Delivering Dilnot:

paying for elderly care

Edited by
Paul Burstow

CENTREFORUM

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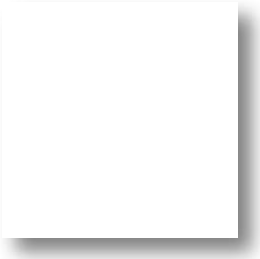

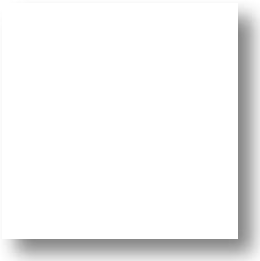

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Contributors:

Former Care Services Minister Rt Hon Paul Burstow MP, chair of the Royal Commission on Long Term Care for Older People Lord Stewart Sutherland, carer and writer Ming Ho and Dr Yvonne Braun, assistant director at the Association of British Insurers (ABI).

Acknowledgements

The editor would like to thank Huw Cookson, Professor Andrew Dilnot, Stuart Adam and Carl Emmerson from the Institute for Fiscal Studies, Oliver Hawkins, Rachael Harker, Daniel Harari and Tom Rutherford from the House of Commons Library. He would also like to thank Jenny Ousbey for her research assistance.

Thanks must go to our contributors: Ming Ho, Gill Phillips and Joan, Yvonne Braun, and Stewart Sutherland.

With thanks to the support of Jim Boyd, Chris Horlick and Caroline Jackson at Partnership.

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Preface

Chris Horlick, Managing Director, Care,Partnership

Partnership is delighted to sponsor CentreForum's publication 'Delivering Dilnot: paying for elderly care'.

Partnership is committed to encouraging informed debate and supports any constructive engagement which addresses the core issue of how to fund long term care which we believe is one of the great issues of our age. We recognise that it is only by encouraging debate in this area that sustainable and relevant solutions will be delivered.

The coalition government deserves great credit for all that has been achieved so far on elderly social care – publishing its Vision for Care, delivering the Law Commission report on Care, the Dilnot Report and recently the Draft Care and Support Bill. These are significant steps forward. However, without a funding solution they will doubtless be seen as yet another missed opportunity.

There is now universal agreement that there needs to be a partnership between the individual and the state to fund care and support. The financial services sector can only play its part when it is clear what the state offer is. Further delays in a settlement merely exacerbate the difficulties for service users, their carers, families, providers and suppliers alike.

If successful government is about the art of the possible, there are still some practical steps which can be introduced to help the 50 per cent or more people in the care system

who have to fund all or part of their care, even in the absence of Andrew Dilnot's central proposals.

First, an education campaign to inform the public that they may have to pay for their care was recommended by Dilnot. Government should give citizens some idea of how much care might cost, their chances of needing care and support and for how long. An informed public at least has a chance to plan and prepare.

Second, only self-funders face the risk of depleting all their capital but only seven per cent of self-funders entering care homes in 2009 received any financial advice. This absence of advice contributes towards the 25 per cent of self-funders who run out of money and fall back on the state costing an estimated £1 billion each year in England alone. Now there's a contribution towards the costs of implementing Dilnot.

What these people need more than anything else is access to properly qualified regulated specialist care fees advisers. Advice on simple matters such as ensuring that non means-tested benefits are secured to more complex funding solutions such as releasing equity from their homes or insurance products like immediate needs annuities which can cover all care costs (including the so called catastrophic costs) are available through the right advice. We believe that a duty should be imposed on local government as part of the Bill to refer self-funders for care to qualified advisers who can help.

We hope that this report continues to stimulate much needed debate and attention to this critical area – and help ensure that it is not lost in the long grass.

Executive summary

I had to sell my flat to pay for this care home so now I haven't got any choice – this is my home because it's all I've got left.....[1]

Paying for care has been a long running sore in the social care system.

But it is impossible to talk about older people's care without discussing how we might pay for it. This publication is therefore intended as a useful contribution to the debate on why the Dilnot Commission's proposals are our best hope of reforming care financing in at least a decade. This report will also discuss how Dilnot could and should be paid for in the fairest and most progressive way.

In order to produce a publication that encapsulates this huge policy problem in all its guises, we have included original pieces from expert figures. We have done so because it was important for us to include the voices of those directly affected by the lack of a resolution to care reform. These are voices not often heard above the political din.

We have included heartfelt and poignant articles - one by a 90 year old who worries about her future, and another from a carer whose life is dedicated to ensuring that her life, and that of her dementia-stricken mother is not entirely destroyed by a broken social care system.

We all know that care funding reform has reared its head throughout successive administrations. This is why we asked Lord Stewart Sutherland to provide the long-term overview of the care debate. As former chair of the Royal Commission

1 An older person quoted in Bowers, Helen et al, Older People's Vision for Long Term Care, Joseph Rowntree Foundation, November 2009.

on Long Term Care of Older People, Lord Sutherland is best placed to explain why Dilnot's proposals are our best chance at fixing a system buckling under demographic pressures.

Another key aspect of the debate over Dilnot has been the speculation over whether the financial services industry is geared up for delivering the products needed to insure people against huge care costs. Yvonne Braun's piece on behalf of the Association of British Insurers is a welcome addition to this publication. In her article she sets out the crucial role that good financial advice can play in helping people to secure peace of mind for the future.

Finally, the former Care Services Minister Paul Burstow MP provides detailed analysis on what level Dilnot's cap should be set at, and how it should be paid for. It is rare that a politician is willing to suggest that some may have to lose out in the short term so that they can gain in the long term.

It is no coincidence that two of our contributors have used the phrase 'heads in the sand' when referring to the historic political and social unwillingness to solve this crucial issue. This is why our publication sets out an overview of the literature produced on Dilnot so far.

We have also conducted original research of our own which has found that the argument for introducing a £50,000 cap for those with modest assets is overwhelming. We have revealed that someone with assets of £100,000 currently faces losing 82 per cent of the value of those assets.

If the Dilnot proposals were introduced at a £50,000 cap, the same individual would lose only 37 per cent. Indeed, individuals who own an averagely priced property currently face losing 65 per cent of their assets. Under a reformed Dilnot system with a £50,000 cap and extended £100,000 means test – these people would only lose 22 per cent of their assets.

Additionally, we establish which pensioners would be affected by Dilnot, how much a cap of between £50,000 and £60,000 would cost, and what it would take to raise the

amount needed to pay for it.

We have proposed that the Winter Fuel Payment should be linked to the Pension Credit. This would raise up to £1.5 billion a year while protecting the poorest against cuts in their weekly incomes. In addition, by distributing the benefit at wintertime as a lump sum, it would not only incentivise those currently not claiming Pension Credit, but would be clearly labelled as a payment for fuel.

We believe an additional annual pot of money, around £600 million, could be raised by establishing capital gains tax at death. This means that in total the Treasury could save over £2 billion a year to pay for a Dilnot care system at a cap that would still protect those who so desperately need it.

It is true that Dilnot has only ever been part of the revolution that needs to take place in social care. But with a draft Care and Support Bill making its way through Parliament, and a well-received Care and Support White Paper, some parts of the jigsaw are already slotting into place. Yes, there is still a gap in baseline funding for social care – but by implementing Dilnot this pressure could begin to be addressed.

In the coming months we will discover if the voices of Joan, of Ming Ho and of countless others have been heard by those holding the purse strings on this decision. We can only hope that their pleas do not fall on deaf ears for much longer. Now is the time for action.

We expect better from government

By Joan, 90, from Warwickshire

I don't think I ever thought about needing long-term care. But my friends started to go into care homes and apartments and I was urged, by the family, to think about it. My daughter took me to visit very nice places where people live in their own flat and can mingle with others to chat or be entertained. But I felt this was definitely not for me – at least for now.

