INTERGENERATIONAL FAIRNESS FORUM

Grasping the Nettle: Sustainable Funding for Social Care & Intergenerational Fairness

July 2019

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Foreword

The Intergenerational Fairness Forum

The Intergenerational Fairness Forum has Parliamentary and non-Parliamentary members, including academics, charities and other organisations with a shared interest in intergenerational fairness. Our purpose is to consider expert advice on some of the most critical policy issues we face and work together on a cross-party basis to devise and promote policies that support intergenerational fairness. We seek to promote better understanding of the impact of policy on intergenerational relationships and the way in which policy affects people at different life stages, so that public policy facilitates mutually supportive generations, improving social cohesion.

This Intergenerational Fairness Forum inquiry team on sustainable funding for social care and intergenerational fairness was led by Baroness Greengross, our Chair, and Baroness Altmann, our Vice-Chair; who were supported by Parliamentary members of the Forum; the Forum's Expert Advisers, Clive Bolton of Liverpool Victoria Group and Shaun Crawford of EY; and Patricia Constant of the Forum's Secretariat.

Acknowledgements

We are indebted to all the individuals and organisations who have given us oral and written evidence and to the Parliamentarians who contributed to our inquiry meetings. Their support for our inquiry process does not imply support for any of the views, conclusions or recommendations expressed in this report for which we take full responsibility. The inquiry team would like to thank Patricia Constant of Central Lobby Consultants (CLC) for her assistance in drafting this report. CLC provides the Secretariat for the Intergenerational Fairness Forum. We are also grateful for the advice and support of the Forum's Expert Advisers, Clive Bolton and Shaun Crawford, throughout this Parliament.

We would also like to acknowledge the indispensable financial support for the Forum's general work provided by Aviva and EY.

Our inquiry

In late 2017 the Intergenerational Fairness Forum Officers decided that the Forum should hold an inquiry to explore the characteristics of a system that would provide sustainable funding for adult social care in England which also met the test of intergenerational fairness. Our call for evidence, issued in February 2018, was sent to all Parliamentary and non-Parliamentary members of the Forum, as well as third parties with a known interest in these issues. It sought information and views on the current cost of providing adult social care; responsibility for funding social care; rules regarding liability for care costs; new sources of funding for social care and intergenerational fairness. We then held a series of meetings with leading independent experts in this field to discuss these issues. The full minutes of these meetings are available from the IFF secretariat upon request. The contributors of oral and written evidence are listed in the Appendix.

Executive summary

Successive Governments over the last 20 years have ducked the challenge of implementing a sustainable means of funding social care in England, with the result that it has been in crisis for many years – a situation that is widely acknowledged, including by the present Government. In part this is because the Opposition in successive Parliaments have been guilty of political opportunism – meeting any tentative attempts at reform with accusations about a "death tax" or similar jibes. It is also because most Governments in recent years have believed that raising taxes is a vote loser and social care has not been a political priority when there has been scope for increasing public expenditure. This is compounded by a lack of public awareness about how the system works. Most people assume that free social care is provided to people in need – until they encounter the system directly, usually at a moment of family crisis. So the issue has been repeatedly kicked into the "long grass" as "too difficult to deal with now". This must change.

As has been re-iterated by several Select Committees in the Lords and Commons, the Local Government Association and many reputable external think tanks and charities, we are failing to meet the needs of people – old and young – who require social care.

At the moment there is an artificial boundary between provision for health needs, which is free at the point of use, and provision for social care needs which is means-tested. The arbitrary categorisation of these needs means that the needs of people with cancer are met without charge while the needs of people with dementia are not. This is not only unfair, but leads to inefficiency in provision in the health service, with delayed discharges and avoidable hospital admissions when social care fails.

If the situation is bad now – and it is – it is likely to become much worse unless a new and sustainable system of funding social care can be devised and implemented soon. The UK's population is set to age significantly over the next decade, with the number of people aged over 65 set to increase by 33% and the number of over 85s to nearly double over the same period, while the number of working age adults will increase by just 2%.

As a Forum whose focus is intergenerational fairness, we believe that the new, sustainable system for funding social care must also meet the test of intergenerational fairness. This is an ethical priority, but it will also mean that the new system has greater legitimacy - and is therefore more sustainable - because it is transparently fair to all generations and recognises that the ability to contribute to funding social care changes over the life-course. Our aim is to help develop a means of providing sustainable funding for social care in which all generations contribute, but no one generation is impacted unduly.

Meeting the current gap in funding for social care – between what is provided and what is needed – and establishing a system which will be able to deliver the funding required in the future, as an ageing population with increasingly complex needs increases demand, is challenging but affordable.

Funding free provision of social care for everyone over the age of 65 through general taxation is simple and popular with the general public according to Independent Age (2018)[1]. It is also supported by organisations such as the Institute for Public Policy Research.[2] The IPPR argues that fully funding free personal care would cost £36 billion by 2030 (excluding the cost of a cap or more generous means test). "This is not cheap but would still represent an increase of less than 1% of total Government expenditure …and is only marginally more expensive (£2 billion in 2030) than the Conservative party's 2017 election pledge of a cap and floor system. It also argues that this measure would save the NHS in England £4.5 billion a year by enabling more

[1] Independent Age press release, September 2018
[2] *Social care: Free at the point of need - The case for free personal care in England*, IPPR, May 2019

elderly people to receive care in the community. Free social care provision for peopled aged 65+ has been introduced in Scotland, where it has supported the integration of care and health services and families benefit because the process of setting up care packages is simpler and no longer includes discussions about income and who will pay. Free social care provision for people aged 65+ is currently supported by the Labour Party, the Liberal Democrats and the SNP.

