

AFFORDABILITY OF RETIREMENT HOUSING IN THE UK

SEPTEMBER 2012

**HANNAH ALDRIDGE, PETER KENWAY AND
JENNY PANNELL**

TABLE OF CONTENTS

1. Summary	3
Research questions	3
Retirement housing.....	3
State help with costs in retirement housing for pensioners	4
Which pensioners pay the extra costs in retirement housing?	4
Conclusions	6
Policy questions.....	7
2. Introduction	8
Background.....	8
Research questions	8
Structure	8
Types of retirement housing.....	9
Reasons for moving into retirement housing	10
Other factors.....	11
Defining affordability.....	12
Older people’s ability to spend on retirement housing.....	12
Measuring affordability.....	13
Our approach.....	14
The costs of retirement housing	14
3. State financial support and its impacts	18
Financial help from the state	18
Minimum income.....	19
Income floors, trap doors and eligible and ineligible costs	20
Housing and support costs.....	20
Housing costs	20
Support costs.....	22
Care costs.....	24
Changing costs within retirement housing	27
Summary of effects	27
4. Analysis of costs and their impacts	29
Housing costs	29
Buying retirement housing	29
Living in retirement housing	31
Housing related support costs.....	34
Who has the most to lose from a move to retirement housing?.....	35
Housing with care.....	36
Care costs.....	37
Differences across the UK.....	39
Another impact of a capital limit	39
5. Conclusions and questions for policy	41
Conclusions	41
Policy questions	42
Bibliography	44
Data sources	46

1. SUMMARY

Research questions

- 1.1 This UK-wide study examines how the affordability of retirement housing affects the housing options available to older people. It considers three research questions:
- whether retirement housing is likely to be viable financially for the majority of older people (i.e. those on low to moderate incomes, and with only limited equity if they are owner-occupiers);
 - whether the availability of retirement housing is in effect restricted – an ‘inequality of access’ – to those receiving means-tested benefits and to those with higher incomes, but not to those in-between; and
 - whether self-funders can afford to access and then remain in retirement housing (including housing with care) especially if their care needs (and costs) increase.
- 1.2 Retirement housing is available to people aged 55 or 60+; in this report we focus on the affordability of retirement housing for pensioners (that is those aged 61+ as of April 2012, and rising).
- 1.3 The outputs focus on how much people in retirement housing would have to spend on housing, support and care costs, from their own funds. The aim of this approach is to present the information needed to allow the reader to reach a judgement about affordability.

Retirement housing

- 1.4 ‘Retirement housing’ is defined as grouped dwellings of any tenure specifically designated for older people (an important characteristic being a minimum age limit, usually between 55 and 65 years of age).
- 1.5 While retirement housing is a continuum in terms of the support and care offered it is helpful to break it down into three distinct types, namely housing without support, housing with support and housing with care. In this study, we focus on the second and third of these.
- 1.6 In 2010, there were an estimated 610,000 units of retirement housing, 90% of which were ‘with support’ and 10% ‘with care’. Retirement housing represents less than 2.5% of the total housing stock in the UK. By tenure, 20% were for ownership and 80% for rent. When we refer to *retirement housing* we are discussing issues that cut across all kinds of retirement housing.
- 1.7 The costs associated with retirement housing considered in our analysis fall under three headings:
- **Housing costs:** These include rent and service charges for tenants, and purchase costs, service charges, ground rent (in some retirement housing) and mortgage interest for owner occupiers.
 - **Support costs:** These include scheme costs that are usually obligatory and classed as housing-related support (such as a community alarm service) and sometimes individualised support for residents (that is not personal care).

- **Care costs:** Not all residents in retirement housing have a care cost and other than some housing with care schemes, care costs are not obligatory.

State help with costs in retirement housing for pensioners

- 1.8 Financial help from the state is a major determinant of affordability for low, middle and (in the case of care costs) even high income pensioners. Whether a particular cost is eligible for state help is the fundamental question. If it is eligible, how much help any particular pensioner gets in meeting that cost depends on their income. Ineligible costs on the other hand have to be met by pensioners themselves irrespective of income. 'Eligibility' does not just depend on the type of cost itself but also on the pensioner's housing tenure, their level of savings and, especially in the case of care, which UK country they live in. The key features of the systems of state help are as follows:
- Guarantee pension credit represents a 'floor' below which income after eligible housing costs should not fall. In 2012/13, this is worth £142.70 per week for a single person and £217.90 for a couple. Pensioners with an income below this floor receive help from the benefits system towards their eligible housing costs and have their income topped up to this level. As incomes rise so the pensioner's own contribution towards their housing cost rises too.
 - Ineligible housing costs are mainly an issue for owner occupiers. Some costs (e.g. sinking fund contributions) are always ineligible. There are also non-systematic variations in what is counted as eligible both between retirement housing schemes and between owners in the same scheme. Private tenants can find that a portion of their rent is also ineligible.
 - In practice, housing-related support costs are usually eligible for social rented tenants and ineligible for private tenants and owner occupiers. Social rented tenants receiving housing benefit have these costs met in full while others can still receive help in accordance with the Fairer Charging rules. In particular cases, there are some exceptions both ways.
 - Help with eligible care costs varies a lot across the UK. In England and Northern Ireland, there is another income floor (guarantee credit level plus 25%) below which income after eligible care costs should not fall. In Wales, the floor is slightly higher (guarantee credit plus 35%) and there is also a £50 a week cap on the amount that pensioners themselves have to pay. In Scotland, eligible personal social care is free for those aged 65 and above.
 - With care, the question of what is eligible is very significant. In the essentially task-based Scottish system, what matters is whether a particular element of care counts as 'personal social'. In the other three countries, what matters is the level of the care need as judged by the social care authority whether 'critical' or 'substantial' (in which case eligible) or 'low' or 'moderate' (in which case not).
 - In England and Northern Ireland, savings in excess of £23,250 disqualify pensioners from receiving any help with care cost: for such pensioners, all care costs are in effect ineligible. To an extent this is true in Wales too, the cap on the pensioner's own contribution nevertheless limits the impact.

Which pensioners pay the extra costs in retirement housing?

- 1.9 Using average retirement housing purchase prices, rents, service charges and housing-related support charges, we have analysed the distribution of pensioner incomes and savings (as recorded in the official UK wide Family Resources Survey) in order to understand how realistic retirement housing is for pensioners, and what levels of income they might be left with in such housing:

- Only 5% of owner-occupying pensioner households in Great Britain have less than £75,000 in equity and are unlikely to be able to use this to buy a retirement home outright. A further 37% have between £75,000 and £175,000 and will find their choice of retirement housing limited by what they can afford. As the cost to buy a typical one bedroom retirement home is affordable to most owner-occupiers it is much more likely that the on-going costs and limited availability are greater deterrents for owners to move to retirement housing.
- With an example eligible service charge of £44 per week, around 35% (2.8 million) of owner-occupying pensioners in the UK would get help some with housing costs if they move to retirement housing – this would mean that their income would be at or close to the guarantee credit floor. Around 65% of owner-occupying pensioners (5.2 million) would not get any state help with housing costs and have an after housing costs income above the floor.
- With an example rent of £65 per week and a service charge of £22 per week, only 10% of renting pensioners in the UK (200,000) would not get state help with eligible housing costs. Around 90% (1.8 million) would get help and have an after housing cost income at or just above the income floor of guarantee credit level – around 1.4 million social renters already have incomes below the income floor and would be entitled to have these “topped up” to reach the floor.
- In total around 5.4 million pensioners in the UK would not get any state help with retirement housing costs (at the price specified above), the vast majority of whom would be owner-occupiers. Generally those in at the bottom of the income distribution would be entitled to help but around 2 million of those not entitled to help lie in the second and third quintiles of the pensioner income distribution (with mid points of £275 and £360 a week for a single person and couple respectively). These pensioners are likely to find that their disposable income falls by around 20% as a result of the housing costs in retirement housing.
- Around 0.5 million pensioners in the UK have savings above £23,250 and incomes below guarantee credit plus 25%. These pensioners have low enough incomes to be entitled to help with all of their eligible care costs but would be excluded because of their savings (except in Scotland where personal care is free). A further 2.5 million owner-occupiers have low enough incomes to be entitled to help with care costs but could lose this entitlement if they moved home and released enough equity to increase their savings above the £23,250 limit.

Conclusions

- 1.10 To convey a sense of the overall effects of these state systems, we use the metaphor of an income 'floor' (providing a guaranteed minimum income after eligible costs have been met) and 'trapdoors' in that floor (opened up by ineligible costs which oblige pensioners to dip into that income or any savings in order to meet those costs). There are four important characteristics of this system:
- An effect of the floor is that if two pensioners have the same eligible costs but different incomes, the one who has the higher income before those costs will likely still have a higher income after they have been met.
 - The trapdoors with potentially by far the biggest drops beneath them are the ones triggered by savings which render all care costs ineligible.
 - The risk of falling through a trapdoor is not reduced by having a low income: trapdoors are not things that in principle just threaten middle or higher income pensioners.
 - The smaller but more numerous trapdoors represented by ineligible housing or support costs mainly threaten owner-occupiers and private tenants; for social rented tenants, by contrast, the floor is much more solid.
- 1.11 These last two points imply that tenure is more decisive than income. This is a result of the more favourable way in which the social security system is administered for social tenants compared to private tenants and owner occupiers.
- 1.12 Turning to the research questions, **whether retirement housing is viable for the vast majority of pensioners** depends on whether it is viable to live on the pension credit income floor. Around half of pensioners should be able to live in retirement housing with an income above the income floor. 1.8 million social renters would have an income at the floor in retirement housing and 2.8 million owners would have slightly less than this (the income floor less housing-related support costs and ineligible service charges).
- 1.13 **Whether self-funders can afford to remain in retirement housing when their needs increase** depends not on being able to afford the *highest* level of care that may be necessary but rather the highest level of care that the state deems the pensioner capable of paying for themselves. Changes to retirement housing costs overtime will also determine whether a pensioner can afford to remain in retirement housing, particularly if costs ineligible for state help increase. Given the savings limit for help with care costs even high income pensioners may not be able to afford to remain in retirement housing if their care needs increase (in England and Northern Ireland).
- 1.14 **Whether retirement housing is in effect restricted to those receiving means-tested benefits and to those with higher incomes** depends on what is measured. Middle income pensioners not entitled to state support have the most to lose from moving into retirement housing as a proportion of their income. However, their remaining income will still be higher than the poorest.
- 1.15 It is a mistake to imagine that all those on low income, or all those in receipt of means-tested benefits, are more or less fully and equally protected. Tenure is also crucial. In addition, the potentially limitless drop through care trapdoor triggered by savings means that even pensioners with high incomes may not regard retirement housing as an option either. The complexity of the different systems make it difficult for those considering retirement housing to know if, and at what stage, they will receive any support.

Policy questions

- 1.16 If nothing else, this study should dispel any idea that the affordability of retirement housing is a straightforward, albeit somewhat subjective, question. The problem is not just that it turns out, on close inspection, to be complicated. Rather it is that so many aspects of the matter are both bedevilled with uncertainty and, in the way the state treats the matter, riddled with inconsistency. Guiding principles are few and far between. This is highly undesirable. In identifying the policy response, we identify five general questions for consideration, namely:
- Whether public understanding of the retirement housing 'offer' and of state help to meet the costs, can be improved?
 - How can the way that costs are identified as eligible for help be made more consistent?
 - What can be done to ensure fair treatment for low income owner occupiers?
 - How can better account be taken of savings, including to avoid undesirable disincentives?
 - What steps need to be taken in response to changes in the age at which people become entitled to the state pension and to guarantee credit?

2. INTRODUCTION

BACKGROUND

Research questions

- 2.1 This UK-wide study examines how the affordability of retirement housing affects the housing options available to older people. In particular it considers:
- whether retirement housing is likely to be viable financially for the majority of older people (i.e. those on low to moderate incomes, and with only limited equity if they are owner-occupiers);
 - whether the availability of retirement housing is in effect restricted – an ‘inequality of access’ – to those receiving means-tested benefits and to those with higher incomes, but not to those in-between;
 - whether self-funders can afford to access and then remain in retirement housing (including housing with care) especially if their care needs (and costs) increase; and
 - the different factors that can affect affordability of all types of retirement housing in the four countries of the UK.
- 2.2 Retirement housing is available to people aged 55 or 60+; in this report we consider mainly the affordability of retirement housing for pensioners that is, those aged 61+ as of April 2012 (and rising) whose age entitles them to claim pension credit. Although beyond the scope of this report, it is emphasised that the position of older people (both men and women) under the state pension age for women is different. This situation is moreover, continuing to change under the impact of welfare reforms.

Structure

- 2.3 The study proceeds as follows:
- This chapter covers the wider concept of “affordability”, explains our approach and the costs associated with retirement housing.
 - Chapter 3 looks at the state support available to pensioners to help with these costs and the conditions of entitlement.
 - Chapter 4 looks at which pensioners would have to meet the all the costs of retirement housing themselves and which pensioners would be entitled to full or partial state support.
 - Chapter 5 draws the analysis together with conclusions and policy questions.
- 2.4 As this study is concerned with the affordability of retirement housing, we primarily focus on housing costs and housing-related support costs. We also consider care costs but this is treated as secondary to the core question for two reasons:
- Although those living in retirement housing are more likely to need paid care this is a cost that they would have to meet regardless of their housing.

- Many residents in retirement housing do not need any paid-for care services. In most retirement housing, care is not an inclusive part of the obligatory costs, although some housing with care schemes include a low level of care in their obligatory charges,

2.5 This study covers the whole of the UK. Although prices vary in different areas, the variation is as great within a country as between countries. The availability of different forms of retirement housing vary significantly (Pannell et al 2012) and whilst there are some differences across the devolved administrations, our analysis of housing costs applies across the UK as a whole. In terms of care, charging policies differ significantly across the devolved administrations and so we discuss the impact of each country's charges separately.

TYPES OF RETIREMENT HOUSING

2.6 In this study retirement housing refers to housing specifically designed for older people, i.e. housing with a minimum age limit for occupation, often between 55 and 65 years of age for at least one person. There are many types of housing that fit into this definition offering varying levels of support and care. We exclude residential care homes and nursing homes as they are not self-contained, private dwellings with security of tenure.