My husband had absolutely no intention of moving home. Perhaps it would have been better if we had gone somewhere together. Moving is such a huge decision and, of course, irreversible. At least one friend is not very happy despite being in a comfortable, sought-after home. So I guess many elderly people, like me, just put their heads in the sand and get on with their lives!

The government should explain the necessity for saving up, but many old people might not understand and could be frightened by this. For most, it is too late to start saving anyway when you retire. It would all have to be very carefully handled. Could the government do it?

I think it is very unfair to have to use so much of one's savings and property to pay for care and I consider the means-tested allowance to be ludicrously low. I read now that this might increase in 2015 - three years away. At 90, three years is a very long time indeed! I am very disappointed that this government – as previous governments - talk so much about this issue but have so little sense of urgency.

In the meantime, the lottery continues. Depending on how ill you become, how long it lasts and how and when you eventually die, the financial outcome ranges from "free of charge" to "losing everything". I don't think there is even any insurance you can take out to cover care home fees, certainly at my age. You just have to try to stay healthy and hope!

I wonder if many people are even aware that social care is not free. They will be very angry indeed when they are told it is not. They will talk about the billions of pounds this country sends abroad for overseas aid, some of which would appear to be totally unnecessary.

I suppose all this applies particularly to people of my generation (a diminishing number) who lived through the horrors and deprivations of the Second World War. Younger people have no idea what this was like and I hope they never have to find out for themselves. But the war instilled in my generation a culture of saving rather than spending, putting others first and "making do".

It is all particularly difficult as many older people struggle to understand the value of money these days. For my first job, I was paid "£2 17s 6d" per week. Today this would just about buy a Costa coffee.

My generation have paid their taxes and saved hard for what they now own and never asked for anything. We expect our elected government to look after us better now.

Making the case for Dilnot

by Jenny Ousbey

> *"In our view, the necessity for reform has never been greater. While we accept that the economic circumstances have never been worse, we remain of the view that this is a challenge which will not go away. There is not a no-cost option."*[2]

Why Dilnot?

For some time concerns have grown regarding the funding system for adult care and support in this country. Many argue that it is not fit for purpose. Successive governments have ducked and dived around the issue, placing it in the 'too difficult to do' drawer. With strains on the current system clearly visible, concerns of future cost increases and a dramatic rise in the older population, it is safe to say that the issue of care financing has reached crisis point.

The Dilnot Commission was set up in July 2010, following a commitment in the Government's Coalition Agreement, 'Our Programme for Government'. The independent Commission was tasked by the Government to review the funding system for care and support in England. Since publishing his report in July 2011, Professor Andrew Dilnot's proposals have gained widespread support across the sector – and have been debated extensively in and outside of Parliament.

The Dilnot Commission highlighted the shocking reality that one in ten families will be hit with catastrophic costs of £100,000 or more in their lifetime. Providing a safety net for

2 Richard Humphries, Senior Fellow (Social Care) The King's Fund, Health Committee Oral Evidence, Tuesday 19th June 2012

those who cannot pay for care is seen as an essential part of the Government's role in adult social care. But many feel the state should go further to help better protect those who fall outside the current means test criteria.

As consistently highlighted by the media, it is those with modest wealth who lose out the most under the current system. For example, those with assets of £80,000 can face losing up to 80 per cent of their assets to pay for care costs. This figure is even based upon an individual buying residential care at the local authority rate and also being able to meet their accommodation costs from their income. In many cases, care costs will exceed local authority rates and people are unable to meet their living costs from their income alone, and so the depletion of their assets will be much more severe. Often, recipients of care are left with no assets at all after paying for the costs of care.

The Dilnot Commission was established to propose funding options that could be sustainable for future needs, and would allow people to better protect their assets, especially their homes, from the cost of care.

Dilnot and demographics

The Commission's proposals are about long term sustainability and clearly projecting the demographic changes over the coming decade will prove crucial. Clearly an important consideration in the whole care financing debate is the predicted changes to England's demographic make-up over the next 30 years. Those aged over 65 currently total ten million, and this figure is expected to rise by a full 5.5 million within 20 years. However, if we specifically look at those aged 80 plus (as this is the group most likely to require care), this group will increase from 2.4 million in 2010 to 3.1 million in 2020 – a 29 per cent increase.

More significant is that by 2030 the over 80s will reach 4.5 million in number (an 88 per cent increase from 2010). In terms of the impact this will have on social care services in the future, we can be relatively confident that it will be

substantial. Indeed, by 2061 public spending will have to increase by £80 billon in today's prices due to the affects of population ageing.[3]

And yet these rising age-related costs will be played out against a backdrop whereby on average, pensioner net income will increase by 0.5 per cent, while working families with children will lose 1.4 per cent of their net income due to the Government's current reforms to the tax and benefits system.[4]

It is within this policy and fiscal landscape that the politics of how to pay for care and who should pay for it will be played out. Ultimately there is cross-party agreement that the state has a responsibility to ensure those who require state support for care will continue to receive it generations down the line. In turn this means there is no option but to reform our current system of funding.

What are the problems that Dilnot is trying to address?

All of the below statements are taken from letters that Paul Burstow received as Care Services Minister (names withheld):

> *"Dad worked from the age of fourteen to sixty eight. Even when my brother and I were small he worked in the evenings. Our family have never lived in a council house, claimed social security or asked for help in any way from the state. My parents did not take fancy holidays; they did not even own a car. What will happen now?"*

> *"My mum is happy because of the care she receive…I should therefore, in this year of great celebration in our country be very proud to be British, instead I feel angry and let down. We seem to be able to fund and organise our Queen's Jubilee as well as the sporting event to end all. Conversely no one seems to be able to fund and organise an eighty year old lady to end her days in a place that, against the odds, she is happy in."*

3 Office for Budget Responsibility, Fiscal Sustainability Report, Table 3.6, Non interest spending projections, in Paying for Ageing: Decision time for households and the state, Strategic Society Centre, November 2012, p.9.

4 Joyce, Robert, Tax and Benefit Reforms due in 2012/13 and the outlook for household incomes, Institute for Fiscal Studies, March 2012, p.10.

"To get the correct information as quickly and easily as possible would take such a weight off everyone's mind especially as they are usually worn out, anxious, can be at the end of their tether, under great stress trying to go through this minefield alone, just muddling along...."

All of the above sentiments are strongly indicative of the lack of information and support available to those engaged with social care. This issue has been recognised in the draft Care and Support Bill and White Paper – which establishes a new information website across health and social care – as well as a national minimum eligibility threshold for care. But another topic of concern often raised by family members is their loved ones' unwillingness to talk or plan for the future risk of needing long-term care. This lack of readiness to plan and prepare is reflected in pension policy, as well as social care. For example, research has shown that the over 60s' estimates of their likely retirement income was some £7,000 higher than they would actually receive.[5] This trend is reflected in carer and writer Ming Ho's first person article in this publication – where she points out that her parents' unwillingness to discuss their care futures has left her financially and emotionally drained.

What did Dilnot propose?

The Dilnot Commission made recommendations on how to achieve a sustainable and affordable means of paying for care costs. It proposed a combined contribution system from both the users of care services and the state. The users' contributions to their care costs will be 'capped', at which point the state will pay the remainder of care costs above and beyond that level. In reality, this means that a user's contributions will only be capped once the equivalent local authority rate for care services has reached the cap, meaning that the actual costs incurred by the recipient of care will, in some instances, be higher than the cap. This issue is discussed later.