We would also support a long term ambition of providing free social care for people aged over 65, but assume for present purposes that the combination of financial constraints and significantly rising demand for care services will mean that individuals will still have to make a contribution - to meet at least some of their care and accommodation costs – for many years to come.

Assuming that individuals are not simply left to fend for themselves entirely, the international evidence suggests there is a clear choice between two major options for funding the cost of social care that is met by the state. We can either fund the cost of social care provision paid by the state through the tax system, like the NHS and other public services; or we can introduce a new system of mandatory social care insurance. Other revenue raising measures could play a part, but in isolation they do not raise enough money to provide a sustainable means of funding decent social care provision. It is also important that the social care funding system is as simple as possible, so that it is clearly understood by all.

A hypothecated, mandatory system of social care insurance has the advantage that it does not leave social care funding levels as vulnerable as raising the funds through general taxation would during periods of public expenditure constraint or when there are more popular, competing priorities for public expenditure, such as the NHS and education. As we have seen, Government funding for social care provision funded through the tax system has suffered in recent decades in this way.

We would also argue that fully funding free social care through income tax or National Insurance Contributions (NICs) in the near future, before a fund to help pay for it has been established, arguably fails to meet the test of intergenerational fairness because the burden for paying for social care would then fall only on the working age population, while retired people would contribute nothing. This seems to us particularly controversial at the present time, when the "Baby Boomer" generation is relatively well-off compared with generations coming behind them, who have not benefited as they did from policies which supported free higher education, defined benefit pensions and an affordable housing market. We recognise, of course, that there are inequalities within and between generations and not everyone who is a pensioner now conforms to the wealthy Baby Boomer stereotype. Nonetheless we would argue that, older people should also make a contribution to the cost of social care and the burden falling on young working people should be lighter, in recognition of the conditions they face, which include for many insecure employment and debts associated with higher education.

This report sets out our findings, conclusions and recommendations. It does not attach precise values to all the measures we recommend because we recognise that changes to tax reliefs and welfare benefits can lead to changes in behaviour, but we are confident that taken together they are sufficient to raise significant and sustainable additional revenue to enable better care provision – extending both the scope of care services and improving the quality of care provided.

We conclude that intergenerational fairness dictates the best solution to funding adult social care will be achieved by a mixed system, which entails a package of measures to help meet both the immediate needs of our underfunded care services and the long term costs of care that will arise as a result of our ageing society. The changes we recommend are needed to ensure that each generation contributes adequately towards the cost of care services and costs are not imposed unduly on future generations.

Intergenerational fairness

For many years, especially since Beveridge and the advent of the welfare state, we have had an implied social contract between the generations: at some stages in life you pay into the system, through taxes and national insurance contributions (NICs), and at other stages in life society supports you. During our childhood we receive free education services; in old age we receive the state pension; and throughout life we benefit from the health service and welfare system.

In recent years, as the idea that the Baby Boomer generation (a large population cohort born ~between 1946 and 1964) has benefited disproportionately from public policy through their lifetimes has become widespread, this social contact has been increasingly questioned. Many people feel that the present generations of younger people are not receiving the same degree of support from the state or enjoying equivalent living standards, in terms of higher education, employment income, pensions and access to housing, as their parents and grandparents experienced when at a similar age.

As we consider the increasingly urgent need to develop and implement a sustainable system for funding social care, we must bear the issue of intergenerational fairness clearly in mind if we are to arrive at a system that commands support from the whole of society and which supports social cohesion. To achieve this, it must impact on all generations in a way that the majority of people considers to be fair and it must establish a system which gives young people confidence that it will be there to support them in the future. We need more than a short term fix to deal with the population bulge represented by the Baby Boomer generation, which will intensify pressures on public services including especially health and social care, requiring increased spending on pensions, health and social care at the same time as the proportion of the population of working age paying taxes falls.

Sir Andrew Dilnot told us that to date each generation has taken more out of the welfare state than they have contributed. This has only been sustainable because of the growth of GDP over the period since World War II. It does raise the question of how much each generation can spend above their lifetime contribution - and the truth is probably not more than the rate of trend economic growth - if we are to avoid passing on to future generations an ever increasing public debt and the interest burden associated with it.

Our current inquiry has focussed on the specific issue of sustainable funding for adult social care and intergenerational fairness but, like the Ad Hoc Select Committee on Intergenerational Fairness and Provision (AHSC IFP),[3] we believe the Government should do more to generate and publish cross-government data on intergenerational fairness. It should also publish Intergenerational Impact Assessments for all major policy proposals and draft legislation revealing how it will affect different generations.

[3] *Tackling intergenerational unfairness*, House of Lords Ad Hoc Select Committee on Intergenerational Fairness and Provision report (April 2019).

The state we are in

At the moment in England we have no national care service. We have a mix of private and public provision in which people who cannot afford to pay for themselves receive minimal, strictly means-tested support from Local Authorities. All such care is subject to minimum quality standards regulated by the Care Quality Commission (CQC).

The key problems arising from the current situation are that: demand for social care is not being met causing hardship for families; Local Authority budgets are being put under great strain; private providers are withdrawing service provision; experts warn the system is unsustainable; and the system is inequitable: ill and frail relatively wealthy private residents subsidise less wealthy residents of care homes whose places are funded by Local Authorities paying lower fees for the same services.

There is considerable evidence of unmet need as Local Authorities raise the cost of day care and focus the help they can provide on those with the greatest need. The number of people receiving care from Local Authorities fell by 25% (427,000) between 2009-10 and 2013-14 and that there was a further fall of 2% (19,000) between 2014-15 and 2015-16.[4] The Communities and Government (CLG) Select Committee reported[5] that fewer than 1 in 12 Directors of Adult Social Care are fully confident that their Local Authority will be able to meet its statutory duties in 2017-18 (paragraph 13). It also reported that 28% of care services are inadequate or require improvement (paragraph 18). Age UK estimates that there are 1.4 million people aged 65+ who do not receive the care support they need with essential living activities, an increase of 48% since 2010.

