



Solving the Social Care Dilemma? A Responsible Solution

Peter Lilley

March 2021

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Author

The Rt. Hon the Lord (Peter) Lilley was a Conservative MP from 1983 to 2017. After a period as a Treasury Minister, he served in the Cabinet between 1990 and 1997 under Margaret Thatcher and John Major, as Secretary of State for Trade and Industry, then for Social Security. In Opposition, he was Shadow Chancellor and Deputy Leader of the Conservative Party in the late 1990s. He joined the House of Lords in June 2018.

Executive Summary

- Social care for the elderly poses two competing challenges to governments.
 - The pressure on local authority social care budgets cannot be maintained¹ given the rising numbers of elderly people, the increase in the National Living Wage and the risk of care homes closing.
 - Resentment from homeowners (and their heirs) who risk having to sell their home to pay for long term social care, is politically very potent.
- Both problems could cost billions of pounds to solve. But the more spent on placating homeowners, the less finance can be made available to provide decent care for those in greatest need.
- Political pressure has focussed on the issue of selling homes to pay for care and all the proposed solutions involve limiting the total amount that people have to pay for their social care and/or allowing them to keep more of the value of their homes.
- This would mean the taxpayer shouldering a larger share of the cost of social care to the benefit of those who are better off, while putting an increased burden on council care budgets – which are already stretched to breaking point.
- Even if that were affordable in the past, it is clearly impossible post-Covid, when the UK has a national debt exceeding its annual national income, a massive deficit to bring under control and a commitment to level up across society.
- Private insurance has been considered as a possible way of spreading the cost and so avoiding the risk of losing one's home to pay for long term care. But it has been ruled out because private insurance companies do not, and will not, provide suitable products – partly because of the risks of government policy changes and medical advances, and partly because homeowners will not pre-pay insurance on top of funding their pensions and repaying their mortgages.
- **The private sector will not provide such insurance policies, but a publicly owned body could provide them and enable people to pay for them, not over their working life, but by taking a charge on their homes, which would be paid out of their estate.**
- State run provision of insurance would normally be undesirable. But whereas private companies cannot hedge against uncertain future government policy or potential medical advances, the state will have to bear those costs anyway.

¹ The Health Foundation, in evidence to the Lords Economic Affairs Committee 2019, calculated that 'social care spending was cut by 13% in real terms between 2009/10 and 2015/16'. This includes social care for adults aged 16-64 which accounts for half the total and on whom spending has risen faster. The reduction in spending on those aged 65+, whose numbers have been rising, has been even more severe.

- Insurance against having to sell one's home to pay for social care is potentially much more affordable than is often supposed. Updating the Dilnot Commission figures: 1 in 4 people ever need residential social care. Those who do, on average, stay 2½ years. The average cost of social care in local authority supported residential homes is about £25,000 per annum (excluding £10,000 'hotel costs' which residents expect, and are expected, to pay for out of their income).
- So, the amount to be insured, averaged over all retirees, is $1/4 \times 2.5 \times £25,000$, which would require a one-off premium of about £16,000 each. This is before taking into account administration costs, the time cost to councils of not receiving payment until death or sale of the property, the need for a more sustainable level of funding and future cost increases and so forth.

Recommendations

- A public not-for-profit company, owned and guaranteed by the state, should be established.
- The company would offer everyone approaching state pension age the opportunity to take out insurance against the need to finance, from their home or other assets, the cost of social care (at the standard provided by local authorities) if and when they meet the official conditions entitling them to such care.
- The cost of such insurance would be calculated to be actuarially sufficient to pay for such care, so the insurer would aim to operate at no cost to the taxpayer.
- People would be able to pay for it by a charge on their home which would be realised when they die and/or the home is sold.
- Typically, that charge would be a modest fraction of the value of any home.
- Nobody would be required to take out such insurance.
- But those who do not do so could not complain if, having rejected the opportunity to pay into the pool to pay for care for those who insure, they eventually find themselves paying for their own care from their own assets.
- Those who do pay the premium would be confident that they could leave their homes and other assets to their heirs – who would be able to look forward to such bequests with greater confidence.
- Anyone wanting a higher standard of care than that financed by the state, or before they meet the official eligibility threshold, would be free to pay for that extra care from their own resources.
- To avoid ‘adverse selection’, people should be given the opportunity to pay the premium (as a charge on their home) within two years after reaching state pension age.
- The premium would only cover the cost of social care, not the ‘hotel costs’ – accommodation, meals and so forth, which would, as at present, be met from residents’ income.
- The premium should reflect the value of the home/assets protected – so, those protecting a modest home would pay less than those with very valuable homes.
- To allow for both future cost increases and the delay in councils receiving payment, the charge on a property would be set as a percentage value of the property (calculated by dividing the notional initial premium by the house value at the time the charge on the house is set).

