UK State Pension reform and its implications for the adult social care sector

The changing demographic and socioeconomic landscape has generated enormous financial pressure on the UK welfare state, in particular the UK pension system.

The UK pension system represents a multi-pillar design, as conceptualised by the World Bank.[1] The first pillar is comprised of the State Pension, a flat-rate contributory benefit entitlement based on National Insurance (NI) contributions, and Pension Credit, which services as a means-tested benefit to alleviate income poverty.[2] The State Pension operates as a pay-as-you-go system, whereby those of working age support those dependent on the State Pension through NI contributions. This serves as a general contract as each working population finances the old-age dependent population in return for the subsequent working population to finance their old-age dependency.[3] There are two forms of the State Pension in the UK. The first is the Old State Pension which constitutes the Basic State Pension and the Additional State Pension (either the State Earnings Related Pension (SERPS) or the State Second Pension (S2P)) which were accessible to pensioners who reached the State Pension age prior to April 2016.[4] The Basic State Pension provides up to £129.20 per week, with the Additional State Pension providing supplementary benefits more closely related to earnings.[5] The second is the New State Pension, which was made available to people who reached the State Pension age subsequent to April 2016. It is available to those who have made 35 years of NI contributions and provides £168.60 per week.

The UK State Pension shall be subject to an increase in value in April 2020 due to the 'triple lock.' Introduced in 2011 by the coalition government, the triple lock guarantees that both the Basic State Pension and the New State Pension will rise by a minimum of either 2.5%, the rate of inflation or average earnings growth, whichever is largest. The value of the State Pension will be matching the 3.9% average earnings increase seen by UK workers in July 2019. Accordingly, those receiving the New State Pension shall see their State Pension increase in value from £168.60 in 2019/20 to £175.20 in 2020/21, whilst those receiving the Basic State Pension will see the value of their State Pension increase from £129.20 to £134.25.

Care England's members provide over 120,000 beds and variety of services for older people and those with long term conditions, learning disabilities and mental health problems. Accordingly, understanding what this legislated pension policy change means for service providers and users is of the utmost importance. For many older people who are in receipt of care, the State Pension constitutes a large portion of their assessed income; in 2010-11 it was noted that the State Pension accounted for 43% of older people's income.[6] Accordingly, changes to the value of the State Pension has the capacity to directly affect the care charges of those in receipt of care.

Under the 2014 Care Act, Local Authorities establish how much individuals in need of care must contribute towards the cost of their care. The cost of care is calculated based on whether the needs of an individual exceed a set threshold, whilst the value of an individual's income, savings and property fall below a certain value (£23,250). If an individual's needs fall below this set threshold and their income, savings and property exceed the threshold of £23,250 then the individual will have to meet all their care costs. An individual in receipt of care is generally required to contribute all disposable income above a certain threshold (£189.00 per week).[7] In this vein, if an individual's net income changes as a result of an increase in value to the State Pension,

the contribution they are required to pay towards their care costs will likely change. Thus, although at face value an increase in the value of the State Pension should increase the income of an older person which should naturally spell good news, this increased income can be offset by an increase in liability for care charges. For those not entitled to Local Authority support in regard to their care costs, increases in State Pension value and therefore income can also slow down the rate at which an individual is able to deplete their capital to pay for care.[8]

Although it is difficult to predict the precise financial implications of the legislated uprating of the State Pension, using the Pension Policy Institute's Economic Scenario Generator we can hypothesise that for an older person who is required to meet the full cost of home care over a five year period there is only a 10% probability of this individual's disposable income (after income tax and care costs) rising at the same rate as average earnings.[9] Therefore, there is a 90% probability that a higher proportion of the individual's income shall be spent on care costs. This is because the income of the individual, aside from the State Pension, shall likely only with rise in line with the Consumer Price Index (CPI). The means test threshold for income also rises with the CPI.

Understanding how forthcoming State Pension policy changes can affect the income of those in receipt of care is vital for care providers. Changes in the income of those in receipt of care will influence the prices that providers set or negotiate in order to meet rising costs (e.g. the rising wages of staff in light of NLW increases).

Care England requests that the Care Home Parliamentary Network raises these concerns in Parliament, drawing specific attention to the discussed indirect implications of increasing the value of the State Pension on care costs.

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