The true cost of care

Limited policy progress continues to place the burden of care on individuals and families. Alice Guy reports

Summary
- There is no national consensus on how to fund long-term care in later life.
- Individuals face unpredictable and high costs, with limited state support.
- An expansion of auto-enrolment could support carers' finances.
- Improved savings adequacy could enable pensions to play a greater role in meeting later-life costs.
- Insurance-based solutions face barriers due to policy uncertainty and weak demand.

As the population ages, funding social care is an increasingly pressing issue for both individuals and policymakers.

NHS figures show local authorities spent £32 billion on adult social care in 2023/24, a 7.5 per cent rise in real terms from the previous year. Meanwhile, Office for National Statistics data projects that the number of people over 85 will roughly double by 2050, intensifying both fiscal and care burdens.

For individuals, there is no upper limit on social care costs – government plans to introduce a cap were set aside in July 2024. And around one in seven individuals aged 65 and over are expected to spend more than £100,000 on social care, according to estimates from the Department of Health and Social Care.

Royal London director of policy, Jamie Jenkins, explains that although successive governments have proposed resolving this by introducing a cap on care costs, to date, no changes have been implemented. "There is now a review underway of adult social care in England, being chaired by Baroness Louise Casey, but the final recommendations are not due until 2028."

The challenge for policymakers

Health and Social Care Committee Chair, Layla Moran MP, said at the launch of the committee's inquiry into the cost of inaction on adult social care reform: "Our social care system is in crisis. Over the years there have been many reviews and proposals, but successive governments have failed to tackle the problems, because they think reforms cost too much.

"But this ongoing inaction has a cost. No one is talking about the costs we are all accepting by not reforming

the system. A cost to patients and their families, a cost to the NHS, a cost to our local authorities and a cost to the wider economy and the Treasury."

There is no widespread consensus on how social care should be funded, Nuffield trust fellow, Camille Oung, explained in a recent blog post.

She said: "Agreeing how social care should be funded, and what it should deliver, has been a constant and common obstacle to reform."

She added that the local nature of funding puts affluent councils at an advantage compared to more deprived ones, as they are able to raise more money through council tax.

The independent commission into adult social care, chaired by Baroness Louise Casey, is due to report in two phases, in 2026 and 2028. It will outline a plan for a national care service and propose reforms aimed at improving the quality of care.

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However, a former Pensions Minister, Ros Altmann, who is a long-term advocate for radical reform of the system, is concerned that the commission does not include any additional funding for care. "Any meaningful reform will undoubtedly need more funding in the short term, to help save money in future as more older people need care.

Yet, Baroness Casey has been told she cannot recommend anything that will entail additional spending," she wrote in a recent blog post.

The challenge for individuals

Under the current system, individuals often face unpredictable and devastating costs, which can wipe out a lifetime of savings. Social care, including care in the home or a care home, is not typically funded by the NHS, and individuals must self-fund if they have savings exceeding £23,250.

Aberdeen senior financial planner, Hollee Vivian, says: "I have personally visited clients in care homes in the south, in nice, but not necessarily luxury settings, and they are paying just over £2,000 per week to stay in these facilities. For many this means that, without savings, their home is very quickly sold and the proceeds used to fund the fees."

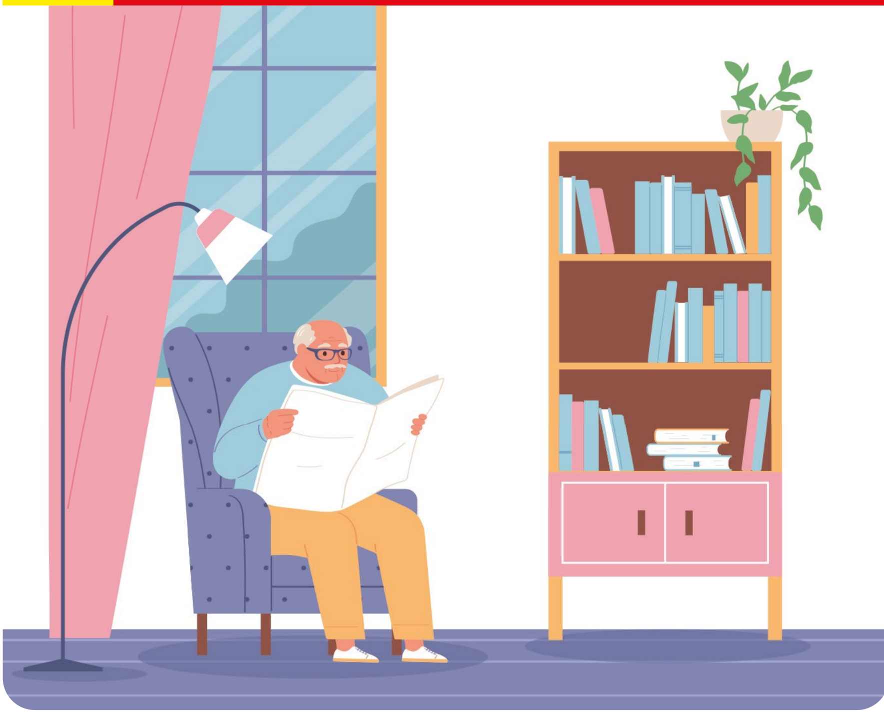
The complex system also means some individuals may be missing out on financial support they are entitled to. NHS Continuing Healthcare Funding, which fully covers care costs for some with serious health needs, is paid to 58,000 individuals, according to recent NHS data. But FarleyDwek director and specialist solicitor, Andrew Farley, believes the actual number of people who should qualify could be much higher.

