fact that we now know the elderly care system will collapse at the end of this decade is a stark warning of what's to come.

Emma McCann

£1,045 The East of England has the highest average costs for nursing homes.

For this section, we give constant prices for forecasts in 2017 values.

Cost of Elderly Care

The price that elderly people pay for care affects how many can afford it and how many will need government funding. But funding can vary according to where in the UK people live.

The East of England has the highest average costs for nursing homes at £1,045 a week per person. The South East and South West have similar prices, at £1,041 and £1,036, respectively.

Residential homes are less expensive in every region, and the highest price is £783 per person per week in the South East. Northern Ireland has least expensive prices for both residential and nursing homes.

Figure 8 - UK average weekly fees in for-profit homes for older people (with public and private payers combined) in 2019-20.

	Weekly	Yearly
Residential care	£672	£34,944
Nursing care	£923	£47,996

Source: LaingBuisson, Cebr analysis

In real terms, nursing home costs rose by 35% and residential home costs rose by 37% since 1999-00 financial year. In constant price terms, annual nursing home costs stood at £34,161 in 1999-00, while residential home costs stood at £24,454.

The average annual rate of real price growth for nursing homes was 1.4% in the ten years to 2019-20 and 1.6% for residential homes. Using a model based on health inflation rates, we forecast that in the next ten years, the annual real price growth will average 1.5% and 1.4% respectively. This will take the cost of nursing homes to £54,375, and the cost of residential homes to £39,124.

Figure 9 - Weekly cost of nursing care homes and residential homes by region, 2018-19

Source: English Housing Survey, Cebr analysis

The total amount that an elderly person might spend depends on how long they stay in a care home or residential home. LaingBuisson estimates that, on average, residents live in UK independent sector care homes for 30 months in residential care and 16 months in nursing care. Based on 2018-19 prices, this means an average total cost for a self-paying elderly person in a residential care home of £94,900, or £71,760 for a nursing home.

Those approaching retirement aren't aware of the sizeable cost of care, and are neither saving nor planning ahead for it.

Richard Potts

1.4% **Is the average annual rate of real price growth for nursing homes in the past ten years.**

Figure 10 - Length of stay and total cost of stay in care homes

	Average length of stay	Total cost for self-paying residents (2018-19)
Residential care residents	30 months	£94,900
Nursing care residents	16 months	£71,760

Source: LaingBuisson, Cebr analysis

Forecasting Incomes of People Aged 65 and Over

Retirement income is the first way an individual would look to cover the cost of their elderly care. However, few households are able to do this, with the average weekly self-pay price of nursing care at £1,035.

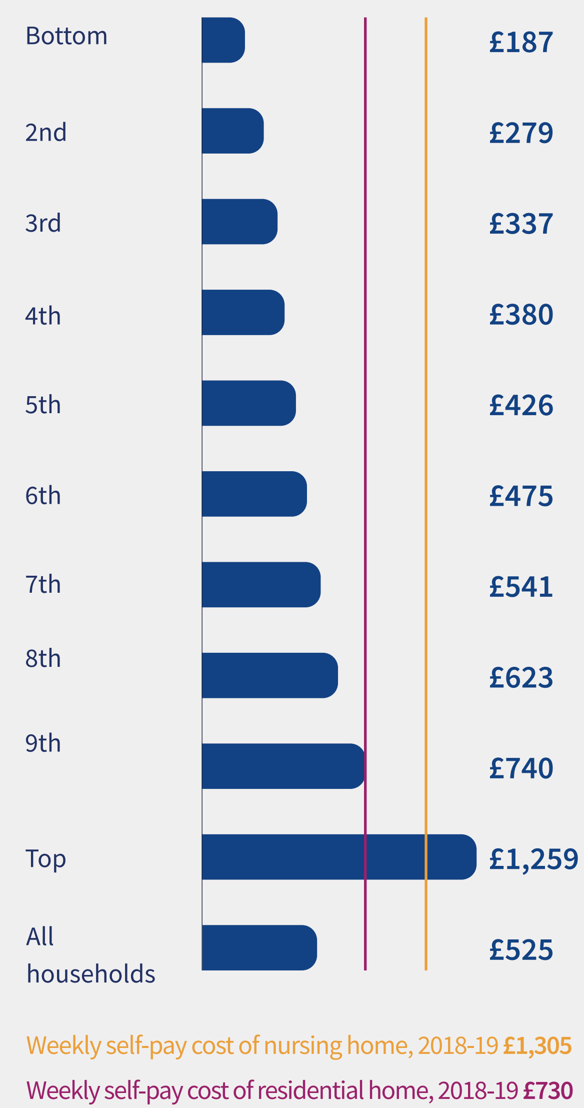
In fact, only around the top 10% retired households by income can afford to pay for nursing homes using their funds. Only the top 20% of retired households can afford to pay for residential care.

