Paying for Old Age?

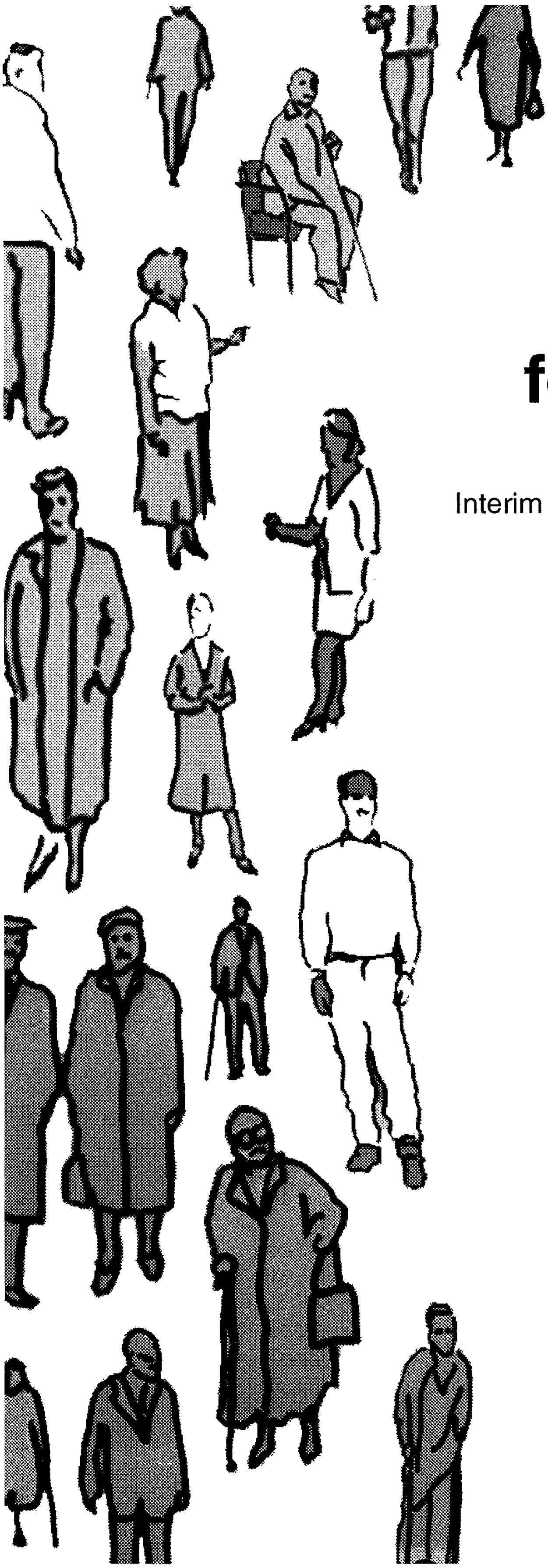
Interim research report from the King's Fund Long-term Care Financing Project

Chris Deeming

Justin Keen

King's Fund

11–13 Cavendish Square
London W1G 0AN
Tel: 020 7307 2400
Fax: 020 7307 2801
www.kingsfund.org.uk



Paying for Old Age?

Interim research report from the King's Fund Long-term Care Financing Project

Chris Deeming

Justin Keen

King's Fund

11–13 Cavendish Square
London W1G 0AN
Tel: 020 7307 2400
Fax: 020 7307 2801
www.kingsfund.org.uk

Paying for old age?

Interim research report from the King's Fund Long-Term Care Financing Project

Chris Deeming and Justin Keen

October 2000

King's Fund

Published by
King's Fund Publishing
11-13 Cavendish Square
London W1G OAN

First published 2000

ISBN 1 85717 404 6

Available from:

King's Fund Bookshop
11-13 Cavendish Square
London
W1G OAN

Tel: 020 7307 2591

Fax: 020 7307 2801

Acknowledgements

The fieldwork for the interview survey reported here was undertaken by NOP for the King's Fund. We would like to thank all the interviewees for their contribution to the study. We are grateful to Carol Goldstone and Sarah McHugh of NOP for their advice on the design of the questionnaire, and their professional approach throughout. Jane Falkingham of the LSE and Maria Evandrou of the Age Concern Institute of Gerontology at King's College London provided valuable inputs early in the project. Jane advised us on the algorithm to predict retirement income from adult income; the work would not have been possible without this advice. We are also grateful to colleagues at the King's Fund, John Appleby, Anthony Harrison and Janice Robinson, for their advice and comments during the course of the study and in the drafting of this report.

We are grateful to Kim Stirling for her help in preparing the report, and for helping us track down references and other information sources in the course of our work. Lyndsey Unwin and Stephen Lustig in our publishing department and Tim Yates in the IT department, helped us to complete the last, crucial stage of the work, in getting the report published electronically and on paper.

Executive Summary

1. The government believes that people who are able to contribute to the costs of their own long-term care should do so. It is not clear, though, how many people will be expected to contribute, or whether they will be able to do so.
2. An interview survey of 100 people was undertaken in June and July 2000. Today's and tomorrow's pensioners were asked detailed questions about their financial circumstances, and about their ability to pay more towards their own health and social care costs, now or in the future.
3. Pensioners are expected to contribute towards their long-term health and social care costs. The survey results suggest that today's pensioners on average and lower incomes are experiencing difficulties in paying for care services in their own homes. Many would not be able to meet any increased costs of care services.
4. Tomorrow's pensioners who are currently on average and lower incomes will struggle to pay for care services in their own homes. Most are not in a position to invest in the long-term care savings or insurance products which the government is considering introducing.
5. The results also confirm the view that people do not understand how long-term care is financed. They think that the government can and should pay for long-term care.
6. The study results raise questions about the extent to which the government has thought through the links between its long-term care and pensions policies. The government is targeting key pensions policies at adults on average and below-average household incomes (£9000-£18000 per year). This group may therefore be expected to invest in supplementary pensions *and* save for their own long-term care needs. Our results suggest that they cannot realistically be expected to do so.
7. The government needs to consider whether it is reasonable to expect people in the lower half of the income distribution to save for elements of their long-term care costs. More broadly, it must make clear who is expected to contribute to both second state pensions and long-term care savings or insurance products, and the scale of individual contributions.

Background to the study

There are currently two major debates concerning the financial status of older people. One debate is focused on long-term care, and the extent to which people should contribute to the costs of their own care. The other debate is over pensions, where there is agreement that pensioner incomes need to be increased, but disagreement about how to go about it. The government is committed to targetting money at the poorest pensioners, which involves the use of means-testing for elements of pensioners' incomes, while trade unions and other organisations are arguing for increases in incomes for all pensioners. To date these two debates have been conducted in isolation, but in practice they are related to one another.

Long-term care and pensions policies are both based, in significant part, on the assumption that most of us should bear greater responsibility for our financial affairs in old age. The government expects most of us to save, or to take out insurance, for some of our health and social care needs[i]. The details are not yet known, but the government has been discussing the possibilities for savings and insurance products with the financial services industry. On the pensions side, everyone will receive the basic state pension, but most of us will be expected to have a second pension. People on higher incomes will be expected to have private pensions. People on average or below-average incomes (£9000-£18000 per year) are expected to contribute to the new Second State Pension, and/or be eligible for a means-tested top-up to the basic state pension (the Minimum Income Guarantee). The government hopes that some people on even lower lifetime average incomes, such as people who have broken work records who sometimes earn over £9000 per year, may also be able to contribute. This leads to an obvious question: will adults be able to afford to invest in both supplementary pensions and long-term care savings or insurance products, so that they have a reasonable standard of living in later life?

One way of answering this question is to ask people about their personal finances. There have been small-scale studies that have done this, but information about individuals remains limited. This report presents the results of an interview-based survey of 100 people on average and below-average household incomes, living in the

London Borough of Islington. The survey was conducted by NOP for the King's Fund in June and July 2000. The study was designed to increase our understanding of the financial status of real people, and thereby shed light on the practicality of government long-term care policies. It is part of a larger project being undertaken by the King's Fund into the financing of long-term care, and further reports will be published in 2001.