5 Just Retirement, survey of 1,000 people, The role of housing equity in retirement planning, 2012.

The main purpose of the cap is to protect a larger proportion of users' assets from what is currently an unlimited liability. Crucially, the cap introduces a degree of predictability and certainty in a person's potential cost liability. Currently the only products tailored to cover long term care on the market are immediate needs linked annuities offered by two providers, Partnership and Friends Life.[6] Therefore another advantage of imposing the cap is to spark the creation of financial products that cover the care market, so that people can protect themselves against meeting the costs of care up to the threshold of the cap.

Lastly, the Commission proposed raising the means test threshold from £23,350 to £100,000 which would also offer greater protection to those with modest assets. It would also protect a far larger proportion of people's assets and allow them to better plan and prepare.

According to many, the overall effect of implementing Dilnot's principles means that local councils would know in advance how much people have spent in care, thus allowing them to realise the true cost of care and to make preparations for this:

> *It also means more straightforward conversations and, potentially, greater choice in services. For example, it is not uncommon at present for someone paying the going private rate for care to run out of cash and face having to move to a cheaper care home which charges what the local authority is prepared to pay.*[7]

The Commission's proposals will encourage people to take responsibility for their future needs by encouraging participation in the funding of care costs. Some have countered that the system put forward by Dilnot merely protects the richest pensioners, and yet this is to misunderstand the fact that the proposals actually help those with high care costs, regardless of personal wealth.

6 www.independent.co.uk/money/insurance/old-age-is-costly-but-advance-planning-can-be-a-minefield-2309850.html

7 www.guardian.co.uk/housing-network/2012/aug/22/dilnot-housing-social-care-funding

Have any alternatives been suggested?

The Dilnot Commission made it clear that a capped cost system should be a comprehensive one. However, others have proposed a voluntary scheme as a 'cost neutral' alternative, whereby users may choose to buy into the scheme in order to benefit from the protection of a cap.

This policy emulates the principle of the Commission's proposals yet arguably undermines its ability to offer protection to everyone and anyone facing high care costs. It is clear a voluntary scheme would disproportionately affect the less wealthy members of society who would be unlikely to pay the premiums of an insurance policy, leaving them to face catastrophic costs of care when they could least afford it. Furthermore, Professor Dilnot has said there is not "a country in the world" where an opt-in scheme had successfully mitigated the fact that a minority would face very high care costs[8]. An opt-in scheme would also mean increased administration costs, with the old means testing system running alongside a cap for the few who could afford to pay the fee – in effect it would create a two-tier system of care.

Instead, what is required is collaboration between the state and private sector. There is currently a very small long term care insurance market in the UK. That market is the Immediate Needs Annuity market. One of the key reasons why this market has yet to grow to meet its potential is the belief among a significant number of consumers that the NHS will meet social care costs. For self-funders who make up 41 per cent of the care system – it will not – and those consumers will have to meet with social care costs themselves. This confusion means that consumers fail to plan appropriately to fund their care.

There is also a chronic lack of awareness among consumers about their likelihood of needing care; how long they will live in care; what the cost of care is; where to get advice to fund social care and what financial products are available to meet

8 Financial Times, Campaigners Left Disappointed on Social Care, July 11 2012, Sarah Neville

the costs of long term care.

But if reform was easy, it would have been done by now. Labour failed in its 13 years in power to make progress. Tony Blair's Royal Commission, led by Lord Sutherland ended in the Government taking no action to implement its proposals.[9] Then, Labour's last ditch attempt, at the end of their administration, of a compulsory levy on estates was dubbed a 'death tax' and has never seen the light of day since. Later on in this publication Lord Sutherland provides some insights into why care has often been kicked into the long grass by successive administrations.

Certainly the care and support sector has positioned itself firmly behind a universal approach along the lines proposed by the Dilnot Commission. This form of scheme would allow the private sector to do what it does best, to innovate and offer families affordable ways of financing their care costs up to the cap whilst ensuring the state manages the unpredictable and unaffordable costs the user is currently ensnared with.

How is Dilnot perceived?

The Commission's proposals were perceived as a 'game changer' in care funding, a long-overdue contribution to the problem. In short, Dilnot received a positive response from the care sector. The sector particularly praised Dilnot's proposals in terms of the protection and security they offer older people who currently face losing a significant proportion of their assets to pay for care costs in later life. The proposals were also highly regarded in their efforts to maintain the Government's commitment to providing free care for the poorest in society.

There has, however, been much debate over how far the financial services industry backs Dilnot's proposals. Some argue that if pre-funded long-term care insurance products were reintroduced by 2015 (and assuming the average age of the claim was 75) and saw a 6.25 per cent take up amongst new

9 www.collections.europarchive.org/tna/20081023125241/www.archive.official-documents.co.uk/document/cm41/4192/4192.htm

retirees, it would be 2025 before the insurance industry would begin directing money into an over-burdened care system.[10]

As James Lloyd, of the Strategy Society Centre writes about the pre-funded insurance market:

> *"Insurers can only price care insurance policies on the basis of trends in disability and longevity. But in addition to length and level of disability, under the 'capped cost' model, a person's £35,000 liability is determined by the availability of informal care, and how much a council gives individuals with a defined level of need. These are not things that insurers can price for..."*[11]

But others believe the financial services industry is more than willing to create the right kind of products, as long as the Government is able and willing to set out a clear framework of its plans. For instance, the Association of British Insurers has been very clear that it believes Dilnot would stimulate the creation of long-term care products – as Yvonne Braun emphasises in this publication.

However, the Coalition Government's response to Dilnot has by no means been unified. In the progress report on funding reform, published in July 2012, the Government agreed with the principle of the Commission's model, financial protection through capped costs and that an extended means test would be the best means of achieving a system that is suitable for future needs. However, the progress report raised issues of affordability and put plans on hold until the next Spending Review.

This was perhaps an unsurprising response given the context of frozen budgets and deficit reduction plans across Whitehall. But what the Government's progress report did was to show that Dilnot did indeed represent a sustainable option for the future of our care funding system.

Recent media reports, particularly over the summer of 2012, suggested that the Government and particularly the Prime Minister were ready to announce reforms along the lines of

10 Written Evidence to the Health Select Committee from the Strategic Society Centre, SC80, www.publications.parliament.uk/pa/cm201012/cmselect/cmhealth/1583/1583we22.htm

11 www.communitycare.co.uk/Articles/24/10/2011/117658/Dilnot-proposals-39will-not-deliver-insurance-market-for.htm

Dilnot.

> *The Prime Minister and Mr Clegg both want to announce this autumn that they will implement the Dilnot recommendations in order to put the Coalition back on track. They plan to insert the pledge to enforce the proposals in 2017 into the Government's Care and Support Bill. They see it as a key legacy project for the Government that will show the two parties working together to solve a major problem that affects millions.*[12]

And yet these sentiments are still to come to fruition. The Government remains uncommitted to seeing the Commission's proposals implemented. This is not an issue of affordability, but one of political and economic will which requires a multi-spending period decision, as argued by former Care Services Minister Paul Burstow in his contribution to this pamphlet.

Who will it help?

The Commission's proposals have the potential to benefit everyone in society. While it remains the case that not everyone will require care and support in their later years, more than eight out of ten people aged 65 or over will. However, whether we will require care in our lifetime largely remains out of our control. The purpose of the Commission's proposals is to rid the public of their anxiety that they may one day face paying the crippling costs of care. But not only do the Commission's proposals protect the high costs of care, they also go further to protect assets due to the increased means test threshold.

The current system is such that if assets are in excess of £23,350 then the user must meet the entire cost of their care needs, whereas under a reformed system the threshold would rise to £100,000, which would afford protection to those with modest assets as well.

