Paying for care costs in later life using the value in people's homes

Even though the upward trend in life expectancy was anticipated in the 1980s, the rate of growth in the number of older people has consistently exceeded forecasts. Life expectancy continues to increase and one of the clear trends is that males are catching up with females. With an ageing population that includes a higher proportion of people with manageable illnesses, health and care costs will rise. It is expected that there will be a massive increase in the demand for social care which unlike health care must be paid for out of pocket and is subject to a means test. Recent reforms resulting from the Government appointed Dilnot Commission propose a cap on care costs at £72k. Income and wealth distribution in the 65+ population is skewed towards housing wealth to such an extent that many could be forced to sell their homes to pay for care. At the same time there is considerable interest in using the capital value in people's home to protect their assets through insurance or to draw down those assets gradually to pay care costs. This paper will explore the distribution of income and assets in the older population and propose different funding solutions for people in different circumstances, in particular those who are asset rich and income poor. It will point out that the home values have outstripped care costs such that the multiple between house prices and care costs in a nursing home have increased from about 3-fold to 10-fold over two decades. The paper will draw on our recent research and engagement with policy makers and will touch on possible effects on housing finance and capital markets. It will also offer behavioural insights into why people are so reluctant to plan or save for possible care costs in later life and suggest policy solutions that might alter this tendency.

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