2.7 While retirement housing is a continuum in terms of the support and care offered it is helpful to break it down into a number of distinct types. We follow the three-way definition used by the Elderly Accommodation Counsel:¹

- **Housing without support:** schemes without an on-site scheme manager service, including those with only an on-call / emergency visiting service.
- **Housing with support:** schemes with some form of regular on-site 'warden' or scheme manager service however limited.
- **Housing with care:** schemes that offer support and the facilitation of care services described by their landlord / manager as extra-care, assisted living, very sheltered, close care or continuing care.

2.8 People living in the first two categories of retirement housing above can of course still obtain additional support or care, either via social services or privately, but unlike the housing with care model, it will not be an intrinsic part of the "offer".

2.9 There is a range of different models and tenures of retirement housing, which will affect the costs, charges and affordability. The following list gives some of the common terms used to describe different retirement housing models and the types and tenure that they belong to:

- "owner-occupied retirement housing" – housing that is available to buy or through shared ownership, and is mostly housing with support²;
- "sheltered housing" – social rented housing, either with or without on-site support;

¹ EAC, Statistics on all housing for older people in England, February 2012

² Owner-occupied retirement housing is the term used by Ball (2011) for developments of owner-occupied apartments with a scheme/house manager but no other services). It is provided by both private companies and housing associations.

- “housing with care” – matches our definition above, available in a range of tenures (social rent, market rent, outright sale, shared ownership);
- “retirement villages” – this term refers to large developments of retirement housing and spans across tenures and support/care types;
- “almshouses” – provided by almshouse charities, residents are considered to be “beneficiaries of a charity” with no legal security of tenure although they pay for their accommodation and support. Schemes span across support/care types;
- “Abbeyfields” - run by voluntary organisations, offering mostly housing with support and housing with care. It is primarily for social rent but increasingly includes homes for sale and market rent.

2.10 When we refer to retirement housing we are discussing issues that cut across all of the above types.

REASONS FOR MOVING INTO RETIREMENT HOUSING

- 2.11 There is extensive literature on the main reasons why people move in later life, including into retirement housing of all types (see for example Heywood et al 2002, Ford et al 2008, King et al 2008, Ball 2011, Croucher 2008, Baumker 2008, Pannell et al 2012, Shelter 2012). Factors include isolation (especially following widowhood), health and care needs, and existing housing becoming unsuitable because of size, cost of upkeep, design and location. Most of these factors apply across tenure and types of retirement housing, but may be more important for some than others. This section summarises some of the specific factors involved in moving to retirement housing by type and tenure identified in these studies
- 2.12 **Housing without support** - The main reason for moving to age-designated housing without support is likely to be because someone needs to move for one of more of the above reasons. In addition, for older people in the social rented sector, it may be the only housing on offer.
- 2.13 **Social rent housing with support** – Older people living in under-occupied social rented ordinary housing are encouraged (sometimes with incentives) to move to social rent retirement housing. However, recent changes to scheme manager services (moving from an on-site service to an off-site floating service) can make such a move less appealing (King et al, 2008).
- 2.14 **Owner-occupied housing with support** – People moving into this type of housing tend to be lifestyle movers. These are mostly older pensioners, aged 70s upwards, and especially widows. A major reason to move to this type of housing is that their existing housing is no longer suitable and sometimes to move nearer to family. A key pull factor is the possibility for social activities and interaction with people similar to themselves.
- 2.15 **Social rent housing with care (HWC)** - The provision of publicly funded HWC (much of the provision in England grant-aided through the Department of Health) has frequently been part of social services strategy to reduce their use of residential care. Residents tend to move into this type of accommodation because of their care needs, but the level of need is wide-ranging.

2.16 **Owner-occupied housing with care (HWC)** – Owner-occupied HWC is often chosen either as an earlier preventive lifestyle move, or as a less costly, more spacious and agreeable alternative to a care home. Whilst this also applies to single/widowed people, there is a particular attraction for couples where one or both have a care need or expect that they will in future. The advantage is being able to stay together in their own home: the carer can be supported to enable them to continue their caring role (this also applies to social rent HWC).

Other factors

2.17 The range of reasons that older people move into retirement housing summarised above demonstrates that affordability, the focus of this study, is only one factor involved in a pensioner’s decision to move to retirement housing. The most notable other factors are availability, desirability and support needs. We briefly discuss these topics here before proceeding.

2.18 Table 2.1 shows the number of retirement housing units with support and with care in each UK country. There is no reliable data on the number of units of retirement housing without support or units available for private rent. We estimate that there are around 120,000 units of retirement housing without support. The private rented stock makes up a small proportion of total stock. The table shows that around 20% of units are available to own and 80% for social rent; in ordinary housing around 20% of pensioners rent and 80% own. The proportion of units available for social rent varies by UK country: 76% in England, 85% in Scotland, 87% in Wales and 97% in Northern Ireland. Excluding housing without support, around 90% of retirement units are housing with support and 10% are housing with care.

Table 2.1: Estimated number of units of retirement housing (with support and/or care) that are available for either for social rent or owner-occupation by UK country

Country	LA/RSL	Own	Total
England	409,297	123,904	533,201
Northern Ireland	8,508	195	8,703
Scotland	36,161	6,454	42,615
Wales	23,545	3,533	27,078
UK	477,511	134,086	611,597

Source: for Northern Ireland, Scotland and Wales - Key data report, EAC 2010; for England - Statistics on specialist housing provision for older people in England, EAC 2012

2.19 CLG estimate that there are over 27 million dwellings in the UK so the 612,000 retirement housing units only represent around 2.2% of all dwellings, therefore an older person moving to retirement housing is restricted to an extremely small proportion of the market. In terms of the supply of retirement housing relative to the number of pensioners, in England there are around 56 retirement housing units for every 1,000 pensioners, in Scotland it is 45, in Wales 44 and Northern Ireland is much lower at 31 per 1,000.

2.20 Pannell et al (2012) explores this issue of choice further. It highlights that in terms of tenure, type and size of housing, the retirement housing most commonly available does not reflect the kind of housing that most older people in ordinary housing choose to live in. The majority of retirement housing is one bedroom flats available for social rent whilst the majority of older people not in retirement housing live in owner-occupied houses with two+ bedrooms.

2.21 These factors affect the extent to which retirement housing is an option in reality. Our focus is solely on affordability to determine to what extent it is a limiting factor. There are many reasons why older people don't want to move, either at all, or specifically into retirement housing, and these reasons are important, but they are not the focus of this study.

DEFINING AFFORDABILITY

Older people's ability to spend on retirement housing

2.22 Although there is research and literature on broader aspects of affordability for older people, and on the costs of housing with care, there have been very few studies with a focus on affordability for older people in retirement housing, nor of older people self-funding their housing or care.³ Key concerns for older people from these studies include:

- the high cost of moving and the purchase price of retirement housing;
- a lack of control over future costs, including if the need for paid care increases (because of increasing care needs or the loss of support provided by a relative);
- uncertainty over future income, including low interest on savings;
- uncertainty over how long savings (which are unlikely to be able to be replenished) will last, especially for those who are younger but with limiting long-term illness/disability;
- for couples whether the surviving partner will be able to stay if/when income following bereavement is lower while costs remain similar, or even increase;
- for couples, what would happen if one partner should need a care or nursing home;
- whether other expenditure (including occasional meals out, a daily newspaper, family events etc) will have to be cut back in order to meet for retirement housing costs;
- whether other uses of savings will have to be cut back in order to meet retirement housing running costs.

2.23 Even when thinking about whether to buy or pay for a one-off, discrete good or a service, 'affordability' is not straightforward. The money in the bank represents an absolute constraint on whether something is affordable today. But that is usually only one aspect of the matter.⁴ More money will in due course come in to alter this short term assessment of affordability. At the same time, consideration will also be given to the goods or services that can no longer be acquired if this purchase goes ahead. This 'opportunity cost' of the item enters into an assessment of affordability.

³ Relevant studies on housing with care include Netten et al (2011), Baumker et al (2008), Ball (2011), Kneale (2011). Relevant studies on affordability of care include ADASS et al (2011), Henwood (2009 a,b, 2010), Resolution Foundation (2008a,b,c), Pannell, Blood et al (2012 forthcoming) and Oldman (2012 forthcoming) discuss affordability in housing with care and retirement housing.

⁴ Leeds City Council (2005) suggest that disposable income in itself does not reflect what people feel they have to spend; it's also about values and attitudes in relation to spending/ saving and money generally.

- 2.24 These considerations become weightier still when it comes to retirement housing. This is partly because of the size of the sums of money involved and partly because pensioner incomes are usually fixed while needs are uncertain. Pensioners are more likely than others to have savings – but it is unclear how savings makes a difference to what is deemed affordable, especially if they are being drawn down to meet not one-off costs but on-going ones.⁵ The question pensioners must ask themselves is ‘can I afford to move to retirement housing and still have enough income left over each week to maintain the standard of living I want and without drawing on my savings in a way that would cause concern or limit what I can do now or in the future’.⁶
- 2.25 There is also the matter of what the consequences might be. Hancock (1993) draws attention to the way that affordability problems manifest themselves in ‘under-consumption’, whether of housing (e.g. staying in a cheap but damp or inaccessible house), care/support (e.g. managing without a daily wash) or low post-housing/care-cost residual incomes (e.g. having very little to spend once housing and care have been paid for).

Measuring affordability

- 2.26 There are broadly three ways of measuring the affordability of something, for example, housing:
- **ratio measure** – looks at whether the proportion of income spent on housing exceeds an ‘acceptable’ amount
 - **residual measure** – looks at the amount of income remaining after spending on housing and if it is sufficient to meet basic needs
 - **combination measure** – aims to use both ratio and residual income measures.
- 2.27 A disadvantage of the ratio measure is that some wealthier households could choose to spend a large proportion of their income on housing because they can afford to and still have sufficient income remaining. At the other end of the scale, low income households spending a small proportion of income on housing may have their housing classed as affordable but does not necessarily leave them with enough money to meet their other needs.
- 2.28 The residual income approach corrects for this ensuring that households have enough money left after housing costs to meet their basic needs. However, we are looking at older people further up the income/savings scale and not just at the poorest households. So being left with a certain minimum residual income may not seem acceptable to those who felt they had worked and saved in order to have a standard of living that did more than allow them to just get by. The disadvantage of the residual measure is that some households classified as unable to afford housing are classed as such because they are extremely poor. There is therefore a risk that the affordability measure reflects households that are in poverty and unable to afford anything rather than households for whom housing costs in particular have a dramatic impact on income and quality of life.

⁵ Finch (2006) reports that older pensioners (especially single women/ outright home owners with no investment income/ those in receipt of DLA or AA) spend less of their incomes than younger pensioners.

⁶ Dominy (2006) points out that declining health amongst older people changes patterns of expenditure (e.g. less on social activities but more on taxis rather than buses).

2.29 A recent study from Cambridge University (Fenton, Tang and Whitehead 2011) considered the affordability of social rented housing for all-age households, although it excluded sheltered housing. It identified that measuring affordability “requires a normative judgement about the appropriate relationship between the costs of provision of an ‘acceptable’ standard of housing and the income that needs to be left over to pay for other basic non-housing requirements.” In practice, the study goes on to use a combination of the ratio and residual income approaches to consider affordability for general needs social rented housing.⁷

Our approach

- 2.30 For all the reasons given, above all the uncertainty, the range, and the subjectivity, we have (with one exception) decided not to use one or more yardsticks of affordability to determine whether something is affordable or not. The exception concerns the purchase of retirement housing by owner occupiers using the equity from their present homes where we do reach a conclusion about how many could afford to buy at least a basic retirement dwelling. The justification for this exception lies in its being a one-off purchase financed from a specific source rather than out of general income or savings.
- 2.31 Instead, our approach and the results we present focus on how much people in retirement housing would have to spend variously on housing, support and care costs, from their own funds. These results, which are produced via an analysis that treats tenants and owner-occupiers separately, show how many pensioners in each fifth of the income distribution have to pay the respective cost in full, in part or not at all. In the last two cases, state help from one source or another should either pick up the balance or meet the cost in full.
- 2.32 The aim of this approach is to present the information needed to allow the reader to reach a judgement about affordability. There are two stages to this analysis. The first is to determine what the costs are in retirement housing and how they differ from ordinary housing. This is what we do next. The second, which we do in the following chapter, is to set out how state benefits can compensate for the additional costs. The rules governing state help serve both to simplify what happens, and to create particular kinds of outcomes, which we believe are both little understood yet central to any evaluation of affordability. In chapter 4 we bring these two factors together to identify how much income different groups of pensioners would have remaining after a move to retirement housing given the additional cost and potential state benefits.

THE COSTS OF RETIREMENT HOUSING

- 2.33 The costs of living in retirement housing and how they differ from those in ordinary (all-age) housing are presented in table 2.2. Since most pensioners live in houses, not flats, our comparison is with houses, where there are no service charges. Retirement housing is likely to be more expensive, except that people moving from a larger house may save on utility bills and perhaps council tax. So any comparison between the obligatory costs of living in retirement housing and ordinary housing is likely to be to the disadvantage of retirement housing. However, because services and facilities address the support needs of older people (e.g. community alarm service, on-site scheme manager, communal facilities), retirement housing can be offering something extra for the extra money.

⁷ The authors point out that “*relative differences in rent-to-income ratio or residual income may not reflect differing levels of affordability, but rather differing preferences. Housing is a consumer good, and it is reasonable to expect people to have varying preferences for trading-off housing and other expenditure items.*”

2.34 There are pros and cons here. On the one hand, an older person in non-retirement housing will only have to pay for these services if they need them, whereas someone in retirement housing may have to pay for them all the time regardless of use. On the other hand, the services can be readily available, flexible to access when required and may be less costly than in the wider community (this applies especially to care and other services in housing with care). However, the resulting higher fixed costs leaves less scope to reduce, postpone or avoid expenditure.

Table 2.2: Variations of standard housing costs in retirement housing

Item	Variation for retirement housing
Initial purchase price or mortgage	New-build retirement housing often costs more than the all-age equivalent because of communal facilities however, some re-sales can cost less than equivalent all-age housing because of lease restrictions (age, renting out) and exit fees.
Rent	Rents may be higher than in equivalent all-age housing, but may also include other facilities and services not available in all-age housing. (e.g. laundry room, common room in housing with support, and extras such as restaurant, gym in housing with care),
Service and housing -related support charges	Service charge may be higher than equivalent all-age housing because of extent/range of communal areas/facilities (see above) and often the provision of staff (e.g. scheme manager, 24/7 staff in housing with care).
Contribution to sinking fund	Owner-occupiers in retirement housing (and also in non-retirement flats) may have to pay into a sinking fund and/or major repairs fund as part of their service charge. While typically included in the service charge for owner occupiers, these contributions for the upkeep of the property are less a cost in the normal sense than a form of saving/investment..
Council Tax	Some providers report that Council Tax can be significantly higher than equivalent all-age dwellings because of facilities on site (especially housing with care)
Utilities	Sometimes will be included in service charge. Many households will not have control of the provider or rate system and costs will depend on usage and efficiency of dwelling and of other households on the scheme
Food costs	Most retirement housing with care will offer restaurant meals, these may be optional or included in service charge. Typically, meal costs are higher than buying and preparing food at home but may be cheaper than paying for care/support staff to prepare meals at home.