A joint Kings Fund/Nuffield Trust report, *Social Care for Older People: Home Truths* (September 2016), found that “this is placing an unacceptable burden on unpaid carers and is leaving rising numbers of older people who have difficulty with the basic activities of daily living – such as washing, dressing and getting out of bed – without any support at all.” A year ago (June 2018), 3 highly respected organisations – The Kings Fund, Nuffield Trust and the Health Foundation – estimated that at least 400,000 fewer older people are now able to access publicly funded social care than in 2010.

Currently anyone with assets of more than £23,500 excluding the value of their home must pay the full cost of their residential care. Local Authorities pay for those with savings under this threshold, about 220,000 residential care home residents at a cost of £14.4 billion in 2015/16.

About 177,000 people (some 10% of people aged 65+) pay for their own residential care and these people are effectively subsidising other residents because Local Authorities have driven down the cost of the fees they are prepared to pay. The House of Commons Communities and Local Government (CLG) Select Committee found that 96% of people paying for their own care pay on average 43% more than the state funded residents in the same home for the same room and the same level of care (paragraph 53).[6] This means that the burden of subsidising demand for social care from relatively poor people falls not on all relatively wealthy people – as it would if funded through taxation or National Insurance Contributions (NICs) – but only on those wealthy people unlucky enough to require social care themselves. This hidden subsidy is morally indefensible.

[4] *Social Services Activity,* NHS Digital, Community Care Statistics, England (2009-10 to 2015-16)
[5] *Adult Social Care*, Ninth Report of Session 2016-17 (HC 1103)
.[6] ibid

Local Authorities driving down the fees paid (spending per resident fell 11% between 2010 and 2016) has also led to some providers withdrawing from the market as their businesses become less profitable. The Association of Directors of Adult Social Services (ADASS) has said that 80% of Directors of Adult Social Care had reported that providers were facing financial difficulties and that, in the 6 months to June 2016, provider failure had affected at least 65% of Councils.[7] The (CQC) reported in October 2016 that since 2010 there had been a 12% reduction in the number of residential (non-nursing) care homes, along with an 8% decrease in total beds, from 255,289 to 235,799.[8] This problem is likely to be exacerbated as the minimum wage rises and if Brexit reduces the supply of relatively cheap non-UK EU workers. Councillor Izzi Seccombe, then Chair of the Local Government Association's (LGA's) Community Wellbeing Board, told us last year that there are no Local Authorities that have not had contracts for adult social care handed back from private providers and we have "ever more fragile provider markets".

The challenge of funding social care is not just a problem for those people who need it and their families, but for all of us. Inadequate social care is intensifying pressure on the NHS, as delayed discharges lead to bed-blocking and make it more difficult for hospitals to deliver in-patient treatment for others. The National Audit Office (NAO) has estimated that the gross annual cost to the NHS in England of older patients in hospital beds who are no longer in need of acute treatment is £820 million.[9] Barbara Keeley, Labour Shadow Minister for Social Care, has described the statistics[10] on delayed discharges as "deeply worrying", noting that over the 5 years to September 2017 the number of NHS bed days lost due to a lack of social care have increased by 113%. Inadequate care in the community is also increasing pressure on NHS acute services as elderly people present at A&E after falls, some of which might be avoided with better support. Simon Stevens, Chief Executive of NHS England, has consistently acknowledged that the sustainability of the NHS is reliant on adequately funded social care.

Inadequate adult social care may also be having a significant impact on economic growth. This year the LGA, in a joint letter with NHS providers and various charities, highlighted the fact that more than 2 million people have left their jobs to provide unpaid care for families or friends.

To put all this in context, in 2014/15, Local Authorities spent £7.23 billion on social care for older people, £5.12 billion after user charges and other income is taken into account, against a background of an NHS budget in 2014/15 of £116.4 billion and total public expenditure of £755 billion.[11] In one of the most recent reports on the adult social care crisis, Rt Hon Damian Green MP for the Centre for Policy Studies,[12] noted that the Government spends £11 billion on social care for the elderly, though roughly £2.5 billion of this is recouped in user charges. He estimated that another £7 billion goes into the system from private funding, giving a total of ~ £18 billion.

There will be 2 million more people over 75 years old in Britain over the next decade alone and the King's Fund/Nuffield Trust[13] estimate Local Authorities will face a £2-£2.7 billion funding gap in social care costs by 2019/20, depending on how much the social care precept raises. .

The House of Commons Communities and Local Government (CLG) Select Committee estimated in 2017 that there would be a funding shortfall of £1.1 - £2.6 billion by 2019/20 - when Revenue Support Grant ends and Local Authorities retain 100% of business rates. The CQC

[7] ADASS (HC 1103, written evidence SOC 134)
[8] *The state of health care and adult social care in England 2015-2016*, CQC (October 2016)
[9] *Discharging Older Patients from Hospital*, NAO (May 2016)
[10] NHS England Delayed Transfer of Care Statistics & Labour Party website 14 September 2017
[11] *Social Care for Older People: Home Truths*, The King's Fund/Nuffield Trust (September 2016)
[12] *How to Fix Social Care*, Centre for Policy Studies (April 2019)
[13] ibid

said in 2016 that the care system was at a “tipping point”, with cruelty and neglect on the rise and many residential care homes close to bankruptcy.