In real terms, we expects disposable income[18] to grow on average by 1.9% per year over the ten years to 2029-30 for people aged 65 and over. This would take the average annual income for this age bracket to £37,800.

Out of all people aged 65 and over, disposable incomes of people aged 65-74 are expected to grow the fastest in the next ten years. By the 2029-30 financial year, disposable incomes will stand at over £41,500. Annual incomes of people aged 85+ are expected to grow at a slower rate, and reach £30,800 by 2029-30.

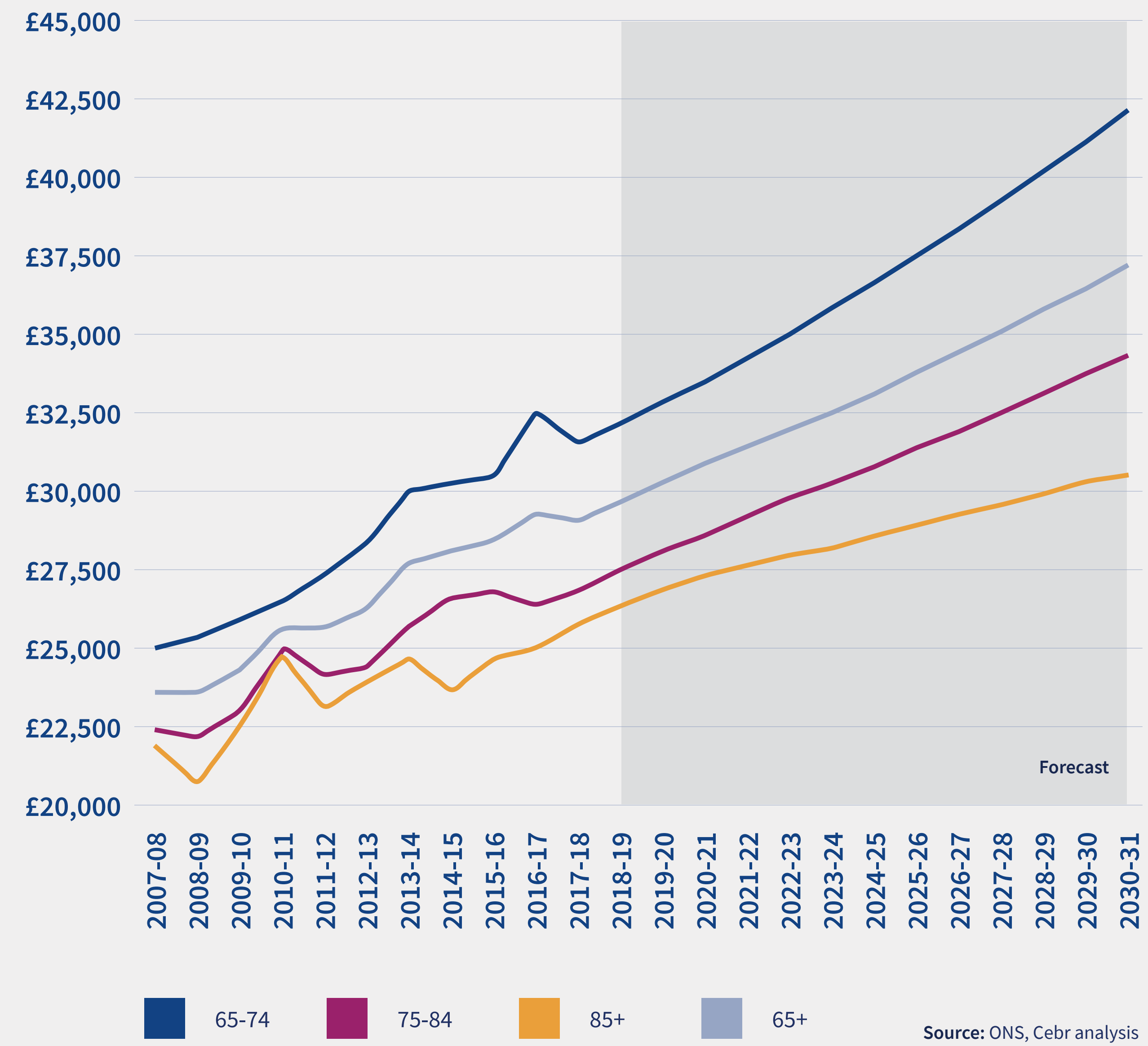
[18] The amount of money that households have available for spending and saving after direct taxes (such as Income Tax, National Insurance and Council Tax) have been accounted for