The results reported here focus mainly on income available and used for care services delivered in people's own homes. The contribution of personal assets (savings and housing equity) as payment for residential or nursing home care costs will be addressed elsewhere. It is important to interpret the results with caution, but they indicate that:

- most people on average and below-average household incomes will struggle to pay for domiciliary health and social care services, both now and in the future.
- It is unrealistic to expect people in the lower half of the income distribution to be able to save for their old age.
- The group likely to experience most difficulty with current policies on pensions and long-term care appears to be people living in households below average household incomes. This group, which the government has chosen to term the "middle income" group, will be expected to have supplementary pensions and may now also be expected to save or insure for long-term care.

Before describing the interview survey methods and results, we outline key issues in long-term care and pensions policy that are relevant to the study.

Long-Term Care: The Royal Commission and government response

The Royal Commission on Long-Term Care[ii], which reported in March 1999, marked a watershed in the debate about the responsibilities of individuals for the costs of long-term care. The Commission's key recommendation was that the costs of long-term care should be split between living costs, housing costs and personal care. Personal care, including both health and social care, should be available after assessment, according to need and paid for from general taxation. Living and housing costs should, in contrast, be subject to a co-payment according to peoples' means.

In a minority report, Joel Joffe and David Lipsey agreed with most of the main report's recommendations, but disagreed that personal care should be free to all. They argued that, in providing public funds irrespective of income, free personal care would weaken the incentives for people to provide for themselves privately. The resulting financial burden on the state would, they felt, be unsustainable in the longer term.

The government responded to the report in July 2000[iii]. It agreed with most of the Royal Commission's recommendations, pledged a total of £1.3 billion new monies in 2001-02, and stated that:

> "There can be no justification for charging people in care homes for their nursing care costs. We will make nursing care available free under the NHS to everyone in a care home who needs it." (para. 2.8)

However, the government sided with the minority report's authors on the question of free personal care, which:

> "... would not be the most effective targeting of resources.... It would demand substantial resources without necessarily improving services." (Appendix 1)

The government is seeking instead to make long-term care fairer and more efficient through a number of new policies, including changes to the charging rules for residential care, and the promotion of intermediate care to delay or avoid entry to institutional care.

Much of the commentary since the government's response has focused on the question of paying for personal care. An alliance of fifteen organisations representing older people, for example, argues that the system will continue to discriminate against older and disabled people, and that it will not be possible for service providers to make consistent decisions about eligibility for free care[iv]. The Royal College of Nursing has made similar criticisms[v]. The belief outside government, then, is that the variations in charges and access to services that characterise the current arrangements will continue.

The difference between free personal care and targeted/means-tested care is a specific example of the dilemma over the merits of universalism and means-testing. The government has now confirmed that in long-term care, as in other areas of welfare policy, its instincts are to extend means testing. Thus, access to personal home care will be means-tested, as will pension incomes (see the discussion of pensions below). There has been little comment, to date at least, on the support by both the Royal Commission and the government for means testing of living and housing costs. We note in passing here that the stress on greater personal responsibility in long-term care contrasts with policies on the NHS. The government is committed to taking responsibility for funding the NHS, and will continue to fund the majority of UK health care from general taxation. Long-term care is an area where two philosophies of financing run together, and to date the two have not been satisfactorily resolved.

The Costs of Long-Term Care

The Royal Commission report and its three appendices are a major source of evidence and argument about long-term care. The Commission gathered together a large volume of research evidence, and funded a number of its own reviews. For example, there were reviews of the economics of long-term care[vi] and of the potential for insurance[vii]. These reviews provided useful 'top-down' views of current patterns of financing of long-term care, and provided the basis for calculations of the future costs of long-term care under different assumptions about financing and population needs. Table 1 gives data on the unit costs of formal care, and Table 2 data on estimated total UK expenditure on long-term care services. The Commission also reported evidence on the level of disability in the population of elderly people. Table 3 gives the estimated dependency of people aged 65 and over in 1995.

Table 1 **Unit Costs of Formal Care 1995/96 Prices**

Type of Expenditure	Unit cost in 1995/96 prices
Home care	£8.50 per hour
Community Nurse	£17 per visit
Day care	£28 per attendance
Meals	£2.90 per meal
Lunch	£2.90 per meal
Chiropody	£10 per treatment
Residential care homes	£275 per week
Nursing homes	£337 per week
Long-stay hospital	£800 per week

Source: Tinker *et al*, 1999

Table 2 **Estimated UK Expenditure on Long-term Care Services and Source of Funding 1999**

Type of Expenditure	NHS £m	PSS net £m	Private £m Charges	Private £m Fees	Total £m
Home care		970	75		1,045
Community Nurse	675				675
Day care	125	235	20		380
Private domestic				210	210
Meals		95	70	35	200
Chiropody	145			70	215
Total					2,725
Residential Care homes		1,910	1,030	1,200	4,140
Nursing homes	195	1,300	530	750	2,775
Long-stay hospital	1,425				1,425
Total					8,340
TOTAL	2,565	4,510	1,760	2,225	11,065

Source: Tinker *et al*, 1999

Table 3 **Dependency – in Private Household, UK 1995, UK estimates**

Level of dependency	**People 65+ 1995**	**%**
No dependency	6,275,000	72%
Instrumental Activities of Daily Living problems	606,000	7%
1 ADL problem	935,000	11%
2+ ADL problem	928,000	11%
Total	2,470,000	28%
Total private household population	**8,744,000**	**100%**

Source: Tinker *et al*, 1999

The Royal Commission recognised that aggregated datasets, while of considerable value, could not provide any real sense of the experiences of individuals. In a study for the Commission, Anthea Tinker and colleagues developed vignettes, or hypothetical cases, of people who are likely to need institutional care[viii]. The vignettes were used to cost out packages of domiciliary care for people living in their own homes and in very sheltered housing. For example, Tables 4 and 5 show the costs estimated for two of the vignettes, namely:

- Case 1: A man with severe dementia, who cannot be left alone in the house, living with his wife (Table 4)
- Case 2: A highly dependent wheelchair-bound woman living alone, with no cognitive impairment (Table 5).

The vignettes give indicative costs for formal support of people in their own homes. The estimates suggest that the weekly costs of care for Case 1 could be £450-£500 each week, and for Case 2 £200-£250 each week. These costs provide an important backdrop to any discussion of long-term care – namely, that it can be very expensive, and too high for most people to pay out of their own pockets. Only people with high incomes or with housing or other assets could pay them for very long.

Table 4 Details of Costings of Services in Ordinary Homes: Vignette 1

	£/year
Home Environment	
Downstairs WC (Netten and Dennett 1997, Schema 6.18) £983 annualised	146
Shower downstairs (Netten 1997, Schema 6.18) £1,153 annualised	172
Safety devices £200 annualised	30
Subtotal	**348**
Day and night care	
Day centre 2 days per week, 48 weeks: 48 x 2 x £23	2,208
Night sitting, 1 night per week, 48 weeks: 48 x £82	3,936
Subtotal	**6,144**
Personal care/household/shopping/finance	
Bathing assistance 1 hour per week, 48 weeks: 48 x £8.60	**413**
Health care	
Visit by community psychiatric nurse once a month: 12 x £27	**324**
Respite care	
4 weeks a year: 4 x £454	**1,816**
Counselling	
1 hour per month: 12 x £53	**636**
Care management	
52 weeks: 52 x £49	**2,548**
TOTAL	**12,229**
(of which day care, night care and respite care)	(7,960)

Source: Tinker *et al*, 1999

Table 5 Details of Costings of Services in Ordinary Homes: Vignette 2

	£/year
Home Environment	
None	nil
Day and night care	
Day centre, 1 day per week, 52 weeks: 52 x £23	1,196
Personal care/household/shopping/finance	
Home care, 2 hours per day, 7 days a week, 52 weeks: 7 x 52 x £16.80	6,115
Bathing assistance, 1 hour per week, 52 weeks: 52 x £8.60	447
Subtotal	**6,562**
Health care, respite care, counselling	
None	nil
Care management	
52 weeks at £24.50	1,274
TOTAL	**9,032**
(of which day care, night care and respite care)	(1,196)

Source: Tinker *et al*, 1999

In addition to the vignettes, there have been case studies of the costs of informal caring[ix], and of the extent to which individuals with disabilities or long-term care needs have to pay for elements of their own care[x]. There have also been studies of the ability of individuals to meet care costs from their own income and assets[xi,xii]. The scale of research in this area is small, however, and it seems that the work of the Royal Commission (and presumably of the government, as well) has been hampered by a lack of data in this area. We felt that the generation of rich descriptive data linking income and expenditure could, of itself, be a useful contribution to the policy debate. We therefore included questions in our survey to generate such data.