Recognising the extreme financial pressure on the social care system, in the 2017 Budget the Chancellor, Philip Hammond, announced an extra £2 billion for social care over the next 3 years, and in the 2018 Budget he provided a further £650 million. The Government has also allowed Local Authorities to raise Council Tax by up to 2% to fund care. However, residential care home providers face significant increasing costs, not least paying the Living Wage. Last year Councillor Izzi Seccombe told us that the LGA estimates that there will be a £3.6 billion funding gap by 2025, even if we aim only to provide support at the current level – a level that is widely felt to be wholly inadequate. So we cannot duck this challenge any longer. There is some fabulous social care being delivered at home and in residential care homes by dedicated people, but they are doing this within a system that is failing.

Why are we in this mess?

At the moment we impose artificial distinctions between health and social care needs, with the result that millionaires with cancer can receive fully funded support from the National Health Service (NHS) while relatively poor people needing social care have to pay for it until their savings are worth less than £23,500. This is because our present social care arrangements are a legacy of the Poor Laws. When the welfare state was developed after World War II, Beveridge did not anticipate that lots of people would live for many years in retirement, often in poor health. Since then despite mounting evidence that the social care system is failing to meet the needs of many vulnerable older people, successive Governments over the last 20 years have failed to meet the challenge of reforming these arrangements. We now need a 21st century welfare system adapted to rising longevity.

What could we do about it?

Unfortunately, while there is widespread agreement that we need reform to ensure we have a sustainable system for funding social care, no political consensus has emerged to date on how to achieve this. Successive Governments have avoided confronting the public with the truth – that either we will have to redirect resources from other public services, or we will have to pay more, one way or another, if we want to provide decent adult social care services. Instead for nearly 20 years independent policy experts have been asked to lead Commissions looking at how to fund social care in England and make recommendations. They have produced a consistent view of the challenges involved but offered different solutions.

The “Dilnot Report” *Fairer Funding for All* was published by the Commission on Funding of Care and Support (Dilnot Commission) in July 2011. This report (summary) concluded that the system for funding care was then in urgent need of reform because it was hard to understand, often unfair and unsustainable: people were left exposed to potentially “catastrophic” care costs with no way to protect themselves. It proposed that individuals’ lifetime contributions towards their social care costs – which were potentially unlimited – should be capped. After the cap is reached, individuals would be eligible for full state support. It said that this cap should be between £25,000 and £50,000 and concluded that £35,000 was the most appropriate and fair figure. It also proposed that the means-tested threshold, above which people are liable for their full care costs, should be increased from £23,250 to £100,000. It further proposed that national eligibility criteria and portable assessments should be introduced to ensure greater consistency. Under the Dilnot proposals all those who enter adulthood with a care and support need would be eligible for free state support immediately rather than being subjected to a means test. Taken together, the cap and the increase in the threshold for state support in residential care would mean that those with lower incomes and wealth receive greater protection. The Commission estimated that its proposals – based on a cap of £35,000 – would cost the state around £1.7billion at a time when annual public expenditure was £697 billion.

More recently, the "Barker Report" *A New Settlement for Health and Social Care* was published in September 2014 by the independent Commission on the Future of Health and Social Care in England, led by Dame Kate Barker and funded by The Kings Fund. It set out a tantalising vision of "equal support for equal need with entitlements to health and social care more closely aligned". It recommended moving to a single, ring-fenced budget for the NHS and social care, with a single commissioner for local services. It called for a new care and support allowance to offer choice and control to people with low to moderate needs, while making much more social care free at the point of use and proposing that accommodation costs should be met privately for those in residential care. It largely rejected new NHS charges and private insurance options in favour of public funding, recognising that changes to NICs and a comprehensive review of various forms of wealth taxation would need to be undertaken in order to provide the additional resources that would be needed for health and social care in the years ahead.

The 2010-2015 Coalition Government accepted the Dilnot recommendations and legislated for them, but raised the upper cap on care costs to £72,000. The 2015-2017 Conservative Government postponed implementation of the Dilnot funding system from 2018 to 2020, committing in the Spending Review 2015, to introducing Phase 2 of the Care Act 2014 in April 2020. This would have introduced a cap of £72,000 for people aged 65 and over on the amount they had to pay towards care and support, regardless of means, and an increase in the threshold, above which people start to contribute to their residential care costs, to £118,000. However this policy was then overtaken by the 2017 general election.

The Conservative Party's 2017 general election manifesto proposed requiring individuals to pay for their own care – whether residential or domiciliary – unless they have less than £100,000, including capital tied up in their home. No-one would have been required to sell their home during their lifetime or while a surviving spouse continued to live in the house. This policy was defended as "the beginning of a solution to social care without increasing taxes on younger generations". However it was labelled as a "dementia tax" by critics, who said it amounted to an inheritance tax of 100% for anyone unlucky enough to develop dementia. Independent experts such as Sir Andrew Dilnot, said the policy appeared to have been designed by people who did not understand the problem. By removing an upper cap to the amount people might have to spend on care, at least initially, the policy did nothing to eliminate the risk of catastrophic care costs and it failed to recognise the benefit of pooling risk.

Independent Age has since produced reports[14] which conclude that relying on any "threshold and cap" system would still leave many people paying substantial care costs. It also points out that how "catastrophic" any level of personal contribution is, depends on an individual's wealth when care costs arise. It suggests that no-one should have to contribute more than 50% of their wealth to their care costs, if care remains means-tested, but recommended instead the provision of free care whether domiciliary or residential, akin to free health services. It argues that this is affordable if care is provided at current levels, but as we have seen many people would argue that current provision is inadequate.

We need a new narrative around social care. We should be proud that as a relatively wealthy society we can afford to provide decent care services for vulnerable people when they need them, whether they are young disabled adults or frail older people.