Source: NPI

2.35 Table 2.3 summarises how costs vary between ordinary housing, retirement housing and housing with care; and how this varies for social renters and owners. It gives some examples of typical prices. Prices will vary for each provider but are specified to readers for illustrative purposes. Published data for prices in the private owner-occupied sector was particularly difficult to find. The aim of this table is to highlight key differences in prices by type of housing and tenure.

- 2.36 Our estimates of the cost of retirement housing are based on one bedroom properties. There are two reasons for this. First, this is the most common sized retirement housing available. Second, most single pensioners or couples in the social rented sector moving into retirement housing are likely to be allocated only a one-bedroom property (unless they had medical reasons for needing two bedrooms). Although pensioners will not be subject to the new 'bedroom tax' it is unlikely that single people or couples that move will be offered anything larger than a one-bedroom property. This is despite the fact that most pensioners who have the choice choose to live in homes with two or more bedrooms (Pannell et al, 2012). Our use of a one bedroom dwelling ensures that our measure reflects households that are unable to live in retirement housing for financial reasons alone, rather than because their wishes are incompatible with their financial capacity.
- 2.37 The main two differences between owners and renters are that owners pay a one-off cost to buy their housing when renters pay an on-going cost, and that the costs of service charge and housing-related support tends to be higher in the private owner-occupied sector.
- 2.38 For owner-occupiers, moving from a house to retirement housing will mean the introduction of a continuous outgoing in the form of service charges and support charges, the price of which will be externally determined. Few older owner-occupiers will have to pay a service charge in non-retirement housing and any support charges will be incurred as and when support is required. As a result their housing costs tend to be very low. A move to retirement housing will mean an additional regular outgoing that they have a limited ability to control.
- 2.39 For renters, a move to retirement housing should have only a small impact on the cost to rent, although the costs of the service charge will increase and a support charge will be introduced. Renters will be used to having a regular outgoing to cover their housing costs but a move to retirement housing will almost certainly see this amount increase along with the number of outgoings.
- 2.40 The main difference for housing with care is that costs are higher for both owner-occupiers and renters, because of more facilities/services including 24/7 staff, and sometimes low-level care provision included in the obligatory charges. Moving into housing with care tends to magnify the financial sacrifices involved in moving to retirement housing with support.
- 2.41 Finally, the table shows that care costs are potentially the same in all types of housing. There are potential financial savings for residents receiving care in a housing with care scheme, discussed in more detail in Pannell, Blood et al (2012) but these vary according to the way care is charged for, and so the table does not make any additional allowance for this.
- 2.42 As mentioned earlier, we need to ensure that care costs are considered separately from the affordability of *retirement housing*. Care costs reflect an individual's needs and are not a compulsory component of living in retirement housing. Those in retirement housing (and especially housing with care schemes) are more likely to need paid-for care than those in ordinary housing (the security available in retirement housing being a pull factor for those with care needs) and care costs can often be a substantial outgoing. However, moving to retirement housing would not make a difference to those needs nor should it make much difference to the cost. In this report we discuss the costs of care and the state help available for care costs throughout, but we do so separately from housing costs and 'housing related support costs'.

Table 2.3: 'Typical' costs of retirement housing, support and care

Housing type	Buy/rent	Service charges	Support costs	Care costs ⁸
Owner-occupiers				
Ordinary housing	NA	None	As per need	As per need (£15ph)
Housing with support	£90,000	Applicable (>£22pw)	Compulsory (>£10pw) optional extras	As per need (£15ph)
Housing with care	> £90,000	Applicable (>£35pw)	Compulsory (>£17pw) optional extras	As per need (£15ph)
Social Renters				
Ordinary housing	£65pw	Applicable (£7pw)	As per need	As per need (£15ph)
Housing with support	£65pw	Applicable (£22pw)	Compulsory (£10pw) optional extras	As per need (£15ph)
Housing with care	£78pw	Applicable (£35pw)	Compulsory (£17pw) optional extras	As per need (£15ph)

Source: NPI analysis of right-move & EAC (cost to buy); CORE (cost to rent, service charge & support costs); Coalition on charging (care costs).

NB: Cost to buy/rent varies by region; lack of data on private sector service charges and support costs, prices will be higher than social rented.

⁸ Costs of care and support vary by area and type. The Unit Costs of health and Social Care 2011 estimate that an hour of homecare workers time costs £18. *Fairer Charging* guidance states that local authorities are not allowed to charge more than the cost of provision: £18 would be an upper limit. In April 2011 the Coalition on Charging listed the hourly rates for homecare support of nine councils in England and the average hourly charge was £15 (the highest was £24.65 and the lowest £12.50).

3. STATE FINANCIAL SUPPORT AND ITS IMPACTS

FINANCIAL HELP FROM THE STATE

- 3.1 We now examine how the state helps pensioners with housing, support and care costs and the ways in which this alters the amount of net income left over to them. Two things in practice alter the amount of income a person has left over after paying for housing, support and care costs. One is how far the elements of each fall within the scope of the benefit or help provided by the state. The other is whether the individual is somehow disqualified from receiving the help.
- 3.2 For all costs except care the discussion applies across the UK. For care costs there are considerable differences across the UK administrations and so each nation is dealt with separately. Table 3.1 summarises the different costs incurred in owner-occupied and rented retirement housing and what help is available to meet these costs.

Table 3.1: Benefit entitlement and conditions for housing, care and support costs

Tenure	Aspect	Mortgage interest/ ground rent/Rent	Service charges	Support costs	Care costs ⁹
Owner- occupier	Policy/benefit	Guarantee credit	Guarantee credit	Supporting People	Fairer charging (England)
	Conditions	Means tested, tapered	Means tested, tapered	Means & 'tenure' tested, capital limit	Means tested, capital limit
	Scope	For mortgage interest/ground rent	Partial coverage ¹⁰	No help (mostly) ¹¹	Variable
Social renting	Policy/benefit	Housing benefit	Housing benefit	Supporting People	Fairer charging (England)
	Conditions	Means tested, tapered	Means tested, tapered	Means & 'tenure' tested, capital limit	Means tested, capital limit
	Scope	For rent	Partial/full coverage	Some/full help	Variable

Source: NPI. NB: Care costs refer to England and Northern Ireland (variation by UK country is discussed later in this chapter) All other costs in principle apply across the UK.

⁹ Covers the costs of LA assessed level of need, which varies by LA, severity of need and services required

¹⁰ Wide variation on what aspects of service charge are covered by guarantee credit.

¹¹ In practice few leaseholders get any financial help through the local authority (Supporting People) and increasingly social renters are having to contribute

Minimum income

- 3.3 For a pensioner couple the Minimum Income Standard and the conventional income poverty line closely match the amount of benefit help that is available.¹² This benefit is the 'guarantee credit' component of pension credit.¹³ Any single man or woman over the state pension age for women, as well as any couple where at least one member is over that age, is guaranteed a minimum income after paying for their housing costs of £142.70 per week for singles and £217.90 for couples (April 2012).¹⁴ At present, while entitlement is unaffected by savings, savings over £10,000 reduce benefit based on the potential to earn an income from investing the savings.¹⁵ As no pensioner's income should be lower than this after paying for housing costs (subject to the savings rules), it represents a guaranteed minimum income that the state will provide for pensioners and it is one that largely reflects the minimum income required to live on.
- 3.4 In this report we refer to the help people are entitled to but in practice many older people do not claim their full entitlements. For example around a third of those entitled to pension credit are missing out. Disposable incomes set out in this report after paying for housing, support and care will be lower for those who do not apply for the benefits they are entitled to.
- 3.5 On top of this some pensioners are entitled to disability living allowance (DLA) or attendance allowance (AA). These are non-means-tested, disability-related benefits which are intended to help with the additional costs linked to disability. Guarantee credit rates are higher for some severely disabled pensioners receiving disability benefits (which adds £55 a week to the minimum income levels in paragraph 3.3 above) and also for some people defined as carers. The aim of these disability benefits is to compensate people for the additional costs incurred through disability, although the amount available is not a direct reflection of a personalised cost of disability.
- 3.6 A feature of guarantee credit is that anyone entitled to it, however small the amount, is automatically entitled to receive several other benefits as well. These include dental and optician charges as well as full council tax benefit. The force of this last point is that the entitlement is irrespective of savings.
- 3.7 It should be noted that state help for those in retirement housing too young for guarantee credit is much less generous than described here. Until recently, only people under 60 were in this situation. However more people will be in this group as guarantee credit age is rising in line with women's state pension age and will reach 66 by 2020. Furthermore in the future both members of a couple must reach the qualifying age before the couple is entitled to guarantee credit so pensioners will be treated as 'working age' if their partners are younger.

¹² The MIS is calculated by researchers at the Centre for Research into Social Policy at Loughborough University: <http://www.minimumincomestandard.org/> The value of the income poverty line, set at 60% of median household income, is published each year by the Department of Work and Pensions in its annual *Households Below Average Income*: <http://research.dwp.gov.uk/asd/index.php?page=hbai>

¹³ People aged 65 or over with modest occupational pensions or savings may also be entitled to the 'savings credit' version of pension credit. While savings credit does affect the precise amount of money that some pensioners will receive from the state, it does not introduce any new principles and in the interests of keeping things as simple as possible, has therefore not been included within this analysis.

¹⁴ As the state pension age for women rises, from 60 for someone born in 1950 or before, to 66 for someone born in or after 1954, so the age at which entitlement to guarantee credit will rise too. A further, little publicised welfare change, will mean couples only becoming entitled to the benefit when the younger member reaches 66.

¹⁵ An upper savings threshold is expected to be introduced as part of welfare changes,

Income floors, trap doors and eligible and ineligible costs

- 3.8 At first sight, a direct implication of this ‘appropriate minimum guarantee’ income appears to be that a pensioner who starts off with a higher income cannot end up worse off (and may end up better off) than a pensioner who starts off with a lower income as a result of the housing costs that they have to pay. In essence it provides an income floor. While this idea remains a crucial point of reference throughout this discussion, the exceptions to it are numerous and sometimes big. A further complication is that analysis of retirement housing does not just require consideration of housing costs but also of support (or housing-related support) costs too. Once the analysis is extended to care, the picture becomes murkier still, due to major differences between the four countries of the UK.
- 3.9 In order to cope with this, we retain the idea of the income floor but supplement it with the second idea of a “trapdoor” in that floor. What is a trapdoor, what falls through it and what does it mean? If income below the floor is what is available to meet all other items of spending, (food and clothing etc) a trapdoor signifies that some element of housing, support or care costs has fallen through that floor and will have to be met from this pot of money for ‘other items’.
- 3.10 Elements of cost that can fall through trapdoors are referred to here as ‘ineligible’ costs, in contrast to ‘eligible’ costs which qualify for state help. There are several causes of ineligibility. In some cases, a particular type of cost is always and everywhere ineligible for help irrespective of the person’s income or other circumstances. In other cases, it depends (at least in practice) on tenure. A person’s savings can render an ordinarily eligible cost ineligible. Inconsistent administrative practice can seemingly label the same cost eligible in one case and ineligible in other. Throughout this discussion of the different costs in retirement housing, this distinction between eligible and ineligible costs is paramount. The critical implication is that even if a person has to pay an eligible cost themselves, their other income will not be taken below the income floor as result. By contrast, ineligible costs can take a person’s income below that floor.

HOUSING AND SUPPORT COSTS

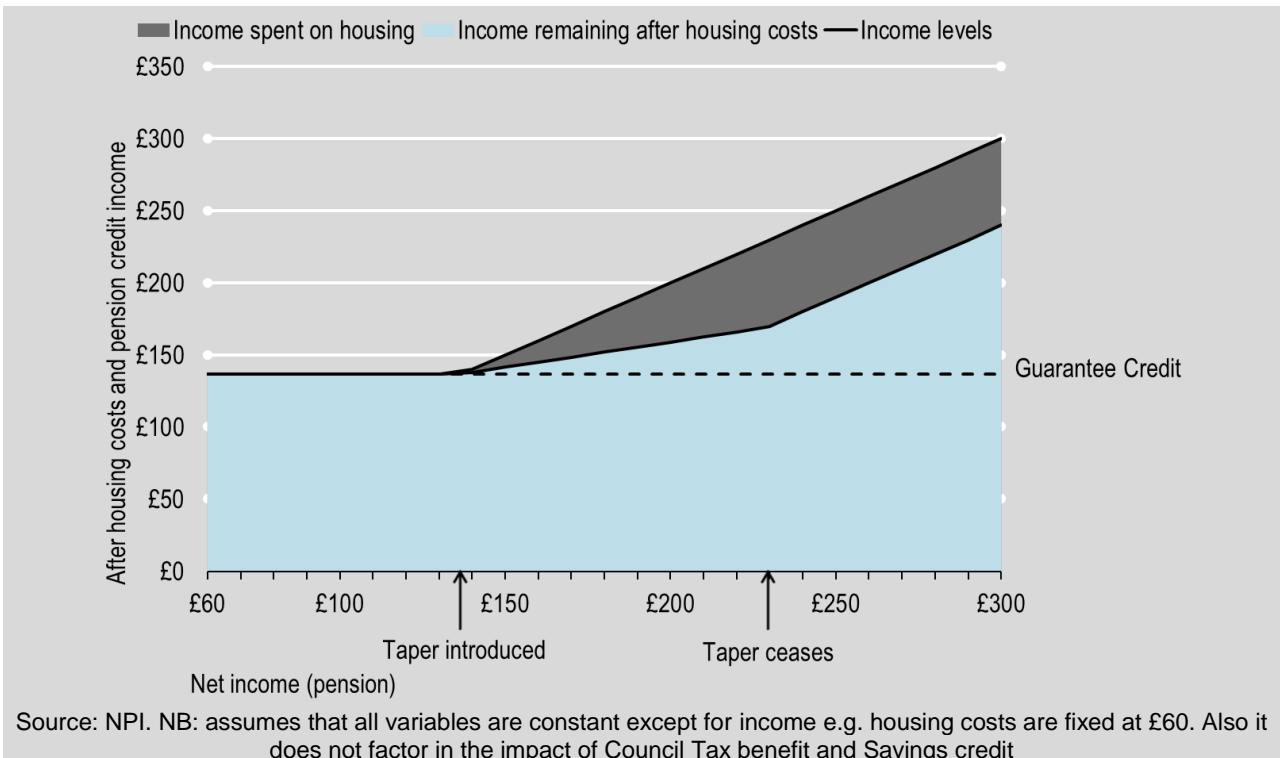
Housing costs

- 3.11 For those on lower incomes/below the savings thresholds, help with housing costs is set out in legislation. There are many limitations (including whether or not people claim) but broadly:
- social tenants are entitled to housing benefit for rent and for eligible service charges;
 - private tenants may be entitled to housing benefit for rent, depending on local housing allowance (LHA) rent limits (note that the service/support charges and ground rent are the responsibility of the landlord so included in the tenant’s rent);
 - owner-occupiers are entitled to help with housing costs (ground rent, eligible service charges and mortgage interest) through guarantee credit.
- 3.12 Help with housing costs is broadly similar across the UK. As noted above, this help guarantees at least £142.70 to a single pensioner and £217.90 to a couple after paying for housing costs. Figure 3.2 illustrates this for a single pensioner, the diagram being drawn on the assumption that housing costs are £60 a week.¹⁶

¹⁶ As noted above, this and subsequent diagrams take no account of either savings credit or council tax benefit.

