Financing Long-Term Care for Older People

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The PSSRU long-term care financing programme is concerned with two related policy issues on the funding of long-term care for older people. The first is whether expenditure, and specifically public expenditure, on long-term care will remain sustainable over the coming decades, despite demographic pressures and potentially rising expectations. The second is what should be the balance between public and private expenditure on long-term care. The programme, which is funded by the Department of Health, aims to contribute analyses to inform discussion of both these important issues.

The aim of the programme is to produce projections to 2031 of three key variables: the numbers of dependent older people likely to require long-term care; the long-term care health and social services that will be required to meet demand; and public and private expenditure on those services. The projections are produced using a cell-based projections model (Wittenberg et al., 2001, 2002). Recent work has concentrated on improving the model, extending the range of scenarios on which the projections are based and developing related models.

We have recently developed a separate but similar model to make projections of future numbers of older people with cognitive impairment. This was funded by the Alzheimer’s Research Trust and builds on the earlier model (Comas-Herrera et al., 2003). The team has also constructed a version of the model to make projections comparable with those for three other European countries. This study, which was funded by the European Commission and involved collaboration with research units in three other countries, is discussed in an article on page 28 of this Bulletin. Two other sets of analyses are described in the rest of this article.

Residential care

The Department of Health commissioned projections of future demand in 2010 and 2020 for residential care and nursing home care for older people, on a range of assumptions about factors influencing demand and different patterns of care. This was in the context of the Department’s study of residential care supply. Projections of future demand for residential and nursing home care were regarded as an important contribution to consideration of future supply. Falls in supply would constitute a greater cause for concern if demand is projected to expand than if it is expected to contract.

The model projects that, over the period between 2000 and 2020, the number of older people in residential care homes and nursing homes in England would need to rise by around 23%, from around 375,000 to around 460,000, to keep pace with demographic pressures (Comas-Herrera et al., 2001). The projections are on the basis of the Government Actuary’s Department (GAD) 2000-based principal population projection and of unchanged dependency rates (by age and gender) and on the assumption of an unchanged probability (by age, gender and household type) of admission to residential care.

The projections of future demand for long-term care services vary under different assumptions about life expectancy and future levels of dependency. If dependency rates fell by 1% per year, for example, the number of older people in institutional care could remain roughly constant between 2000 and 2020 despite the rising numbers of older people. A shift in the balance of care from residential to home care would also reduce the projected increase in demand for residential and nursing home care between 2000 and 2020. Such a shift
would be in line with the policy objective of helping older people to live independently in their own homes whenever possible.

**Funding long-term care**

The Institute for Public Policy Research (IPPR) commissioned the research team, in collaboration with the Nuffield Community Care Studies Unit (NCCSU) at the University of Leicester, to make fresh projections of long-term care expenditure for older people in the United Kingdom to 2051. The aim was to investigate the possible future costs of different ways of funding long-term care. This followed earlier analyses produced for the Royal Commission on Long Term Care.

The study involved an innovative linkage between the Unit’s cell-based projection model and the NCCSU’s microsimulation model of long-term care charges. The latter model simulates the incomes and assets of future cohorts of older people and their ability to contribute toward care home fees.

The study found that long-term care expenditure would need to rise by around 260% in real terms between 2000 and 2051 to meet demographic pressures and allow for real rises in care costs of 1% per year for social care and 1.5% per year for health care. This would involve an increase from around 1.4% of GDP in 2000 to around 1.6% of GDP in 2051, assuming GDP grows by 2.25% per year. The share of long-term care costs met publicly is projected to fall from 68% in 2000 to 66% in 2051, due mainly to increases in home ownership (Wittenberg et al., 2002).

These projections are on the basis of central base case assumptions about life expectancy, dependency rates, patterns of formal and informal care, real rises in unit costs and the current funding system. Sensitivity analyses showed that future demand for long-term care is sensitive to projected life expectancy and dependency rates and that future long-term care expenditure is highly sensitive to assumed real rises in the unit costs of care. Projections under three different sets of assumptions on these three variables are illustrated in figure 1. It shows the degree of uncertainty about future long-term care expenditure even under current patterns of care and current policies.

The introduction of free personal and nursing care throughout the UK would have an immediate effect in the base year, increasing public expenditure in 2000 from approximately £8.9 billion to approximately £10.5 billion. Public expenditure on long-term care is projected to increase to around £37.5 billion in 2051 (around 1.27% of GDP) under free personal care compared to around £31.2 billion (around 1.06% of GDP) under the current funding system. Public expenditure would constitute some 79% of all long-term care expenditure in 2051 under free personal and nursing care compared with 66% under the current system. If, as expected, the introduction of free personal care had an effect on overall demand for care, projected public expenditure would be somewhat higher than these figures.

**References**