Expectations about paying for care in later life

Another important question concerns people's expectations about their own incomes in later life. In a study in the mid-1990's, Parker and Clarke asked adults aged 18-64 years to estimate the risk of major life events occurring, such as older people needing to enter institutional care. They were also asked about their willingness and ability to take out long-term care insurance. The study found that adults have little knowledge of their future incomes, or the level of savings that they should be making. They found that people were:

> "...relatively naïve about current risk levels for the need for care: they over-estimated both the risk of needing different types of care and the average amount of time people spend in residential or nursing home care in old age."[xiii]

The sample used by Parker and Clarke makes interpretation of results difficult. The responses of 18 year olds to questions about risks in later life might be expected to differ from those of people in their 50's or 60's. Younger people have strong preferences for benefits now rather than in the future. The implication, though, is that people are not likely to save appropriately unless they understand the risks. They are also unlikely, therefore, to save or to insure against those risks.

Parker and Clarke[xiv] also reported on the attitudes of adults towards payment for care in later life. They found that most people believe that the state should take primary responsibility for the provision of older people's care, and that it can afford to do so. However, most people also believe that support should be related to people's ability to pay, although the greater the need for care, the more support there is for state help for all, regardless of income. But views about how people might use their own resources to pay for care were confused. We felt that the extent to which adults understood their own future financial circumstances merited further investigation, and one part of the questionnaire was designed to investigate the extent of their understanding.

The Pensions Debate

The pensions debate is, we think, related to the long-term care debate. The government expects as many adults as possible to invest in supplementary pensions, and/or apply for a means-tested pensions benefit, the Minimum Income Guarantee.

At the same time, the government expects as many of tomorrow's pensioners as possible to pay for elements of their own health and social care, either directly or through the use of savings or insurance products. It is therefore important to establish whether or not they can afford to invest in both pensions and long-term care. Equally, if people do not invest in long-term care savings or insurance products, they will have to pay for health and social care in old age using their pension incomes - just as many of today's pensioners are having to do now. Again, the two are linked.

In 1998 the government published a Green Paper on pensions, *A New Contract for Welfare: Partnership in Pensions.* A central idea was the New Insurance Contract:

> "We believe that those who can, should save for their retirement, and that the State should provide greater security for those who cannot."
>
> "An assurance of a secure and decent income in retirement for all, through the new minimum income guarantee which will be increase year by year as resources allow. Over the longer term our aim is that it should rise in line with earnings so that all pensioners can share in the rising prosperity of the nation."
>
> "The New Insurance Contract will help more people to save for their retirement, but there will always be those who cannot save for themselves.... everyone who retires without enough savings, for whatever reason, should be entitled to a decent level of security."[xv]

The government clarified its rationale for pension reform in *The Changing Welfare State*[xvi], published in March 2000. It identified two main problems:

> "Firstly, although pensioners are doing better on average than in the past, inequality has increased and some pensioners have missed out. Secondly, although we expect average pensioner incomes to continue rising, some in today's working population are likely to have low incomes when they retire."

The government set out proposals intended to help today's and tomorrow's pensioners.

Tomorrow's pensioners

Over the past decade, governments have been increasingly concerned that the state cannot afford to foot the bill for the care of older people and government policy has underlined the responsibility of individuals to provide for their own old age. Lower income pensioners of the future are being encouraged to build up a reasonable second-tier pension by the time they retire (see Table 1). The basic state pension will be retained, and will be paid to people who have fulfilled contribution requirements (eg. paid sufficient National Insurance premia) when they reach pensionable age. The highly charged debate at the 2000 Labour Party Conference[xvii] confirmed that the government has no plans at present to restore the index linking earnings and pensions.

The government is still developing its proposals, and the pensions industry is developing stakeholder pensions and other products. It is too early to be certain of the impact of these proposals. However, analysis by Rake and colleagues[xviii] suggests that the Second State Pension will:

> "... combine with the basic pension to provide a new flat-rate pension aimed at the poorest. Low income individuals and those with broken work histories will face great difficulty in avoiding a means-tested old age." [Rake et al, page 296]

In parallel with these developments, Alan Milburn, Secretary of State for Health, stated as long ago as December 1999 that the government would consult with the insurance industry about long-term care products. In the response to the Royal Commission report it was stated that consultation was continuing. If people are unable to contribute enough to Second State Pensions to make them work, will they be able to afford long-term care savings or insurance products? The survey was designed, in part, to shed light on this question.

Table 6 Government policy to help future pensioners

- ***State Second Pension*** – this will reform the State Earnings Related Pension Scheme (SERPS) and will focus more support than in the past on lower paid workers (earning less than £9000 per annum). The objective is to enable them to build up better second-tier pensions than under SERPS.
- ***Stakeholder Pension*** – these will be designed by private firms, and be designed to help employees who do not have an occupational pension to make additional provision for their retirement.
-

Today's pensioners

And what of today's pensioners? Many pensioners have not planned for the expense of long-term care and, at first glance at least, it seems unlikely that poorer pensioners will be in a position to contribute towards the costs of their care.

Inequality amongst pensioners has increased over the last 20 years. In the pensioner income distribution, the growth in income of the top fifth has been far higher than that of the bottom fifth. Occupational pensions and investment incomes account for most of the difference between the poorest and better-off pensioners. The Government has introduced a number of policies designed to help today's pensioners who have missed out on the general growth in pensioner incomes (see Table 7).

Table 7 Government policy intended to help today's poorest pensioners

- *Minimum Income Guarantee (MIG)* – Strictly speaking, MIG is not guaranteed, but is a means-tested benefit. For this year (2000/01) the Minimum Income Guarantee (MIG) will stand at £78.45 a week for single pensioners, and £121.95 for couples.
- *Minimum Income Guarantee capital limits* – from April 2001 capital limits will be increased. The lower capital limit will rise from £3,000 to £6,000 (savings of up to £6,000 will no longer reduce a household's MIG entitlement) and the upper limit (the level of savings above which a household is ineligible for the MIG) will rise from £8,000 to £12,000.
- *Minimum Tax Guarantee* – the 1999 Budget introduced a Minimum Tax Guarantee that increased personal allowances for pensioners by up to £200 over the normal indexation.
- *Winter Fuel Payments* – 2000/01 all households with a person aged 60 and over will be eligible for payments of £150 per household (payments are made before Christmas).
- *Free television licences for those aged 75 and over* – this measure will save pensioners £100 a year.
- *Pensioners' Credit* – the government says that it wants to do more to reward low-income pensioners who have worked to build up their own pension and will be consulting on how to develop a Pensioners' Credit that rewards work and saving.

Table 8 Average gross weekly income of pensioners couples by quintile of the net income distribution, 1997/98 (1997 prices, net income before housing costs)

Quintile	Mean (£)*	Range (£)**
Bottom fifth	135	0-147
Next fifth	179	147-183
Middle fifth	225	183-234
Next fifth	305	234-317
Top fifth	677	317-Max

*Source: Department of Social Security (2000). *The Pensioners' Income Series 1997/98*

**Obtained from the Department of Social Security

Table 9 **Average gross weekly income of single pensioners by quintile of the net income distribution, 1997/98 (1997 prices, net income before housing costs)**

Quintile	**Mean (£)***	**Range (£)****
Bottom fifth	74	0-79
Next fifth	102	79-104
Middle fifth	123	104-125
Next fifth	158	125-167
Top fifth	288	167-Max

*Source: Department of Social Security (2000). *The Pensioners' Income Series 1997/98*
**Obtained from the Department of Social Security

The average weekly income for pensioners (1997 prices) is shown in Tables 8 and 9. For this year (2000-01) the minimum income for pensioners under the Government's Minimum Income Guarantee (MIG) will stand at £78.45 a week for single pensioners, and £121.95 for couples. Winter fuel payments and free television licences have not been included in these calculations. At the Labour Party Conference in September 2000 Chancellor Gordon Brown announced that the MIG would be increased to £90, although the date of its introduction was not announced.