- If, as suggested in the 2017 Conservative Manifesto, the means test for local authority-provided domiciliary social care were to include the value of a person's home, the premium should also provide protection against the need to sell one's home to meet that cost as well.
- Women are more likely to enter residential care and stay for longer than men. A private insurer would therefore have to charge very different premiums for men and women. However, if this is unacceptable for policy reasons, the public insurer will be able to set a uniform premium.
- Couples should be offered a joint premium, costing less than two individual premiums, reflecting that the family home is not at risk to fund social care as long as one spouse remains living in it.
- Homeowners who are already more than two years beyond state pension age when the scheme is introduced may wish to take out such insurance. To minimise adverse selection, it could be made conditional on them not going into care within two years after insuring. If they go in sooner than that, the charge would be cancelled and the homeowner would revert to the normal rules on means tested provision.

1. The Problem

Successive governments have struggled with the conundrum of how to finance social care. All the proposals put forward so far have been abandoned as either unaffordable or unworkable.

Labour's plans for an inheritance tax surcharge to finance social care was aborted when Tories labelled it a 'death tax' – which contributed to Labour's defeat in the 2010 election. Theresa May lost her majority in 2017 when Labour retaliated by dubbing her plans² (which actually involved reducing the amount many homeowners would pay for social care) a 'dementia tax'. In between, David Cameron set up the Dilnot Commission to advise on *Fairer Care Funding*;³ legislated for its recommendations;⁴ but backed off implementing them as too expensive. Boris Johnson's first speech on becoming Prime Minister⁵ promised 'to protect you (or your parents or grandparents) from the fear of having to sell your home to pay for the costs of care', and his government is struggling to find a way of financing social care which will not be either financially or politically damaging.

The problem is that social care for the elderly is expensive.

Spending on social care for those with insufficient means to pay for it themselves is already the largest component of local authorities' expenditure - who have had to rein back spending since the financial crisis, affecting the level of provision. A recent Lords report⁶ cited an estimate that it could cost £8 billion per annum to restore the level of local authority provision of adult social care to that prevailing in 2009/10 before the impact of the financial crisis.⁷

But individuals who do have the means to fund their own social care face an unpredictable and potentially enormous cost, possibly requiring them to sell their homes.

It is the latter problem which has proved politically most toxic. As an MP, constituents often expressed outrage to me that their parents or grandparents were having to sell their homes to pay for social care – depriving them of their expected inheritance. Their anger was all the greater because they were torn between the hope that granny would live for many years more and the knowledge that that would mean no inheritance for them.

Why has this become such a big issue? After all, residential care has always been means tested since the Welfare State was established. It is partly because, back then, fewer people

² Conservative Manifesto 2017, *A long-term plan for elderly care*, p. 65.

³ *The Report of the Commission on Funding of Care and Support*, July 2011.

⁴ *The Care Act 2004*.

⁵ Prime Minister's first speech, 24th July 2019.

⁶ *Social care funding: time to end a national scandal*: House of Lords Economic Affairs Committee July 2019 HL392.

⁷ Kings Fund and Health Foundation estimate. This includes all adult care spending, only half of which is for those aged 65 or over. It is the additional amount required if local authorities had been able to increase their spending by 3.7 per cent every year since 2009/10. 3.7 per cent is the Health Foundation's estimate of the average annual growth in social care cost pressures until 2030/31, caused by a growing and ageing population, more people living longer with long-term conditions and the rising costs of providing care.

lived into old age long enough to require residential care. Moreover, of those who did, far fewer were homeowners who risked having to sell their homes (which, in any case, were far less valuable) to pay for that care. By contrast, now nearly 80 per cent of those reaching pensionable age are homeowners. And the average house price has risen from around six times average earnings in 1950 to ten times average earnings in 2019. Hence, the political salience of the issue.

