# FUNDING SOCIAL CARE: THE ROLE OF DEFERRED PAYMENT AGREEMENTS

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REFORM

## Acknowledgements

## Reform

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# 1. INTRODUCTION

England's social care system is widely believed to be in crisis. As the population ages, the number of people requiring adult social care and support is on the rise. At the same time, local authorities – who are responsible for delivering state-funded assistance – have curbed expenditure in response to reduced central government grants.[1]

To date, the principal policy response has been to give local authorities greater revenue raising powers through the Social Care Precept.[2] The Local Government Association estimates that 97 per cent of England's local authorities are considering or have approved taking up this opportunity in 2017-18, a move that could see an additional £543 million enter the social care system.[3]

Council tax is a highly regressive instrument, with those on low incomes paying proportionately more than their wealthier neighbours.[4] Recognising this is not a sustainable solution in the long term, Number 10 has announced a review of social care funding models, with even the social insurance schemes of Germany and Japan under consideration.[5]

Wholesale funding reform is likely to take years, if not decades, to implement, so addressing pressures in the short term must remain a priority. Extending deferred payment agreements (DPAs) could help in this regard. Under a DPA, a local authority agrees to defer an individual's care costs until a later date. This funding, plus interest, is then recouped by the local authority when the participant's house is sold.[6]

Since implementation of the Care Act 2014, councils have been obliged to offer DPAs to those who would otherwise have to sell their home to fund residential care. But even after this extension in coverage, take-up rates have remained low. This may indicate there is scope for widening eligibility for DPAs.

This paper uses data from the English Longitudinal Study of Ageing (ELSA) to uncover who currently benefits from DPAs, and explore the merits of relaxing the DPA means-test.

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[1] It should be noted that as this paper was going to print, the Government announced an additional £2 billion would be spent on social care over the next three years. Department for Communities and Local Government, *Local Authority Revenue Expenditure and Financing: 2011-12 Budget, England*, 2011; Department for Communities and Local Government, *Local Authority Revenue Expenditure and Financing: 2016-17 Budget, England*, 2016; HM Treasury, *Spring Budget 2017*, 2017.

[2] HM Treasury, *A Country That Lives within Its Means: Spending Review 2015*, 2015.

[3] Local Government Association, "LGA Analysis: Council Tax Rises Will Not Fix Local Government Funding Crisis," February 20, 2017.

[4] Stuart Adam and James Browne, *Reforming Council Tax Benefit* (Institute for Fiscal Studies, 2012).

[5] Sarah Neville, Leo Lewis, and Guy Chazan, "UK Social Care Inquiry Looks to Japan and Germany for Solutions," *Financial Times*, March 8, 2017.

[6] HM Government, *Care Act 2014*, 2014.

# 2. DPAs: RECENT HISTORY

## 2.1. ELIGIBILITY

How to fund the social care needs of England's ageing population is a question that is attracting increasing levels of scrutiny. In the UK's £6.8 trillion housing market, many see a resource that could significantly boost self-funded social care.[7] Equity release – a scheme available on the private market whereby individuals exchange equity in their home for a lump sum or an income stream – has increased in popularity in recent years.[8]

A condition of taking out an equity release product, however, is that the policyholder (or their spouse) must live in the property in question, thereby excluding single-person households with residential care needs.[9] This restriction can create significant difficulty. State support for social care is highly means-tested, with eligibility limited to those with assets worth less than £23,250.[10] Before local authorities are obliged to step in, homeowners whose housing wealth is captured in the means test are required to finance their residential care costs through the sale of their home.

DPAs are designed to address this issue. Under the scheme, local authorities cover the cost of an individual's social care. The fees are then recouped by the local authority once the individual, or their estate, sells the asset. Interest is charged on the value of these loans – set at gilt rates plus 0.15 per cent – and much like equity release, the policyholder is not allowed to go into negative equity.[11]

## 2.2. A 'UNIVERSAL' DEFERRED PAYMENT SCHEME

DPAs ensure no one is forced to sell their home to pay for residential care – a sound policy objective. Those entering residential care are unlikely to be well equipped to execute a complex financial transaction. Neither is it a good idea to expedite the sale of housing assets. Sellers that use quick sale property agents typically receive 25 per cent below market value.[12]

Until recently, however, local authorities were not obliged to offer deferred payments.[13] As a result, provision was patchy. A survey conducted by the Department of Health, the Association of Directors of Adult Social Services and the National Association of Financial Assessment Officers reported that while some local authorities were issuing hundreds of deferred payments a year, others provided none.[14]

The Care Act 2014 now requires all of England's local authorities to offer a DPA to those that:

- do not have a spouse or dependent living in their home;
- have been assessed by the local authority as having residential care needs; and
- have non-housing assets less than £23,250.[15]

By moving to a 'universal' scheme, the Department of Health forecast that the number of DPAs would rise from 4,000 in 2012, to between 8,600 (low uptake estimate) and 12,300 (central estimate) by 2015-16.[16] On the central estimate, this growth would see nearly 20 per cent of new self-funders

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[7] Savills, "UK Homes Worth a Record £6.8 Trillion as Private Housing Wealth Exceeds £5 Trillion," January 18, 2017.