It is an open question as to whether the incomes of pensioners in the lower half of the income distribution will be sufficient to ensure that they have a decent quality of life. The issue that we focus on in this report, though, is whether adult incomes will allow people to save or take out insurance to cover long-term care needs that the government will not meet. We know that many people, left to their own devices, make inadequate provision for retirement. Will they be able to make provision for some of their long-term care needs? Whether they can or not, do they think it is right that they are asked to do so?

---

[i] Secretary of State for Health. The NHS Plan: The Government's response to the Royal Commission on Long Term Care. Cm 4818-I. London: Stationery Office, 2000
[ii] Royal Commission on Long-Term Care. With respect to old age. Cm 4192-I. London: Stationery Office, 1999.
[iii] [Same as reference 1]
[iv] See www.helptheaged.org.uk/news/pr1809.html (viewed 22nd September 2000).
[v] See www.rcn.org.uk/press/0009/123.html (viewed 29th September 2000).
[vi] Wittenberg R.. Economics of long-term care finance Chapter 2 in: With Respect to old age: Research Volume 1. Cm 4192-II/1. London: Stationery Office, 1999.

[vii] Fenn P. Financing long-term care: the potential for insurance. Chapter 3 in: With Respect to old age: research volume 1. Cm 4192-II/1. London: Stationery Office, 1999.

[viii] Tinker A, Wright F, McCreadie C, Askham J et al. Alternative models of care for older people. Chapter 7 in: With Respect to Old Age: research volume 2.Cm 4192-II/2. London: Stationery Office, 1999.

[ix] Glendinning C. The costs of informal care: looking inside the household. London: HMSO, 1992.

[x] Farrell C, Robinson J, Fletcher P. A new era for community care? What people want from health, housing and social care services. London: King's Fund, 1999.

[xi] Baldwin S, Lunt N. Charging ahead: the development of local authority charging policies for community care. London: Joseph Rowntree Foundation, 1996.

[xii] Oldman C. Paying for care: personal sources of funding. York: Joseph Rowntree Foundation, 1991.

[xiii] Parker G, Clarke H. Attitudes and behaviour towards financial planning for care in old age. Leicester: University of Leicester Nuffield Community Care Studies Unit, 1997.

[xiv] Parker G, Clarke H.

[xv] Department of Social Security. A new contract for welfare: partnership in pensions. London: DSS, 1998.

[xvi] Department of Social Security. The Changing Welfare State: Pensioner Incomes. DSS Paper #2. London: DSS, 2000.

[xvii] Groom B. Labour leadership defeated on pensions. Financial Times, September 27 2000.

[xviii] Rake K, Falkingham J, Evans M. British pension policy in the twenty first century: a partnership in pensions or a marriage to the means test? Social Policy and Administration 2000;34:296-317.

Aims, methods and results

Aims, methods and results

Aims

In light of the long term care and pensions issues described in the last section, the main aims of this study were to increase our understanding of:

- Whether people currently in their seventies are able to afford health and social care goods and services now.
- Whether people currently in their fifties will be able to afford to pay for health and social care goods and services when they are older.
- The extent, if any, of the gap between expected and likely actual income for people in their seventies.
- Whether either group thinks that it is right that they should have to pay for particular goods and services.

Sampling Strategy

The study was designed as a pilot study, intended to test out the feasibility of collecting detailed income and expenditure data, and of assessing the 'gap' between expected and likely actual pension income. (Equally, if the pilot went well, then the data would be useful, whether or not a subsequent study was undertaken.) It was decided that an interview study, with interviews conducted in people's own homes, offered the best balance of breadth and depth of coverage. Because the feasibility of the approach was being tested, it was deemed inappropriate to have a large-scale study. However, a sample of 100 people – 50 in each age group – would be appropriate. It would be a large enough number to allow assessment of the representativeness of the sample (see below), though it would not be large enough for rigorous statistical analysis.

Eligibility criteria

Some previous studies have sampled across a wide age range, such as adults aged 18-64 years. The decision was made here to pursue a different approach, and focus on a relatively tightly defined group of people. First, people in the middle to lower part of the income distribution. On the basis of the available data, it seemed likely that these people would have least discretionary income, and yet the government might still expect them to save or insure for elements of long-term care. People in the highest

20% of pensioner incomes would, we felt, be relatively well placed to afford to pay for long-term care, or to insure against it. This is not to say that they could afford it under any circumstances, but they would fare better than those on lower incomes. Because historical income was important, it was decided that people had to have lived in the UK for at least 14 years.

Second, we were also interested in both today's and tomorrow's pensioners. Two groups were identified. The first included people who had already retired. Respondents were between 72 and 78 years, living at home. Their incomes ranged between £121.95 and £230 for pensioner couples and between £78.45 and £125 for single pensioners. The second group included people approaching retirement who will have a similar income (based upon current prices) when they retire. Respondents were aged between 52 and 58 years. They might or might not be working at the time of the study.

Third, the small sample size led us to concentrate on a single location. We decided upon the London Borough of Islington on the grounds that the sample could be designed to be reasonably representative of people elsewhere in the UK on similar incomes. The one possible difference between Islington and other areas of the UK is the value of people's homes if they are owner-occupiers.

Quotas

In order to ensure that our respondents were reasonably representative of pensioners on lower incomes elsewhere, a study recruitment policy was developed to ensure that key groups were represented. The groups and actual numbers of people in the sample were:

- single people (42) and households with a married or cohabiting couple (58)
- women (55)
- people from ethnic groups (16)
- employed (17) and out of employment (33) in the first group. Everyone in the second group had retired.

The questionnaire

The questionnaire was developed to cover a number of topics:

- general health status, for the individual interviewed and their partner if there was one (using questions derived from the General Household Survey[i])
- use of health and social services
- employment history
- pension arrangements
- receipt of benefits
- assets, including stocks and shares
- expenditure (using questions derived from the Family Expenditure Survey[ii])
- how well they felt they were managing
- for people currently in their fifties only, their prediction of their weekly income in their seventies
- for people currently in their fifties only, how well they thought they would manage financially in their seventies, and what they would be able to afford to pay towards long-term care costs
- attitudes towards paying for long-term care.

Predicting retirement income

Retirement income, for those currently in their fifties, was predicted using information obtained from the interview. Respondents were then placed within one of the income ranges in the pensioner income distribution[iii].

The following core pieces of data were used for the calculations:

- average earnings in last year
- age at which respondent started work
- age at which respondent expected to retire.

Basic state pension entitlements were calculated based on the number of years of full-time and number of years of part time work. Second tier pension entitlements were calculated depending on whether a person was in State Second-tier pension scheme (SERPS) or was contributing to an occupational pension or private pension.

- **SERPS** entitlements were calculated using information on earnings and number of years of work plus expected retirement
- **occupational pension** was calculated based on the number of years in occupational pension scheme to date
- **private pension** was calculated based on the number of years of contributions and the weekly amount contributed.

An algorithm was constructed, using advice and data provided by Jane Falkingham of the London School of Economics. The algorithmn was used to calculate expected pension income from each of these sources. The income from each source was then added together to give weekly retirement income.

Field work

NOP were commissioned to conduct the interviews, and commented on the detailed design of the questionnaire. The interviews were conducted face to face in peoples' own homes in June and July 2000.

Results

The sample of people interviewed was evenly balanced on gender and household composition, and appeared to be fairly representative of London on ethnicity:

- 45% of the sample were males and 55% were females
- 16% of the sample described their ethnicity as non white,
- 42% of the sample were one-person households and 58% of households consisted of a married or cohabiting couple.