Figure 11 - Income distribution of retired households, by income decile, and cost of care



Source: LaingBuisson, ONS, Cebr analysis

Figure 12 - Average household disposable annual income of over 65s, constant prices



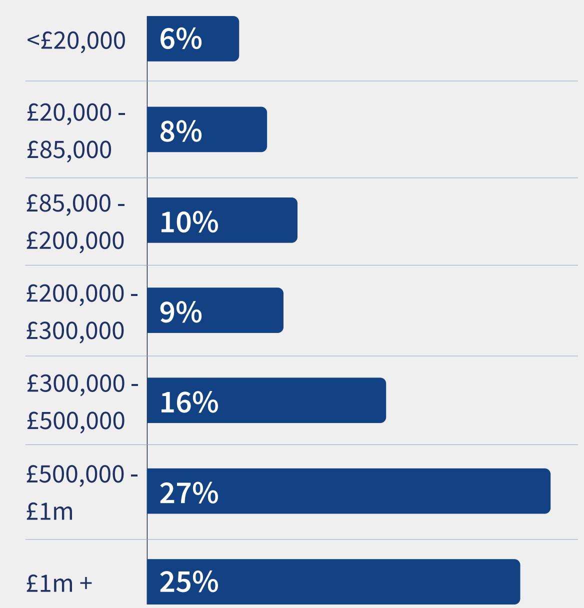
Source: ONS, Cebr analysis

Forecasting Wealth of People Aged 65 and Over

For the majority of the UK population aged 65 and over, retirement income is lower than the cost of care. This means those who must pay for their care will need to use other sources of wealth to make up the difference.

One third of households aged 65 and over have wealth valued below £300,000. This includes property wealth, physical wealth (i.e. physical possessions), financial wealth and pension wealth. The wealthiest 25% of the population aged 65 and over have more than £1m in assets.