Surprisingly, there is no reliable estimate of how many people do have to sell their homes to pay for care. A frequently quoted figure is 40,000 a year, but a more credible estimate puts it at nearer 20,000.⁸

Almost all the proposed solutions⁹ since the Dilnot Report in 2011 have involved limiting the maximum extent to which homeowners may be liable to pay for their social care. Dilnot proposed a life-time limit of £35,000 on the cumulative amount anyone should be required to pay for their social care. £35,000 then represented about 2 years' **social** care costs. That did not include so called '**hotel costs**' – that is, accommodation, food and daily living costs – for which they would be expected to pay up to £10,000 annually from their income if they went into a residential care home. He also proposed that the threshold for the value of their assets – above which people would not be entitled to public support for their care – should be raised to £100,000. He estimated that these measures would add about £1.75 billion per annum to the social care budget.

In his 2013 Finance Bill, George Osborne legislated to set a life-time limit of £72,000 on care costs and a threshold for assets of £118,000 or below which those in care could receive some support, even before the lifetime limit was reached. These easements were never implemented but were budgeted to cost £1 billion per annum immediately and would have risen over time. A more recent estimate (updating the cap to £78,000) puts the cost at £1.7 billion this year, rising to £2.1 billion per annum in 2023/4 (in 2020 prices).¹⁰

Theresa May's 2017 Conservative party manifesto proposed to:

‘introduce a single capital floor, set at £100,000, more than four times the current means test threshold. This will ensure that, no matter how large the cost of care

⁸ The 40,000 figure comes from a briefing note prepared for Panorama in 1996. More recently Paul Lewis – endorsed by Laing Buisson – put it at 21,000. He used a Health Department survey showing about 30% of self-funders (of whom roughly 70,000 enter care annually) sold their homes before moving into a care home. Of course, some will have sold, not to pay care costs, but because they no longer needed the house. Equally, others will be forced to sell their homes to pay costs subsequently, when they have exhausted other resources.

⁹ The principal proposals for reform are assessed in *Fixing Social Care: the Fundamental Choices* Jethro Elsdon and Alex Morton, Centre for Policy Studies 2020.

¹⁰ Alderwick, Hugh, Tallack, Charles and Watt, Toby, 'What should be done to fix the crisis in social care: 4: see the capped cost model as a flexible approach to reform' (The Health Foundation, August 30, 2019), <https://www.health.org.uk/news-and-comment/blogs/what-should-be-done-to-fix-the-crisis-in-social-care/4-see-the-capped-cost>

turns out to be, people will always retain at least £100,000 of their savings and assets, including value in the family home.’

It did not include a cap on lifetime contributions to social care. Moreover, it proposed to include the value of the family home in the means test for domiciliary social care, albeit with the right to defer payment in return for a charge on the property.

The House of Lords Economic Committee report went further and proposed that:

‘The Government should introduce a basic entitlement to publicly funded personal care for individuals with substantial and critical levels of need. Accommodation costs and the costs of other help and support should still be incurred by the individual. The Health Foundation and the King’s Fund estimate this would cost £7 billion pa if introduced in 2020/21.’¹¹

The most recent contribution to this debate comes from a former Secretary of State for Work and Pensions, Damian Green,¹² who proposes a ‘Universal Care Entitlement’ costing an estimated £2.75 billion per annum – funded by ‘taxing the winter fuel allowance, making wider savings as part of the spending review and, if necessary, putting an extra 1% on National Insurance for those aged over 50’. He proposes a private insurance-based system for those wishing to provide for a level of care above the basic minimum.

All these attempts to alleviate the risks of homeowners having to pay large amounts for social care in old age inevitably increases the burden on local authority social care budgets. Moreover, that extra expenditure by definition would disproportionately benefit the better off members of society.

This was hard to justify at a time when local authority care budgets have been suffering a prolonged squeeze. But post-Covid, with a £2 trillion national debt, a massive deficit to get under control and a commitment to level up – it is surely out of the question.

