Is the Brexit Mess Linked to the Conservatives' Long-Term Care Proposals?

April 15, 2019

MarketWatch Blog by Alicia H. Munnell

Alicia H. Munnell is a columnist for ***MarketWatch*** and director of the Center for Retirement Research at Boston College.

Older people on both sides of the pond want to leave their house to their children.

I sat next to a Brit the other day. At one moment, the discussion was focused on insuring against long-term care needs and the advantages of using the house as a source of retirement income. The next moment the conversation turned to the Brexit mess. The link between the two was a part of **the Tory manifesto** that focused on requiring people to use their house to pay for long-term care. Apparently, this proposal was extremely unpopular and contributed in a significant way to the substantial decline in Prime Minister May's majority in 2018. What was this proposal with such a dramatic impact? And what, if any, lessons does it offer for the United States?

The proposed change was an attempt to meet the cost of looking after the elderly in their own homes. Previously, this service was provided by the local government councils, but severe budget cuts had made providing care increasingly difficult. The reduction in available care, and resulting increase in hospital visits, was putting substantial pressure on the National Health Service.

Under current policy, people have to pay for care provided in their home if they have wealth of more than £23,250, *excluding* the value of their residence. Under the proposed policy, people will have to pay for care in their home if they have wealth of more than £100,000, *including* the value of their home. Such a change would mean that most homeowners would have to pay for the cost of home care provided by the councils.

Under the proposal, older people would not have to sell their home to pay for the care while they or a surviving spouse were alive. Instead, the government would make products available that would enable them to pay for care by extracting equity in their home. The equity would be recovered at a later date when they die or sell their home.

For people who get their care in residential facilities, the proposal was actually good news. Their homes were already included in the value of their assets, and the proposal meant that they would be responsible for paying for their own care only once their remaining assets dropped to £100,000 instead of £23,250.

***The Guardian* speculated** in May 2017 that May's willingness to include a proposal that could be unpopular with middle aged and elderly voters reflected confidence in winning the election, given the Tories' double-digit lead in the polls. As we now know, the election did not turn out that way. And my British seatmate was convinced that the care proposals played a major role in the outcome.

The story seems plausible given the reluctance of Americans to tap the equity in their homes. In the United States, that reluctance reflects a fear of large long-term care costs at the end of life and the desire to leave a bequest. They too might not react well to a policy that reduces the value of the home that they plan to pass on to their children. The problem is that mounting evidence suggests **tapping home equity** may be the best way for many people to have a secure retirement. The question is whether it is possible to persuade older people that they should tap some home equity for their own comfort even if it means leaving less to their heirs.