Figure 13 - Distribution of total wealth of people aged 65+, including pension wealth, Great Britain, April 2016 to March 2018



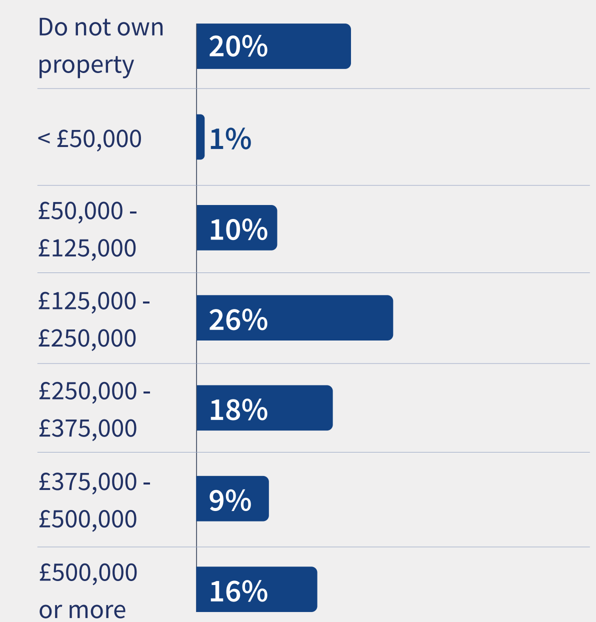
Source: Wealth and Assets survey, ONS, Cebr analysis

Since most retired households get an income from pension and financial wealth, any extra cash for residential care is likely to come from property and physical wealth. People can sell their homes and many possessions when they move into residential care.

However, one in five people aged 65 and over have no equity in their home, and wouldn't be able to pay care home fees by selling their property. 10% have between £50,000 and £125,000 in property wealth. That's roughly the total average cost of a full length of stay in a care home or nursing home for one person.

We estimate that in the coming years, house price growth will drive up the value of property wealth of people aged 65 and over. We expect their wealth to reach £425,000 per household by 2030. The forecast also gives £338,000 per household for 75-84 year-olds and £262,000 for households aged 85 and over.

Figure 14 - Distribution of property wealth of over 65s, Great Britain, April 2016 to March 2018



Source: Wealth and Assets survey, LaingBuisson, ONS, Cebr analysis

20% One in five people aged 65 and over have no equity in their property, and wouldn't be able to pay care home fees by selling their home.

The Government Funding Gap

The forecasts expect that care home costs will continue to rise above inflation over the next ten years, while incomes for people aged 65 and over will stay below the cost of care.

What's more, with 20% of over 65s without property wealth, many people don't have assets with which to pay for care themselves. Therefore, much of the burden of paying for elderly care will fall on the government.

The Health Foundation finds that social care faces rising demand and cost pressures, and projects an average yearly increase of 3.7% or £12.2bn up to 2030-31[19].

However, the government's budget is unlikely to rise in line with cost pressures. The Health Foundation expects to see growth in social care spending of 2.1% a year.

This would leave a funding gap of £1.5bn in 2020-21, rising to £6.1bn by 2030-31. If the industry restored the quality of social care to 2009-10 levels, then the funding gap would reach £15bn by 2030-31.

2029 **We estimate that the sector will reach a tipping point in 2029.**

[19] Social care funding options: how much and where from? Toby Watt, Michael Varrow, Adam Roberts, Anita Charlesworth, The Health Foundation, The Kings Fund, May 2018

The Tipping Point for the Elderly Care Sector

The 2016 Care Quality Commission annual report also found that the care sector is in crisis.

The three of the main causes of our tipping point calculation are:
1. **Older people being unable to pay for care themselves**
2. **Councils not having the funding to pay for care**
3. **Lack of capacity in care homes.**

Older people being unable to pay for care themselves
60% of people in residential care homes and 48% of nursing home residents are aged 85 or over[20]. However, their incomes are far below the cost of residential care, and aren't expected to rise in line with care home fees in the coming years.

Currently, the average person aged 85 and over can cover the cost of residential care with their income and 3% of their property and physical wealth. They even have a small amount of cash leftover. However, we forecast that an increasing number of people aged 85 and over will be unable to pay for care by 2029.