[14] *A taxing question: How to fund free personal care*, Independent Age (September 2018) and *Free personal care: how to eliminate catastrophic care costs*, Independent Age (April 2019)

A new sustainable and fair system for funding social care

What should a new sustainable system for funding social care which meets the aim of intergenerational fairness aim to achieve? Like Dilnot, we believe it should cap the risk of catastrophic care costs for individuals by pooling risk at a population level. We believe it should support the greater integration of health and social care services. The new system should be as simple as possible and transparent – so that it is easy for families to understand and to navigate. Importantly, people must be able to see that the new system is fair, both within and between generations, and sustainable so young people can see that it will be there to support them in the future. Future funding for adult social care must also be based on objective analysis of need, so there must be a role for independent advice to Government on needs and costs, which should be published annually, as is the advice of the Office of Budget Responsibility. This would ensure that the Government is publicly accountable for the way in which it responds and difficult political choices are not ducked or hidden. A system that meets these aims will be more ethical and should command public support.

In giving evidence to our Forum, Councillor Izzi Seccombe was clear that the LGA would like Local Authorities to remain responsible for organising social care. The LGA does not want major organisational change and does not believe this is necessary. It simply wants the present system to be fully funded, while agreeing that it would be beneficial to have closer integration between social care and primary health care services. Local Authority responsibility for social care provision does provide an opportunity for local accountability, but it also leaves care recipients vulnerable to a postcode lottery in terms of assessment and provision.

We believe there is a strong case for establishing a National Care Service, with national criteria for care assessments and national standards for care provision, even if some of the organisation and management of the National Care Service is delegated to Local Authorities to deliver. A National Care Service would guarantee a decent level of care, whether at home or in a residential setting, that is delivered locally but funded nationally.

The international evidence suggests there is a clear choice between 2 major options for funding the cost of social care met by the state. Either the cost of social care provision borne by the state is paid through the tax system, like the NHS and other public services, or we can introduce a new system of mandatory social care insurance. Other revenue raising measures could play a part, but in isolation they do not raise enough money to provide a sustainable means of funding decent social care provision while keeping the funding system as simple as possible.

We recognise the attractions of a National Care Service that is free at the point of use – like health services. Not only would this be simple to understand and provide comprehensive cover through a pooling of risk, it would overcome at a stroke the sometimes artificial distinctions between health and care needs. It would allow for consistency across the country in terms of assessment of needs and provision of care services. It would dispel older peoples' concerns about care costs; remove disincentives to save that arise with any means-tested system; and remove the administrative costs associated with enforcing a threshold and cap system.

Funding free provision of social care for everyone over the age of 65 through general taxation is simple and popular with the general public according to Independent Age (2018).[15] It is also supported by organisations as the Institute for Public Policy Research.[16] The IPPR argues that fully funding free personal care would cost £36 billion by 2030 (excluding the cost of a cap or

[15]Independent Age press release, September 2018

[16] Social care: Free at the point of need - The case for free personal care in England, IPPR, May 2019

more generous means test). “This is not cheap but would still represent an increase of less than 1% of total Government expenditure …and is only marginally more expensive (£2 billion in 2030) than the Conservative party’s 2017 election pledge of a cap and floor system. It also argues that this measure would save the NHS in England £4.5 billion a year by enabling more elderly people to receive care in the community.

Free social care provision for people aged 65+ has been introduced in Scotland, where it has supported the integration of care and health services and families benefit because the process of setting up care packages is simpler and no longer includes discussions about income and who will pay. Andy Burnham, the Mayor of Greater Manchester, has overseen the introduction of the co-location of all public services at a local level with a single budget and a remit to commission services to deliver wellbeing. He argues that only the free provision of social care will enable the full integration of health and social care services. Free social care provision for people aged 65+ is now supported by the Labour Party, the Liberal Democrats and the SNP. We agree it is attractive as a long term goal and future Governments may move towards it, as funding permits, by progressively raising the threshold at which care costs apply and lowering any cap on total care costs paid by an individual. However, it would be at risk of suffering – as the care system has for the last 20 years – from rationing as a result of spending restrictions when social care is not a high political priority in comparison with competing public services or tax cuts.

From the point of intergenerational fairness, if social care services free at the point of use were fully funded by income tax or NICs, it would also impose an added burden on the working age population, whereas much of the benefit would be enjoyed by already retired people and the near retiring Baby Boomer generation. This seems to us particularly controversial at the present time, when the Baby Boomer generation is relatively well-off compared with generations coming behind them, who have not benefited as they did from policies which supported free higher education, defined benefit pensions and an affordable housing market. We recognise, of course, that there are inequalities within and between generations and not everyone who is a pensioner now conforms to the wealthy Baby Boomer stereotype. Nonetheless we would argue that retired people should make a contribution towards the cost of social care. Since the financial crisis of 2008, older people have seen their incomes rise by 10% on average, while people aged 31-59 have seen their incomes fall by 4% on average. So it is not unreasonable to expect older people, who will benefit from a more stable system for funding social care, to make a contribution towards its cost.

We conclude therefore that intergenerational fairness dictates a better solution will be achieved by a mixed system, which entails a package of measures to help meet both the immediate needs of our underfunded care services and the long term costs of care that will arise as a result of our ageing society. The changes we recommend are needed to ensure that each generation contributes adequately towards the cost of care services and costs are not imposed unduly on future generations.