[8] Equity Release Council, *Equity Release Market Report: Autumn 2016*, 2016.

[9] Equity Release Council, "What Happens If I Have an Equity Release Plan, and Need to Move into Long-Term Care?," March 3, 2017.

[10] HM Government, *The Care and Support (Deferred Payment) Regulations 2014*, 2014.

[11] Ibid.

[12] Department of Health, *Impact Assessment: Universal Deferred Payment Scheme*, 2013.

[13] Ibid.

[14] Ibid.

[15] Ibid.

[16] Department of Health, *The Care Act 2014: Draft Regulations and Guidance for Implementation of Part 1 of the Act in 2015/16*, 2014.

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taking up a DPA.

## 2.3. UPTAKE SINCE THE CARE ACT 2014

This uplift, however, has not materialised. Experimental data collected by NHS Digital found that out of 55 local authorities in England, just 1,300 DPAs were written in 2015-16 – the first financial year in which the mandatory DPA scheme was in force.[17] Assuming this sample is representative of the 152 local authorities offering adult social services in the country, these data suggest that only 3,600 DPAs were issued in 2015-16 – less than a third of the Government's original estimate and lower than the figure in 2012.[18]

Data quality may explain the apparent decline in DPA activity. Both surveys were voluntary, meaning that either could be unrepresentative of local authorities in England. The baseline figures contained in the 2012 survey data did not, however, form part of the Department's forecasting, so this cannot account for why their projections were so optimistic. Instead, the predicted increase in DPA activity was underpinned by two key assumptions. The Department used the local authority survey data to estimate that 27 per cent of those eligible for a DPA would take one out.[19] Meanwhile modelling from the Personal Social Services Research Unit (PSSRU) was used to determine that three quarters of new self-funders would be eligible for a DPA.[20]

The apparent overestimation of DPA take-up must, therefore, be due to an inaccurate assumption on either eligibility or uptake rates. The English Longitudinal Study of Ageing (ELSA), a survey of older people in England, offers a way of assessing the former. By applying the DPA criteria to ELSA respondents, *Reform* estimates only 45 per cent of self-funders would be eligible for a DPA if they required residential care, a figure significantly lower than the Department of Health's estimate of 75 per cent.[21]

Methodological differences partly explain this discrepancy. The PSSRU model looks at those who already have residential care needs. *Reform*'s analysis, by contrast, assesses the eligibility of individuals if they were to develop residential care needs. As such, the *Reform* analysis assumes that everybody in the ELSA sample has the same probability of needing care, regardless of their personal characteristics such as age and income.

To ensure that the two methodologies are comparable, *Reform*'s analysis restricts the ELSA sample to those older than 75. This is the group most likely to need care as it accounts for three quarters of residential care demands.[22] Therefore younger individuals that would bias the eligibility estimates downwards are excluded.

*Reform*'s eligibility estimate should be treated as a lower bound on the true value. This is because the effect of wealth on the probability of developing a disability is not taken into account. Nevertheless, plugging *Reform*'s 45 per cent figure into the Department's modelling yields an anticipated 6,600 DPAs – still higher than the actual the 3,600 that prevailed, but much closer than the 12,300 initially predicted. This suggests that while both uptake and eligibility were overestimated, the latter was relatively more important in preventing an increase in DPA take-up. *Reform*'s eligibility estimate, therefore, explains two thirds of the gap between the Department's projection and the indicative number of DPAs issued in 2015-16.

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[17] Adult Social Care Statistics and NHS Digital, *Personal Social Services: Expenditure and Unit Costs England 2015-16*, 2016.

[18] Ibid.

[19] This figure is inferred from the fact that there are 61,500 self-funders in 2015-16, 75 per cent of which are assumed eligible for a DPA, and 20 per cent are projected to take one out. Department of Health, *The Care Act 2014: Draft Regulations and Guidance for Implementation of Part 1 of the Act in 2015/16*.