The Commission's proposals would also significantly help those who require long term care from an early age. For example, those entering adulthood with a care and support

12 www.dailymail.co.uk/news/article-2188952/David-Cameron-A-35-000-cap-care-bills-PM-pledges-end-heartbreak-elderly-forced-sell-homes.html

need would immediately qualify for state support rather than being subject to means testing. This would offer enormous benefits to those who currently require care from an early age, and are required to pay for it from their salary or social security payments:

> *This will make a massive difference to disabled people who are often impoverished by huge charges for services*[13]

It is also the case that those with long-term degenerative diseases such as dementia would benefit from Dilnot's plans. Indeed, as Paul Burstow outlined in a letter to the Prime Minister on 19 October 2012:

> *You have rightly challenged the country to be more dementia-friendly. Yet while care financing is left unreformed, people with dementia face the prospect of losing both who they are and everything they have worked for. It is no wonder care fees are often called a dementia tax.*[14]

We will offer a more detailed analysis of who Dilnot will help in terms of asset and income wealth later on.

What will it cost?

Recent discussion has centred on what the level of the cap should be. It is clear that the Treasury believe that a cap at £35,000 would be too expensive for the state to be able to meet the demands of a growing ageing population. Instead, (as Paul Burstow will set out in this publication) a cap of between £50,000 and £60,000 represents a more realistic figure that will allow the Commission's proposals to remain sustainable in the future as demand gradually increases.

Professor Andrew Dilnot is also thought to believe a cap of around £55,000 would be optimal:

> *"Having a cap of around £50,000 to £60,000 might be the optimal point between making financial solutions more affordable and stimulating demand."*[15]

13 www.guardian.co.uk/society/2012/jul/10/no-long-term-vision-dilnot-dismissal
14 www.dailymail.co.uk/news/article-2221184/Sentamu-moral-crossroads-care-elderly-sick-society-improvements.html
15 www.moneymarketing.co.uk/politics/dilnot-warns-on-ltc-cap-following-new-government-advice/1044473.article

A cap of £35,000 is estimated to cost £1.9 billion by 2018/19 – compared to a cost of £1.3 billion for a cap of £50,000 in the same year.[16] In turn, a cap of £60,000 would cost around £1 billion but some argue it would fail to protect those at risk of high levels of care in older age.[17] This cap should also be linked to a means test threshold of £100,000, as was proposed by the Dilnot Commission. This would ensure that a greater proportion of one's assets are better protected than they are under the current system since they would only become liable for their care costs when their assets exceed £100,000 in value, rather than at the current threshold of £23,350.

One of the great myths in the funding debate is the allegation that the state would be burdened by the entire cost of Dilnot (£1.7 billion for example) from the outset. But this is simply not the case. The introduction of any policy could not be retrospective; so from the date the policy begins the levels at which users contribute to their personal care costs (up to the cap) begins. This would mean that many people paying for care would not be eligible for state support from the start; it would be a gradual process by which people met the costs of care until they reached the cap or the value of their assets fell below the means test threshold of £100,000.

A cost implication which has not been discussed in enough detail in the media is the actual costs incurred by the user. The proposed cap is set at what the user accrues in care costs as if they were receiving council-supported care. In designing the new system careful consideration will need to be given as to what counts as an eligible and realistic care cost and how those costs are metered in a way that is fair to all. The rate at which someone progresses to their cap will be based on the assured cost of providing care to meet eligible needs. This figure is likely to be lower than the actual costs incurred, and therefore meaning that a person receiving care could spend more than the cap.

For example, if X pays £500 per week in residential care fees

16 Caring for Our Future: progress report on funding reform, July 2012, see table p. 33

17 Oral Evidence to the Health Select Committee on July 17, 2012 www.publications.parliament.uk/pa/cm201213/cmselect/cmhealth/uc317-iii/uc31701.htm

and the council limit for care is £300 per week, then X will continue paying until the council limit of £300 has reached the cap of for example, £50,000. Therefore the cap is not the user's spending total, it is the total spend of the council. If X then continues to want to receive the more expensive care option after the cap has been reached, then X will face paying the difference, in this instance £200 per week.

This ensures that the state pays equally to all who receive care. It also allows those receiving care to benefit from more expensive services should they wish to pay for them. A policy of this nature, where costs are foreseeable, allows the private sector to produce financial products that can meet the costs of care beyond the council limit, and the costs of care beyond the national cap.

Another factor is that the cap will only apply to the costs of care, and will not include accommodation costs, dubbed "hotel costs". This is an important aspect of the Commission's proposals that have been overlooked in the funding debate. But this is not a new addition to the discussion on social care funding, since this proposal reflects the conclusions reached by Lord Sutherland's Royal Commission. The rationale of the decision not to include accommodation overheads is that there is a responsibility on the individual to meet these costs. However the Dilnot Commission recommended they be limited to between £7,000 and £10,000 per year.

Lastly, the costs of care, and thus the costs to individuals under a capped costs model will be likely to change for a number of reasons. For example, inflation will lead to future costs being higher than they currently are. The Commission's proposals were made on the basis of 2010/11 prices (and the Government's calculations are based on 2012/13 prices), and so figures for future costs are likely to be higher. This will mean that a cap will change over time to reflect the increased costs that will affect the receivers of care.

How do we pay for it?

There have been numerous suggestions over how the

Commission's proposals could, or should be, paid for.

A report published by Saga in June 2011 looked specifically at proposals for the type of system that should be in place, in order to provide an ageing population with proper access to care.[18] The report investigated various funding options such as 'pay for yourself' schemes, 'insurance' and 'tax funded' initiatives. Other options included a 'comprehensive' scheme whereby compulsory payments from older people who possess the means formed the main source of funding for adult care services. The report drew on the experiences of various countries including France and the USA, and concluded that no single funding option would be suitable. Instead, a system that combined aspects of more than one system would provide the optimum solution. But Saga also concluded that the appropriate funding model would depend on the concerns and desired outcomes of the individual. For example, those who value simplicity and transparency might prefer a tax-funded system, whereas those for whom affordability is the predominant concern, might prefer the current means-tested system or the 'pay for yourself' option.

In a report by the Institute for Fiscal Studies, numerous options were considered as potential sources to meet the added costs of implementing the Dilnot Commission's proposals.[19] Options included imposing National Insurance Contributions on the employment income of pensioners, or upon pension income generally. Another possible avenue included restricting tax relief on pension contributions, but this would realistically involve significant and complicated administration costs and would work in such a way that it would disproportionately affect higher rate tax payers.

A similar proposal sought to reduce the current generosity of the tax treatment of pensions, which currently allows individuals to take 25 per cent of their pension pot as a tax-free lump sum. Yet there are problems with such a proposal, such as the possibility of it being able to realise

18 Saga, Take Care: The Future of Social Care, June 2011

19 Institute for Fiscal Studies, Pensioners and the tax and benefit system, IFS Briefing Note Billion130, 2012

any significant savings, and the disruption it would cause in terms of people's current retirement plans.

Another proposal from the IFS that would be well targeted on the wealthiest on society would be to impose capital gains tax at death, something which is currently not realised. Such a proposal would be capable of targeting those pensioners in the richest income brackets in the country. We will explore the implications of making such a change later on in this publication.

A report published by the Personal Social Services Research Unit in December 2011 offered a new angle on the funding debate.[20] It proposed a system where, unlike the 'capped' model as proposed in the Dilnot Commission, protection is offered to the users of care services by increasing both the lower and upper capital limits. The report termed its system as "means testing plus". It is different to the current system in that it recommended merging the lower and upper capital limits of the current system into one single capital limit. This would then embody a limited liability system by constraining asset depletion to a certain level. The report proposed that a new single capital limit could be set at £150,000, which would cause maximum rates of asset depletion in the current system to fall significantly. It also claimed that maximum rates of asset depletion can be below those rates projected for the capped risk model in some cases.