Conclusions and recommendations

Instead of a system of social care free at the point of use fully funded through the tax system, **we recommend the Government implements a Dilnot style system with a threshold of £100,000, including the value of property assets, below which all care is provided free. We agree with Dilnot that to avoid the risk of catastrophic costs, the maximum care costs any individual should have to pay should be capped at £35,000. We agree that individuals in residential and nursing homes should have to pay their accommodation costs (food and lodging), just as people receiving domiciliary care have to do. We also believe that there is a strong case for requiring individuals in receipt of NHS Continuing Care to pay their accommodation costs, to reduce the disparity in entitlement of patients with, for example, cancer and dementia. We also recommend that any person reaching adulthood with a care and support need should be eligible for social care free at the point of use, exempt from the threshold and cap.** We believe that this system of entitlement and personal contribution would provide for decent levels of care now and in the future, while providing assurance for older people and their families – particularly for those of modest means.

Instead of funding the costs of social care paid by the state through general taxation, **we recommend a hypothecated, mandatory system of social care insurance should be established so as to protect social care funding during periods of public expenditure constraint or when there are more popular, competing priorities for public expenditure.** The introduction of a mandatory Social Care Insurance Contributions scheme would also help to tackle the problem that many people underestimate their likelihood of needing social care and its cost. As contributions would be set at a percentage of income it would be a progressive system, with those on highest incomes paying more.

We need to recognise that even with such a sustainable system for funding social care, the state will only be able to provide a decent basic level of care – akin to the role of the state pension in our pension system. Like the state pension, what the state provides for care could be supplemented with top up payments to pay for longer home care visits or a better quality care home. It therefore makes sense for the Government to incentivise saving for the proportion of care costs that individuals have to pay themselves, before any Government support kicks in. There are several things the Government could encourage to help individuals pay for care costs, as we set out below, but importantly doing any combination of them would send a powerful signal that people need to think about their possible future care costs, just as they need to think about their pensions. A more sustainable system of funding social care, that meets the test of intergenerational fairness, will thus be a mixed system with an insurance element and a savings based element.

However it will take years to accumulate enough resources through Social Care Insurance Contributions to pay for current care costs so at least for a transitional period additional revenue raising methods will be necessary. The cost of social care provision borne by the state should therefore be funded by a combination of new Social Care Insurance Contributions and tax and benefit changes, while individuals should be incentivised to prepare for the care costs they will have to meet personally.

We recommend that the Government establishes a Social Care Agency (SoCa), which should report independently to the Department for Health and Social Care on future social care needs and costs. This could include issues such as care workforce planning and the stability of the private provider market as well as estimates of demand for social care and the cost of providing it. We believe SoCA should report publicly on these issues, as the Office for Budget Responsibility does, annually in advance of the Budget Statement and make recommendations on the appropriate rate of Social Care Insurance Contributions and whether they should be extended to younger age groups. The new SoCA should also make annual recommendations on uprating the £100,000 threshold and £35,000 cap levels. SoCa's remit would be to ensure that the system for funding social care remains sustainable and meets the test of intergenerational fairness.

We recommend that SoCa should write to every individual, when they start paying Social Care Insurance contributions, to explain that the contributions are deducted to help pay for the cost of social care; to explain the system of entitlement to social care and the limits to state support for care costs; and to provide information about planning for care costs and signpost people to sources of additional information and advice.

We recommend that the assessment of care needs to be carried out under the National Care Service, according to national criteria, should be undertaken by NHS health professionals - either GPs or senior nurses who are specially trained to carry out these assessments - so that they are delivered consistently across the country.

We recommend that the Government should support broader public policy measures that will help to reduce demand for social care. For example, determined Government action to reduce obesity, and with it Type 2 diabetes, will reduce the risk of ill-health and dependency. Similarly, better support for healthy active ageing and prevention programmes would almost certainly pay for themselves in terms of reduced health and social care costs, as well as improving the wellbeing of older people. Demand for residential and nursing care provision could also be reduced by improving the supply of houses suitably adapted for older people, so that they can remain safely at home; and by a planning system which supported the development of age-friendly communities.

We recommend that the Government does more to generate and publish cross-government data on intergenerational fairness. We also recommend that it publishes Intergenerational Impact Assessments for all major policy proposals and draft legislation revealing how it will affect different generations.

Revenue raising/saving recommendations

Under our system the Government will be the "insurer of last resort", protecting people against the risk of catastrophic care costs. This will be affordable because risks will be pooled at a population level. **We recommend that the Government introduces a new, mandatory system of Social Care Insurance Contributions (SCICs) at the rate of 1%, to be deducted alongside income tax and NICs, from the incomes of all working adults from the age of 40 until they stop working. This could rise to 2% for those aged 50+, if additional resources are required to meet rising care costs.**

We recommend that people working beyond the age of entitlement to the state pension should pay NICs at a rate of 6% on earnings above the current income threshold for NICs and that the revenue raised from this should be ring-fenced to fund social care. We believe this strikes a fair balance between requiring them to pay NICs at the full rate and exempting them from NICs altogether, as now. We are mindful that some less wealthy older people may continue working beyond State Pension age in order to "make ends meet", but have noted research undertaken by Understanding Society researchers[17] which showed that decisions to continue working after the age of entitlement to the state pension "were not strongly

[17] Understanding Society, the UK Household Longitudinal Study (written evidence submitted to the Ad Hoc Select Committee on Intergenerational Fairness and Provision 2018.

associated with financial difficulty". We also agree with the evidence given to the AHSC IFP by Frank Field MP and Paul Johnson of the Institute of Fiscal Studies that the current full exemption from NICs is hard to justify on any normal grounds. We agree with Professor John Hills that the present exemption is based on an "accounting fiction" and are mindful of his work on intergenerational tax and spending contributions. The "Barker Report" estimated that this measure would raise some £0.9 billion per annum.