[20] The original impact assessment was based on a central uptake estimate of 30 per cent and an eligibility assumption of two-thirds. These figures were revised in the Department's 2014 consultation. Ibid.

[21] Self-funders are defined as those who are not eligible for local authority financed residential care. For a more detailed description of identifying the DPA eligible individuals, see the technical appendix.

[22] England and Wales data. Office for National Statistics, *Changes in the Older Resident Care Home Population between 2001 and 2011*, 2014.

# 3. EXPANDING ELIGIBILITY

*Reform*'s analysis suggests lower than expected eligibility can account for the disappointing levels of DPA activity indicated by NHS Digital's survey. This chapter, therefore, explores the implications of relaxing the DPA means test. First, the characteristics of those already eligible for a DPA are considered. Then, the ELSA sample is used to describe who would gain from raising the non-housing wealth condition to £100,000.

## 3.1. WHO CURRENTLY BENEFITS FROM DPAS?

In the current fiscal climate, it is more important than ever to ensure assistance is targeted on those most in need of help. To gauge whether it would be worthwhile expanding DPA coverage, therefore, it is first necessary to consider who currently benefits from a DPA.

Table 1 presents the descriptive statistics for the over 75s in the ELSA dataset – henceforth, 'total cohort' – and those that would be eligible for a DPA if they were to acquire residential care needs. It is important to note that the eligibility criteria detailed in Chapter 2 were not dependent upon a minimum level of housing equity. In practice, however, DPAs are not taken up by those with housing assets of less than £35,000 – the average cost of one year's worth of care.[23] Therefore, in order to better compare the beneficiaries of DPAs with other groups, the condition that DPA eligible people should have housing assets of no less than £35,000 is introduced.[24]

Table 1 reveals the DPA-eligible group is poorer than the total cohort in terms of income and non-housing wealth (in the subsequent tables, the lighter coloured cells indicate greater wealth or income than the comparator group). The literature has documented a high correlation between income and non-housing assets, so the fact that those eligible for a DPA – who by construction have low non-housing assets – are also income poor is not surprising.[25] In terms of housing wealth, however, the DPA-eligible group outperforms the total cohort due to the minimum equity condition stated above.

**Table 1: DPA-eligible group compared with the total cohort**

| Statistic | Total cohort | | | DPA | | |
|---|---|---|---|---|---|---|
| | Equivalised total weekly income (£) | Equivalised total net housing wealth (£) | Equivalised gross non-housing wealth (£) | Equivalised total weekly income (£) | Equivalised total net housing wealth (£) | Equivalised gross non-housing wealth (£) |
| % total cohort | 100% | | | 15.6% | | |
| Mean | 326.48 | 180,122.70 | 90,806.84 | 245.04 | 198,960.46 | 8,730.93 |
| Lower quartile | 199.21 | 76,000.00 | 5,750.00 | 175.00 | 125,000.00 | 2,950.00 |
| Median | 278.76 | 146,666.67 | 22,000.00 | 225.41 | 170,000.00 | 7,603.00 |
| Upper quartile | 400.73 | 250,000.00 | 69,333.33 | 292.00 | 250,000.00 | 13,785.00 |

Source: *Reform* modelling of ELSA data

The equity required to have a DPA also means it is possible that this group is better off than those receiving local authority funded care. To evaluate this, the income and wealth distribution of the DPA-eligible group and those that would be eligible for residential local authority support is presented in Table 2.

Again, the DPA-eligible group is significantly poorer in terms of income. The explanatory factor here is the relationship status of those who are eligible for DPAs. Even after income is equivalised – that is, weighted to reflect the number of people in each household – single people tend to be poorer than their peers who have a partner.[26] This interpretation is given further support by the fact the DPA group is more income rich than single-person households eligible for means-tested social care support.

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[23] It should be noted that due to the fact that people with housing equity of less than £35,000 cannot realistically benefit from a DPA, there is a fringe group that is neither eligible for local authority support, nor can use housing equity to fund care. Adult Social Care Statistics and NHS Digital, *Personal Social Services: Expenditure and Unit Costs England 2015-16.*

[24] In gauging potential uptake figures, a lower equity limit is not imposed as this would be captured in the 27 per cent uptake assumption.

[25] Sonia Sodha, *Housing-Rich, Income-Poor: The Potential of Housing Wealth in Old Age*, 2005.

[26] For more information on equivalisation, please refer to the technical appendix.