The two subgroups, those in their fifties and those in their seventies, were broadly similar in composition. 16% of our sample described their ethnicity as non-white, which is higher than the UK average of 7% reported in the 1998 General Household Survey, but this might be expected given the London location chosen for the study.

Today's pensioners

Health and use of services

Today's pensioners have difficulty in paying for long-term care services when they need them. About a third of pensioners reported that their health was not good over the 12 months prior to interview, some 40% described their health as fairly good and about 20% reported their health to be good. The level of poor health reported in this sample was about 15% higher than the level reported in the 1998 General Household Survey for the equivalent age range. Some 60% of pensioners reported a longstanding condition that limited their activities in some way, again this is higher than the 50% reported in the 1998 General Household Survey. The level of dependency was also reported to be some 15% higher in this sample when compared with the Survey.

Dependency can be estimated by measuring:

1. The proportion of people able to undertake the following five instrumental activities of daily living (IADLs):

- shopping
- handling personal affairs

- vacuuming
- cooking a main meal
- washing clothes by hand.

2. The proportion of people able to undertake the following activities of daily living (ADLs):

- bath or shower themselves
- dress and undress themselves
- get in or out of bed themselves
- go to the toilet alone
- feed themselves.

Some 60% reported that they were able to undertake all five of the IADLs and were therefore assessed as having no IADL problems. About 10% had one IADL problem, another 10% had two problems and 20% had three or more such problems. This is slightly higher than, although broadly comparable to, the level of IADL problems reported in the analysis of the 1998 General Household Survey. The Survey found 80% with no IADL problem, about 10% with one IADL problem, 5% with two problems and 6% with three or more problems.

80% of the group reported that they were able to undertake all of the ADLs and were therefore assessed as having no ADL problem. 10% of the sample reported one problem, 8% had two problems and 2% had three or more problems. This reporting of ADLs is very similar to that found in the Survey.

Using both measures, IADL and ADL, an overall assessment of dependency could be made. About 60% of the group had no dependency, no ADL and no IADL problem. About a quarter had a slight dependency, at least one IADL problem but no ADL problem. 10% had a moderate dependency, one ADL problem and at least one IADL problem. 8% had a substantial dependency, two ADL problems and 2 % had three or ADL problems. Table 10 shows the level of dependency in this study compared with the analysis of 1998 General Household Survey[iv].

Table 10. Levels of dependency in sample verses GHS analysis

	% study sample	% GHS analysis
No dependency	57	72
Slight dependency	24	7
Moderate dependency	10	10.5
Substantial dependency	8	7

People were asked about the health and social care services they, and their partner if they had one, had used recently. Some 15% of households had used voluntary services during the month prior to interview, about 15% had used social services (including meals on wheels) and a further 10% had purchased private domestic help. About two thirds had seen their GP during a three-month period prior to interview and a third had seen a hospital doctor. In the 1998 General Household Survey about half had seen a GP and a fifth had seen a hospital doctor.

Income

People were asked about their current income and expenditure. The study captured a range of incomes amongst the bottom three quintiles of the pensioner income distribution (see Table 11). Nearly all of the group reported that they were receiving a basic state pension. Nearly half reported receiving an occupational pension from a former employer and 6% reported that they had a private pension. Some 10% were received Disability Living Allowance (care component or mobility component) and 5% received Invalid Care Allowance.

Table 11. Current weekly income range of sample

Pensioner income distribution	**single pensioners**	**sample %**	**pensioner couples**	**sample %**
middle quintile	£106-£125	27	£181-£230	33
fourth quintile	£81-£105	36	£121-£180	67
bottom quintile	£80 or less	36	£120 or less	0
Totals		**99**		**100**

Expenditure

Single pensioners reported average household expenditure of £70 per week and pensioner couples reported £150. The 1998-99 Family Expenditure Survey reported average household expenditure of £90 per week for single pensioners mainly dependent on the state pension and £160 per week for pensioner couples mainly dependent on the state pension. Average weekly expenditure on health and personal goods and services was reported to be £4 and £10 respectively amongst the highest 20% of the sample.

Weekly income was then compared to average weekly expenditure (see table 12). About half of single pensioners and 20% of pensioner couples reported average weekly expenditure exhausting or exceeding weekly income, the majority of this occurring in the bottom quintile. Overall, some 40% of pensioners reported weekly expenditure exhausting weekly income.

Table 12 Percentage reporting weekly expenditure above weekly income by income quintile

All pensioners	%	Single pensioners	%	Pensioner couples	%
middle quintile	33	£106-£125	44	£181-£230	17
fourth quintile	38	£81-£105	50	£121-£180	33
bottom quintile	58	up to £80	58	up to £120	0
Totals	41		51		22

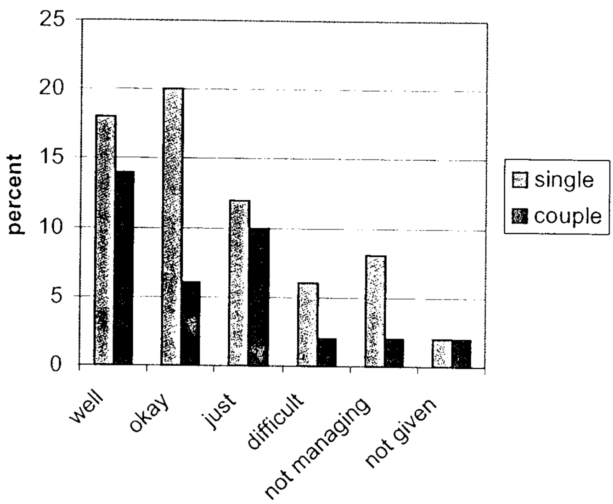
Assets

People were also asked about their current assets, their levels of savings, investment in stocks and shares and, if they were homeowners, the value of their property. Some 15% of pensioner households owned stocks and shares. A quarter reported a value of less than £4,000 and a quarter reported a value of between £4,000 and £9,000. Half of respondents chose not to answer this question. Additional information on assets is still being obtained and this report will be updated when it has been analysed.

Reported financial experiences

In addition to obtaining quantitative information on household income, expenditure and assets, people where also asked attitudinal questions regarding their finances. Respondents were asked how well they thought they were managing their money. About 20% reported that they were either having difficulties or were not managing. The majority of respondents who were having difficulties or were not managing were single pensioners. Half thought that they were either managing okay or were just managing. 30% thought that they were managing their money well. Some 20% reported financial worries such as rent and other bills and 15% reported financial difficulties with the payment of bills, in the year prior to interview.

Figure 1. How well do pensioners feel they are managing their money?



Tomorrow's pensioners

Health and use of services

40% of people in their 50's reported that their health was not good over the 12 months prior to interview, about a third described their health as fairly good and about a quarter reported it to be good. Around two-thirds reported a long-standing condition that limited their activities in some way, higher than the figure of one third reported in the 1998 General Household Survey for persons aged 45-64.

Income

People aged 52-58 years were selected for inclusion in this study based upon household income. A ceiling of £300 per week was used, which helped to maximise the likelihood that people would be amongst the bottom three fifths of the pensioner income distribution. The incomes of this sample were evenly distributed across the study's three household income ranges used to predict retirement income. One third of the sample had an income of £100 or less per week, a third had between £101 and £200 per week, and a third between £201 and £300 per week. Most single person households had an income of £100 or less per week and most households with a married or cohabiting couple had an income between £201 and £300.

Just over a third of respondents were either currently employed or self-employed, about 10% were unemployed, a third were not working because of long-term sickness or disability and 20% were looking after the family home. About 15% of respondents were part of an occupational pension scheme; about 5% had opted out of the state second-tier pension scheme for employees (SERPS) and had found an alternative pension scheme. 12% reported that they had a private pension. Information on employment and pension contributions was used to predict likely retirement income within the range of pensioner incomes (see table 13).