We recommend that the Winter Fuel Payment, should be rolled up into a higher state pension, which would be taxable, making the system more progressive. We strongly recommend that alongside this measure the Government undertakes a major social marketing campaign to encourage greater take up of Pension Credit by those entitled to it. It is dreadful that the estimated rate of Pension Credit take-up is just 60%. We hope the BBC's recent brave decision to restrict the provision of free television licences to people aged 75+ only if they are in receipt of Pension Credit will further encourage take-up of this benefit. We recognise that it is always extremely controversial to recommend the abolition of a popular, universal benefit, but we also note the evidence given to the AHSC IFP by Professor Hills, who told it that Winter Fuel Payments "are almost the least effective way of coping with fuel poverty". The Government's own fuel poverty statistics suggest, as the AHSC IFP has noted, that these payments are not well targeted for those who experience fuel poverty. As an organisation concerned about intergenerational fairness, we note the Committee's findings that: "single parents are substantially more likely to be in fuel poverty (26%) than either single people aged 60+ or couples over 60 (fewer than 10% in either group);" and that "households where the oldest member is 16-24 are more likely to be in fuel poverty than any other age group."

We recommend that the current "triple lock" on the state pension is replaced by a "double lock" whereby it rises either in line with inflation or with average earnings, whichever is the highest. We believe this is justified because since 2010 the brunt of social security and tax credit changes has been borne by people under the age of entitlement to the state pension. We agree with the House of Commons Work and Pensions Select Committee[18] that, provided the state pension is maintained at the current proportion of average earnings, the aim of the Government to ensure a decent minimum income for people in retirement to underpin private savings has been achieved. A double lock would also continue to protect people depending on the state pension against any periods of high inflation.

We recommend that the Government should replace higher rate tax relief on pension contributions with a flat rate relief below 40% and re-deploy the savings to pay for social care. We recognise, again, that this is a controversial recommendation but it will not be unexpected by the pension industry, which has been warning savers for many years that higher rate tax relief on pensions contributions was unlikely to last. At the moment, some 40% of the £38 billion cost of tax relief goes to the top 10% of earners; and it is estimated that the costs savings that would accrue if higher rate tax relief were abolished would be worth some £10 billion per annum.[19] So, reforming tax relief on pension contributions could make a hugely valuable contribution to funding the cost of decent care services and enable provision to be extended beyond those with "substantial" needs, providing essential care to many vulnerable people currently coping as best they can with very little if any support. People paying tax at the higher rate would still be entitled to the basic, flat rate tax relief on all their pension contributions. We see no reason why relatively poorer taxpayers should subsidise the pension pots of well-paid earners. We recognise, however, that the Government may wish to phase in this change over a period of 2-3 years in order to give individuals time to adjust.

[18] *Intergenerational Fairness*, HC Work and Pensions Select Committee (Third Report 2016-17, HCP59)
[19] *Tax relief on pensions*, Phillip Inman, The Observer, 1 September 2018.

If the Government were to decide to provide social care for all, free at the point of use with no "threshold and cap", then significant additional funds to help pay for this could be raised by abolishing the higher earnings limit on NICs, but we do not recommend this measure for the system we propose. It is estimated that this would raise in excess of £10 billion per annum.[20]

Recommendations to incentivise saving for care

Under the system we propose, people with assets worth more than £100,000 would have to pay up to £35,000 towards their care costs. We believe that the Government should encourage people to make provision for these costs in advance and that it would be justified in using tax incentives to do so. **We recommend that the Government should introduce a Care ISA, with an annual contributions limit of £20,000 and a lifetime cap on contributions of £100,000, with any uprating of these caps subject to the recommendations of the SoCa, which should consider them in relation to the average care costs people are likely to incur. We recommend that the Government should allow such Care ISAs to be used to pay approved care costs, including the accommodation costs of residential and nursing homes, care to meet moderate needs, or preventive measures to support the individual ISA owner or named beneficiaries when early intervention can reduce the risk of later care costs arising. Care ISAs should be exempt of Inheritance Tax (IHT) so that they can be passed on to help other people meet future care costs.**

We recommend that the Government allows income tax free withdrawals from private pensions to pay for care costs. This would incentivise retired people to retain funds in their pension pots for longer, just in case it is needed to pay for their care, rather than spending it.

There are private equity release schemes on the market and people could be encouraged to take them up as a means of utilising capital tied up in their home to pay for their social care costs. However, current equity release schemes are often complex, some charge high fees and interest rates and their supply and demand are affected by changes in house prices. **We recommend that the Government considers introducing a national equity release scheme for the purpose of paying social care costs**, **with the lowest possible interest rates and fees set simply to cover costs rather than any element of profit.** This could be administered by the Social Care Agency (SoCa). **We also recommend, at least as an interim measure, that the Government establishes a kitemark scheme for private equity release schemes, as it did for "stakeholder pensions" with restrictions on the maximum fees that can be charged.**

We recommend that the Government investigates and reforms Deferred Payment Agreements (DPAs) to tackle the acknowledged problems associated with them, as raised in the House of Lords by Lord Lipsey, Baroness Greengross and Lord Hunt of Kings Heath[21]. These include much lower than forecast take up due to low public awareness, poor communication about them by Local Authorities and a relatively low threshold for eligibility – only people with non-housing assets of less than £23,250 are eligible for them. According to the think-tank Reform, if the threshold for eligibility for DPAs was raised from £23,250 to £100,000 it would increase the proportion of self-funders who are eligible for DPAs as a means of paying full or capped charges under the current arrangements from 45% to 62.6%. The Government expected 12,000 DPAs to be agreed, but data from NHS Digital based on responses from a third of Local Authorities suggests that just 3600 DPAs were agreed in 2015/16. **We recommend that anyone with non-housing assets of less than £100,000 should be eligible for a DPA. DPAs should be administered nationally rather than by Local Authorities so that people**

[20] *A Decent State Pension for All Generations*, National Pensioner Convention, June 2013
[21] House of Lords *Hansard*, 7 September 2017, col. 58-68GC

across the country are charged a consistent rate of interest and fees, both of which should be set as low as possible so that they simply cover the costs involved in providing the DPAs and do not include an element of profit. The Government should raise public awareness of DPAs by including information about them in any communications associated with charges for the National Care Service. DPAs could be administered either by the Department of Health and Social Care or by the new SoCa.