Lack of council funding for care provision
We expect an annual funding gap of £6.1bn in the social care sector by 2030-31[21]. Therefore, pressures on care providers are set to become more and more unmanageable throughout the decade.

Lack of capacity in care homes
We estimate that if residential home capacity stays at around their current levels, then the UK will face a supply crisis for residential homes by 2029 [22].

Many care providers would say that the social care sector is already in a crisis due to lack of funding. We've considered these three key factors to identify a specific year when these issues will become unmanageable for the sector.

We estimate that the sector will reach the tipping point in 2029. Unless the government steps in before then, many elderly people won't get the quality or amount of care they need.

[20] Care home census results, Continuing care conference
[21] Social care funding options: how much and where from? Toby Watt, Michael Varrow, Adam Roberts, Anita Charlesworth, The Health Foundation, The Kings Fund, May 2018
[22] See Shortage of elderly care accommodation section of this report

Recommendations

Recommendations

The report reveals some alarming statistics and the need for urgent action. Here we highlight how to address the problems the care sector faces if we start planning and preparing today.

Treating later life planning as a financial priority will go a long way in making sure the British public are prepared for the realities of paying for elderly care.

Richard Potts

Review and reform the care funding system

Our report has highlighted the extent of the elderly care funding gap. The quality and quantity of care services are becoming increasingly limited by the funding available to care providers. We need to meet the rising cost of caring for an increasing elderly population, through additional taxation, reducing other public service budgets, or increased public borrowing.

The Conservative Party's 2019 manifesto included a £1bn grant and £500m through the adult social care precept for local authorities in the coming financial year. However, with an estimated £3.5bn funding gap in 2024-25, £1bn is unlikely to be enough for the coming years. The government should prioritise reviewing how to raise care provision to the higher levels seen ten years ago. This will require far greater funding.

People wanting to ensure that they will receive appropriate care in later life cannot assume that this additional funding will be provided by the government. They can take matters into their own hands by putting aside sufficient funds now to ensure that they can meet their own care needs.

Raise the eligibility criteria for support in paying for care

Currently, if someone needing care has less than £23,250 of wealth, they're eligible for local authority funding support. The government raised the cut-off to this level in 2010-2011 and it has been frozen ever since. This means that in real terms, the threshold has been falling and fewer people are eligible.

The government needs to review the threshold and consider raising it to meet the demands of elderly people struggling to pay for care.

Help informal carers looking after elderly people

As fewer people qualify for financial support for care, they're turning to family members. People in their 60s are most likely to provide unpaid care to friends or family. They often get no financial support from the government, or only after going through a very complex system. It is also a concern, that those who are subsidising the care of family members may neglect their own plan to save for care provision in the future.

People should ensure they plan for their own retirement and future care and start saving now.

Enforce councils to plan and allocate land for retirement, care and nursing homes

In 2019, we found that only 44 out of 329 authorities had clear plans for retirement living, care home, or nursing home developments. This was 12 more local authorities than in our study in 2017. More local authorities need to be making clear plans, or the sector will run out of space to house older people creating a capacity crisis.

Councils must be required to use a more specific and detailed assessment of the housing needs of older people, across all types of housing and tenures to facilitate an increase in provision.

The penalties which councils face for failing to meet housing building targets should also apply for failures to meeting specialised housing building targets. Authorities must be held accountable for meeting the needs of their local residents.

In the absence of suitable accommodation for those requiring residential care, rather than nursing care, an idea would be to consider seeking residential accommodation that is more suitable, or adaptable, as there is funding available for this.

Educate workers on the importance of pensions savings

This report shows that there's a severe level of undersaving for pensions. People tend to be sensible; they understand the importance of putting money aside for their old age. What they might not understand is quite how much they might need in retirement.

There's a risk that many think that the minimum automatic enrolment pension contributions are enough to live off in retirement and pay for the cost of care. We need to raise awareness with workers about how much more they should be putting aside each month to have a comfortable retirement and pay for care themselves.