3.13 It shows the relationship between net weekly income (i.e. the pension) on the horizontal axis and weekly income after housing costs on the vertical axis. The two lines on the graph represent income: the top one before housing costs and the bottom one after housing costs. For those on low incomes (starting at £60 per week on the horizontal axis) the pensioner does not have to pay any housing costs and has their disposable income topped up to the guarantee credit level. At this level the taper is introduced, so pensioners start contributing to a share of their housing costs. The amount that they contribute gradually increases with income until pensioners pay for their housing costs in full without benefit help.

Figure 3.2 Impact of guarantee credit and housing benefit on a single pensioner's income after housing costs



3.14 The flat (or upward-sloping) line in this diagram is what leads to the conclusion that no one paying the full cost of their housing can be left worse off than someone whose housing costs are covered through benefit. It also means that for housing costs there are three groups: those that have their housing cost covered in full through benefit, those that receive benefit for some of their housing costs and those that pay for their housing costs in full without benefit.

3.15 The key point about this diagram is that it applies to *eligible* housing costs only. What elements of what could reasonably be regarded as housing cost might not, in fact, be eligible? In broad terms, there are three categories:

- If income is sufficiently low, for social tenants their rent and eligible service charges are fully covered by housing benefit, because they are generally not subject to an upper limit for housing benefit. By contrast, the local housing allowance places an upper limit on the housing benefit available to meet the rent/service charges of tenants renting privately.

- Certain elements of an owner occupier's cost are never eligible for help through the housing costs element of guarantee credit, notably repayment of mortgage principal and contributions towards major repairs/sinking fund. For tenants, contributions towards major repairs are not usually identified separately, but are effectively paid for through the rent, making them eligible for housing benefit. These are systematic (and UK-wide) differences between owner occupiers and tenants.
- The calculation of housing costs (service charges and ground rent) to determine eligibility for guarantee credit is reported to vary significantly, both between retirement housing schemes with similar charges, and also between individual residents paying the same charges in the same scheme. This variation, being due (it appears) to inconsistencies in decision-making by Pension Service offices, opens up differences between other seemingly identical owner occupiers, and (since it is only they who face this uncertainty) between owner occupiers and tenants in general.

3.16 The bottom line here is that the income floor in figure 3.2 really does represent a floor for social tenants. By contrast, private tenants might fall through it if their rent is deemed to high while owner occupiers will fall through it if either required to contribute to a sinking fund or because some housing costs have been designated ineligible. In some cases, this designation is systematic but in others it is not. In view of what was said above about the way that receipt of guarantee credit automatically entitles the recipient to other benefits too, seemingly arbitrary decisions about whether a particular element of housing cost is deemed eligible or not can have much bigger financial consequences.

Support costs

- 3.17 'Housing-related support' in retirement housing usually includes part of the scheme manager costs, the community alarm (hardware and 24/7 response service) and in housing with care, sometimes the 24/7 staffing. In private retirement housing this will probably be one part of the service charge and not called "housing-related support".
- 3.18 Entitlement to help with housing-related support costs depends in practice on housing tenure. Under the *Supporting People* arrangements, the general rule has been that if someone in social rented retirement housing is receiving housing benefit, their support charges will be covered in full.^{17 18} If they are not receiving housing benefit the amount of support costs that they have to pay is based on *Fairer Charging* guidelines, namely, that pensioners only have to pay their costs if they have savings in excess of £23,250 or if their after housing costs income is above guarantee credit plus 25%.

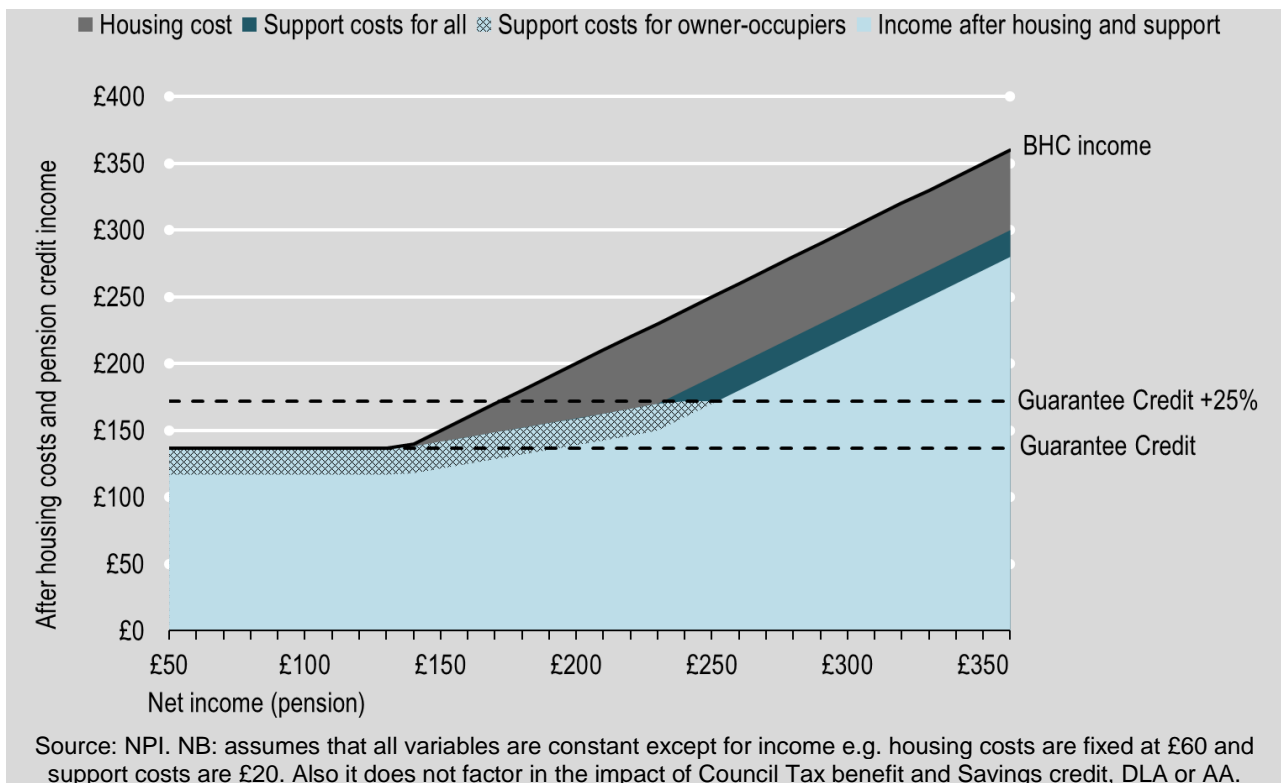
¹⁷ *Supporting People* (SP) was originally a cash-limited grant from central government to county/unitary councils and the Northern Ireland Housing Executive. The relevance for this report is that whether a service is classified as 'housing-related'/funded through SP will affect residents' entitlement to help with charges. In England local authorities are no longer obliged to ring-fence SP funding, so in some councils it has been merged within the overall adult social services budget, whilst in other councils, SP remains a separate commissioning and funding stream. In the other three nations it remains much more of a separate entity.

¹⁸ Entitlement to guarantee credit also 'passports' tenants to housing benefit and therefore (if they are in the social sector) to housing-related support costs, even for those with savings above the housing benefit limit of £16,000, or the care costs limit of £23,250.

- 3.19 Although there are local variations, owner-occupiers in retirement housing are not in general entitled to help with their housing-related support costs. In practice, private sector tenants receive no help either. Furthermore, since a percentage of scheme manager costs are often no longer eligible under *Supporting People*, even some social tenants entitled to housing benefit have to pay for this component of support costs themselves (King et al 2008, Pannell, Blood et al 2012 and Pannell and Blood 2012).
- 3.20 Whether tenants and shared owners in rented and mixed-tenure Housing with Care schemes get help with support charges mainly depends on whether the scheme was originally commissioned by the public sector. (Pannell, Blood et al 2012). There is no mixed-tenure housing with care in Northern Ireland or Scotland.
- 3.21 Where there are differences between the four nations these are usually due to differences in administration, differences in the way that schemes are commissioned and funded, and differences in the legal basis of ownership.
- 3.22 However, typically in practice social renters on housing benefit tend to get their housing-related support cost covered in full,¹⁹ other social renters are subject to the Fairer Charging Guidance and owner-occupiers and private renters have to meet their support costs in full without benefit. Therefore in terms of support costs only social renters have an income floor of guarantee credit plus 25% (social renters should not be charged for support costs if it would reduce their income below this amount). Owner-occupiers and private renters on the other hand have no guaranteed income floor after housing-related support costs; essentially their income floor is the guarantee credit level minus however much their support costs are.
- 3.23 Figure 3.3 extends on Figure 3.2 to show the impact of housing-related support costs on a pensioner's income. It displays the two tenure groups owner-occupiers and social renters. It is drawn on the following assumptions: that owner occupiers receive no help with their support costs; that social tenants in receipt of housing benefit have their support costs met in full; and that social tenants not in receipt of housing benefit are helped in accordance with *Fairer Charging*. For the sake of this example we model housing-related support costs fixed at £20 and housing costs at £60. The line at the top shows the total income before housing and support costs are paid. The shaded areas below show how much pensioners in different groups have to contribute towards their housing and support costs.

¹⁹ based on personal communication with specialist retirement housing benefits advisers, June 2012

Figure 3.3 Impact of housing costs and housing-related support costs on the income of single pensioners



- 3.24 Regardless of tenure all pensioners will have to pay for their support costs when they reach the guarantee credit plus 25%, this is indicated by the darker blue area on the diagram. Owner-occupiers also have to pay their support costs even if their income is below this level. The amount that these lower income owner-occupiers pay is indicated by the ‘mesh’ area on the diagram.
- 3.25 The diagram shows that while the income after housing and support costs of social renters is protected from falling below a particular level, lower income owner-occupiers drop through that floor as a result of their being liable to pay support costs represented by the mesh area on the graph. Another way of putting this is that help with support costs creates two separate income floors: one for social renters and a lower one for owner-occupiers.

CARE COSTS

Differences among the four countries

- 3.26 Care funding is devolved, so entitlement to state-funded social care is very different depending on where someone lives and is the main area where policies across the UK countries differ. Across the UK, publicly funded social care is based on an assessment by the social care body. Outside of Scotland, ‘critical’ or ‘substantial’ care needs are funded, but older people will probably have to pay for any care needs assessed as ‘moderate’ or ‘low’ themselves. The key features of the care funding²⁰ across the UK can be summarised as:

²⁰ These policies refer to charges for care received by someone living in a retirement home or family home setting. Charges for care in a residential/care home differ.

- In England, local authorities set their own policies based on the *Fairer Charging Guidance*. It requires that charges should not reduce income below guarantee credit plus 25%. In addition there is a capital limit: those with savings above £23,250, regardless of income, are liable to the full charge for their care costs. Those with between £14,250 and £23,250 in capital will pay part of their care costs.
- In Scotland, *personal* social care is free for people aged 65+. For those under 65 the upper capital limit for help with care costs is £24,750 and £15,250 as the lower limit. Charges for other help/support (e.g. housework, shopping, community alarm) aim to reflect what can be afforded through income. Nursing care is free. (Newhaven 2011).
- In Wales, in April 2012 a £50 per week ‘cap’ (maximum charge) for care was introduced. In addition charges should not reduce income below Guarantee Credit plus 35% (with a 10% disregard on disability benefits) and only one capital limit of £23,250 so that care is free for those with savings below this. (SSIA 2011).
- Northern Ireland is broadly similar to England, although because of low incomes and savings, a smaller proportion of older people do not qualify for any help.²¹

3.27 These policies create an income floor for care costs in England, Northern Ireland and Wales i.e. a point where policy dictates that no one should have to pay for care costs if their income would fall below this amount. Table 3.4 demonstrates how this would work for single pensioners on different incomes. In England and Northern Ireland this floor is set at guarantee credit plus 25% (£179 per week for a single pensioner). As shown in the table, a pensioner with an income of £143 per week (guarantee credit) would not have to pay for their care costs, someone with an income of £200 would have to pay the first £21 of any care cost they may have but none of the remainder, someone with £500 would have to pay the first £321.

Table 3.4: The maximum amount of money a single pensioner would have to pay towards assessed care needs in England, Northern Ireland and Wales

Weekly income	England & Northern Ireland		Wales (£50 cap)	
	Income floor (£179)	Savings trap door	Income floor (£193)	Savings trap door
£143	£0	No maximum	£0	£50
£200	£21	No maximum	£7	£50
£500	£321	No maximum	£50	£50

Source: NPI

3.28 In Wales the income floor is higher at guarantee credit plus 35% (£193 for a single pensioner). This is coupled with a cap of £50 per week in care charges. This means that a pensioner with an income of £143 per week would not have to pay for their care costs; for someone with an income of £200 they would have to pay the first £7 of any care cost they may have but none of the remainder; someone with £500 would have to pay the first £50.