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**Table 2: DPA-eligible group compared with eligible for residential care support**

| Statistic | LA: Residential Care | | | DPA | | |
|---|---|---|---|---|---|---|
| | Equivalised total weekly income (£) | Equivalised total net housing wealth (£) | Equivalised gross non-housing wealth (£) | Equivalised total weekly income (£) | Equivalised total net housing wealth (£) | Equivalised gross non-housing wealth (£) |
| % total cohort | 39.8% | | | 15.6% | | |
| Mean | 270.83 | 89,440.81 | 9,498.52 | 245.04 | 198,960.46 | 8,730.93 |
| Lower quartile | 186.58 | 0.00 | 2,033.33 | 175.00 | 125,000.00 | 2,950.00 |
| Median | 248.33 | 80,000.00 | 6,666.67 | 225.41 | 170,000.00 | 7,603.00 |
| Upper quartile | 323.00 | 133,333.33 | 15,500.00 | 292.00 | 250,000.00 | 13,785.00 |

Source: *Reform* modelling of ELSA data

## 3.2. CHANGING THE DPA MEANS-TEST

The previous section demonstrates that DPAs benefit individuals that are worse off than the general population, both in terms of income and wealth. Moreover, those eligible for DPAs have lower incomes than beneficiaries of local authority funded residential care (although the opposite is true with respect to assets). In other words, assistance is being directed towards those most in need.

Given the well-targeted nature of DPA support, and in the context of Chapter 2's analysis, how could this scheme be extended and who would benefit from reform? An obvious way of expanding eligibility would be to increase the value of non-housing assets below which individuals would gain DPA eligibility to £100,000. This would extend support to people that are, by construction, wealthier than the existing DPA cohort, but would still face substantial asset depletion if they went into residential care. Such a move would be in line with the Dilnot Commission's recommendation of increasing the means-test for local authority support to £100,000.[27]

Table 3 details the number of people that would benefit from such a reform. The group which would be newly eligible for a DPA after relaxing the means test is labelled DPA100k. The table shows that DPA eligibility would increase from to 27.1 to 37.7 per cent of the total cohort – equivalent to 62.6 per cent of the self-funder group.[28] If DPA uptake had been 27 per cent in 2015-16, this intervention would have seen activity reach 10,300.

**Table 3: DPA and DPA100k coverage figures**

| | Percentage of total cohort eligible | Percentage of new self-funders eligible | Implied number of DPAs in 2015-16 |
|---|---|---|---|
| **DPA** | 27.1 | 45.0 | 7,400 |
| **DPA100k** | 37.7 | 62.6 | 10,300 |

To explore whether such a move would be desirable, Table 4 characterises the beneficiaries of the DPA100k group under the same equity condition as in Table 1. Similar to the previous DPA group, DPA100k is poorer both in terms of income and non-housing assets than the total cohort. Even if the means test were relaxed, therefore, DPAs would remain targeted at a group that is relatively poorer in terms of income and non-housing assets.[29]

**Table 4: Total cohort compared with DPA100k**

| Statistic | Total cohort | | | DPA100k | | |
|---|---|---|---|---|---|---|
| | Equivalised total weekly income (£) | Equivalised total net housing wealth (£) | Equivalised gross non-housing wealth (£) | Equivalised total weekly income (£) | Equivalised total net housing wealth (£) | Equivalised gross non-housing wealth (£) |
| % total cohort | 100% | | | 24.4% | | |
| Mean | 326.48 | 180,122.70 | 90,806.84 | 269.87 | 223,579.77 | 23,919.15 |
| Lower quartile | 199.21 | 76,000.00 | 5,750.00 | 178.79 | 128,725.25 | 5,004.50 |
| Median | 278.76 | 146,666.67 | 22,000.00 | 239.92 | 180,000.00 | 14,659.00 |
| Upper quartile | 400.73 | 250,000.00 | 69,333.33 | 325.14 | 260,000.00 | 36,364.75 |

Source: *Reform* modelling of ELSA data

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[27] Dilnot Commission, *Fairer Care Funding: The Report of the Commission on Funding of Care and Support*, 2011.

[28] This figure is based on the assumption that eligibility for local authority care remains unchanged.

[29] It should be noted that this time the DPA group has substantially higher non-housing assets, but this does not put them in a better position as liquidating housing assets through private products is not available to single person households.

To make these comparisons starker, the group that would gain eligibility to a DPA through changing the means test – that is, the people who are part of the DPA100k, but not the original DPA group – is presented in Table 5. The comparison shows that the 'newly eligible' group is very similar to the total cohort in terms of income. In other words, the fact that the DPA100k group appears to be significantly worse off than the general population is driven by the people who are currently eligible, rather than those that would be added by extending the policy.