However, a system that relies on a capital limit raises issues regarding calculating a person's asset worth, for example the difference between housing and non-housing assets and which of these would be included. Furthermore, increasing the lower capital limit does not afford protection to people in terms of the absolute amount they spend. For example, someone with £800,000 of assets and a low income could still potentially end up paying £200,000 in care costs.

Others have suggested that the solution to pay for Dilnot already resides in the current system. In a report from the

20 PSSRU, Funding social care for older people: The implications of extending the current means-test, December 2011, A report funded by BUPA.

Nuffield Trust, options proposed for funding a reformed system include using part of the £1.5 billion NHS underspend and reviewing the balance of spending across health, social care and welfare payments.[21] This latter suggestion not only includes shifting some of the health budget toward social care, but also using money spent on welfare benefits for wealthier older people such as Winter Fuel Payments to pay for care.

In the Wanless report on long term trends affecting health care, it was stated that "*no review of health care resources would be complete without considering the link [with social care]*".[22] Whilst this is a fundamental issue that must be given more consideration in the future, we would argue any remaining NHS budget should be re-invested to provide better social care and to meet existing baseline funding pressures, rather than paying for implementing a new system.

Albeit politically sensitive, the proposal to pay for Dilnot by restricting age related universal benefits is one that many believe has merit. Indeed, at times it has appeared to have garnered cross party support despite the Coalition Government's promise not to touch this form of benefits in this Parliament:

> *If you're faced with a choice in terms of helping the wealthiest pensioners or helping the vulnerable across Britain, then his [Nick Clegg's] priority is the vulnerable people across the country who need the most help,"*[23]
>
> *"There are lots of anomalies in the benefits system. We could go almost anywhere to some of the universal nature of some of these benefits."*[24]
>
> *Iain Duncan Smith*

But others argue the withdrawal of universal benefits from wealthy pensioners would punish those who were reluctant to apply for benefits in the first place.

21 Nuffield Trust, Reforming Social Care: options for funding, May 2012
22 The Wanless Report, Securing our Future Health: Taking a Long-Term View, April 2002
23 www.guardian.co.uk/society/2012/jun/06/nick-clegg-benefit-cuts-pensioners
24 www.telegraph.co.uk/news/politics/9654009/Iain-Duncan-Smith-pensioner-benefits-are-an-anomaly.html

"If you start means-testing pensioner benefits, many of those who need help will not get it, as they won't claim, it will cost huge sums in administration and you will be penalising those who have saved."

Dr Ros Altmann of Saga[25]

At its core we would argue this method of paying for care financing reform appears to spread the burden across those who are more wealthy and able to pay for their own care. According to the IFS, linking Winter Fuel Payments to those claiming Pension Credit would save the Treasury at least £1.5 billion every year.

Research findings

In the past 18 months or so the Dilnot Commission's proposals have been hotly debated. Policy papers, articles and reports have often been written from very different perspectives – that of economists, older people's experts and media pundits. What we wish to make clear from the very start is that our contribution is very much in the vein of a political commentary on what has gone before. In our research we have also aimed to nail down practical answers to questions posed by others – in order to formulate a viable policy solution to care financing.

We used a variety of sources in collating the information for this publication. We have analysed previously published data from think tanks, data published by the Institute for Fiscal Studies, and we have conducted our own research in collaboration with the House of Commons Library.

As has been detailed in the Coalition Government's progress report, a capped system will vary in expense, depending on the level at which it is implemented.[26] Factors such as the level of the cap, the level of the upper capital limit, and the level of contribution made by those receiving care towards their living costs will all determine the total cost to the taxpayer.

25 www.saga.co.uk/money/news/means-testing.aspx
26 Caring for our future: progress report on funding reform, July 2012

What would be the cost of a £50,000 cap in 2015?

The debate surrounding a reformed capped model of care funding has evolved on the presumption that implementation would lead to a £35,000 cap. This is due to the fact that the Dilnot Commission's report used £35,000 as the basis of its cost projections. However, this figure was not an endorsement by the Commission as to what represents a fair and appropriate figure. Instead, it corresponds to a mid point between what the Commission proposed, which was between £25,000 and £50,000.

It is important this debate can move on from this assumption because we argue the cost implications of a cap at £35,000 would be unaffordable in the current economic climate. The Commission's calculations were based on prices of care in 2010/11, meaning that by the time the policy is introduced, in 2015/16 for example, the cost of the cap would not reflect a sustainable cap for the future given the inflated costs of care five years on. A crucial misunderstanding by some in the funding debate is the presumption that a cap represents a fixed maximum price that people would pay for care for years to come. In reality though, as prices rise and as inflation devalues the currency, the level of the cap must adjust to recognise these facts.

What would people gain with a £50,000 cap?

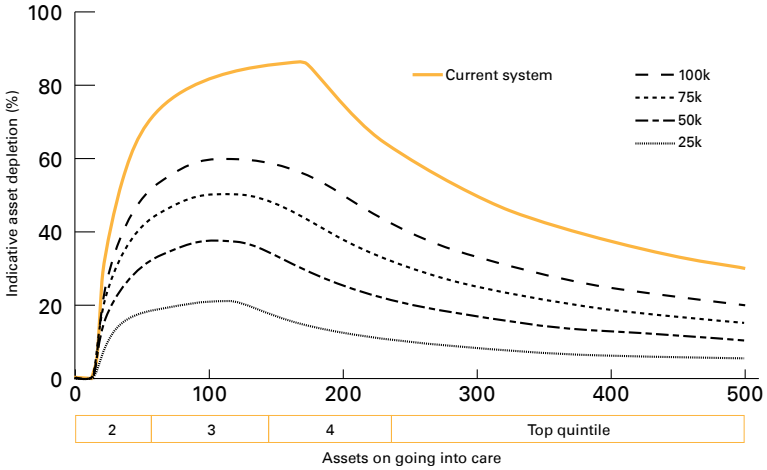
Figure 1 (overleaf) illustrates potential asset depletion by comparing the effects of the current un-capped system to a range of Dilnot type capped schemes with an extended means test threshold.

We have obtained a detailed breakdown of the graph which includes a cost implication for each cap at £5,000 intervals of asset value. This information is available for the first time in Hansard, but we will detail some of the main findings below.[27]

This graph is based upon someone receiving eight years

27 Hansard, 17 Dec 2012: Column 631W
www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121217/text/121217w0005.htm

Figure 1: Proportion of assets depleted under the current system, and under a capped system



Source: Caring for our future, progress report on funding reform, July 2012, Figure 14, p.36

of residential care at a cost of £150,000, plus £10,000 per annum towards their general living costs. It assumes that the individual has purchased their care at the local authority rate, meaning that someone paying a higher rate for their care could spend more over their lifetime. It also assumes that the individual can pay the £10,000 per annum living costs from their income, meaning that estimates will differ for people with higher or lower incomes.

What is most striking about our findings, is the huge benefits that are afforded to individuals if care costs were capped at £50,000 and the means test was extended from £23,350 to £100,000. For example, someone with assets of £100,000 currently faces losing 82 per cent of the value of those assets. If the Dilnot proposals were introduced under a £50,000 cap, the same individual would lose only 37 per cent.

Indeed, the Department of Health figures clearly demonstrate who is likely to lose the largest proportion of their assets

under the current system. The breakdown indicates that those with assets valued at £165,000 to £170,000 would lose 87 per cent, compared with 33 per cent under a £50,000 cap. This information, which has not been available before, clearly shows the ability of the proposed reforms to benefit everyone in society, whether they own substantial or modest assets.