Table 13 Predicted weekly retirement income

Pensioner income distribution	**single persons**	%	**couples**	%
middle quintile	£106-£125	4	£181-£230	4
4th quintile	£81-£105	8	£121-£180	4
bottom quintile	up to £80	88	up to £120	92
Totals		**100**		**100**

Expenditure

Single person households reported expenditure of £131 per week and households consisting of a married or cohabiting couple reported expenditure of £215 per week. The average for all households was £174 per week. These figures are comparable to the results of the 1998-99 Family Expenditure Survey, which found average expenditures of £125 - £200 in the bottom to middle quintile income groups of households consisting of a married or cohabiting couple. Average weekly expenditure on health and personal goods and services was reported to be £6.50 and £17.00 amongst the highest 20% of our sample.

Predicted weekly retirement income was compared to current average weekly expenditure. Table 14 shows predicted weekly retirement compared to current weekly expenditure income for those likely to be amongst the bottom 20% of pensioners incomes and the reduction in spending which will be required over the next 5–10 years.

Table 14 Predicted retirement income verses current expenditure for single persons and couples in the bottom 20% of income distribution

	Maximum retirement income £	Total current expenditure £	Difference (at least) £	% reduction in spending (at least) £
single persons in bottom quintile	80.00	132.00	52.00	26
couples in bottom quintile	147.00	217.00	70.00	22

The results suggest that around a third of those approaching retirement age could maintain their current standard of living and continue this into retirement, assuming that peoples' health and other status did not change significantly. Around two-thirds of those approaching retirement may, however, need to reduce their average weekly expenditure by as much as 50%. There were no differences in proportion found between single households consisting of a married or cohabiting couple.

Assets

About a third of people held a savings account (see figure 2). Most however declined to report the amount that they had saved. No one reported savings of more than £5,000, 10% reported savings of less than £5,000, with the majority with under £1,000 saved. All single person households reported less than £1,000 saved. 15% of people owned stocks and shares. All reported a value of less than £2,000; about half, however, did not answer this question. Additional information on assets is still being collected and will be reported later.

Figure 2 Percentage of respondents with a savings account

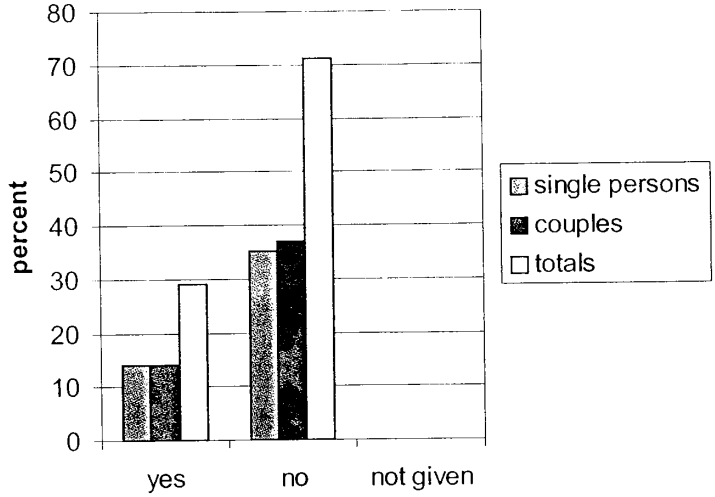
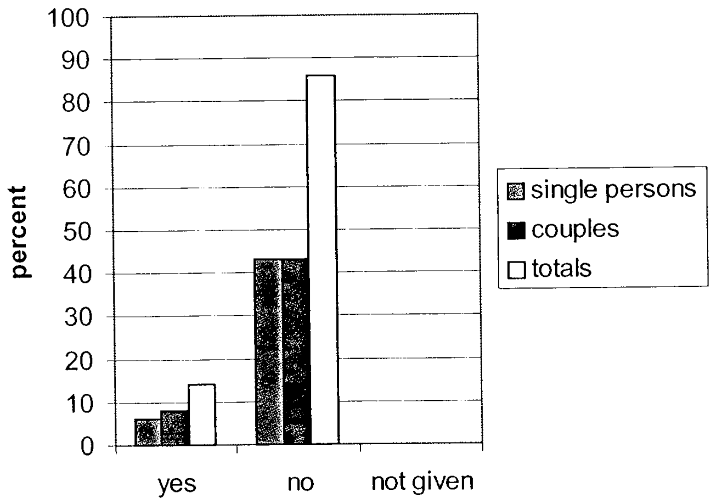


Figure 3 Percentage of respondents with investment in shares

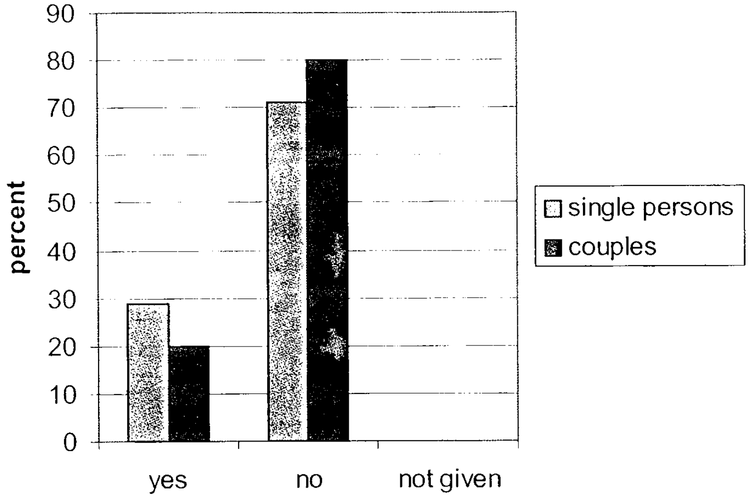


Reported financial experiences

People were asked how well they thought they were managing their money. About a quarter reported that they were either having difficulties or were not managing. The majority of those who were having difficulties or were not managing were single pensioners. Half thought that they were either managing okay or were just managing. A quarter thought that they were managing their money well. Half of respondents reported financial worries, about a quarter of these related to rent or mortgage payments and council tax bills. 40% reported financial difficulties they had experienced in the year prior to interview, most of the difficulties related to the payment of bills such as fuel, telephone and tv licence bills.

Respondents were then asked whether they expected to be able to maintain their current standard of living in retirement, and if not, what expenditure that felt they might have to forgo. When asked whether they felt they would be able to afford to purchase what they could now in retirement, one quarter of respondents expected to be able to do so and three-quarters did not expect to do so (see figure 4). Those who felt that they would need to reduce weekly expenditure were asked to comment on what they might forgo in retirement. A quarter expected to make spending cuts on food, drink (including alcoholic drink) and tobacco. About a quarter thought they might reduce their spending on clothing and footwear, 20% on leisure services, 15% on household goods and services (including household maintenance) and some 10% thought they would cut back on motoring and other travel costs.

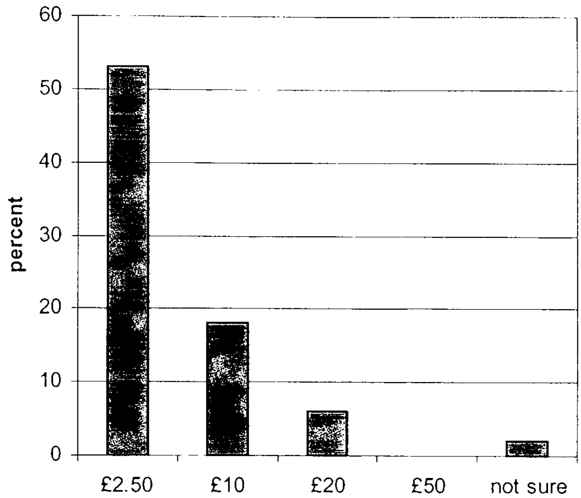
Figure 4. **Do people think they will be able to afford everything they can now when they retire**



Paying for health and social care

People were asked how much they thought that they would be able to pay for health and social care in retirement. Almost half of respondents thought that they would not be able to afford to pay £2.50 for health and social care goods and services, and about half thought that they might (see figure 5). More couples thought they would probably be able to afford £2.50 than single person households. Only about a fifth of respondents felt that they would be able to afford £10 per week and no one expected to be able to manage £20 or more.

Figure 5. **How much do people think they will be able to afford to pay for health and social care?**



Can people predict their retirement incomes?