**Table 5: Total cohort compared with newly eligible group**

| Statistic | Total cohort | | | Newly eligible | | |
|---|---|---|---|---|---|---|
| | Equivalised total income | Equivalised total net housing wealth | Equivalised gross non-housing wealth | Equivalised total income | Equivalised total net housing wealth | Equivalised gross non-housing wealth |
| % total cohort | 100% | | | 8.8% | | |
| mean | 326.48 | 180,122.70 | 90,806.84 | 313.81 | 267,137.02 | 50,790.62 |
| 25% | 199.21 | 76,000.00 | 5,750.00 | 190.32 | 150,000.00 | 32,536.75 |
| 50% | 278.76 | 146,666.67 | 22,000.00 | 290.30 | 212,500.00 | 47,000.00 |
| 75% | 400.73 | 250,000.00 | 69,333.33 | 403.90 | 300,000.00 | 63,802.75 |

Source: *Reform* modelling of ELSA data

These contrasts are illustrated by Figure 1, which plots the cumulative distribution of equivalised income. As detailed above, the newly eligible group is very similar to the total cohort. However, 72.8 per cent of the DPA group and 63.7 per cent of the DPA100k group have weekly incomes that are lower than £326.48: the median for the total cohort.

**Figure 1: Group comparison: equivalised income**
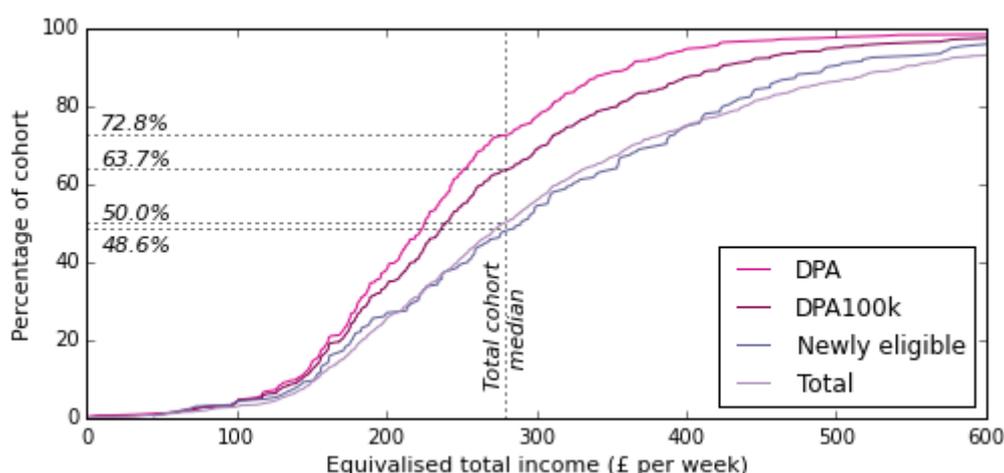


Source: *Reform* modelling of ELSA data

The story for net housing wealth, set out in Figure 2, is more complicated. Twenty per cent of the total cohort have no housing wealth at all, so at the lower tail of the distribution, the DPA and DPA100k groups fare better than the total sample. As to be expected, those newly eligible for a DPA if the means-test were raised to £100,000 are wealthier than those already with access to support. However, this group also has greater housing assets than the total cohort.