It would also be useful to consider the effects of a cap in relation to the average price of a house in the UK, which as of October 2012 was £231,000.[28] Under the current system, individuals with assets of this value would lose 65 per cent, whereas under a reformed £50,000 cap would lose only 22 per cent.[29]

Who can pay and how?

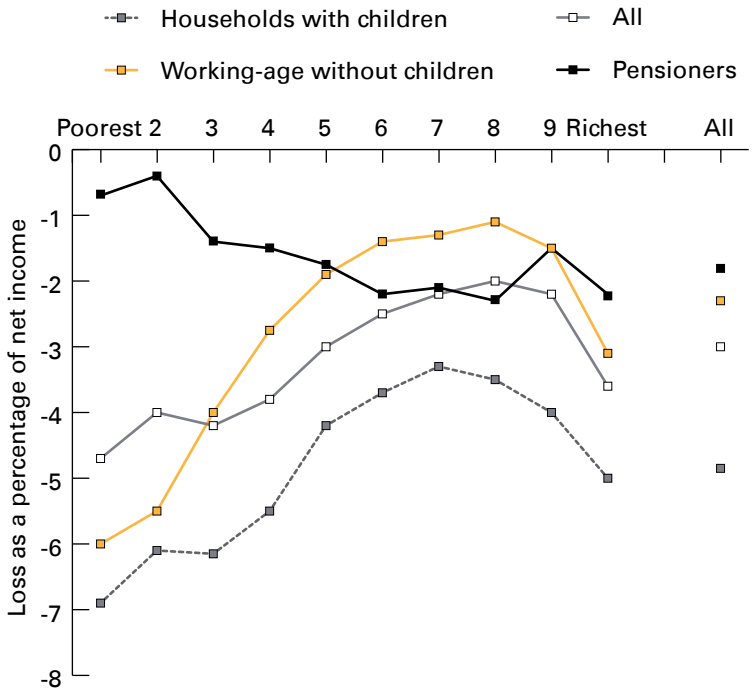
Funding options are available to the Treasury. Whether the capped system is introduced is a matter of political will, not resources. We are therefore not the first to question the sustainability of paying benefits such as the Winter Fuel Payment on a universal basis. Various charities and think tanks have also questioned whether, in an era of austerity, it is right that state support is given to those who do not need or even ask for it. Instead, the value of universal benefits could be used to alleviate an enormous problem in our ageing society, for the benefit of everyone. This is an issue that all sides of the political spectrum have raised. We therefore believe it is a matter of 'when' and not 'if' universal benefits are reformed to better target those who truly need them.

It is worth bearing in mind that these are considerations to be taken against a backdrop that sees pensioners nowadays receiving their highest incomes since 1961. Indeed, we can see that pensioners are faring relatively well, compared to other groups, as a result of austerity measures (see Figure 2).

28 www.ons.gov.uk/ons/rel/hpi/house-price-index/october-2012/stb-october-2012.html #tab-House-Price-Index-UK-summary

29 Based on assets valued at £230,000.

Figure 2: Losses from tax and benefit changes to be introduced between January 2011 and April 2014, by income decile group and household type, without Universal Credit

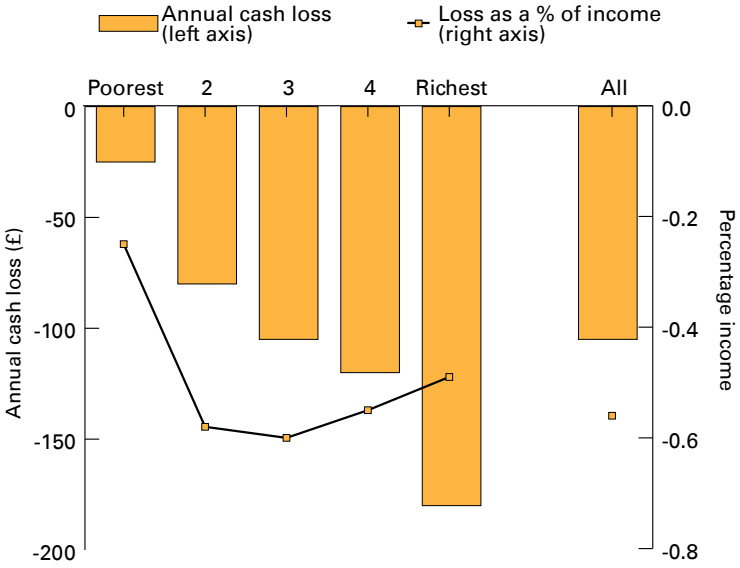


Source: Pensioners and the tax and benefit system, IFS Briefing Note BN 130, 2012, p.12

Figure 2 shows that the poorest working age households with children are being hit with a seven per cent cut in income, while the poorest pensioners are experiencing a 0.5 per cent cut. That compares to a drop of under three per cent for households with children on an average income, and a drop of two per cent for pensioners of an average income.[30]

30 It must be noted that these figures do not take account of other policies across Government. For example, the Liberal Democrats initiative to raise the income tax threshold, and the effects of triple lock pensions will likely alter these results.

Figure 3 - Distributional impact among pensioners of means testing Winter Fuel Payments



Source: Browne, James and Johnson, Paul, Options for raising revenue to pay for long term care, Institute for Fiscal Studies, www.ifs.org.uk/docs/nuffield_281111.pdf

How much money could be saved by restricting Winter Fuel Payments to those in receipt of Pension Credit?

We would argue that the Winter Fuel Payment (WFP) is an anomaly in our welfare system. It targets many who do not need financial assistance to heat their homes and it fails to properly help those who do.[31] Anyone of pension age receives the benefit, and yet most people who live in fuel poverty are not pensioners. Research has shown that only 12 per cent of the money distributed by WFP is actually spent on fuel.[32]

Furthermore, research suggests that there are as many recipients of WFP in the top income decile as there are in

31 www.if.org.uk/archives/1590/the-winter-fuel-allowance-why-young-people-should-get-hot-under-the-collar

32 www.reform.co.uk/resources/0000/0282/Old_and_broke_final.pdf

the bottom. Furthermore, there are over 100,000 households with an income above £100,000 that receive this payment.[33] More importantly however, is the failure of WFP to take people out of fuel poverty status, a status achieved when a household spends over 10 per cent of its income on energy. For example, if a household spends £120 a month on energy, out of an income of £1,000, then they have spent 12 per cent of income on energy. If you then raise the household income by £25 (in the same way that WFP increases income) the household still spends 11.7 per cent of its total income on energy, meaning they remain in fuel poverty. However, if the £25 is spent on cutting their energy bill, the same household, earning £1,000 per month spends 9.5 per cent on energy, taking them out of fuel poverty.

In short, WFP is ineffective and works as a universal income boost for all over sixties, and not as a means of targeting help to those who need it most (see Figure 3 above).

The universal eligibility for, and the automatic payment of WFP means that take-up is very high. The cost of WFP was £2.1 billion in 2011/12, paid to over 12.7 million people.[34] Therefore on a strictly proportional basis, £500 million could be saved every year if WFP was not distributed to 23.3 per cent, or 2.94 million people. In February 2012 there were 2.06 million people claiming Pension Credit. On this basis we can deduce that if WFP was limited to those people claiming Pension Credit only, over 10 million people would lose this benefit, leading to savings to the Treasury that would exceed £1.5 billion annually.