Funding existing social care commitments adequately, which must be the priority, will be a major challenge. The scope for savings must be largely exhausted. The proportion of the population aged 85 and over who live in residential care has actually declined from 25.2 per cent in 1996 to 14.8 per cent in 2017¹³ – partly thanks to positive measures to facilitate care at home rather than in residential and nursing homes. Now, as a result of the squeeze on budgets, councils are reported to be interpreting the statutory criteria for social care more harshly and squeezing fees paid to care homes to the limit. As a result, there is a danger of care homes going out of business.

Few would dispute that the principal crisis in social care provision is funding a sustainable level of care for those unable to self-fund – not ensuring that ‘children’ (usually themselves approaching retirement age) receive a legacy at the taxpayers’ expense.

¹¹ *Social care funding: time to end a national scandal*: House of Lords Economic Affairs Committee July 2019 HL392.

¹² *Fixing the Care Crisis* Damian Green MP, Centre for Policy Studies 2019.

¹³ *Care Homes for the Elderly: Where are we now?* Grant Thornton 2018.

2. A Targeted Solution

Is there any way to ease the pressure on local authority care budgets, or at least not add to them, while enabling homeowners to avoid catastrophic care costs?

At first sight, a possible answer is private insurance. That option was considered by Dilnot, the Lords Committee and others, but all of them concluded it was not feasible.

Dilnot nonetheless spelt out the basic arithmetic of insurance, had it been possible. Updating his figures, his calculation is as follows:

- 1 in 4 people who reach pensionable age later go into residential or nursing homes.
- Those who do so, on average, stay 2½ years.¹⁴
- The average cost of social care (excluding 'hotel costs')¹⁵ supported by local authorities is £25,000 per annum.
- So, a single premium of $1/4 \times 2\frac{1}{2} \times £25,000 = \text{approx. } £16,000$ would pay for the social care costs in residential and nursing homes for all those insured people who turn out to need it.

This theoretical premium is a simplified figure which ignores, among other things, future cost increases, administrative costs and so forth. Nor would it cover social care provided at home. Also, this calculation relates to the cost of care arranged and supported by local authorities. Those who self-fund often choose more expensive provision or find themselves cross-subsidising those paid for by councils.

Many of those who have considered private insurance did so in the hope that it might actually relieve the existing pressure on local authority budgets. That was never feasible since those likely to be entitled to local authority support would have no reason to insure. And compulsory insurance would inevitably amount to a tax, since the premium would have to be related to income or wealth.

In any case, Dilnot and subsequent studies concluded that the private insurance market could not be stimulated to provide insurance, even for those at risk of losing their house to pay for social care. In practice, the insurance companies do not, and will not, provide such policies.

The studies found that:

¹⁴ Julien Forder J and Fernandez J-L (2011) *Length of Stay in Care Homes* Report commissioned by BUPA Care Services, PSSRU Discussion Paper 2769 Canterbury.

¹⁵ According to Laing and Buisson the average fee in 2017/18 for elderly care was £629 in for-profit homes and £707 in not-for-profit homes. Simple average = £668 per week. The minimum income guarantee for a single person receiving care at home is £189 per week, from which they are expected to meet accommodation, food and other living costs. This is taken as equivalent to 'hotel costs' of residential care. Hence social care costs = £479pw which rounds up to £25,000 p.a.

- The last UK provider withdrew from the market in 2010.
- Insurance companies say they will not (re)enter this market, even if government incentives are provided.
- Indeed, private insurance for long term social care has never caught on in the UK or anywhere else in the world. In the US, which is most similar to the UK and where some states have introduced fiscal incentives, only 0.01 per cent of people take out such policies.¹⁶
- This is partly because the risks of changes in government rules about long term care, and of medical advances increasing the length of time people stay in care, make it uneconomic.
- But also because people are extremely reluctant to save for such insurance during their working lives on top of making pension provision and repaying their mortgage; and few can pay a lump sum premium after they retire.

As a result, Dilnot and his successors largely abandoned the idea of private insurance enabling people to avoid the risk that their accumulated wealth – notably their home – may be used up if they need prolonged social care.

Instead, Dilnot and others suggested mitigating that risk by setting a life-time cap on liability and raising the threshold value of assets and homes below which people may become entitled to (means tested) support. But, as previously mentioned, that means the state taking on a large additional expenditure, primarily benefitting the better off, at a time when local authority care budgets are already stretched to the limit.