Defined contribution schemes are a great way to fund for a member's (and their dependant's) long-term care. But if the government were to extend it only slightly to introduce universal tax efficient saving product for people's long-term care needs, it would be of real benefit.

A simple, cheap, and readily available solution for long-term care savings for those in employment would be for the government to expand the existing automatic enrolment framework. Ideally running through defined contribution schemes so that it covers long-term care savings.

For employers that still use defined benefit pension schemes for automatic enrolment, it would be straight forward for them to set up a separate long-term savings scheme through, for example, a pension master trust.

The money held in the defined contribution scheme should be held separately for the worker from their defined contribution pension fund, as their long-term care fund. As with automatic enrolment, contributions could start at the rate of 1% employer, 1% employee contributions and, with government support, 1% tax relief. These savings would be the worker's "own" money for their own longp-term care, to be accessed at point of need, not retirement.

The government, supported by the pensions industry, is in the process of introducing its pensions dashboard. This is an online secure webpage where an individual can see all their pension savings in their various pension arrangements at the same time. The government could easily extend this to show what long-term care savings the individual has as well, giving them a clear perspective of what provision they have for their retirement and care.

Raise awareness of the need for financial planning

The number of people needing long-term care is increasing at a rapid rate and the costs of care far outstrips inflation. This is almost always part of the discussion with anyone considering Inheritance Tax planning. Concerns about future care costs can lead to uncertainty about the amount of capital that someone would need to retain. This can then become a barrier to making gifts outright.

Cash flow planning is invaluable because it allows for a whole range of scenarios to be considered and tested. This way you can gift capital, while confident that sufficient assets have been kept to meet future needs. Trusts can also work effectively once extra cash has been gifted.

When a loved one is in a nursing home and are receiving care, an immediate care annuity may be worth considering. With this type of annuity, payments are made to the care home direct and are tax free. Once people know that the care home fees are covered then they can consider releasing other funds without worrying that they'll be a shortfall.

There shouldn't be an assumption that 65 is too old to start planning, and we would urge anyone, regardless of the value of their wealth, to consult a financial planner for advice on saving for care in the future.

> **The existing automatic enrolment defined contribution pension structure could easily be extended to allow saving for future care costs.**
>
> **Penny Cogher**

Recommendations and advice within this secton are from Irwin Mitchell

Conclusion

Conclusion

This report makes clear that the elderly care sector desperately needs intervention and reform in order to avoid an imminent crisis.

We've given recommendations which can help reform the sector so that elderly people can receive the care they need. Without change, the sector will be unable to provide care for those who need it by the late 2020s.

Dealing with the issues that the social care system faces isn't just a problem for the government and social care providers. To create a sustainable model, households must plan ahead to fund the care they are likely to need in their retirement. In 2018-19 the estimated total cost of residential care for a full stay was £94,900 for care homes and £71,760 for nursing homes. With prices set to rise, people who're still working should factor these costs into their pension plans alongside their usual expenditure.

Millions of people also deserve recognition for propping up the system with informal care for their friends and family. It's no exaggeration to say that the elderly care crisis would have come much sooner if these people didn't help their loved ones. 24% people in their 60s and 22% of people in their 50s give informal care. A further 18% of people also help pay for care for their friends and family.

Councils must commit greater resource and time to planning and allocating land for retirement and care homes. We should also see advisory bodies make a sustained effort to educate workers on the importance of pensions savings.

We must make a concerted effort to change the social care sector. We recommend that the government:

- **Reviews and reforms the care funding system**
- **Changes the eligibility criteria for support in paying for care**
- **Supports informal carers looking after elderly people.**

The future doesn't have to be so bleak. There are steps families can take for their futures by considering care home fees alongside those other major financial commitments such as pensions and mortgages. Proper tax planning can also go some way to help the public prepare for later life regardless of what the government is doing.

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