However, it is crucial that this proposal would not leave those who are not receiving Pension Credit in a position where they are unable to meet the costs of heating their homes. At current levels, the take-up of those receiving Pension Credit is two thirds of those eligible. We must therefore consider why a third of people entitled do not claim Pension Credit. Research by the Department for Work and Pensions

33 Policy Exchange, Cold Comfort: Fuel Poverty and the Winter Fuel Payment, p.16, March 2010
34 DWP, Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2011/12, July 2012, para 2.16

suggests numerous reasons. Firstly, people misunderstand their entitlement to the benefit, especially homeowners. For example, 78 per cent of those who were entitled to Pension Credit but not receiving it owned their own homes, whereas 15 per cent of those entitled but not receiving lived in the social rented sector. Subsequent research by the DWP suggests that a lack of awareness as to entitlement is one of the main reasons why people entitled to Pension Credit are not receiving it.[35]

Yet, this fact does not necessarily determine the wealth status of those not receiving Pension Credit, especially those who are entitled to receive it, but do not claim. The research by the DWP suggests that 50 per cent of those entitled to claim but not receiving were entitled to £20 or less per week, and 76 per cent were entitled to £40 or less per week. The report states that, "this supports other findings where pensioners' prevalence to claim is affected by the amount they are entitled to."[36]

Therefore our policy proposal would help this lack of take-up from those on the cliff edge by incentivising those who are entitled to Pension Credit but not receiving it, to make a claim. By adding the value of WFP to Pension Credit, and distributing it into people's bank accounts at wintertime only, we would target this payment to those who need it, while removing it from those who do not. By incorporating WFP to Pension Credit, we would encourage a group of people on low incomes to claim Pension Credit.

There has been some discussion that the labelling of WFP has been beneficial in terms of it targeting fuel poverty.[37] As a result this could mean that merging it into the Pension Credit would be detrimental. However, not all studies reveal such a labelling effect, and despite its labelling the majority of WFP is still not spent on fuel by pensioners.[38]

35 DWP, Pension Credit Eligible non-recipients: Barriers to claiming, Research Report 819
36 DWP, Income Related Benefits: Estimated Take-Up, p.56, February 2012.
37 Beatty, T. et al, Cash by any other name? Evidence on labelling from the UK Winter Fuel Payment, Institute for Fiscal Studies, 2011.
38 Walker, I. Cold comfort?, The Warwick Magazine, University of Warwick, Spring, 2006.

So how much funding for Dilnot would this policy raise? For the purposes of this report, if we assume that our projected take-up rate of Pension Credit improves to 100 per cent from two-thirds currently, then there will be circa three million people claiming the benefit with the added value of the WFP. This would mean that around three-quarters, or nine million people would lose their entitlement to WFP, leading to savings for the Treasury of approximately £1.5 billion. We therefore propose to limit WFP to those on Pension Credit. This will mean that WFP will be abolished, and the value of the benefit will be added to the value of Pension Credit.

How much money could be saved by restricting free TV licences to those receiving Pension Credit?

In our analysis of universal benefits we also calculated the potential savings that could be achieved by limiting free TV licences, which are currently given to the over 75s, to those claiming Pension Credit. In 2010-11 there were 3,929,753 TV licenses issued to people aged 75 or older at a value of £145 each.[39] Therefore, in order to raise an additional £500 million it would be necessary to remove 86 per cent, or nearly 3.5 million of the free TV licences currently being issued. We therefore felt that limiting TV licences to those receiving Pension Credit would not raise sufficient extra revenue to justify the disruption and cost to so many elderly households.

How much money can be raised by ending the relief on Capital Gains Tax currently given to certain assets bequeathed from one individual to another upon death?

We have explored charging Capital Gains Tax (CGT) on death – a proposal originally put forward by the Institute for Fiscal Studies.[40]

The current system is such that when an asset is bequeathed to another at death, any capital gains that have accrued up to that point are exempt from CGT. When the recipient then

39 HC Deb 8 Nov 2011 C194W
40 IFS, Pensioners and the tax and benefit system, Briefing Note Billion130, 2012

comes to sell that asset, the base price is taken as the value of the asset at the point they inherited it rather than the original price. HMRC estimates that this relief is worth £0.67 billion annually.[41] Crucially, assets including an individual's primary residence, bank accounts and ISAs are not subject to CGT, meaning that only those with substantial holdings of property or shares outside an ISA would be affected by abolishing this relief.

Figures released by HM Treasury show that 38,000 estates would be affected by abolishing this relief, 66 per cent of which would be valued at over £300,000. This would therefore target capital gains tax towards more estates with significant assets, who would in return benefit substantially from the reformed capped system on care funding.

This proposal will attract criticism from those who believe it is a double taxation on assets, from both CGT and inheritance tax. But this issue could be limited by not charging CGT on the initial transfer of the property. One proposal is that such assets could only become liable for CGT when they are sold, thus removing the apparent 'double taxation' that might otherwise occur at the point of transfer. A report by the IFS puts this argument more starkly:

> *If policymakers do not accept the argument for taxing transfers, then they should not tax them: simply abolish inheritance tax. But if there is an argument for taxing transfers, that must be on top of the regime for taxing returns to capital.*[42]

Therefore we would propose abolishing forgiveness on capital gains tax at death. This measure would target only the wealthiest, as it is a tax that only applies to gains over £10,600 – with gains from banks, ISAs and primary homes not included.

As the calculation for CGT liability is so case specific, as it depends on income and various allowances, it is impossible

41 www.hmrc.gov.uk/stats/tax_expenditures/table1-5.pdf

42 Institute for Fiscal Studies, Mirrlees Review: Reforming the tax system for the 21st Century, p365

to calculate exactly who would be affected by this measure.[43] However, as the sale of a second home is the most likely trigger for this liability, a small minority of the wealthiest would be affected by this measure. For instance, it is estimated that only 2.8 per cent of people in the UK own a second home.[44]

Additionally, the benefits of such a measure would not only be contributing a large chunk of the annual funding for care financing reform, but also correct a 'distortionary system' whereby the absence of the tax at death encourages people to hold onto assets rather than sell them to reinvest elsewhere.[45]

Some, such as Carl Emmerson from the Institute for Fiscal Studies, have argued that this kind of measure would marginally affect the incentive to save – but the benefits in terms of contributing towards a fairer and more sustainable system of funding care are harder to ignore.[46]

43 The HMRC gives a simple example of how CGT is calculated under current rules: Mr P's total income, after deducting allowances and reliefs, is £20,000 and his capital gains, after reliefs, are £15,000.
The basic rate band is £35,000. Mr P has used £20,000 of this amount against his income - so has £15,000 remaining.
As his gains are only £15,000, he has enough of the basic rate band remaining to cover his gains, so they are all to be taxed at 18 per cent. He now deducts his tax-free allowance of £10,600 and pays Capital Gains Tax at 18 per cent on £4,400. www.hmrc.gov.uk/rates/cgt.htm

44 www.property.begbies-traynor.com/1-5-million-uk-residents-have-a-second-home/

45 www.nuffieldtrust.org.uk/sites/files/nuffield/publication/120529_reforming-social-care-options-funding_0.pdf

46 Comments made during a presentation at an event hosted by the Strategic Society Centre at the British Library, November26, 2012.