²¹ It also appears that more services are funded through Supporting People funding in Northern Ireland which elsewhere would be funded as care services (see Pannell, Blood et al 2012). Help with SP costs can be more generous than for care costs (because of the passporting effect of guarantee credit).

- 3.29 In England and Northern Ireland, a pensioner with savings in excess of £23,250 is entitled to no state help with their costs. For such a pensioner all such costs are in effect ineligible; there is no income floor and they have to pay for their full care costs regardless of income. When the care cost is high, a pensioner could find that the amount that they are liable to pay in care costs is more than their actual income. This could apply across the income scale, as if care costs are high enough, any pensioner could find that they do not have enough income to meet these costs and must draw on their savings. In Wales, where there is a £50 cap on care costs, income can only fall by a maximum of £50 per week. For example, someone with £143 in income and above the capital limit could have an after care costs income as low as £93 and no further, but still below the minimum income standard. The pensioner with an income of £500 per week pays £50 regardless of savings.
- 3.30 As personal care that the local authority assesses a pensioner (aged 65+) as needing is free in Scotland, non-personal care costs are likely to be only a fraction of personal care costs. So the potential fall in income in Scotland much smaller than in Wales and England.
- 3.31 As with support and housing costs, those elements of care costs which have to be paid for without state help have the effect of lowering the disposable income that pensioners have, perhaps even below the guarantee credit level. There is no income floor and costs have to be met through disposable income or through savings. If non-eligible costs are high enough even the wealthiest pensioner can find that after meeting these costs their remaining income is insufficient to meet their basic needs. However large a drop in income this represents, it is always important to remember that for a pensioner with an income already at the guarantee credit level even a small amount of non-eligible costs can make it difficult to make ends meet.
- 3.32 So where is the best place for someone with care costs to live? This depends on an individual's income and savings. A pensioner already living on the minimum income and with less than £14,250 in savings (the lower capital limit in England and Northern Ireland) should not have to pay anything towards their care charges anywhere in the UK. For any pensioner with savings above the capital limit or a higher income pensioner, Scotland offers the best option with free-personal care. The next best option would be Wales were the maximum care charge would be £50; lastly England and Northern Ireland where there is no maximum. Wales is even preferable over England and Northern Ireland for pensioners with incomes just above the level of the income floor as in Wales that floor is slightly higher so they will end up paying at least £13 per week less.
- 3.33 As ever, however, these floors apply only to the income left over after costs that are eligible for state help have been met. Ineligible costs, as ever, must be met from the own income that is left over. In all four countries, care needs are assessed by the social services authority/health board (NI). Certain elements of care costs are deemed ineligible for state help. These rules vary between the four countries:
- In Scotland, the local authority assesses the tasks that are deemed to be personal social care, and these costs are eligible for state help in full for those aged 65 and over. Tasks that fall outside the personal care definition are charged for differently on a similar basis to those under 65; and people under 65 are assessed financially (with slightly higher capital limits than in England).
 - In England, Northern Ireland and Wales, an assessment is made on the level of need. In most English local authorities, care needs assessed as low or moderate are ineligible (ADASS 2012).

- Other costs that fall outside eligibility thresholds for state help include help with tasks such as housework, laundry and shopping (unless assessed as substantial or critical); tasks that are support rather than care (e.g. help with finances, correspondences, accompanying to medical appointments, although these could be funded not as care costs but as 'housing-related support')

CHANGING COSTS WITHIN RETIREMENT HOUSING

- 3.34 As mentioned briefly in chapter 2, one of the consequences of moving to retirement housing from most other housing types is the reduced ability to control certain costs/outgoings. The costs associated with living in retirement housing often increase and service provision may change. In leasehold retirement housing, the lease will set out the basis of charges and require a resident consultation before changing services. However, there are still problems because the freeholder can decide on the managing agent, and impose conditions such as using a particular contractor or insurance company. The Right to Manage (private schemes only) and Leasehold Valuation Tribunals (England) allow leaseholders to challenge charges and change managing agents but these routes are not always easy to pursue in retirement housing. Tenants (and leaseholders in not-for-profit and mixed-tenure schemes) have fewer options.²²
- 3.35 So an older person who moves into retirement housing content with their remaining disposable income may find that this income falls later on when costs or needs change. This can be a major disincentive to move into retirement housing and cause of anxiety for those within retirement housing. Oldman (2012, forthcoming) considers the impact of these problems on residents and the need for change.
- 3.36 Changes to costs in retirement housing will technically have the same effects on income as those described above depending on whether they classified as a housing cost, housing related support costs, care costs or a cost not eligible for help. If the cost is eligible for financial help then they have the effect of increasing the depth of the shaded cost areas in figure 3.3.

SUMMARY OF EFFECTS

- 3.37 The way the state provides help in meeting retirement housing costs is a crucial part of deciding whether such housing is affordable. Given its complexity, we offer here a summary of the key features of the systems of state help available for pensioners in retirement housing. The fundamental issue is whether a particular cost is eligible for state help. If it is, how much help (if any) any particular pensioner gets depends on their income. By contrast, ineligible costs have to be met by pensioners themselves irrespective of income. These key features are as follows:
- 'Guarantee credit' represents a 'floor' below which income after eligible housing costs should not fall. Pensioners with an income below this floor receive help through the benefits system to pay for any of their eligible housing costs and have their income topped up to this level. As incomes rise so the pensioner's own contribution towards their housing cost rises too.
 - Ineligible housing costs are mainly an issue for owner occupiers. Some costs (e.g. sinking fund contributions) are always ineligible. There are also non-systematic variations in what is counted as eligible both between retirement housing schemes and between owners in the same scheme. Private tenants can find that a portion of their rent is also ineligible.

²² See Age UK (2010), Oldman (2012), and Pannell, Blood et al (2012) for further discussion.

- In practice, housing-related support costs are usually eligible for social rented tenants and ineligible for private tenants and owner occupiers. Social rented tenants receiving housing benefit have these costs met in full while others can still receive help in accordance with the Fairer Charging rules. In particular cases, there are some exceptions both ways.
- Help with eligible care costs varies a lot across the UK. In England and Northern Ireland, there is another income floor (guarantee credit level plus 25%) below which income after eligible care costs should not fall. In Wales, the floor is slightly higher (guarantee credit plus 35%) and there is also a £50 a week cap on the amount that pensioners themselves have to pay. In Scotland, eligible personal social care is free for those aged 65 and above.
- With care, the question of what is eligible is very significant. In the essentially task-based Scottish system, the question is whether a particular element of care counts as 'personal social'. In the other three countries, what matters is the level of the particular care need.
- Last but not least, in England and Northern Ireland, savings in excess of £23,250 disqualify a pensioner from receiving any help with care costs: for such pensioners all care costs are in effect ineligible. To the extent this is true in Wales too, the cap on the pensioner's own contribution nevertheless limits the impact.

4. ANALYSIS OF COSTS AND THEIR IMPACTS

- 4.1 In this chapter, we combine the analysis of the previous chapter with data on costs, pensioner incomes and pensioner assets in order to illustrate how the costs associated with retirement housing impact on pensioner incomes. Initially it looks at housing costs, housing-related support costs and how the two combine and who has the most to lose. The analysis is based on the cost of living in housing *with support*. At the end of the analysis it considers how the implications change for residents in housing *with care*.
- 4.2 This chapter focuses exclusively on costs that are eligible for help. In doing so, it demonstrates how many pensioners' incomes are already at the income floor, how many are brought down to the income floor and how many pay the full cost without help and remain above the income floor. Non-eligible costs will need to be met with the income remaining after eligible costs are taken into account.
- 4.3 As explained in chapter 2, these results are not generally described as showing how many can, or cannot, afford retirement housing. Instead, we present evidence designed to help the reader reach a conclusion of their own. Our analysis treats tenants (both private and social) and owner-occupiers separately. It then presents its results by *pensioner income quintile*, (the number of pensioners in each fifth of the pensioner income distribution) and whether they have to pay the respective cost in full, in part or not at all. Table 4.1 shows the median income (net of tax and after housing costs) of single pensioners and pensioner couples across the income quintiles.

Table 4.1: The median net after housing costs income of pensioner households by quintile of the net income distribution, average for 2007-08 to 2009-10

Household type	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth
Single	£95	£137	£175	£235	£348
Couple	£185	£274	£360	£485	£762

Source: DWP, Pensioners' Incomes Series 2009-10

HOUSING COSTS

Buying retirement housing

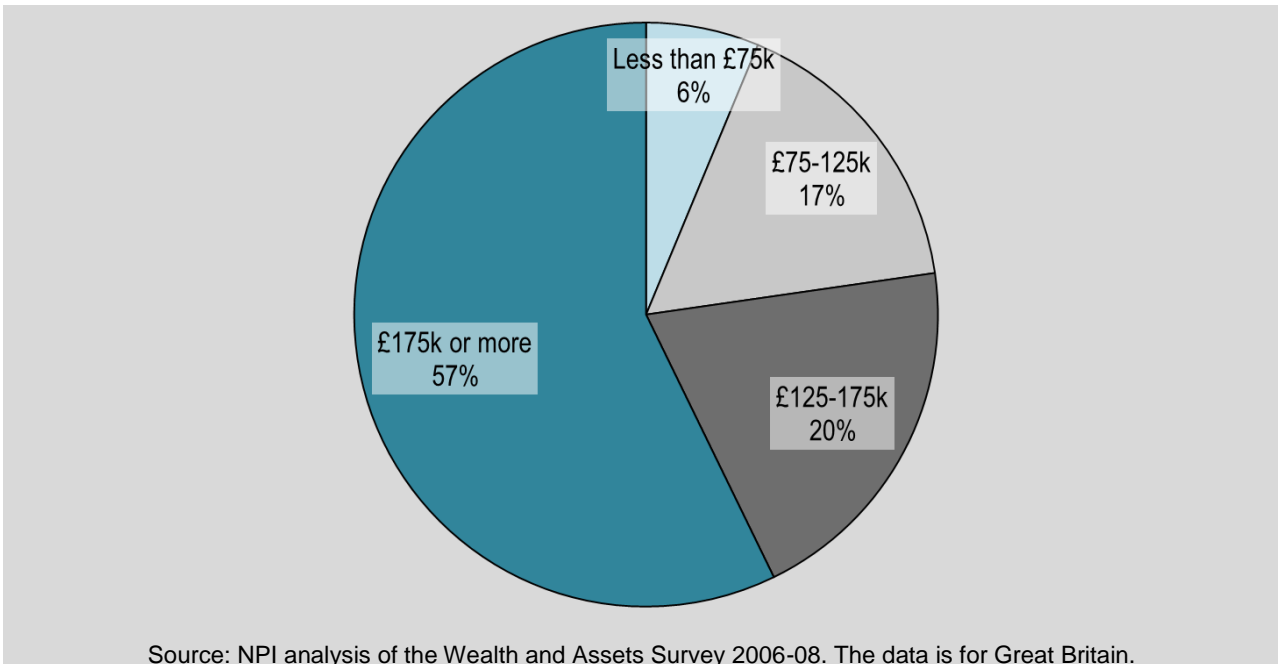
- 4.4 The model firstly looks at the housing costs component of living in retirement housing. For owner-occupiers the first element of this is buying a home. Through an online survey of Right-move and the EAC housing directory²³, we found that the typical price of a retirement home (without support or with support) in England ranged from £110,000 in the South East to £80,000 in the North of England. In Scotland and in Wales the typical price was £85,000.²⁴ The stock of retirement housing for sale in Northern Ireland is extremely small (Boyle 2008).

²³ The majority of the dwellings surveyed were not new-builds which tend to be more expensive.

²⁴ Retirement housing costs are wide ranging and prices within each region varied as much as between regions.

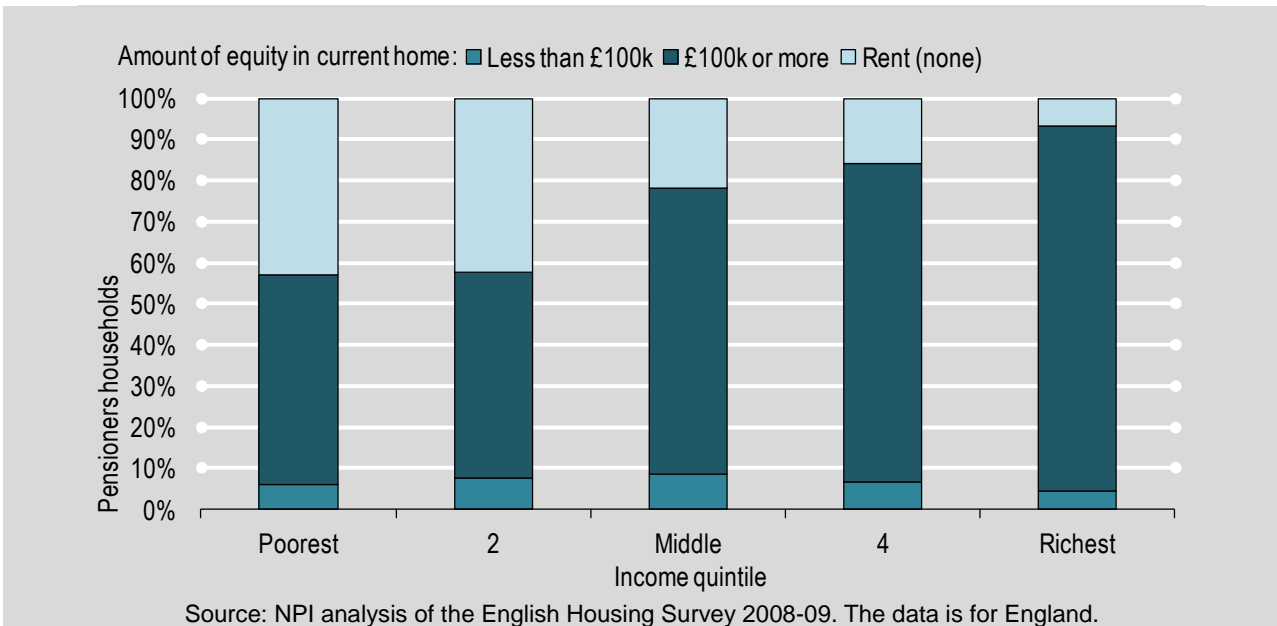
- 4.5 Figure 4.2 looks at the amount of equity that pensioner households have as a means of assessing who could afford to use their equity to buy a basic retirement home outright. Overall it shows that around 6% of owner-occupier pensioner households across Great Britain have less than £75,000 in equity and would be unlikely to find suitable retirement housing at this cost. Over half (57%) of pensioners have at least £175,000 in equity which should be more than enough to buy a basic retirement home outright.
- 4.6 Around 37% of pensioners have between £75,000 and £175,000 in equity. Those with between £125,000 and £175,000 (20%) should be able to find a suitable retirement home within their price range but may find their choice restricted. Those with between £75,000 and £125,000 (17%) are likely to have an extremely restricted choice of retirement housing and may not find anything suitable in their area at the right price.