People in their 50's (i.e. tomorrows' pensioners) were asked to estimate their weekly retirement income. 40% of respondents had absolutely no idea of their likely retirement income and were unable to offer an estimate. Just over a third were out by at least one quintile, 20% by one quintile and 15% by at least 2 quintiles. Only about 20% estimated an income within a range predicted by our algorithm.

Table 15. **Conformity between retirement income estimated by respondent and retirement income predicted by model – single persons**

%	weekly retirement income estimated by respondent £						
weekly retirement income predicted by model £	≤ 80	81-105	106-125	126-166	167+	not attempted	total
≤ 80	25	8	12.5	0	4	37.5	87
81-105	4	4	4	0	0	0	12
106-125	0	0	0	0	0	0	0
totals	29	12	16.5	0	4	37.5	99

Table 16. Conformity between retirement income estimated by respondent and retirement income predicted by model – couples

% weekly retirement income predicted by model £	weekly retirement income estimated by respondent £ ≤ 120	121-180	181-230	231-320	321+	not attempted	totals
≤ 120	12	24	8	4	0	44	92
121-180	0	4	0	0	0	0	4
181-230	0	4	0	0	0	0	4
totals	12	32	8	4	0	44	100

What is the role of government in financing health and social care?

Almost all of those interviewed thought that the government should be responsible for providing care for elderly people (see figure 6). People in their 70's appeared to feel more strongly about this than people in their 50's. There appeared to be very limited support for the idea that individuals should pay for care themselves. People were then asked for reasons for their opinions on this matter. Two thirds suggested that the state should be responsible for the care of the elderly since people have paid their taxes and are therefore entitled to care. Some 5% reported that they did not have a family to provide informal care. 2% of people in their seventies reported that they could not afford to pay for private care.

Figure 6. **Should the state be responsible for providing health and social care for elderly people?**

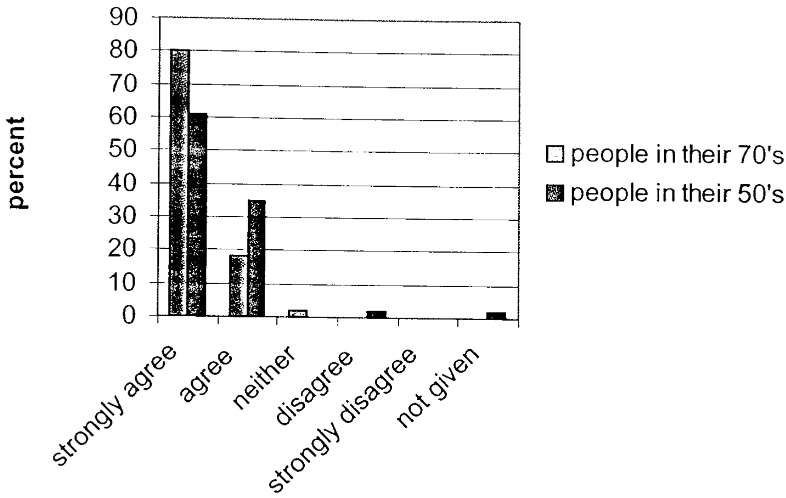
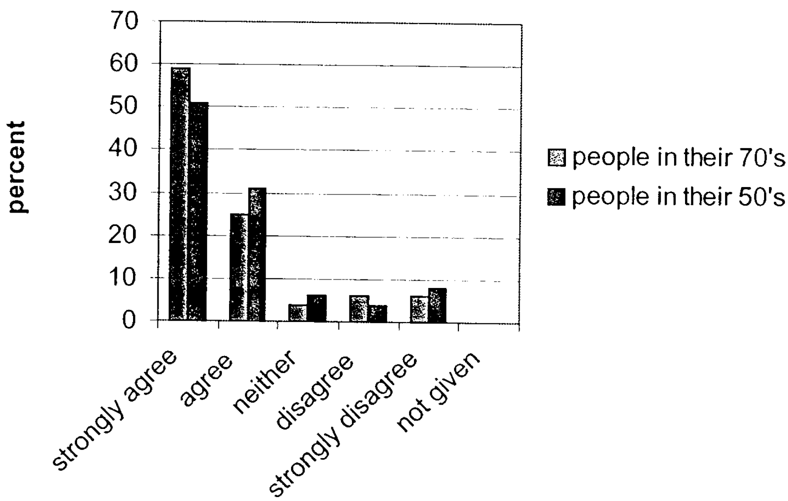


Figure 7. **The state can afford to provide free health and social care for all elderly people?**



People were also asked whether they thought that the state could afford (or should afford) to provide free health and social care for all elderly people regardless of income. Some 80% of those interviewed felt that the state could afford to do so and only about 10% thought that the state could not afford to do this (see figure 7). Most felt strongly that the state could afford this.

Attitudes were tested further by a question about the best overall model for financing the health and social care of older people. Respondents were given a range of options from which to choose; from the state paying for care regardless of people's income to everyone making their own arrangements. Again, almost all respondents supported state involvement in some form (see figure 8). Just over half felt that the state should provide a basic level of services, with people who could afford to do so supplementing a level of service beyond this if they chose to. Views varied slightly by age, with more people in their 50's supporting this option. About 40% felt that the state should provide support for all regardless of income, with more people in their 70's supporting this option. Only some 2% felt that everyone should be responsible for making their own arrangements. Finally, 80% thought that £10 per week should the largest amount of money that people should have to contribute towards health and social care in retirement. This is consistent with the 80% reporting £10 or less in Figure 9 (those in their fifties only).

Figure 8. Support for different methods of financing

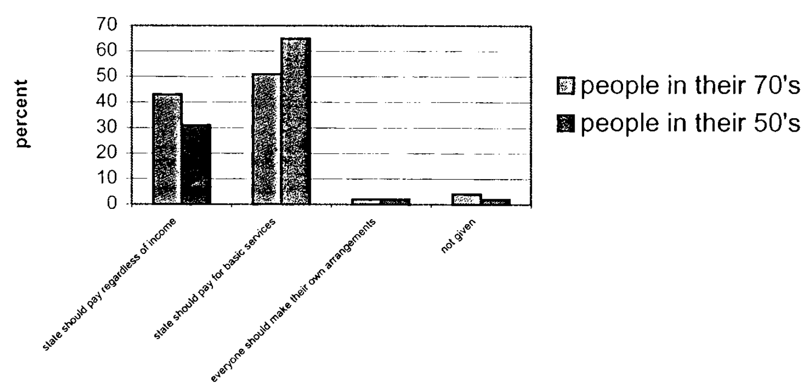
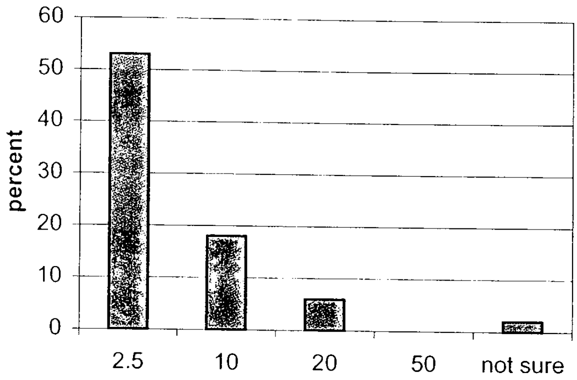


Figure 9. Estimate of ability to pay more towards care costs



---

i Office of National Statistics. Results from the General Household Survey 1998. London: Stationery Office, 2000.

ii Office of National Statistics. Family Expenditure Survey 1998-99. London: Stationery Office, 2000.

iii Department of Social Security. The Pensioners' Income Series 1997/8. London: Department of Social Security, 2000.

iv See Wittenberg R. Economics of long-term care finance: review of literature and issues. Research volume 1 of Royal Commission on long-term care. London: Stationery Office, 1999.

Discussion

Discussion

The results of this study need to be interpreted with caution. The sample is relatively small, and although it is comparable on a number of measures with people on similar incomes across the UK, it is not statistically representative of our two chosen age groups. Nevertheless, the results do shed light on the experiences of real people managing on middle and lower incomes, and have implications for the framing of long-term care policies.