Given the crippling cost of the Covid pandemic, it would no longer be responsible to pursue proposals which will add to the burden on public finances, especially to extend benefits to the better off.

However, the problems – which Dilnot and others correctly recognised make private insurance a non-starter – boil down to the issue that insurance companies will not provide such policies partly because:

- Of the risks of government policy changes and medical advances; and
- Homeowners will not pre-pay for such policies on top of funding their pensions and repaying their mortgages.

But, given that the private sector will not provide such insurance policies and homeowners will not pre-pay for them: what if a state-owned body provided them and enabled people to pay for them, not in advance, but on retirement, by taking a charge on their homes which would be paid out of their estate?

¹⁶ James Lloyd *Gone for Good? Pre-funded insurance for long-term care* The Strategic Society Centre 2011.

After all, the purpose of such policies is to enable homeowners, if they wish, to buy the certainty that they can pass on to their heirs the value of their home. As long as the cost of such policies is a modest fraction of the value of the house, they would achieve that objective. And local authorities are already obliged to give people the option of deferring payment for social care in return for a charge on their property. A charge in respect of a single insurance premium would be far smaller than the cost of several years of care.

Normally, state provision is an unattractive option. State entities lack incentives to be efficient and can unfairly undermine private provision. But the potential cost of inefficiency of a state-run insurer is small compared with the potential cost of the state actually funding care for owners of large houses so that their heirs can receive a large legacy. Moreover, there is no private provision with which the state would be unfairly competing. That absence is largely because of the risks of government policy changes and medical advances which may increase frail life expectancy, much of the cost of which the state will anyway have to incur.

The rest of this paper fleshes out the idea of a state provider offering home-owners insurance – payable in the form of a charge on their home – against the risk of having to exhaust the value of their home to pay for social care.

In outline, this is how such a proposal would work:

- A not-for-profit company entirely owned and guaranteed by the state would be established.
- The company would offer everyone, when they reach state pension age, the opportunity to take out insurance to meet the cost of social care (up to the standard level provided by local authorities), should they ever need it, instead of having to sell their home or other assets.
- The cost of such insurance would be calculated to be actuarially sufficient to pay for such care. So, the insurer would aim to operate at no long-term cost to the taxpayer.
- People would be able to pay for the insurance by a charge on their home which would be realised when they die and/or the home is sold.
- Typically, that charge would be a modest fraction of the value of any home.
- Nobody would be required to take out such insurance.
- Those who do pay the premium would be confident that they could leave their home and other assets to their heirs – who would be able to look forward to such bequests with greater confidence.

- But those who choose not to insure could no longer complain if, having rejected the opportunity to pay into the pool to pay for care for those who do insure, they eventually find themselves paying for their own care from their own assets.
- The aim would not be to achieve the widest possible take-up, but simply to provide the option which does not exist at present, and thereby weaken the political pressure from homeowners for the state to provide them with free social care.
- Anyone wanting a higher standard of care than that financed by the state, or before they meet the official eligibility threshold, would be free to pay for that extra care from their own resources.

That is the simple structure, but life is not simple, so it is important to consider some potential complications.

When should pensioners be required to decide whether to pay the premium?

To avoid the risk of adverse selection (people delaying a decision about whether to pay the premium until they sense that they will soon need social care), it is important that people be required to make the decision soon after reaching state pension age.

The Department for Work and Pensions currently contacts people shortly before they reach state pension age and therefore, could offer them the opportunity to insure against losing their home, reminding them again at six-month intervals. But the opportunity should cease after, say, two years. Examination of the age at which people do start to need social care may suggest that this period could be extended without undue risk of adverse selection.

Given that people will be able to pay the premium via a charge on their home, they will not need to save extra during their working lives, nor be materially out of pocket by taking the decision soon after retirement.

Should the premium cover only the cost of social care, or accommodation and living costs as well?

The cost of a residential or nursing care home is comprised of accommodation and other daily living costs like food, toiletries and so forth (so-called 'hotel costs'), as well as social care costs. The cost of medical treatment is met by the NHS. At current levels of local authority provision, 'accommodation and daily living costs' amount to some £10,000 p.a.,¹⁷ and 'social care costs' account for some £25,000 p.a. – making up the total eligible costs of £35,000.¹⁸

¹⁷ This also roughly corresponds to the Minimum Income Guarantee – the amount of income which people are allowed to keep without means testing if receiving social care at home – which is £189 pw or £9,828 pa for a single person.

