Summary

- The number of people aged over 75 could double over the next two decades, rising to about 10 million by 2040.
- A Care ISA has been mooted to help solve a funding long-term care crisis, along with personal care savings bonds.
- The PLSA has said individuals could be encouraged to make additional pension contributions that could be set aside to pay for care.
- Pension products that could be used to help fund care include immediate needs annuities, purchased to pay for care when it becomes necessary, with the funds tax-free if paid directly to the care home provider.

Difficult to care

David Adams explores the challenges of funding long-term care and how the pensions industry may help provide solutions to this problem

The number of people aged over 75 could double over the next two decades, rising to about 10 million by 2040. That means more of us will have to rely on social care during our final years, in our own homes or in residential care homes. Age UK believes 1.2 million people have an unmet care need today, and that figure is increasing, while local authority social care budgets shrink. Across England, spending by councils on social care per adult resident fell by 11 per cent in real terms between 2009/2010 and 2015/2016, according to the Institute for Fiscal Studies (IFS).

Proposal difficulties

Residential care can cost £30,000 per year, and even just bringing carers into someone's own home at the start and end of the day can cost £10,000 or more. Age UK estimates that an extra £1.65 billion per year will be needed by 2021 just to maintain the current unsatisfactory funding situation, and that meeting all care needs at that point would cost an extra £5.75 billion per year.

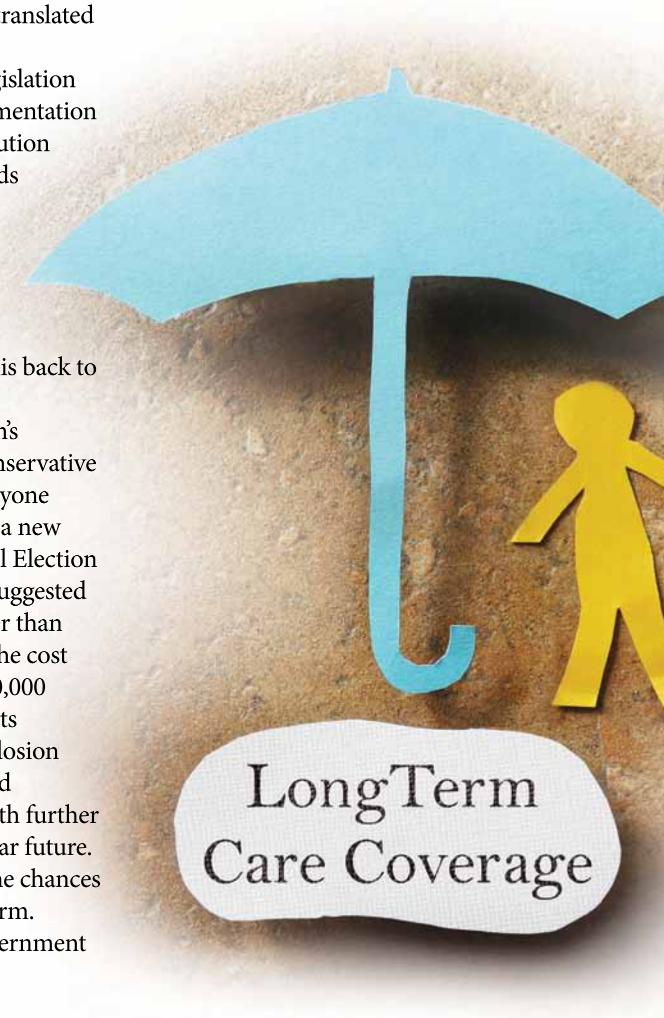
Where could that money come from? The Commission on Funding of Care and Support, led by Sir Andrew Dilnot in 2010/2011, produced recommendations that were largely accepted and translated into legislation by the coalition government. But not all this legislation has yet come into effect. Implementation of a £72,000 cap on the contribution individuals should make towards paying for local authority-provided care was supposed to have happened in April 2016, but in 2015 David Cameron's Conservative government decided to push this back to 2020.

Meanwhile, under Cameron's successor Theresa May, the Conservative Party made what probably everyone would call a mess of proposing a new system during the 2017 General Election campaign. The Conservatives suggested a floor for asset spending, rather than a cap: individuals would fund the cost of care until they only had £100,000 of assets left. Whatever the rights and wrongs of this idea, an explosion of opposition forced a quick and politically damaging u-turn, with further consultation pledged for the near future.

There is scepticism about the chances of much progress in the near term. "The chances of a minority government getting consensus on this seem slim," says Royal London director of policy and former pensions minister Steve Webb. "The politics are about trade offs: about which generation pays, about our homes. I don't think this consultation process will lead anywhere – it would have to create some losers and a minority government isn't strong enough to create losers."

