

Tax exemptions on care vouchers for working carers: An economic analysis

PSSRU

RESEARCH
SUMMARY

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BACKGROUND

General Household Survey data indicate that in 2000, 15% of working-age adults in Great Britain provided care to a sick, disabled or elderly person. Over two-thirds of these were carers of older people (Pickard 2007). Evidence from the 2001 census suggests that in England and Wales alone, more than three million people combined caring with employment (ONS 2006). For many, the burden of caring hinders their ability to participate in the labour market, and in some cases, causes them to withdraw from employment altogether (Evandrou, 1995). Numerous studies also point towards the serious adverse effects that caring can have on the physical and mental health of the carer (ONS, 2006; Davies et al., 2000).

The predicted increase in the number of older people in the UK in the years ahead will result in an increase in the demand for social care support and a proportional reduction in the working age population. It is critical, therefore, that new ways of supporting working carers are identified, to enable them to carry on contributing to society in their dual role as members of the labour force and as providers of support for dependent people. In this context, PSSRU has carried out an evaluation of a scheme to provide care vouchers for working carers aiming to enable employees to continue providing support to a dependent person while minimising the impact on their own employment opportunities. The scheme would operate in a way similar to the current UK childcare voucher scheme, whereby employers provide workers with a voucher redeemable against qualifying care, in lieu of a portion of their income. The voucher would be exempt from both National Insurance contributions and PAYE on the part of the employee, and National Insurance contributions on the part of the employer.

EXISTING EVIDENCE

The current evidence about the impact of childcare-related Income Tax and NIC reforms suggests only a limited

level of take-up of childcare vouchers. By 2006, shortly after the introduction of the scheme, these were being offered by only 1.4 per cent of employers, most commonly by large and/or public-sector organisations, with 49% of organisations employing 10,000 or more workers offering the scheme, compared to less than 1% of those with fewer than 10 employees (Kazimirski et al., 2006). The current evidence therefore points out that the likely success of a care voucher scheme for working carers of adults would depend most significantly on the proportion of employers offering the scheme to their employees. Importantly, the evidence suggests that participating organisations generally found childcare support services to be cost-neutral, with administrative costs being minimal and usually offset by NIC exemptions afforded to the employer. While the full range of benefits to employers could not accurately be quantified due to the short time the reforms had been in place, initial feedback from participating organisations points towards positive effects in terms of staff retention, productivity and absenteeism.

METHODS

The analysis focused on carers of older people due to the comprehensiveness of the data available for this group. Based on a bespoke analysis of GHS 2000/01 data by Pickard (2007), a spreadsheet-based data model was constructed that grouped carers in England in terms of key factors likely to mediate their likely take-up of care vouchers. The key mediating factors accounted for in the analysis included the level of dependency of the person being cared for, the relational propinquity between the carer and the dependent person, and factors relating to the employment status of the carer (sector, income level and employing organisation's size). Only relatives or carers of older people with a minimum level of disability (difficulties performing at least one ADL activity) were assumed to be eligible for the scheme.

The estimates of overall levels of take-up were therefore derived by multiplying the number of carers in each analysis

subgroup by the likely individual-level probability of take-up given the sub-group characteristics. The analysis then derived the associated costs and benefits from the scheme for individuals and the state. To the state, the costs associated with the scheme were related to losses in tax revenue due to PAYE and National Insurance exemptions. Where the scheme was estimated to enable individuals to enter the labour force, the savings to the state from increased tax and NI contributions and reduced Jobseeker's Allowance payments were also estimated. The administrative costs to employers associated with running the scheme were estimated based on literature relating to similar programmes, as were the savings made through exemptions on NI contributions.

The analysis was limited by a lack of real-world evidence on which to base the assumptions in the model. While childcare vouchers provide the most relevant indicator of likely take-up, the evidence available was collected during the early stages of the scheme's implementation, at which point awareness amongst organisations was notably low. Also, a number of the likely benefits of care vouchers, such as improved productivity and reduced absenteeism, could not be quantified into the model due to a lack of evidence. Given the limited evidence available with which to underpin the assumptions of the model, the analysis developed three alternative scenarios with contrasting hypotheses about the likely success of the care voucher scheme. These scenarios provided a means of testing the sensitivity of the results to changes in the assumptions.

RESULTS

Findings are presented under the three scenarios reflecting alternative assumptions about the likely take-up of the schemes (see Table 1).

Scenario 1: The central scenario was based on the take-up of similar schemes identified in the literature review. Overall, take-up in the central scenario was low, estimated at 48,000 people (1.4% of the eligible population). This was due

Table 1. Summary of results according to central, low and high take-up scenarios

| | Scenario 1: central take-up | Scenario 2: low take-up | Scenario 3: high take-up |
|-------------------------|--------------------------------|----------------------------|-----------------------------|
| Number of users | 48,000 | 28,000 | 156,000 |
| Take-up rate | 1.4% | 0.8% | 4.6% |
| Value of care vouchers | £83m | £49m | £271m |
| Total cost to state | £37m | £22m | £120m |
| Total cost to employers | -£4m | -£2m | -£12m |

largely to the low proportion of employers assumed to be offering the scheme, in line with the observed patterns for childcare vouchers. The cost to the public purse was modest, at just over £37 million per year. The monetary value of care vouchers taken-up in this scenario was approximately £83 million, equivalent to around 5% of current local authority home care gross expenditure in England.

Scenario 2: The low take-up scenario modelled a situation in which demand for care vouchers was lower than that observed in similar schemes. It therefore assumed that carers of adult dependent people would be less likely to take up vouchers than carers of children entitled to childcare vouchers. According to this scenario, only 0.8% of eligible carers would participate in the scheme, obtaining vouchers to the value of £49 million at a cost of £22 million to the state.

Scenario 3: The high take-up scenario was intended to model the implications of raised awareness of the scheme amongst employers. It reflects a situation in which a significantly larger proportion of organisations offered care vouchers due to an increased recognition of the effect of the tax and NI exemptions and of the likely broader retention and productivity benefits associated with the scheme. The effect on take-up, estimated at 156,000 people (4.6% of eligible carers), was significant. Assuming this level of take-up, the monetary value of care vouchers would total £271 million per year, costing £120 million to the state.

CONCLUSIONS

Assuming similar levels of supply to those observed for childcare vouchers, the overall take-up of care vouchers would be limited. Given the potential benefits for employers, however, it is likely that marketing and promotion efforts would result in a significantly greater number of organisations offering care vouchers than implied in the central and low scenarios. Successful implementation might also depend on the progressivity of the scheme. Restricting access to care vouchers or capping the amount available to high-income individuals would serve to limit the risk of deadweight losses, whereby vouchers would be used to subsidise already existing privately-financed care rather than to fund additional levels of support.

Most importantly, however, the success of the scheme should be considered in terms of whether the scheme generates net social gains or losses. With successful implementation and appropriate administration, the scheme could yield benefits that would extend beyond those quantified in the model, including improvements in productivity and staff retention for employers, and reduced stress and better employment prospects for carers.

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Further information

The full report is available at www.counselandcare.org.uk/assets/library/documents/LSE_care_vouchers_economic_analysis_report.pdf (pdf, 1.62MB)

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