Figure 4.2: The amount of equity held by pensioner households in their home



- 4.7 Figure 4.3 shows the spread of pensioner households across the income spectrum (in England) by the amount of equity that they have (those with more than £100,000, less than £100,000 and renters assumed to have zero equity). It shows that although pensioners nearer to the top of the income spectrum tend to have over £100,000 in equity, in each income group there are a small but significant proportion of owner-occupiers with less. It shows that we cannot assume that those with less equity will also have less income or will qualify for means-tested benefits.

Figure 4.3: Pensioner households with more or less than £100,000 in equity by income quintile

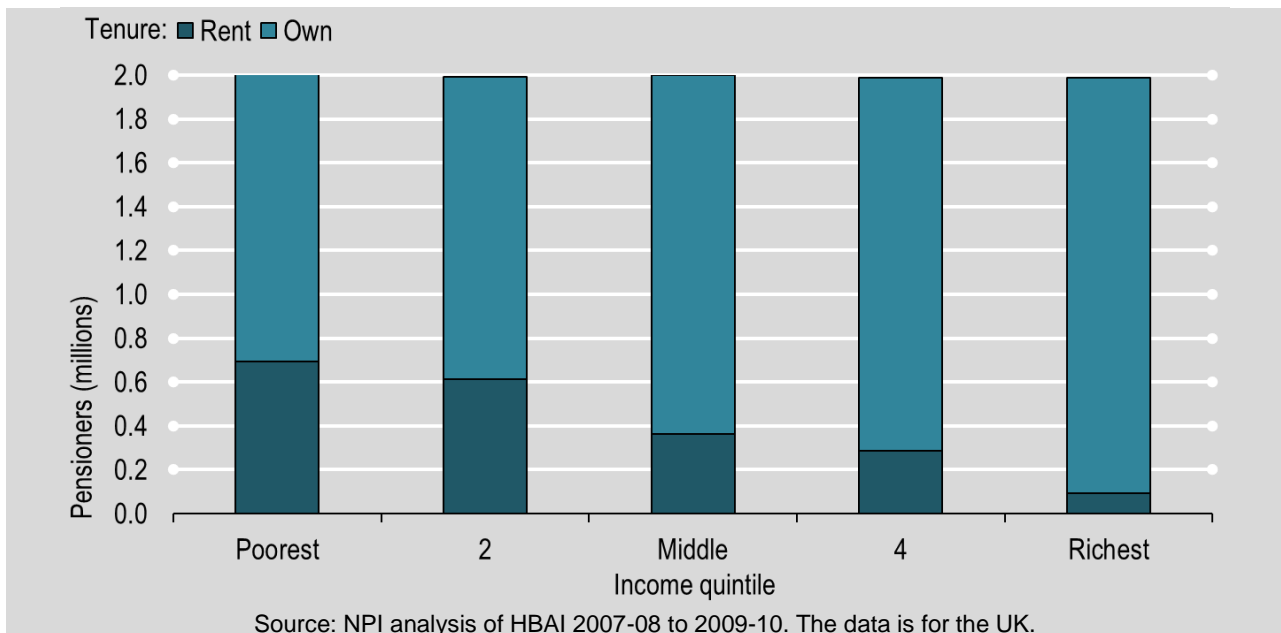


Living in retirement housing

- 4.8 Owner-occupiers will also face the on-going cost of service charges. For social renters, housing costs will be made up of both rent and service charge. The cost of typical social rented housing with support (derived from CORE data for England & Stats Wales) is £65 per week for rent and £22 for service charge²⁵. For owner-occupiers the cost of service charge will inevitably be higher but there is a lack of cost data. We therefore model two scenarios: one with a lower cost service charge to £22 per week and the other a higher cost of £44 per week. In the model we assume that all of these costs are counted as “housing costs” and are therefore eligible for help through guarantee credit. In reality there are major variations in how much of the service charge is counted as a housing cost; we return to this issue in the conclusion.
- 4.9 Firstly, we will need to understand how the tenure of pensioners varies across the income scale shown in Figure 4.4. It shows that renters are far more likely to be at the lower end of the income distribution, whilst owner-occupiers, who tend to be wealthier than renters, are widely spread across the income distribution.

²⁵ The lower and upper quartile costs were £60 and £75 for rent and £10 and £30 for service charge

Figure 4.4: Number of pensioners that rent and own their homes by income quintile



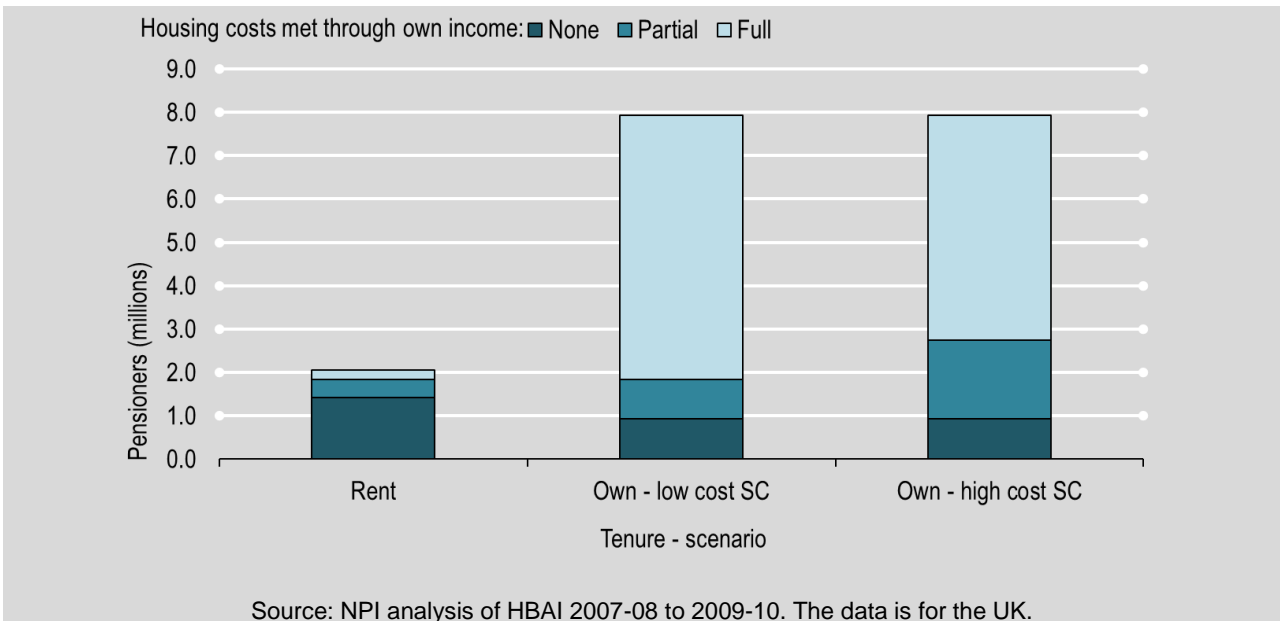
4.10 The earlier discussion on pensioners’ entitlement to benefits for housing costs showed that someone not entitled to benefit and paying their housing costs in full, by definition, could not have a lower income than those entitled to the benefit. Our model therefore seeks to identify how many pensioners fall into each of the following three groups in terms of the impact on them of moving into retirement housing:

- **Group 1 “None”:** pensioners already entitled to housing benefit for whom a move to retirement housing will have no impact on their disposable income (labelled as ‘none’ on the graphs)
- **Group 2 “Partial”:** pensioners who pay for some of the additional costs in retirement housing themselves but will also be entitled to benefit to cover some of the costs (labelled as ‘partial’ on the graphs)
- **Group 3 “Full”:** pensioners who have to pay all of the additional costs involved in retirement housing without any additional benefit help (labelled as ‘full’ on the graphs)

4.11 Figure 4.5 shows the number of pensioners in the UK that would fall into the above three categories if they moved into retirement housing. Around 1.4 million renters (70%) would not experience a fall in their disposable income as any additional housing cost would be covered by an increase in housing benefit. Only 200,000 pensioners (11%) would have to pay for their housing costs in full and would not receive any state help.

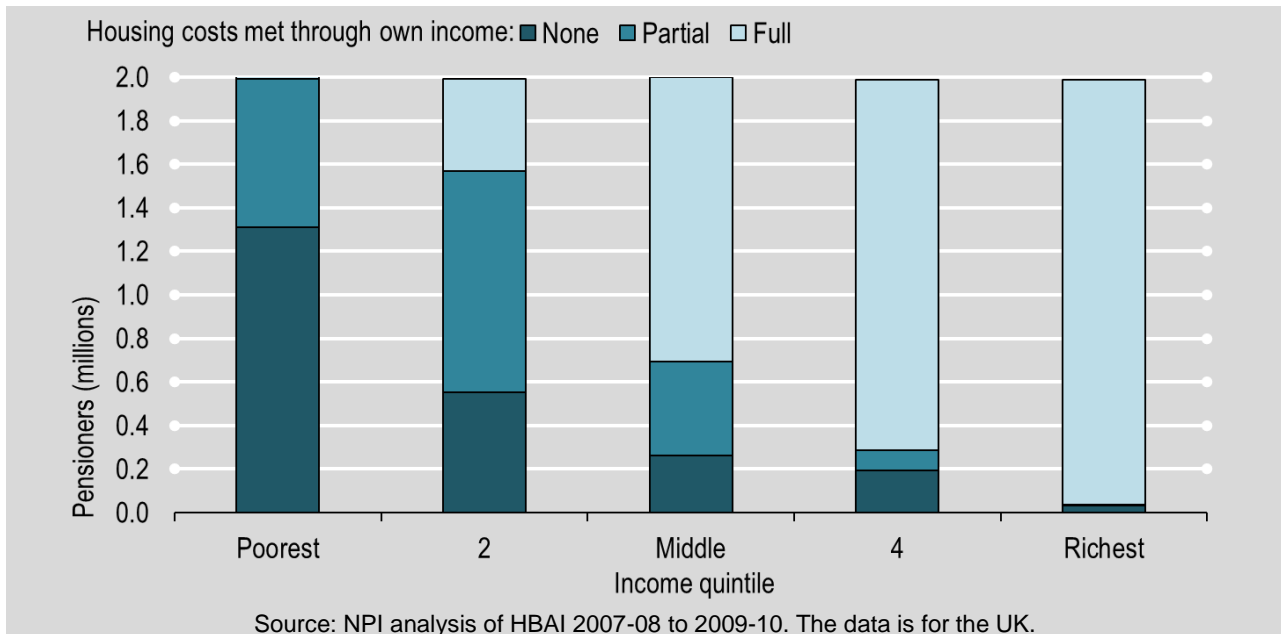
4.12 Owner-occupiers are presented twice in figure 4.5, for the lower cost and higher cost scenario. Around 0.9 million owner-occupying pensioners (12%) already have low enough incomes that they should be entitled to have additional housing costs paid for in retirement housing through guarantee credit. In the lower cost scenario another 0.9 million (11%) would have part of their housing costs paid for and 6 million (77%) would have to cover the full cost themselves. If the cost of retirement housing were higher, a further 1 million pensioners would become entitled to partial help with their housing costs (23%) and 5.2 million (65%) would have to cover their housing costs in full.

Figure 4.5: The number of pensioners by the amount of their additional housing costs they would have to pay for without benefit



- 4.13 Referring back to figure 4.4, we can see why a high proportion of renters would be entitled to have their additional housing cost in retirement housing covered through benefit – they are much poorer. For owner-occupiers on the other hand, a much higher proportion are at the upper end of the income distribution and would have to cover the additional housing cost themselves.
- 4.14 Figure 4.6 looks specifically at the bars from figure 4.5 (using the higher cost scenario for owner-occupiers) and how these pensioners are spread across the income distribution. It shows that only 21% of those in the poorest 40% will not be entitled to any benefit to cover their retirement housing costs. It demonstrates how the benefit system is designed to provide a safety net to secure a minimum after housing costs income for pensioners. The poorest will be entitled to have their full costs covered until the taper is introduced which gradually withdraws the benefit as incomes increase.

Figure 4.6: The number of pensioners across the income distribution by the amount of additional housing cost that they will have to pay for without benefit



HOUSING RELATED SUPPORT COSTS

- 4.15 As discussed previously, most retirement housing will involve some kind of compulsory costs classed as ‘housing-related support’ (e.g. community alarm, part of the scheme manager costs). Data from CORE shows that the average cost for social renters in retirement housing will be around £10 per week²⁶. For owner-occupiers (especially in the private sector) the cost is likely to be higher. As discussed in chapter 3, state financial help with support costs tends to vary by tenure. In general those entitled to housing benefit will be entitled to have such costs met from the local authority. This would apply around 1.8 million of the 2 million renting pensioners in the model (see figure 4.5).
- 4.16 Typically across the UK, social renters tend to be eligible for help with these costs and owner-occupiers not.²⁷ This means that potentially around three million owner-occupiers (see figure 4.5) that may be entitled to guarantee credit for their housing costs will have to pay for their housing-related support costs without help (most likely this will be at least £10 per week). For renters with the same income after paying for rent and service charges, their support cost is likely to be met and the income they have remaining to spend will not be affected.
- 4.17 If help with housing-related support costs was determined in the same way as care in England and Northern Ireland (i.e. based on income and savings rather than tenure) and assuming support costs of around £20 per week, around 35% of owner-occupiers would be entitled to help with meeting their support costs.

²⁶ The lower and upper quartile costs were £5 and £15.

²⁷ Based on personal communication with specialist retirement housing benefits advisers, June 2012

WHO HAS THE MOST TO LOSE FROM A MOVE TO RETIREMENT HOUSING?

