PRESS RELEASE
Office of Liz Kendall MP
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Elderly people to be charged thousands of pounds extra in 'hidden' interest payments for new care loans

David Cameron is not being straight with elderly people about the extra costs they will have to pay under new Government proposals for funding social care, Labour said today.

Interest will be charged on the Government's new universal deferred payment scheme – council loans to help cover care home fees which have to be paid back after a person dies by selling the family home.

These interest charges – which work in the same way as interest on a mortgage – will not be included in the Government's so-called 'cap' on care costs of £72,000, a Parliamentary question from Labour has revealed.

The charges mean elderly people who take out the new loans, so they don't have to sell their home while they are alive, face paying thousands of pounds more for their care and losing more of the value of their home when it is sold.

Analysis from the House of Commons Library, based on the average annual fee for a residential care home in England, shows that care loans to cover the average length of stay – two and a half years – will clock up extra costs of £3,500 in interest alone.

Elderly people who live in residential care for 5 years – currently more than one in eight care home residents – face paying £13,800 in interest charges.

The interest bill will continue to grow until the family home has been sold, even after the person has died, and will be even bigger for elderly people who live in areas where residential care is more expensive.

A Freedom of Information survey conducted by Labour shows that 95% of councils already provide such deferred payment loans, but under the current system no interest is charged while the person is in residential care.

Liz Kendall MP, Labour's Shadow Minister for Care and Older People, said:

"These hidden interest charges will come as a huge shock to elderly people and their families. Ministers have repeatedly claimed care costs will be capped at £72,000 but the truth is different - elderly people will have to pay far more.

"These new interest charges won't be included in the so-called cap on care costs, and will continue to clock up if people can't sell the family home once a loved one has died.

"Elderly people deserve to be told the truth about how much they will really have to pay under the Government's social care plans. David Cameron must now come clean, so families can properly plan for the future."

Ends

Notes to editors:

1. At present, local councils can – but don't have to – offer deferred payment schemes for people who pay for their own residential care. Councils are not allowed to charge interest on these loans whilst the elderly person is still alive. Results from Labour's Freedom of Information survey of English councils (to which more than three quarters of councils responded) shows that 95% already offer deferred payment schemes.

2. The Government's Care Bill, which is currently going through Parliament, places a duty on all local councils to offer deferred payment schemes. Councils will now be able to charge interest on these loans at a nationally set rate. The Government says a 4% interest rate would be sufficient for local authorities to cover the costs of lending and the risks of non-repayment. *Caring for our future: consultation on reforming what and how people pay for their care and support, Department of Health, 2013* (pg 49)

3. The Government has said the new deferred payment schemes will operate like a draw down mortgage where the fees are deferred in regular instalments rather than a lump sum. Local authorities will be able to charge interest during the lifetime of a deferred payment.

4. In response to a written Parliamentary Question from Liz Kendall MP, the Government has revealed for the first time that "Interest on deferred payment agreements will not count towards the cap on care costs." PQ 172084, Hansard, Wednesday 23 October 2013.

5. The estimated average length of stay in an English care home is 909 days - 2.5 years. 13% of elderly people stay in residential care homes for 5 years or more.
Length of Stay in Care Homes, J Forder and J L Fernandez Personal Social Services Research Unit, 2011

6. The average annual price of a residential care home in England is £27,200.
Care of Elderly People Report 2012/13, Laing & Buisson

7. House of Commons Library projections of the cost of interest charges on loans by length of stay in care home

Years in care home	**Total cost of stay in care home**	**Total cost of interest compounded monthly at an annual rate of 4%**
1 year	£27,200	**£589**
2 years	£54,400	**£2,267**
2.5 years (average length of stay)	£68,000	**£3,513**
3 years	£81,600	**£5,032**
4 years	£108,800	**£8,885**
5 years	£136,000	**£13,827**

These figures underestimate the amount of interest people will really pay, as they don't take into consideration inflation – the average price of a care home is likely to increase significantly over a period of a few years, and the total amount of interest incurred on the debt will grow accordingly.