¹⁸ The Laing and Buisson Care Homes Complete data set 2017/18 shows the median of min and max fees at £636 pw for old-age care in with-profit homes and £707 in not-for-profit homes. The average of the two is equivalent to nearly £35,000.

People would be paying for their own accommodation, meals and other daily living costs from their income (including state pension and benefits) if they did not need to go into a care home. Consequently, when they go into residential care they usually expect, and are expected, to continue to pay for these costs from their income. If a resident's income is insufficient to pay for these daily living costs, they are still allowed to retain £24.90 per week (£1,295 per annum) from their income for personal discretionary expenses.

Arguably, most people would expect to continue to pay for their accommodation and daily living costs from income and would not want or need to pay for insurance to cover such costs. In which case, the premium for social care only (costing £25,000 per annum for the average stay of 30 months for 1 in 4 of people needing care) would be about £16,000.

Should the premium reflect the value of a person's home?

The simple calculation drawn from the Dilnot Commission report (cited above) assumed a flat rate premium independent of the value of the insured person's home. This was for simplicity. In fact, what is being insured is the value of a person's home (and other assets) against the risk that it will need to be used up in paying for their care.

A person, the value of whose home (net of mortgage) would be exhausted by the cost of a couple of years of residential social care, would become eligible for publicly funded care after two years anyway. So, they only need to insure against the risk that they may need to pay for two years of social care. Their premium should be correspondingly low.

By contrast, a person whose house is worth the cost of 20 years of care would need to insure against the risk of needing 20 years of care. Their premium should be correspondingly higher.

The premium should therefore reflect actuarially the reduced value of insurance the lower the value of the home (or other assets).

This would be in tune with the government's commitment to 'level up' across the UK. By contrast, setting a life-time cap on social care costs born by people, or increasing the value of assets exempt from means testing, are far more beneficial to home-owners in the South where property values are far higher than the North.

How should the premium reflect future cost increases and the cost of deferral?

As mentioned earlier, local authorities are already obliged to offer people who have to contribute to the cost of their social care the option of deferring payment in return for the council taking a charge on their home. That charge becomes payable when they or their estate sell the property.

To reflect the delay in receiving its income, the council may impose interest on the deferred payments which is added to the charge on the property, which therefore rises over time. The maximum interest rate that councils can charge is the weighted average interest rate on conventional gilts plus 0.15 per cent.

In the proposed insurance system, the size of the charge on an individual's property would typically be far smaller – since it would just reflect the one-off premium rather than the cumulative cost of years of social care for someone who actually goes into a home. But the leads and lags will be far longer between the local authority taking the charge on a house, incurring costs for the minority who do eventually need social care costs and finally receiving payment from all insured people when they die.

The charge on a person's home to pay for the premium will be set shortly after they reach state retirement age. The minority of insured people who do need care will typically do so a decade or two later. So, the charge will have to allow for future increases in the cost of providing care, as well as the time cost to councils of the delay in receiving payment.

There is no reliable way to predict future cost increases, but they are likely to be far more important than the interest cost on deferred payment. However, over the long term, social care costs are likely to rise at least as fast as average earnings. And, over time, house prices have more than kept pace with earnings.

The obvious way, therefore, to take into account both future increases in costs and the interest cost of deferring payment, would be to set the premium as a percentage of the value of the house insured. The initial premium would be calculated on the basis of social care costs at the time the insurance is taken out, then divided by the valuation of the house at that time. That percentage would be applied to the value of the house when sold by the insured person's executors. Thus, if the initial premium for insuring a home worth £400,000 against incurring social care costs is £20,000, the charge would be set at 5 per cent. If that home is sold for £500,000 when the owner dies, the local authority will receive £25,000.

Should the insurance premium cover potential cost of domiciliary care as well as residential care?

The ill-fated 2017 Conservative Manifesto promised to:¹⁹

‘align the future basis for means-testing for domiciliary care with that for residential care, so that people are looked after in the place that is best for them. This will mean that the value of the family home will be taken into account along with other assets and income, whether care is provided at home, or in a residential or nursing care home’.