## Figure 2: Group comparison: housing wealth
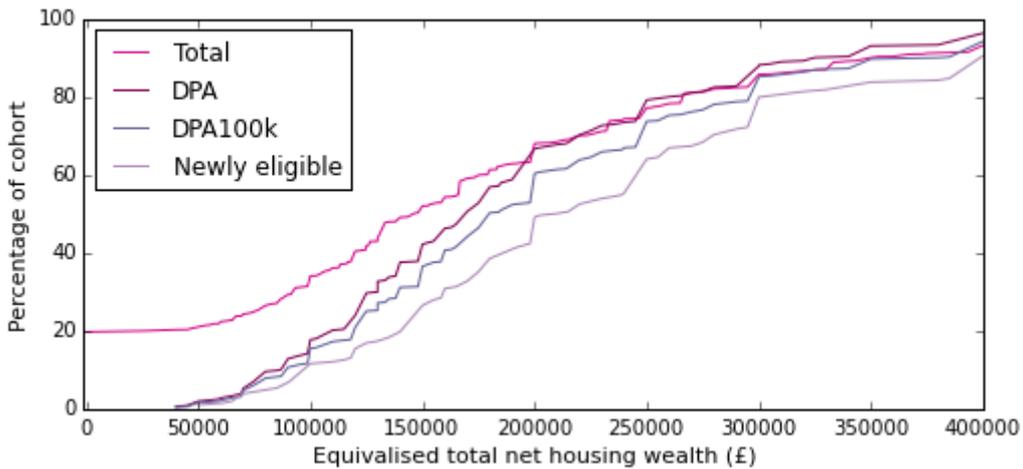


Source: *Reform* modelling of ELSA data

The picture for non-housing assets, depicted in Figure 3, is more complicated still. By construction, the DPA and DPA100k groups will have significantly lower non-housing assets than the rest of the sample. Of the DPA100k group, 74.3 per cent do not have sufficient non-housing assets to pay for one year of stay at a residential home – £35,000 – compared to 59.4 per cent of the total cohort. For the newly eligible group, however, only 28.8 per cent would be unable to pay for a year's worth of residential care out of their savings. Because of the eligibility test's design, no one from the original DPA group would be able to finance a year's worth of residential social care out of their savings.

## Figure 3: Group comparison: non-housing wealth
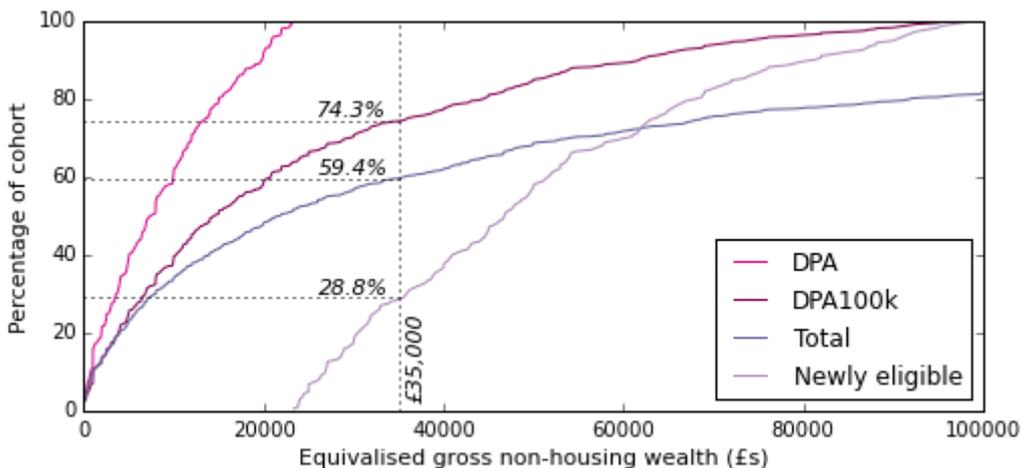


Source: *Reform* modelling of ELSA data

## 3.3. MERITS OF REFORM

It would be inefficient to invest in extending DPAs if the beneficiaries of reform were already able to fund residential care costs, either through their income or assets. Table 4 and Figure 1 demonstrate that raising the DPA means-test would benefit those with incomes that are similar to the total cohort. Nevertheless, the newly eligible group is poorer than the general population, and only 1 per cent of them would be able to meet the weekly cost of residential care through their income.

The newly eligible group do, however, have significant non-housing assets, with the majority able to cover a year's worth of care. But Forder and Fernandez (2012) estimate the average stay in a care home is 2.2 years.[30] Of those that would gain DPA eligibility through raising the means test, only 11.5 per cent could fund an average stay in a residential care home through their non-housing assets. In

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[30] Julien Forder and Jose-Luis Fernandez, *Length of Stay in Care Homes* (PSSRU, 2011).

the absence of reform, a person with savings of up to £100,00 would have to severely deplete their assets before they could access the wealth stored in their home. But given many of these individuals will need a DPA eventually, why not extend the option of a DPA up-front?

This intervention does not represent a significant financial commitment in the long-run. DPAs do create a cash-flow problem for local authorities in the short run, but because these loans are recouped, no wealth is transferred from the state to the individual – or vice versa. And while there may be concerns about the state taking on exposure to the housing market, as well as the risks attached to holding unoccupied housing assets, NHS digital's survey found that less than 3 per cent of the value of DPAs were written off in 2015-16.[31]

In sum, extending DPA coverage to those with non-housing assets under £100,000 would be a good way to help those self-funding their social care unlock the value stored in their home. Beyond this, however, the benefits of the policy begin to decline. The upper end of the newly eligible group has a similar level of income to the total cohort, while those with the highest assets in the newly eligible group would be able to cover the average cost of care. Extension of eligibility beyond the £100,000 threshold, therefore, would see support given to those who would be able to cover care costs through income or financial assets.