We have considered additional revenue raising recommendations, but discounted these for various reasons. Some people have proposed that employers as well as employees should be charged Social Care Insurance Contributions. We do not support this proposal which could deter employment.

We do not support the straightforward proposal to pay for care by raising income tax as the burden of this would fall on younger working people, excluding retired people; because simply relying on income tax does nothing to flag up in people's mind the need to plan for their care costs; and because it would leave social care vulnerable to competing political priorities such as tax cuts or more popular areas of public expenditure.

We do not support proposals to means-test, tax or limit access to free eye-tests or prescriptions for older people because these arguably help to reduce longer term health and care costs by supporting healthy ageing.

We do not support proposals to means-test, tax or limit access to free bus passes. It would be difficult in any case to attribute a value to this benefit, the use of which varies enormously between individuals. Moreover we believe this benefit plays a very important role in limiting the isolation and loneliness experienced by some older people, thereby improving their sense of wellbeing and health. Quite apart from any feelings of sentiment, improving older people's health and wellbeing is likely to reduce long term health and care costs.

We are not proposing complicated new wealth taxes or increases in inheritance tax (IHT) because we do not want to discourage people from saving for their retirement and possible later life care costs. Responsible people should not be penalised for doing the right thing and being thrifty. We also feel that the measures we have recommended, including a progressive 1% Social Care Insurance Contribution paid on all earnings after the age of 40, taken together with the replacement of higher rate tax relief on pension contributions with a lower, flat rate relief, means that relatively wealthy individuals would already be making a significant contribution to the provision of decent care services for everyone.

Finally we are not proposing any new taxes on property, having noted that the OECD estimates that in 2017 the UK collected the second largest amount of property tax of any OECD country.[22] The tax take from property in the UK (Stamp Duty and Council Tax) is the equivalent of 4.2% of GDP - similar to the USA and slightly less than that of France (4.4%), compared with the average of OECD countries of 1.9% of GDP. We do not disagree with Paul Johnson that the Council Tax is regressive and that there is a case for a new higher rate band for the most valuable properties, but believe these arguments should be considered in the round, alongside discussions on the future of business rates and the possible re-evaluation of domestic property values, now long overdue. As Local Authorities would no longer be responsible for funding social care under our proposals, we feel no need to consider the future of Council Tax in this report.

[22] OECD (2019), Tax on property (indicator). doi: 10.1787/213673fa-en (accessed on 19 June 2019)

Next steps

For too long politicians of all parties have agreed that our current system of providing and funding social care is in crisis, but failed to agree on a new system. The time to act is now – not just because the problem is urgent and a solution is long overdue – but so that a new system can be debated and implemented before the next general election makes this a political impossibility; and before the bulk of the Baby Boomer generation retires, placing an intolerable strain on the current system. We now need the Government and Opposition parties to demonstrate political leadership and courage to see through the reforms that are required. The public will support a system that is demonstrably fair – where all generations share the cost burden, with the heaviest burden falling on those best placed to contribute. In return a new system in which we pool the risk of requiring care and the costs associated with it will mean that everyone benefits. We will all know that we and our loved ones will be properly supported in old age through decent care services and no-one will face catastrophic care costs. We can deliver adult social care services of which we can be proud, with a sustainable funding system that enables care recipients to retain their dignity and independence for as long as possible; that rewards its workforce decently; that stabilises the private provider market; and which no longer undermines the work of Local Authorities.

Appendix

Oral evidence

Sir Andrew Dilnot CBE, Warden of Nuffield College, Oxford University; Chair of the Commission on Funding of Care and Support and author of the "Dilnot Report", *Fairer Care Funding* (July 2011).

Dame Kate Barker DBE, Chair of the independent Commission on the Future of Health and Social Care in England, funded by The Kings Fund, and author of the "Barker Report" *A New Settlement for Health and Social Care* (September 2014).

Councillor Izzi Seccombe, Leader of Warwickshire County Council and Chair of the Local Government Association (LGA) Local Community Wellbeing Board.

Baroness Altmann of Tottenham CBE, a former Pensions Minister (2015-2016) and champion of older people and consumers. Ros is a leading authority on later life issues, including pensions, retirement policy and social care.

Clive Bolton, Managing Director LV Life & Pensions, previously CEO of AUL Group and a qualified actuary with experience over 30 years in the financial services industry.

Written evidence

Baroness Altmann of Tottenham CBE

Stephen Burke, Director, United for All Ages

Neil Duncan-Jordan, National Pensioner Convention

Professor Caroline Glendinning & Matthew Wills, York University

Trevor Llanwarne CB MA FIA, Government Actuary 2008-2014, Treasurer Royal Statistical Society, Trustee ILC.

John Norton, representative of Patients, Carers and the Public (Lay Partner) in the 8 Boroughs of North West London, primarily for Westminster (Central London CCG).

Professor Karen Rowlingson, Birmingham University

Professor Steven Schifferes, City University London

Sir Steve Webb, Director of Policy, Royal London Group

Parliamentarians who contributed to the oral evidence sessions

Baroness Altmann of Tottenham CBE

Baroness Barker

Lord Best

Ben Bradley MP

James Cartlidge MP

Baroness Greengross OBE

Baroness Howe of Idlicote CBE

Baroness Jenkin of Kennington

Lord Howarth of Newport CBE

Lord Stone of Blackheath

Baroness Watkins of Tavistock