"I think there are far more people who should be getting it, who aren't. If only they knew about it, they might consider looking into whether or not they're entitled to it," he says.

The challenge for families

The financial impact of later-life care also extends to the wider family. The 2021 census revealed 5.8 million unpaid carers in the UK, often with a knock-on impact on careers and family finances.

Vivian says that caring responsibilities often fall to women in their late 40s and 50s. She says: "This can have a big impact on those caring as it limits or stops any paid work they can carry out. Caring



for elderly relatives is contributing to women's saving and retirement gap."

Data from *The 2025 Underpensioned report*, by Now Pensions, in partnership with the Pensions Policy Institute, reveals that carers' incomes are just 49 per cent of the national average, down from 55 per cent in 2020. Carers are one of the most underpensioned groups in the UK, with just a quarter of carers receiving Carer's Allowance eligible for auto-enrolment.

Now Pensions head of PR and campaigns, Samantha Gould, said at the time of the report's release: "Carers provide essential support that many depend on every day, yet they remain systemically disadvantaged in their ability to save for later life. We urgently need pension reform that acknowledges and supports the vital unpaid work that carers do to help provide greater financial security in retirement."

Now Pensions argues that expanding the auto-enrolment criteria, removing the £10,000 auto-enrolment trigger and scrapping the lower earnings limit would help more carers save for retirement. In addition, introducing a family carers' pension top-up would ensure that carers can continue to pay into their pension during periods of unpaid care.

According to Carers UK chief executive, Helen Walker, employers also play a crucial role in supporting flexible work arrangements. Commenting in a recent press release, she said: "An understanding line manager, flexible working and paid carer's leave can all make a difference – helping employees to look after their own health and wellbeing, as well as the person they care for."

Sidecar pension savings?

Although pensions can help with care costs, few retirees have enough income to fund full-time care. Nursing care in a care home costs an average of £80,000 per year, according to figures from Carehome.co.uk, while average income for a single pensioner stands at under £15,000, according to data from the Department for Work and Pensions.

Jenkins notes that a lack of pension adequacy for many pension savers makes it challenging for pensions to offer a viable solution.

"In an ideal world, people would have sufficient pensions savings to pay for care, but until we increase minimum contribution rates, and allow time for savings to build, there will likely be a gap in funding for many," he says.

There is an industry focus on sidecar savings for short-term needs, but a similar solution for care costs is complex when costs vary significantly. Jenkins says: "Sidecar savings could be used, but this is only likely to work in practice if people start making provisions at an early age, when instead they tend to be more focused on other things, for example, buying a house."

Other potential options could include allowing tax-free withdrawals from defined contribution pensions to fund care costs, says St James's Place divisional director, Tony Mudd. This would equalise the tax treatment between pensions and care annuities – income from an immediate-care annuity is typically tax-free if it's paid directly to the care provider.

Barriers for insurers

Besides pensions, insurance-based products could allow risks to be pooled across retirees, though several barriers still need to be addressed. Currently, care annuities are only accessible after a care need has already been identified.

Jenkins says that the lack of a cap on fees makes it difficult for insurers. "The availability of such products is very limited, primarily as it is difficult to insure the cost of care when there is no limit."

Mudd adds that a broader challenge lies in low public awareness of care costs, which limits the appeal of potential financial products. "The issue is that no one's going to buy a policy – spend money on something that they don't know that they have a responsibility for."

He says the government needs to educate the public about care costs and their potential impact on finances.

He concludes: "For many people, these are the biggest costs they ever have. And if they don't know about it, how can they possibly prepare for it?"

Written by Alice Guy, a freelance journalist