Today's pensioners

Many of today's pensioners appear to be unable to afford the health and social care goods and services that they need. A third of pensioners in this study reported average weekly expenditure exhausting or exceeding average weekly income. They had little in the way of savings to pay for health and social care goods. Most of those who appeared to have a surplus at the end of each week had little to spare. Even allowing that there are likely to be some errors in our data, it seems unlikely that most of our sample will have the money needed to pay for more care than they have already unless they forgo some other expenditure.

Yet the study also shows - in line with previous studies cited earlier in the report - that people have significant levels of disability and need the care and support, now and in the future. This study found slightly higher than average levels of self-reported ill health and condition's that limit daily activities. Pensioners also reported higher than average levels of dependency. Higher than average use of health and social services was also reported. Only a small proportion of households reported the use of private domestic help (10%) and average expenditure on health and personal goods and services was only £4 per week, with the top fifth of the sample managing to pay on average £10 per week. Even if the results had mirrored national averages, though, the patterns of disability and of expenditure would have been similar.

Tomorrow's pensioners

The evidence from this study suggest that people approaching retirement, who are in the bottom half of the occupational income distribution, are unlikely to be able to afford to pay for health and social care goods and services in retirement. Less than a fifth had managed to secure a second pension and most will therefore be solely reliant on the state pension. The majority have not made adequate provision and are therefore likely to be amongst the bottom 20% of pensioner incomes based upon our calculations. There was little evidence to suggest that people had assets that they could rely upon to provide care in older age. Half reported financial worries and half had experienced financial difficulties.

Moreover, it appears that most of those approaching retirement will have difficulty in maintaining their current standard of living. Two-thirds are likely to need to halve their expenditure over the next 10-15 years. When asked where reductions might come from, people expected to reduce spending on food, clothing and footwear and other household goods. It does not seem surprising, therefore, that half of our respondents thought that they would not be able to afford to pay £2.50 for health and social care goods and services, only a fifth thought they could manage £10 or more and nobody expected to be able to afford £20 or more.

In its pensions policies, the government expects that many low earners will contribute towards a State Second Pension. So far as we are able to judge, the government is considering developing this partnership approach, between the public and private sectors and between the state and the individual, for the provision of long term care. The idea might be that a similar group of people to those in our study, people on low and middle, would be expected to insure against their own care costs in old age. Therefore, the government expects that they will contribute to a second state pension and now may ask that they contribute to a long term care savings or insurance product as well.

Some commentators have questioned, using population level data, whether a partnership approach to pensions will work for people on low incomes and conclude that many, including those on middle incomes (above £9,000 per year) will face great difficulty avoiding a means tested old age (Rake et al). Certainly the individual data from our study does not provide any evidence to suggest that people on low to middle incomes will avoid the means test in old age, either in terms of a means tested minimum income and or a means test for care services.

Expectations – a reality gap for tomorrow's pensioners?

The results suggest that few people approaching retirement are able to estimate their likely weekly retirement income. Only about 20% of the sample fell within the range of our own prediction of their retirement income. Most were unable to offer an estimate and a third who did make one were substantially off target. Some caution is required here because our predictions may not be accurate in every case – because people may not have reported their incomes accurately, for example. But the results are in line with those found in other studies, and contribute to the view that adults are unwilling or unable (or both) to plan for retirement. It is important to bear this in mind when assessing the governments proposals that people save or insure for their old age health and social care needs.

The expectations of the government and the governed

The study also explored the possible gap between people's expectations of the role of government and the relationship with the individual. Although our sampling strategy was different to that used by Parker and Clarke, the results were similar. Most people in both groups felt very strongly that it is the responsibility of the state to provide health and social care for older people, with only a few feeling that individuals should pay for care themselves. Most people reasoned that since they had paid income tax and national insurance this entitled them to health and social care. Moreover, people felt strongly that the state could afford to provide free health and social care for all elderly people regardless of income.

Yet views were not quite as clear-cut as these results suggest. About half of our sample felt that the state should provide support for all regardless of income, but the other half reported that the state should provide a basic level of service, with people who could afford to do so paying for additional services if they chose to. More people in the older age group tended to support state provision regardless of income while more in the younger age group supported a basic level of service. The small sample size makes it difficult to know whether there is a generational effect. Nevertheless, nearly all felt that £10 per week was the maximum individuals should be required to contribute towards their care in old age. This was broadly consistent with what people in their fifties expected to be able to afford in retirement and is broadly consistent with what those in their seventies are currently spending.

These attitudes also suggest some misunderstanding about how care and pensions are financed out of current tax revenues, on a pay-as-you-go basis, rather than out of an accumulated fund or personal pot as the responses suggest.

Whither policy?

This study confirms the results of other studies in suggesting that people have unrealistic expectations of their financial status in retirement. Just as importantly, people on middle to low incomes appear to have little chance of preparing financially for retirement. Evidence from this study suggests that those approaching retirement age, who have essentially been left to make their own choices, have not been able to make provision during the course of their working lives, and will not be well placed to meet health and social care costs resulting from changes in long term care policies.

The results also have implications for Labour's planned 'partnerships' for pension and long term care savings and insurance products. The responses to some of our questions showed that people in their fifties on middle incomes (as defined by the government) would be unlikely to be able to afford to pay for such products, in addition to a second state pension. They may, as Rake and colleagues suggest, be propelled into a means-tested old age. What is more, people in our survey feel that long-term care is a state responsibility and should be financed out of taxation. If second state pensions and long-term care products are not compulsory, then there may be incentives not to save, where people judge that the state can and will provide if they fail to make adequate provision themselves.

We think that the government needs to re-consider its policies on pensions and financing long term care. The data from our study suggests that tomorrow's pensioners on low and middle incomes will struggle to save and /or invest for their old age, particularly if asked to make provision on two counts – pensions and long term care. Some will argue that the problem can be minimised by moving the thresholds for personal contributions to long-term care costs. It remains unclear, though, whether means-testing will lead to a more efficient and equitable outcome for those on average and lower incomes in practice.

It is also important to think through the implications of applying the logic of pensions to long-term care. In the pensions field, the government's proposals show that people on below average incomes (particularly those with incomes of £9000-£18000 per year) are included in the definition of 'able to contribute'. In long-term care, much of the new money announced in the NHS Plan is earmarked for intermediate care (£900 million per annum in the short term was promised in the government response to the Royal Commission), and relatively little new money will find its way into services for people living in their own homes. The government would only be consistent if it decided that people on below average incomes were 'able to contribute' to long-term care savings or insurance products. If this interpretation of the direction of policy is right, then our data suggest that there are problems ahead. Either people will not pay and government policies will fail, or individuals will pay and their financial circumstances will become more difficult than they are already.

The financial circumstances of both today's and tomorrow's pensioners suggest that we need a better understanding of the ways in which individuals actually use their incomes from employment, social security, pensions and other sources. As we noted earlier, the Royal Commission was to some extent hampered by the lack of information about the dynamics of income and expenditure in real households. We face the prospect of the government giving public money (social security benefits, state pensions) on the one hand and expecting some of the money to flow straight into payments for long term care. Are we certain that the financial flows make sense? A better understanding of financial flows should shed light on the extent to which benefits could be integrated with new systems for paying for health and social care services.

Further research is needed....

An exploratory study of this kind begs as many questions as it answers. For example, it would be very helpful to understand more about the effects on individuals of changing asset and income thresholds for payment for health and social care. Hancock's work[i] suggests where some of the answers might lie for people who have assets, but there are important questions about effects of changes in government policies on people paying for domiciliary care. For the population represented in this study, and indeed amongst the general population, where should the threshold be for free personal care? If the means test threshold is high, and the majority of the population is unable to avoid it, then at what level does the threshold become socially inefficient? This brings us back to the start of the paper. Eighteen months after the publication of the Royal Commission's report, there are still important questions to be addressed and answered about the merits of the majority and minority reports. If the government is wedded to individual payment for personal care, just who will have to pay more than they do now, and where will the money come from?

[i] Hancock R. Charging for care in later life: analysing the effects of reforming the means tests. Nuffield Community Care Studies Unit, University of Leicester. NF86, 09/2000, RMH. 2000.

ISBN 1-85717-404-6