PLANNING FOR AGEING

Dealing with issues in social care

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FINDING WAYS TO PAY FOR POPULATION AGEING

ENGLAND'S SOCIAL CARE REFORMS SEEK TO STRIKE A FAIR BALANCE

Countries across Europe must embrace social-care reforms to confront an inescapable fact: their populations are growing old. How to meet the high cost of ageing raises sensitive political considerations to do with fairness and the role of the state. It also highlights important economic issues, above all how to reduce uncertainty over the bills for elderly care so people can plan better. Devising an enduring policy settlement that enjoys broad public support will not be easy, as shown by a heated debate over planned reforms in England that will rumble on through 2022.

EUROPE IS TURNING GREY

Population ageing began several decades ago in Europe but is assuming increasing significance as policymakers start to face up to its far-reaching economic and social consequences. A combination of rising life expectancy and falling birth rates means the proportion of people of working age is shrinking at the same time as the ranks of retirees are expanding. The share of the EU population aged 65 or over rose by 3 percentage points, to 20.6%, in the decade to 2020. This trend, already evident in countries such as Italy, Finland and Greece, is set to intensify, adding to the burden on those of working age to pay for the services needed by the older generations.

A few more figures illustrate the scale of the looming challenge. The old-age dependency ratio of the European Union at the start of 2020 was 32%, meaning there were just over three persons of working age for every person aged 65 or over. The ratio, already up sharply from 26.3% in 2010, is projected to almost double to 57.1 % by 2100. Another striking feature of demographic ageing is the increasing longevity of the elderly cohorts. The proportion of people over 80 in the total population is forecast to surge to 14.6% by 2100 from 5.9% in 2020.

DIVIDING THE BILL

Leading longer lives is, of course, a success story - a welcome testament to medical advances and healthier lifestyles. But population ageing also raises fundamental issues about potential economic growth, the financing of pensions and the provision of care for the elderly. In particular, governments are being forced to re-examine the role of the state in insuring against unexpectedly high costs of healthcare and – an issue of acute debate in England – of social care.

In the UK, social care refers to the provision of services for those who need practical day-to-day support because of illness or disability or old age – either at home or in residential care homes. Social care is means-tested. If people do not meet the criteria for government support they pay for the services they receive out of their own pocket

As in most of continental Europe, the ageing of the UK population means that more and more people need social care. In England, local authorities spent £21.2bn on adult social care in 2020-21. To keep pace with growing demand, the Health Foundation think-tank estimates that this sum would need to rise to at least £28bn by 2030-31.

Satisfying these needs will require much more public funding or greater individual contributions or a major change in the delivery model for social care (e.g. to enable more independent living at home) to reduce demand.

In the UK, most individuals pay something towards their care. In England, currently anyone with assets of over £23,250 has to pay the entire cost. If someone is cared for in their own home, that figure only takes into account any savings, stocks or shares they have. But if they move into a care home the value of their home may also be factored in, depending on their circumstances.

Even someone with zero assets contributes all of their income (e.g. from benefits and the state pension) except for a relatively small sum, known as the Personal Expenses Allowance.

A few people face very high social care costs because they have extensive needs or live for many years requiring some support and their means are sufficiently high that they have to make significant private contributions. In theory people should plan for such a contingency; in reality either they do not or, where they do try to plan, uncertainty over future costs stimy their efforts.

THE SEARCH FOR A FAIR FORMULA

Successive UK governments have identified the need to improve the social care market but have dragged their feet. As far back as 2011 a report commissioned from economist Andrew Dilnot argued that the system of charging was unfair. Dilnot made two principal recommendations:

- Cap individual care costs in order to reduce the uncertainty over catastrophic bills faced by some people
- Raise the level of assets beyond which an individual must pay all their care costs

In 2021 the government unveiled plans broadly based on Dilnot's report, proposing a cap on care costs of £86,000 and an increase in the 'upper capital limit' to £100,000. Anyone with assets worth more than that would pay all their care costs.

The plans, which Parliament will continue to discuss in 2022, are proving to be controversial, with critics charging that many people will still face sizeable bills. Dilnot himself says 60% of people needing care will be worse off under the proposals, which in his view penalise the less well-off in those parts of the UK with lower house prices.

At the heart of the debate over specific rules, allowances and thresholds are issues of fairness. There are several dimensions:

- Fairness in the face of uncertainty: how much can someone be reasonably expected to pay for their care – and, by extension, be expected in principle to save to meet those future bills?
- Fairness between generations: how much should current taxpayers be expected to fund the care of older generations?
- Fairness between rich and poor: how much financial protection (for income and/or assets) should be extended to individuals of differing means?
- Fairness between regions: is it fair to use national figures to measure wealth given that house prices vary widely? Dilnot has spoken of a north-south axis, whereby someone living in Northeast England may have to sell their home to pay for social care but their better-off counterpart in the Southeast does not.

WHAT LIGHT CAN ECONOMICS SHED ON THE ISSUE?

There are some general principles on which agreement can be found.

First, uncertainty is inefficient. Asking individuals to plan for unknowable care costs is as inefficient in practice as it is in theory. As Dilnot pointed out in his 2011 report, some people accumulate much more savings/assets 'just in case' than they might really want to hold. For the economy as a whole, that is a sub-optimum outcome because that money could be spent, for example, helping the economic recovery from Covid. In reality, most people don't even understand the complex charging rules, so over-saving for social care might not be widespread. But even if it is largely confined to a small proportion of the well-heeled population, the excessive wealth accumulation and related inefficiency is significant.

Second, better information leads to better decision-making. This is true for individuals buying social care – currently many people have a poor understanding of their options and associated costs. It is also true for policymakers, who need to understand how rule changes affect different individuals of different ages, with different levels of income and wealth, in different parts of the country.

Third, behavioural change is difficult. If new rules come in that affect future costs, people may be relatively slow to alter their behaviour and save accordingly. This is particularly true for long-term planning. We all tend to suffer from myopia, or 'present bias', which is why we save too little for retirement. Providing better information is a good start, but policymakers need to pull other levers to get people to change how they behave. Incentives, social proof, messaging, and addressing habits and norms all need to be considered.

Fourth, all government taxation and spending – including on social care - reflects a choice about how much income or wealth should be redistributed from richer to poorer. In a progressive taxation system, the better-off pay more. How much more – for social care in particular – should reflect just how much progressiveness society wants.

CONCLUSION

Many countries need to reform their social care systems to cater for a rapidly ageing population. Their policy choices will vary according to political and social preferences, but policymakers should keep one unifying principle in mind: the imperative of establishing a long-term policy settlement that will last so that individuals and the social-care sector can plan better. The lively debate in England over belated reforms to make the social-care system more equitable underlines how difficult this task is. And then, of course, the new deal has to be implemented: settling on a long-run policy is also only a starting point…

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