Improving the situation

So, what can and should be done to improve the situation? Sir Andrew Dilnot says he still stands by the main conclusions drawn by the Commission he led in 2010/2011, which recommended the creation of a structure to ensure adequate funding for the means-tested system, a reform of the means-tested system with a cap on the costs individuals would have to pay towards their own care; and an



element of social insurance to pool the risk of needing expensive care over a long period.

The insurance industry is unlikely to take the lead in pooling that risk. Insurance products that could help do exist: protection policies that could be purchased by individuals or couples, with premiums paid for life or until a claim is made in return for the policy paying out a predetermined contribution towards the cost of long-term care. Alternatively, protection benefits can be incorporated within whole-of-life assurance, to release payments to policyholders to help fund care in their home or in a residential care home, with the amount paid being taken from the lump sum payable on death.

But at present these products are likely to be underused. "We do not believe that people will be prepared to pay potentially large premiums towards a policy they may never need," says Aegon pensions director Steven Cameron.

Might individuals be persuaded instead to save more towards the cost of care? Another former pensions minister, Baroness Ros Altmann, bemoans the fact that at present means testing thresholds encourage people to limit savings activity or to give assets away. She thinks a new type of ISA – a 'Care ISA' – could be useful. Its selling point could be an exemption from inheritance tax.

Another option might be Personal Care Savings Bonds, which might pay out prizes like Premium Bonds. The pensions freedoms could help too: Pensions and Lifetime Savings Association (PLSA) deputy director for DC lifetime savings and research Nigel Peaple suggests that one option could be to encourage individuals to make additional pension contributions that could be set aside to pay for care.

Difficulties

But all these ideas rely on people being prepared to put money aside for a type of rainy day that may never come and we know how hard it is just to persuade people to save for retirement, let alone for social care. As Institute and Faculty of Actuaries (IFoA) pensions and long-term care committee chair Tom Kenny says: "Many people just don't want to worry about this."

"I don't think a Care ISA is going to work – or if it does it will be a minority pursuit," says Age UK director of policy and research Jane Vass. "If you're trying to manage on your salary and make pension contributions it is very hard to also ringfence money for social care as well. So funding for social care has to be a partnership between government and the individual."

One obvious way to meet this need in the longer term will be through the National Insurance system. "I suspect any solution, ultimately, will be a mix of social insurance and private insurance, where those of us who can afford it buy more cover," says Webb.

Right of centre thinktank, the Centre for Policy Studies research fellow Michael Johnson also thinks National Insurance should be extended to help younger people make provision for social care. But he would favour a system similar to that used in Singapore, where money paid into a National Insurance-type scheme by individuals and employers is moved automatically between different pots for different purposes over time: a pot for buying a property, one for healthcare and another for various purposes during retirement. "I see us moving towards a more individualistic, personal savings framework, with elements of risk sharing," he says.

Working together

Whatever the form of the social insurance element used to help fund care, its establishment will make it easier for the financial services and insurance industries to create complementary products: to insure individuals up to the limit of the cap, for example.

Pension products that could be used to help fund care include immediate-needs annuities, purchased to pay for care when it becomes necessary, with the funds tax free if paid direct to the care home provider. A disability-linked annuity, within which benefits paid out would increase if a policyholder requires long-term care, might also be useful; as could income drawdown products.

Some also suggest more significant reforms to the systems that would fund long-term care. Altmann is among those who advocate integration of the health and social care systems, to end the strange, unfair situation where someone who has cancer (for example) receives free care through the NHS, while a dementia sufferer may end up losing their home to pay for their care. The Labour Party proposes creating a National Care Service alongside the NHS, to replace the current piecemeal local authority-based system.

Whatever the combination of measures taken to tackle this issue, the chosen solution must be easier for individuals to understand than is the current system, says Association of British Insurers (ABI) head of retirement policy Rob Yuille. "People need to be certain about what the state will provide for them in order to make a judgment about what they need to provide for themselves," he points out.

Opinions differ as to how quickly we might see a new system in place. Sir Andrew Dilnot is cautiously optimistic. "During the election campaign this issue rose up the political agenda," he says. "It's hard to imagine a government going into another election without trying to sort this out."

In addition, he notes, money has already been set aside to help local authorities prepare for the implementation of the cap proposed in the Dilnot Report, so councils will need to start planning this process soon.

But Webb remains pessimistic. "Given all the spending pressures faced by local authorities to deal with short-term care needs, it's hard to see the government finding serious money towards longer-term reform," he says.

Written by David Adams, a freelance journalist