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[31] Adult Social Care Statistics and NHS Digital, *Personal Social Services: Expenditure and Unit Costs England 2015-16.*

# 4. CONCLUSION

This paper has explored whether DPAs could alleviate some of the pressure faced by self-funders of residential social care, and who would benefit from increased coverage.

*Reform*'s analysis shows that tighter than expected eligibility is the principal reason why the Government overstated the number of individuals that would take up a DPA following the introduction of a universal deferred payment scheme. Increasing the DPA means test from £23,250 to £100,000 would raise the percentage of self-funders eligible for support from 45.0 per cent to 62.6 per cent. Those gaining eligibility would have incomes marginally lower than the cohort as a whole, and higher non-housing assets. Without reform, however, these individuals would be unable to access the significant housing wealth they own to pay for residential care.

The case for reform is given further support when costs are considered. Because DPAs are recouped in the long-run, extending DPA eligibility through relaxing the means test is cost neutral. Raising the means test beyond £100,000, however, would extend support to individuals who could finance their residential care costs out of a combination of income and assets. In the absence of a private market for social care insurance, these individuals would benefit most from a state system that created some degree of risk sharing. Further research by *Reform*, published later this year, will explore what a system with these characteristics would look like.

# 5. TECHNICAL APPENDIX

In this appendix, a description of the variables and working assumptions behind the analysis in this paper is given. Where appropriate, the ELSA variable names are written in brackets.

## 5.1. THE ELSA SAMPLE

ELSA is a representative survey of people in England aged 50 and over. The study presented here utilises the seventh wave of the ELSA survey, which covers the year 2014-15.

ELSA provides household-level data on a number of characteristics that are of policy interest. Respondents are asked about their income, savings, housing assets and cohabitation status. This, in turn, allows us to identify with precision the group in 2014-2015 that would be eligible for a deferred payment agreement if they developed care needs, and speculate about what would happen if eligibility criteria were relaxed.

There are, however, limitations to using the ELSA data. Respondents are aged 50 and over, but three quarters of residential care demand comes from the over 75s.[32] To account for this, this analysis restricts the ELSA dataset to those over the age of 75. With this restriction, the total cohort group is composed of 2,364 households.

## 5.2. EQUIVALISATION

The analysis undertaken in this paper not only identifies the size of the DPA-eligible group. It also compares it to the general population, as well as the beneficiaries of local authority funded residential support.

ELSA's financial derived variables – developed by the Institute for Fiscal Studies (IFS) – are used to compare income and housing and non-housing wealth across these groups. To ensure these comparisons are fair, the different financial measures are equivalised – that is, weighted to reflect the number of individuals in each household. In developing these variables, the IFS uses the OECD's equivalisation scale, which counts household heads as 1.0, subsequent adults as 0.5, and children as 0.3.[33]

Thus, for example, a person who lives with their spouse and one child would have an equivalence scale of 1.8. All financial variables used to compare groups (income, housing and non-housing wealth) are divided by the equivalence scale (bueq). This facilitates a fair comparison between the DPA-eligible groups, who predominantly consist of single-person households, with the wider population, where a large proportion of people live with their spouse.

## 5.3. COMPARATOR VARIABLES

Throughout the paper, different groups, defined in 5.5, are compared in terms of their income and assets. Such comparisons are made in Tables 1, 2, 4 and 5. In this section, a definition of the variables used to describe income and assets is given.

### 5.3.1. INCOME

The income measure used throughout the paper is the equivalised total income variable (eqtotinc_bu_s) derived by the IFS. It is a sum of self-reported weekly income from:

- Employment
- Self-employment
- Benefits
- State pension
- Private pension

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[32] Office for National Statistics, *Changes in the Older Resident Care Home Population between 2001 and 2011*.

[33] OECD, "What Are Equivalence Scales?," Webpage, (n.d.), accessed March 7, 2017.

- Asset income

- 'Other' income

The cumulative of these categories is then divided by the equivalence scale (bueq).

### 5.3.2.    HOUSING ASSETS

The measure of housing assets used in this paper is equivalised total net housing wealth. This variable is constructed by adding together the value of self-reported total net primary housing wealth (nethw_bu_s) with the net value of all other housing assets (home_bu_i). This is then divided by the equivalence scale (bueq).

### 5.3.3.    NON-HOUSING ASSETS

Non-housing assets are approximated by the IFS's derived variable gross total non-housing wealth (grosstotnhw_bu_s), which is a sum of physical (non-housing) and financial assets. This is then divided by the equivalence scale (bueq).

## 5.4. ELIGIBILITY CRITERIA

### 5.4.1.    HOUSING AND NON-HOUSING WEALTH

Eligibility for local authority funded residential care or DPA support is partly determined by a means test. At the very least, individuals must have non-housing assets worth less than the upper capital limit, £23,250, to gain access to support.