To make this possible, given that people receiving domiciliary care are living in their homes, the manifesto promised to ‘extend the current freedom to defer payments for residential care to those receiving care at home, so no-one will have to sell their home in their lifetime to pay for care.’

It proved unwise to announce such a proposal without consultation during an election campaign. Nor is it clear whether there is a serious problem in practice of people opting for

¹⁹ Conservative Manifesto 2017, *A long-term plan for elderly care*, p. 65.

more expensive domiciliary care to avoid going into residential care in order to prevent subjecting their home to the means test. However, if that is significant, it clearly would be logical to consider aligning the means test for residential and domiciliary care.

Were that to happen, it would be essential to extend the proposed insurance premium to cover the potential cost of social care at home as well as in residential homes. This would mean that those who took out the policy shortly after reaching pension age and accepted a one-off charge on their home would not need to accept an open-ended deferred charge on their home (which could be far larger than the premium) should they need social care at home.

The public accounts are opaque as to the cost of domiciliary care for the elderly. So, it is not clear how much higher the premium would need to be to cover domiciliary social care as well as residential care.

Should the premium be the same for men and women?

On average, women are more likely to go into residential care and stay there longer than men. Moreover, the difference is not small. The average cost of residential social care was estimated as some 2.5 times higher for women than for men.²⁰ In a normal market, the premium would therefore be markedly different for women and men. Similar issues arise in other insurance markets where public policy has tended towards preferring uniform premiums regardless of sex. If that were to apply in this case, single women who own property would benefit from a premium which did not reflect the true expected cost of their care and/or single men with property would have to pay over the odds.

Should couples pay two premiums?

For couples, the situation is more complex since, as long as one spouse remains in the matrimonial home, its value will not be taken into account when assessing whether the spouse in care is entitled to public support. As long as that remains the case, it will be less worthwhile for couples to pay two premiums. It should be possible to offer a premium for couples less than twice the individual premium by an amount actuarially reflecting the residence rule.

Could those already past state pension age be included in the scheme?

To avoid 'adverse selection', it is important that people decide whether to take out this insurance shortly after state pension age. That is fine for future cohorts of retirees. But it is more difficult to see how those already past pension age can be given the option of protecting their homes against means testing. One possibility would be to offer the option of paying the premium to people subject to them not needing social care for, say, at least two years after paying the premium. If they do need to go into care during this two-year

²⁰ Julien Forder J and Fernandez J-L (2011) *Length of Stay in Care Homes* Report commissioned by BUPA Care Services, PSSRU Discussion Paper 2769, Canterbury.

period, the charge on their property would be cancelled and they would be subject to the normal rules on means tested provision.

This would, by definition, be a transitional problem.

What will happen if a future government changes the eligibility and entitlement rules for social care?

Future governments might change the rules to make them more generous – for example, to allow people to receive support for a lower level of need, or to pay for a more costly level of care. However, the premium may have been calculated on the basis of the older level of care.

- The simplest option might be to make the premium an entitlement, without means testing, to whatever provision the state makes available to those who do not have resources to pay for themselves. This would also mean that the insured person (like the person with insufficient means to pay for their own care) would be insulated against changes in real costs of provision. Since the value of state provision is more likely to rise than fall, this would tend to benefit the person taking out insurance at the cost of the general taxpayer.
- The more conservative alternative would be to make the insured provision relate to the terms and conditions and costs prevailing at the time the insurance is taken out. The insured person would then be liable to pay from their own resources for any more generous provision subsequently introduced by the government for those without means to pay for themselves.

How will the eligibility of insured people for social care be assessed?

Anyone seeking local authority support for the cost of social care must first undertake a 'needs assessment'. The definitions of eligible needs are set down in national legislation. However, the assessments are carried out by local authorities. Under budgetary pressures, they have reportedly applied the rules increasingly stringently – possibly unevenly. Entitlement assessed by one authority is not transferable to another area. So, people moving between care homes in different areas have to undergo reassessment. This has led to strong pressure for standards of assessment to be uniform nationally and portable. That would be an essential concomitant for the proposed insurance scheme. People who are insured and seeking social care could then be assessed by local authorities on the same criteria as uninsured people. That would avoid the Public Insurer having to duplicate wastefully the existing assessment arrangements

Insured people seeking social care would then be entitled to the same level of financial support as uninsured people with similar levels of need.