- 4.18 Around 5 million owner-occupying pensioners would have to pay their housing costs in full in retirement housing *with support* and will see their disposable income fall by an average of £44 per week in service charges (based on the higher cost service charge model), a cost that most owner-occupiers do not have if they live in houses. Owner-occupiers that have some of their service charges met will have to pay an amount between £0 and £44 per week.
- 4.19 The owner-occupiers that would have their costs covered in full are the poorest in the income distribution, and they will continue to be so following a move to retirement housing. In addition to this all owner-occupiers are likely to have a further £20 per week less in disposable income because of housing-related support costs, regardless of their entitlement to help with other housing costs through guarantee credit.
- 4.20 Referring back to figure 4.6 we can see that the owner-occupiers that will have to meet their housing costs in full are some of those in the second income quintile, most in the third and all in the fourth and fifth. We can consider the impact that this has on disposable income by looking at the typical after housing costs income of a pensioner couple between the second and third income quintile. At the point where a pensioner couple would begin to pay the full housing costs is £317 per week. If a pensioner couple at this point in the income scale experience an increase in costs of £64 per week (£44 in service charge and £20 in support costs) as a result of a move to retirement housing with support their disposable income would fall to £253 per week, a fall of 20%.
- 4.21 Further up the income scale, pensioners would still incur the full additional cost of retirement housing, but proportionally this is a smaller fall. A pensioner couple, say between the third and the fourth quintile at £423 per week, would see their income fall by £64 to £359, but this would only amount to a fall of 15%.
- 4.22 At the bottom of the income scale, if an owner-occupier has their housing costs met in full and their income topped up to the guarantee credit level (£218 for a couple), the only additional cost is for support (£20 per week). Their income would become £198 per week, a fall of only 9% but one which reduces income to below the minimum standard.
- 4.23 Overall it is the pensioners in the 2nd and 3rd income quintiles that would have to pay all or most of their housing and support costs who have the most to lose financially by moving into retirement housing. Those lower down the income scale are worst off but a move to retirement housing means that their costs only increase in terms of housing-related support costs (which tends to be much lower), assuming that they get their full entitlement to service charges through guarantee credit. And whilst those with higher income will still have to pay the full amount for their housing and support, the cost represents a much lower proportion of their income.
- 4.24 Tenants on the other hand already pay rent and sometimes a service charge in ordinary housing. Therefore to assess how much 'worse off' they would be in retirement housing one needs to compare the cost of retirement housing to their current housing costs. Around 87% of renters would have higher outgoings in retirement housing with support than their current housing. The average increase in costs for renters is £29 per week (the lower quartile is £14 and the upper quartile £42).

- 4.25 In order to look at who has the most to lose from a move to retirement housing we have to first consider their current situation. For renters, whose housing costs are already high, the net-increase in cost from a move to retirement housing is much less. Owner-occupiers tend to have extremely low housing costs and so the increase in outgoings from a move to retirement housing will be much greater (even if their actual housing costs are still lower than renters). In terms of tenure, owner-occupiers have the most to lose.
- 4.26 In terms of income, pensioners with incomes just above the level of entitlement to financial help tend to have the most to lose (as a proportion of income) if their housing costs increase. Those on higher incomes will be liable to pay as much as those just above the threshold for financial help, but the fall in their disposable income is proportionally much smaller.
- 4.27 Finally, in terms of housing-related support costs, tenure is paramount. The poorest pensioners that rent (almost all renters) will probably not have to pay the additional costs associated with moving to retirement housing.²⁸ By contrast, the poorest owner-occupiers will most likely have to pay for the additional costs of housing-related support.
- 4.28 The owner-occupiers on low to moderate incomes on the other hand are in a much stickier situation. A move to retirement housing will increase their outgoings and they are unlikely to receive any additional financial help. There are around 2 million pensioners in the second and third income quintiles that are not entitled to any help. This will have a significant impact on their income both as an absolute amount and proportionally. They are the most affected financially from moving to retirement housing. In general the owner-occupiers may have much more choice but none of them simple and many of them with financial consequences. The renters have much less choice but fewer consequences.

HOUSING WITH CARE

- 4.29 Costs in housing with care tend to be higher than in housing with support. The average weekly costs in social rented housing with care are £78 for rent, £35 for service charges and £17 in support charges²⁹ (see table 2.3). In terms of the impact on this on the above analysis of housing with support, the higher costs tend to magnify the situation.
- 4.30 For renters although the costs, particularly of rent, are much higher it will make little difference to their income. Most renters already have low enough incomes that they are entitled to some financial help with housing costs and support costs. Therefore the higher costs associated with living in housing with care will be met through an increase in state benefit rather than their own income. The exception is the owner-occupiers who have sold their property and moved into social rented sheltered housing or housing with care: their capital will almost certainly make them ineligible for any state help, unless they had a very low-value property or have very high care costs over a long period.

²⁸ There are some exceptions where there is no longer SP funding for the scheme manager service because the provider has lost the contract (King *et al* 2009).

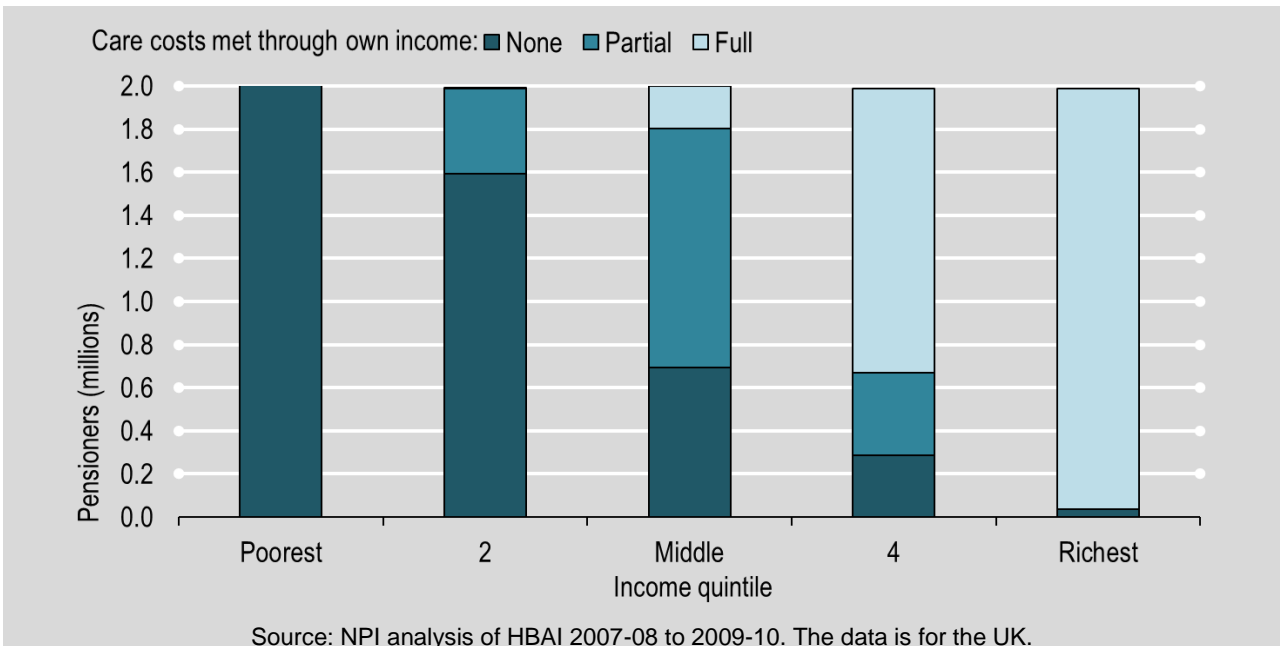
²⁹ The lower and upper quartile costs were £65 and £90 for rent, £20 and £50 for service charge, and £10 and £30 for support costs.

- 4.31 For owner-occupiers, the higher cost of the service charge will mean that those already entitled to help should have the additional cost covered through an increase in the housing cost element of guarantee credit, a greater number of pensioners will be entitled to partial help. Essentially it will have a similar impact as shown in figure 4.5 which compared a service charge of £22 per week with £44. In housing with care the number entitled to partial help would increase even further. In addition, as service charges in extra-care housing are typically higher the impact of inconsistencies in how much help is available is much greater and can reduce income even further.
- 4.32 Owner-occupiers in housing with care will also find that their outgoing for housing-related support costs will increase, and most will not receive any help with this cost. This will affect all households in the same way across the income distribution. However, for those at or close to the guarantee credit level of income, the additional cost will represent a much greater proportion of their income compared to those at the top end of the income distribution.

CARE COSTS

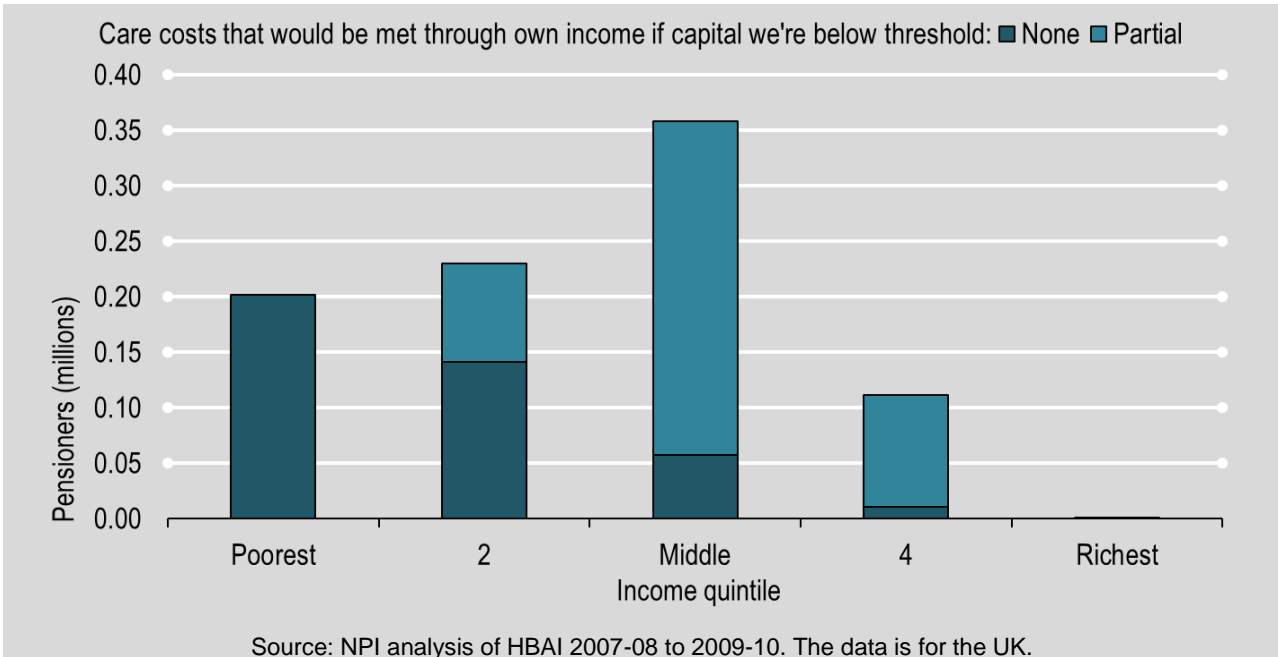
- 4.33 Many residents in housing with care will have a care need and so an additional care cost (although pensioners in other types of retirement housing and in ordinary housing can also have a care costs). We now model how many pensioners would have to pay all of their care costs in retirement housing with care without help from the state, and how many would pay nothing, and how savings affects this. The amount of care required by a pensioner will vary for each individual based on their need. In this model we only aim to illustrate how care costs can affect pensioners' disposable income; we therefore consider how much pensioners would be required to pay if their weekly care costs were an arbitrary £100, this represents approximately 7 hours of care a week at £15 per hour.
- 4.34 Figure 4.7 considers only the income test for help with care costs. It shows the number of pensioners by how much of their care costs pensioners would have to pay with their own income if they lived in retirement housing. Already 46% of pensioners have an income of less than guarantee credit plus 25% (PGC+25) and so would be entitled to have their all of their care costs covered. A further 19% would be entitled to some help: their incomes after meeting care costs would reach the PGC+25 and the remainder of the cost would be waived. A third (35%) of pensioners have high enough incomes that even after paying £100 per week in care costs, their incomes would be at or above PGC+25.

Figure 4.7: The number of pensioners across the income distribution by the amount of care costs that they will have to pay for without state help



- 4.35 Figure 4.7 considers only the income test for help with care costs and not the capital limit. Figure 4.8 shows the number of pensioners that would be entitled to help with their costs based on their income but because of having more than £23,250 in savings receive nothing. It shows that around 1 million pensioners fall into this group and face higher costs because of their savings than someone with the same income but less savings. For the 200,000 poorest pensioners, their income after paying for care costs would be way below what is required to meet their basic needs and drawing on their savings would be unavoidable.
- 4.36 The figure also highlights that this is not exclusively a problem of the “squeezed middle”. The capital limit has adverse effects for people with high savings and *low* to middle incomes. It is merely more common for those in the middle of the income distribution to have higher savings.

Figure 4.8: The number of pensioners with savings above £23,250 that would be entitled to help with £100 p.w. of care costs if capital were disregarded



DIFFERENCES ACROSS THE UK

4.37 The policies scenarios analysed in this chapter largely apply in the same way across the UK. However, there are a number of key differences between devolved administrations which result in different outcomes:

- Pensioner incomes in Northern Ireland are generally lower than in the rest of the UK. As a result a higher proportion of pensioners in Northern Ireland would be entitled to full benefit help with the additional housing costs in retirement housing (32% compared to 22%). In addition a greater proportion of the care costs in housing with care schemes are met through Supporting People
- In Scotland a higher proportion of pensioners already live in social rented accommodation than in the rest of the UK so a smaller proportion would have to pay their housing-related support costs without any help (77% compared to 83%). As personal care is free in Scotland the situation in figures 4.7 and 4.8 would not apply.
- In Wales, the income threshold for help with care cost is slightly higher at guarantee credit +35% (instead of +25%) and there is a £50 per week cap. Therefore in no one should have to pay the full £100 care cost modelled in figure 4.7 and 4.8.

ANOTHER IMPACT OF A CAPITAL LIMIT

4.38 Table 4.9 considers the impact of a capital limit more generally. It shows the number of pensioners by tenure that have an income and/or capital above and below the level for help (for income – guarantee credit plus 25%, for savings – £23,250). There are around 400,000 pensioners (4%) below the income threshold but above the savings threshold, most of whom are owner-occupiers. However, most pensioners not entitled to help because of capital have high enough incomes that they would still not be entitled if their capital was disregarded. Most of those on low income also have savings below the capital limit.