To apply this test to the dataset, the IFS's measure of total gross non-housing wealth (grosstotnhw_bu_s) is used. A measure of gross wealth is used because individuals cannot offset debt against the value of their assets in the means test. This figure captures a *household*'s total wealth, whereas the means test for social care and DPA eligibility depends on the wealth of the *individual* requiring care. To account for this, the total non-housing wealth is divided by two if the household is led by a couple (futype).

Housing assets are also captured in a local authority means-test if the property is not disregarded. To measure housing wealth, total net primary housing wealth (nethw_bu_s) is added to the net value of other properties (home_bu_i). A net measure of wealth is used because individuals can offset mortgage debt against the value of their property. Again, to account for the fact the means test is judged at the individual level, the value of these assets is divided by two if the household is led by a couple (futype).

### 5.4.2.    DEPENDENCY CRITERION

Eligibility for both DPAs and local authority residential support is partly determined by whether the applicant has a spouse or a dependent living in their home. The relevant legislation defines a dependent as a relative who is either aged 60 or over, is a child under the age of 18, or is incapacitated.[34]

To assess this criterion, the equivalence scale (bueq) variable derived by the IFS is used. A household is defined as having no dependents:

- If their equivalence scale is 1 – that is, the household is composed of just one adult;

- Or the household has an equivalence score of 1.5, and the household lead is defined as 'single' (futype). This captures households that have two adults living together who are not spouses. Under the Care and Support Statutory guidance, if the property owner had residential care needs, and the other adult was neither disabled nor over 60, then the housing assets would be included in the means test.

By counting the second group of households in this way, the number of people eligible for a DPA may be overstated. Some of these households may contain a second adult that is over the age of 60 or

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[34] Department of Health, *Care and Support Statutory Guidance*, 2014.

have a disability. A further complication is added by the fact that the OECD equivalence scale counts adults as people aged 14 and over. As a result, some of these 'adults' may actually count as dependents under UK statute.

However, no households, either in the DPA group or the DPA100k group, met this second condition.

## 5.5. DEFINING THE GROUPS

The groups discussed in Chapters 2 and 3 are defined as follows.

### 5.5.1. LA SUPPORT: RESIDENTIAL CARE

Eligibility for local authority supported residential care is determined by meeting one of two conditions. The individual must have:

- Either housing and non-housing assets (defined in line with 5.4.1) below £23,250 and have no spouse or dependents (defined in line with 5.4.2);
- Or non-housing assets (defined in line with 5.4.1) below £23,250 and have dependents (defined in line with 5.4.2).

The resulting group represents 39.8 per cent of the total cohort.

### 5.5.2. DPA GROUP

The DPA-eligible group is identified by applying two restrictions to the full sample. Individuals must have:

- non-housing assets (defined in line with 5.4.1) below £23,250; and
- no spouse or dependents (defined in line with 5.4.2).

In Chapter 3, the financial characteristics of those that are both eligible and able to receive a DPA are explored. To do this, a further condition to the DPA group is added: that individuals must have housing equity (defined in line with 5.4.1) worth more than £35,000 – the average cost of one year's worth of residential care.

The resulting group represents 15.6 per cent of the total cohort.

### 5.5.3. DPA100k GROUP

The DPA100k-eligible group is identified by applying two restrictions to the full sample. Individuals must have:

- non-housing assets (defined in line with 5.4.1) below £100,000; and
- no spouse or dependents (defined in line with 5.4.2).

In Chapter 3, the financial characteristics of those that are both eligible and able to receive a DPA at the adjusted means test are explored. To do this, a further condition to the DPA100k group is added: that individuals must have housing equity (defined in line with 5.4.1) worth more than £35,000 – the average cost of one year's worth of residential care.

The resulting group represents 24.4 per cent of the total cohort.

### 5.5.4. NEWLY ELIGIBLE GROUP

The DPA100k-eligible group is identified by applying two restrictions to the full sample. Individuals must have:

- non-housing assets (defined in line with 5.4.1) greater than £23,250 but less than £100,000; and
- no spouse or dependents (defined in line with 5.4.2).

In Chapter 3, the financial characteristics of those that are both eligible and able to receive a DPA at the adjusted means test are explored. To do this, a further condition to the newly eligible group is

added: that individuals must have housing equity (defined in line with 5.4.1) worth more than £35,000 – the average cost of one year's worth of residential care.

The resulting group represents 8.8 per cent of the total cohort.

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