Local authorities have been under great budgetary pressure and have used their monopsony power to hold down payments to care homes to a level which is arguably below the real cost of provision. Analysis by the Competition and Markets Authority suggests the

underpayment is of the order of 10 per cent.²¹ This has forced care homes to charge self-funding residents higher fees to cross-subsidise those whose care is arranged by the council. This situation is not sustainable in the long term as care homes are tending to close in less prosperous areas and move to areas where they can cater primarily or exclusively for self-funding residents. This suggests that the sustainable cost of insurance is likely to be at least 10 per cent higher than indicated in the simplistic calculation above.

²¹ *Care Homes Market Study – Final Report*, November 2017 CMA para 4.47 p70.

3. Conclusion

There is a way, at little cost to the taxpayer, of allaying people's understandable fears that their (or their parents') entire wealth will be consumed by the cost of social care in their old age.

It is insurance.

Insurance against this possibility was one of the first solutions to be considered. But it was equally rapidly dropped once the private insurance industry made it clear that they could not, and would not, provide policies to protect people from having to sell their homes to pay for care.

The inherent risks of needing social care are eminently insurable and at reasonable cost. However, the external uncertainties about both government policy and future longevity make this niche market very unattractive to private insurance companies – coupled with the unwillingness of people to contribute to such policies during their working lives on top of saving for their pensions and repaying their mortgages.

There is an alternative to private insurance policies which has not even been considered. The alternative to the private sector providing insurance is for a state body to do so. And the alternative to asking people to make contributions during their working lives is to enable them to pay for such insurance by taking a charge on their homes soon after they retire. The state would then be reimbursed out of their estate.

The potential size of the premium is likely to be a modest fraction of the value of people's homes. Once such an option becomes available it would defuse the pressure on government to devote taxpayers' money to subsidising homeowners' heirs.

Any cost to the taxpayer is likely to be small and to arise only in circumstances (like an unforeseen increase in frail life expectancy) when the state would in any case be forced to pick up the tab. That is one reason why a state guaranteed body would be able to undertake this role even though the private sector (which would normally be preferable) cannot.

It is absurd that this option has been overlooked – presumably because it involves a modest element of state backing – yet all political parties are willing to consider the far greater (and ill-targeted) state commitment to bear some of the cost of the 'catastrophic risk' of a long period of social care. That would largely benefit owners of expensive houses in the South East at the expense of taxpayers and owners of modest homes in the North. We should not make the best the enemy of the good.

Annex A: How the current means testing system works

Since the welfare state was established after the war, local authorities' support for social care has been means tested.

Those seeking public support for such care must first undertake a 'needs assessment' to assess whether they are unable to manage 'everyday tasks like washing, dressing and cooking' or wider social needs without help.

If this shows that they need social care, the local authority must draw up a care package which may require care in a residential or nursing home, or domiciliary care in their own home.

They then undergo a 'financial assessment'. This assesses both their income and their assets.

Anyone with assets worth more than £23,250 will be ineligible for support, regardless of their income. The value of their home will NOT be included in their assets if they are receiving domiciliary care at home, nor if their spouse (or certain other dependent relatives) is living in it.

They will be expected to contribute from their income towards their care costs. But if they go into residential care, they are allowed to keep a Personal Expense Allowance of £24.90 p.w. (£1,295 p.a.). If they remain at home receiving domiciliary care, they are allowed to keep the Minimum Income Guarantee of £189 p.w. for a single person, or £244.60 p.w. for a couple, to meet the costs of their home and normal living.²²

Anyone whose assets are between £14,250 and £23,250 will be entitled to some help with their care costs, but for each £250 of capital, they will be deemed to have income of £1 p.w. – which will be added to their income, and from which they must contribute towards their care costs. When assets fall below £14,250 they are ignored and only their actual income is taken into account.

The cost of nursing and other health care for people in residential homes (as against social care and residential costs) is met from the NHS budget and not means tested.

²² *Social Care: charging for care and support* Local Authority Circular LAC(DHSC)(2020)1 March 2020.

First published

March 2021

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55 Tufton Street
London SW1P 3QL

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