Table 4.9: The number of pensioners renting and owning by income group and savings group

Income group	Savings Group	Renters		Owners		Total	
		Count (000s)	%	Count (000s)	%	Count (000s)	%
Low income	Low capital	1,770	86%	2,500	32%	4,270	43%
Low income	High capital	66	3%	360	5%	426	4%
High income	Low capital	160	8%	2,900	36%	3,050	31%
High income	High capital	50	2%	2150	27%	2,200	22%
Total		2,050	100%	7,930	100%	9,980	100%

Source: NPI analysis of HBAI 2007-08 to 2009-10. The data is for the UK.

- 4.39 It is important to note that, although only a small proportion of pensioners have low income and high capital, the level of savings owner-occupiers have will alter following a move to retirement housing. As shown previously, most pensioner owner-occupiers have more than enough equity to buy retirement housing outright. In doing so they may release enough equity to increase their savings to above the capital limit. Therefore whilst only 0.4 million pensioners currently have incomes below the threshold and savings above it, there are around 2.5 million low income owner-occupiers that could find themselves excluded from help with care costs as a result of moving into retirement housing and releasing their equity. In addition to this they could also find themselves excluded from help with other costs e.g. service charges.
- 4.40 The rules surrounding entitlement to help with care charges and capital amounts, which include savings but exclude housing equity, create incentives for pensioners which are at odds with many other policy agendas. If there is a capital limit, pensioners with care or support needs would be unwise to release that equity as it would mean that they would have to spend it to the capital limit before being entitled to help with care costs whilst those with equity and few savings receive help.
- 4.41 As there is a logical argument and support for policies that encourage pensioners to downsize (encouraging older people to move to a more manageable home, giving pensioners a bigger savings cushion if required) the small print around capital limits creates a huge disincentive for older people to release equity.
- 4.42 In addition, in moving to retirement housing they need to be careful about how much equity they release in terms of their proximity to the capital limit. A move to retirement housing may also increase capital through equity release to the point where they cease to be eligible for financial help which they previously would have been.

5. CONCLUSIONS AND QUESTIONS FOR POLICY

CONCLUSIONS

- 5.1 The three main questions that this study explores are: whether retirement housing is likely to be affordable for the majority of older people; whether its availability is restricted to those receiving means-tested benefits and those with higher incomes; and whether self-funders can afford to remain in retirement housing if/as their care needs increase.
- 5.2 None of these questions can be given a straightforward answer. That is firstly because 'affordability' is subjective. What we have done is try to explain what pensioners have to pay and what happens to income after retirement housing costs have been met in order to provide the reader with information to make their own judgement.
- 5.3 Second, the way the state provides financial help in meeting retirement housing costs is crucial to the answer. In trying to convey a sense of the overall effects of these state systems, we use the metaphor of an income floor containing a number of trapdoors. If the floor provides a guaranteed minimum income after eligible costs have been met, ineligible costs act as trapdoors obliging pensioners to dip into that income in order to meet those costs. In thinking about affordability, four characteristics of this system seem most important.
- First, an effect of the floor is that if two pensioners have the same eligible costs but different incomes, the one who has the higher income before those costs will likely still have a higher income after they have been met – and certainly won't have a lower income.
 - Second, the trapdoors with potentially by far the biggest drops beneath them are the ones triggered by savings which render all care costs ineligible.
 - Third, the risk of falling through a trapdoor is not reduced by having a low income: trapdoors are not things that in principle just threaten middle or higher income pensioners.
 - Fourth, the smaller but more numerous trapdoors triggered by ineligible housing or support costs mainly threaten owner-occupiers and private tenants; for social rented tenants by contrast, the floor is much more solid.
- 5.4 These last two points imply that rather than income being the decisive factor, what matters most is tenure and in particular, whether the pensioner is a tenant in the social-rented sector. This is nothing to do with this tenure per se. Rather it is because of the more favourable way in which the social security system is administered for these tenants compared with both private tenants and owner occupiers. More precisely, this means two things. One is the different treatment of housing costs under housing benefit (for tenants) and guarantee credit (for owner occupiers). The other is the way that receipt of housing benefit by social rented tenants means that housing-related support costs are usually then met by the state too.
- 5.5 Turning to the first of the three research questions, whether retirement housing is viable for the vast majority of pensioners ultimately depends on whether it is viable to live on an income of the guarantee credit level after housing costs, or for private tenants and owner occupiers, this level less housing-related support costs and ineligible service charges or rent. Even if this level of income is not deemed viable, that does not mean that retirement housing is not viable since many – we estimate just over half – will still have incomes above this.

- 5.6 In terms of whether retirement housing is in effect restricted to those receiving means-tested benefits and those with higher incomes depends in part on what should be measured: the financial sacrifice made by moving to retirement housing or the income remaining once living in retirement housing. As a proportion of their income, the cost of moving into retirement housing is greatest for pensioners not entitled to state help but not at the top end of the income scale – so very broadly, those in the middle. In terms of the amount of money left over (and depending on the size of their ineligible housing and support costs), those in the middle are still usually likely to be better off – or at least no worse off – than those who started off with lower income and who, as a result, have any additional housing costs met by the state. Furthermore, as we have explained above, the idea that those receiving means-tested benefits are either all in the same position, is erroneous to the extent that it overlooks the differences that tenure makes.
- 5.7 Alongside this is the potential for inequality of access in terms of the conditions of state help that are not based on income, that is, the housing and support cost trapdoors for private tenants and owner occupiers, and the care cost trapdoors for all. Both private tenants and owner occupiers are spread across the income distribution and do not exclusively represent the ‘middle’. On the other hand, those whose savings disqualify them from help that they would otherwise (on the basis of their income) receive for care costs are much more likely to be around the middle of the income distribution than at the bottom.
- 5.8 Whether self-funders can afford to remain in retirement housing when their needs increase depends not on being able to afford the highest level of care that may be necessary but rather the highest level of care that the state deems the pensioner capable of paying for themselves. This is a curious arrangement. Another determinant of whether someone can afford to remain in retirement housing will be how the cost of living there varies over time. Even if care needs remain the same, costs often go up. This can either be for eligible cost which will lower income to the floor, or for other costs which will reduce income further below the floor.
- 5.9 We stress that we are not suggesting that pensioners in the social rented sector are somehow privileged. Neither are we suggesting that they are going to be generally better-off in the simple sense of having more money left over. But what they do have as a result of the way that the systems are administered (across the UK) is more certainty, both at the time of any move and into the future. The cost of uncertainty must not be underestimated; but it belongs in a different dimension from how much money is available at any particular moment. One cannot be reduced to the other; and ultimately, affordability takes account of both.

POLICY QUESTIONS

- 5.10 If nothing else, this study should dispel any idea that the affordability of retirement housing is a straightforward, albeit somewhat subjective, question. The problem is not just that, on close inspection, it turns out to be complicated. That is inevitable and, for any real life problem like this, entirely normal. Rather it is that so many aspects of the matter are both bedevilled with uncertainty and, in the way the state treats the matter, riddled with inconsistency. Guiding principles are few and far between. This is highly undesirable. In identifying the policy questions that arise, we focus on five specifics, namely: clarity of understanding; consistency in the way that eligible costs are identified; fair treatment for low income owner occupiers; taking better account of savings to avoid disincentives; and responding to changes wrought by welfare reform.
1. **Better public understanding both of the retirement housing ‘offer’ and of state help to meet the costs:** are all the costs of retirement housing clear and transparent? Is the system of state help for all the costs, and the interplay between different benefits, well enough understood by pensioners and their families? If not, what could be done to make it better understood?

2. **Consistency in identifying eligible costs:** decisions about which costs are eligible for state help is critical to affordability yet principles behind the rules and their administration appear to be very unclear. What can be done to introduce greater regularity into this?
3. **Fair treatment for low income owner occupiers:** as a specific instance of the previous point, a system that in effect discriminates on the basis of tenure to the disadvantage of low income owner occupiers seems unjust. What can be done to address this?
4. **Taking better account of savings to avoid disincentives:** savings thresholds that make costs suddenly ineligible for help may be convenient but are crude and create undesirable incentives (for example, for low and average income owner occupiers to remain in a larger house just for financial reasons). How can the way savings are treated be improved?
5. **Responding to changes wrought by welfare reform:** the increase in the state pension age and change in the age rules for guarantee credit for couples mean that universal credit will become a much bigger factor in the affordability of retirement housing for people under state pension age. What needs to be done to ensure that this extension of universal credit takes account of the issues with retirement housing?

BIBLIOGRAPHY

- ADASS (2011) *People who pay for care: quantitative and qualitative analysis of self-funders in the social care market*. Association of Directors of Adult Social Services
- ADASS (2012) *ADASS Budget Survey 2012*. Association of Directors of Adult Social Services
- Ball, M. (2011) *Housing markets and independence in old age: expanding the opportunities*. Henley Business School, University of Reading
- Baumker, T., Netten, A. and Darton, R. (2008) *Costs and Outcomes of an Extra-care Housing Scheme in Bradford*. York: Joseph Rowntree Foundation
- Boyle, F (2008) *Analysis of the need and demand for retirement villages in Northern Ireland in their various forms*. Belfast: Northern Ireland Housing Executive
- Croucher, K (2008) *Housing choices and aspirations of older people: research from the New Horizons programme*. York: Centre for Housing Policy
- Croucher, K., Sanderson, D., Chaplin, S., Wright, D. and Lowson, K. (2008) *Review of Sheltered Housing in Scotland*. Scottish Government Social Research/Communities Scotland
- Dilnot Commission (2011) *Fairer care funding volume II Evidence and Analysis*. Department of Health
- Dominy, N & Kempson, E (2006) *Understanding older people's experiences of poverty and material deprivation* (DWP, Research Report 363). London: department for Work and Pensions
- Finch, N & Kemp, P.A. (2006) *Which pensioners don't spend their income and why?* (DWP, RR 334)
- Hancock, K.E. (1993) 'Can Pay? Won't Pay? Or Economic Principles of Affordability, *Urban Studies*, 1993: 30:127
- Henwood M and Hudson B (2009a) *A Parallel Universe? People who fund their own care and support: A review of the literature*. ADASS/SCIE/JRF
- Henwood M and Hudson B (2009b) *Navigating the Parallel Universe: Information and Advice for People who Self-fund*. ADASS/SCIE/JRF
- Henwood M. (2010) *Journeys without maps: The decisions and destinations of people who self-fund – a qualitative study from Melanie Henwood Associates*, December 2010. One of two reports included in *People who pay for care: quantitative and qualitative analysis of self-funders in the social care market*. ADASS (and others) 2011
- Heywood, F., Oldman, C. and Means, R. (2002), *Housing and Home in Later Life* Buckingham Open University Press
- King, N., Pannell, J. and Copeman, I (2009) *'Nobody's Listening': The impact of floating support on older people living in sheltered housing*. London: Help the Aged

- Kneale, D. (2011) *Establishing the extra in Extra Care: Perspectives from three Extra Care providers*. ILC-UK for Audley, The Extra Care Charitable Trust, Retirement Security Limited and Housing LIN
- Leeds City Council (Keeping House) (2006) *Literature study about affordability of housekeeping services for older people*, Leeds City Council/ University of Leeds, December 2006
- Netten, A., Darton, R., Baumker, T. and Callaghan, L. (2011) *Improving housing with care choices for older people: an evaluation of extra-care housing*. Canterbury: University of Kent
- Newhaven Research, WESLO and Centre for Housing Research St Andrews University (2011) *Live Long and Prosper? Equity Investment and Housing with Care*. Joint Improvement Team, Directorate of Health and Social Care, Scottish Government www.iitscotland.org.uk
- Oldman, J. (2012 forthcoming) *'Making it work for us': A Residents' Inquiry into sheltered and retirement housing*. London: Age UK
- Pannell, J. and Blood, I. (2012 forthcoming) *Evidence review of supported housing for older people in the UK*. York: Joseph Rowntree Foundation
- Pannell, J., Blood I. and Copeman, I. (2012 forthcoming) *Affordability, choices and quality of life in housing with care for residents who are self-funding*. York: Joseph Rowntree Foundation
- Pannell, J., Aldridge, H. and Kenway, P. (2012) *Market assessment of housing options for older people*. London: New Policy Institute
- Resolution Foundation (2008a) *Lost: low earners and the elderly care market*. London: Resolution Foundation
- Resolution Foundation (2008b) *A to Z: Mapping long-term care markets*. London: Resolution Foundation
- Resolution Foundation (2008c) *Navigating the Way: the future care and well-being of older people*. London: Resolution Foundation
- Shelter (2012) *A better fit? Creating housing choices for an ageing population*. London: Shelter.
- SSIA (2011) *Better Support at Lower Cost: Improving efficiency and effectiveness in services for older people in Wales*. Cardiff: Social Services Improvement Agency.

DATA SOURCES

Pensioner data:

Households Below Average Income provided data on the incomes of pensioners across the UK for the years 2007-08, 2008-09 and 2009-10.

The *Family Resources Survey* provided data on savings of the same pensioners in the HBAI dataset for the years 2007-08, 2008-09 and 2009-10.

The *Wealth and Assets Survey* provided the data on the equity held by pensioners across Great Britain, for the years 2006 to 2008.

Cost data:

All costs are averages and in reality are wide-ranging.

The data on the price to buy retirement housing was estimated using an online survey by region on *right-move* of one bedroom retirement properties for sale and a survey of *HousingCare.org* of all retirement housing currently for sale.

Data on the cost of living in retirement housing comes primarily from CORE (COntinuous REcording). It records information on the characteristics of moves to social housing in England. The rent, service charge and support cost data was derived by looking at the median cost for one bedroom flat on a scheme offering medium level of support for older people. CORE uses the following definitions:

- Rent: basic rent exclusive of any service charge or other charges for the unit
- Service charge: includes charges for cleaning and excludes heating and water charges.
- Support charge: are charges made to fund housing-related support services (support that enables a person to live independently or sustain their capacity to do so)

The CORE data used is for 2010-2011 and three quarters of 2011-12. Stats Wales also publish data on the cost to rent retirement housing which corresponded to the rates in CORE.

There is not enough data available to establish what an average private sector rent, service charge or support charge would be. When modelling benefit entitlement in chapter four of the report for owner-occupiers, we doubled the average service charge and support cost found in the social rented sector. This was to illustrate what the impact of a higher cost is on owner-occupiers.

The data on the cost of care came from two papers:

- *Unit Costs of Health & Social Care 2011* by PSSRU which estimated the cost to the state of one hour of a home care worker's time; and
- *Homecare service charges: maximum rates to disappear?* by the Coalition on Charging (2011) listed the cost of an hour of care charged by a number of different local authorities.

Looking at the both papers £15 seemed like a reasonable estimate for the typical cost of an hour of care.