Summary of conclusions

- We agree with the Institute for Fiscal Studies that the relief of Capital Gains Tax at death should end. The current relief is a distortion in our tax code that is not justified, and it is a measure that would raise £600 million a year towards implementing Dilnot's proposals.
- We propose ending the universal entitlement to Winter Fuel Payment and to instead link receipt of this benefit to those who receive Pension Credit. This would create savings of up to £1.5 billion each year – which we propose should be spent on reforming the financing of care.
- This policy would incentivise those entitled to Pension Credit but not receiving it, to begin claiming – as we would merge the Winter Fuel Payment into Pension Credit, paying it as a lump sum at wintertime.
- We believe that a cap of between £50,000 and £60,000 in 2015 prices is the most appropriate level of a capped system of care funding. This cap will work in conjunction with an increased upper capital limit of £100,000 and would ensure a fair and sustainable system of care financing.
- Our research demonstrates that the argument for introducing a £50,000 cap for those with modest assets is overwhelming. We have revealed that someone with assets of £100,000 currently faces losing 82 per cent of the value of those assets. If the Dilnot proposals were introduced at a £50,000 cap, the same individual would lose only 37 per cent. Indeed, individuals who own an averagely priced property currently face losing 65 per cent of their assets. Under a reformed Dilnot system with a £50,000 cap and extended £100,000 means test – these people would only lose 22 per cent of their assets.

Catastrophic cost: appalling, unjust and unavoidable

By Ming Ho, writer, script editor and member of Uniting Carers, Dementia UK

My mother is 86. A former singer and teacher, widowed since 1988, she is a fiercely proud woman, who hates to be 'beholden'. For as long as I can remember, she said, "Never put me in a home!" But last year, I was heartbroken to do exactly that.

She has dementia. More than a decade ago, I gave up a full-time job to go freelance, thinking that would give me the flexibility to care for my mum; an only child with no other immediate family, I struggled for years to keep her safe and well in her own home, while shuttling back and forth 100 miles to mine. I spent more and more time attending to her increasing needs, while falling out of circulation myself. A common pattern for carers.

Mum, meanwhile, continued to believe that she was 100% independent. Lack of awareness – the inability to recognise one's own incapacity - is often a feature of cognitive disorders; families can find this extremely hard to raise with the person concerned and hence with the authorities. Consequently, many who live with dementia are never diagnosed – and diagnosis is key to support.

We had no outside help at all until 2009 when I had to go into hospital and alerted mum's GP and social services. Friends and neighbours did whatever they could and bailed us out of numerous crises in the ensuing years. At my own expense, I

covertly engaged an independent carer a couple of times per week, in the hope of increasing this to daily.

But it wasn't enough. By 2011, mum couldn't be left alone for even a minute, with me in just the next room: short-term memory loss made her feel constantly abandoned. She was plagued by frightening delusions and often hyperactive at night - which meant that neither of us slept. She forgot to eat and no longer recognised the house where she had lived for 40 years; and when she had to be brought home one night by the police after wandering in distress, I knew she needed round-the-clock care that I alone could not provide.

Had she made provision for this? No. She came of age in the dawn of the NHS; if she ever considered funding, she would have believed that National Insurance provided equally to all. In the days when she had capacity to plan, she could never have foreseen the vast increase in demand on the state nor the shocking tariff of residential costs today. And she never thought they would apply to her.

Her own parents died in their early seventies from acute conditions; she had never been faced with long-term care arrangements for them and was adamant she herself would not choose residential care. She never imagined the circumstance in which choice became necessity.

I am a pragmatist, who prefers to deal with a worst case scenario head on; my mother, however, is not. Twenty-four years ago, when my father died, I tried to broach the issue of finance with her. Inheritance tax planning, for instance, might have helped us now. But as the Dilnot report points out, some people, like my mother, avoid confronting the unpleasant facts of life. Power of attorney, tax planning, end of life wishes – all remained taboo. And now she lacks competence to make decisions.

So when she needed residential care, sole responsibility fell to me. I was lucky to find a place in an excellent specialist unit – the only suitable one. But with the current asset threshold for state funding set at £23,250, anyone who owns their own home is not eligible for any contribution, no matter

how extreme, long-term, or costly their need. I had to make private arrangements at short notice; and without legal access to my mother's funds at that time, I was personally liable for £4,000 per month, plus deposit and incidental expenses.

It took four months to finalise a Court of Protection order appointing me as Deputy to manage her affairs; until then, I had to cash in savings of my own to meet her care and legal costs. When the order was granted, I was reimbursed from her accounts.

But with ongoing fees of nearly £1,000 per week (by no means the highest tariff), her income falls short by 50 per cent. Each month I have to raid her savings and investments to make up the difference, and have spent a year clearing out her house for sale, as part of a fortnightly 200-mile round trip. Her residential care costs to date (just 14 months) have already exceeded £50,000.

That excludes maintenance, insurance, and utility charges for the house until it's sold; prior fees to the independent carer; annual Court of Protection fees to monitor me as deputy and their guarantor's bond; a house clearance firm to assist with heavy labour that I couldn't manage alone – not to mention the many years of unseen, unpaid care provided with love by me and the consequent loss of my own income, professional status, and life chances.

Now I face the prospect of investing for and managing maybe another ten years or more of care. At today's rate, let alone a likely increase, the total could well top half a million pounds. Appalling, unjust – and currently unavoidable.

A £35,000 cap, as proposed by Dilnot, or even £50,000 or £60,000 could give me back my life. Our liabilities would now be over. I could concentrate on my frail mum, instead of being crippled by the practical and emotional burden of single-handedly selling our family home.

I accept that the state cannot meet unlimited costs, but neither can the individual. "Assets" are not ready cash and can be hard to realise quickly, involving further expense. At A&E you

are not asked for cash up front before receiving treatment; yet for those with long-term, degenerative conditions, residential care can be just as urgent and essential. It is not a lifestyle choice.

I never received any carer's assessment; as I too had some assets, I would not have been eligible for benefits. But after six years of primarily caring for mum, those assets are greatly depleted. I used to earn a good living and would now have been paying higher rate tax and VAT. Instead, I'm back to square one in my career, single, childless, and still responsible for mum. The lack of support in caring for her has damaged my capacity to plan for future need myself – I'll probably be dependent on the state.

My mother has an incurable disease that has robbed us both of our lives; must it rob us of all our assets too?

Care provision post-Dilnot

By Lord Stewart Sutherland

Over the last decade successive governments have behaved like ostriches, with their heads in the sands, believing that what is out of sight is out of mind. What has clearly been out of sight are the demographic changes which have been accelerating across first developed, now developing countries for many years. The ratios of older to younger, of those in productive work to those who have retired from the work force, are shifting remorselessly, but the policy response to this has been negligible.

Twice, in 1997 and 2010, new young prime ministers have entered office seized of the need for thought followed by action. In one case a Royal Commission on Funding Long Term Care of the Elderly was set up, in the other Andrew Dilnot and two colleagues were given the task of reporting on and recommending possible future options. (Or as one Labour peer put it to me in the summer of 2010 – 'Déjà vu'!)

The great worry now is that the Government is showing signs of missing the boat once again. The demographics are clear and, if anything, even more challenging. Yet the attention, policy, discussion, and financial response, falls far short of, for example, the response to climate change.

The demographic changes are not contested by anyone, and the social consequences of ignoring them will be equally distressing. Yet in the Dilnot Report the Government has been given as clear a platform for policy formulation and action as we are likely to see for the next decade.

A sustainable solution? Of course it must be. That means starting with the realities as the touch stone of the size of the problem. It means looking for adequate and reliable ways of meeting the costs over time. It means thinking of the ways in which society will be shaped and operate in these new circumstances – pensions, housing, transport, work-life patterns, redefinitions which take us beyond the sharp dichotomy of 'productive and non-productive', and so on we could go.

However, it will all depend on adequate resources, effectively used.

Let me give an example. A study of patients discharged from a period in intensive care, shows that 20 per cent of them have to be re-admitted to intensive care at a cost of £1,700 per night, within four weeks. This is significantly due to inadequate support being available in the community. This is bad care and ineffective use of scarce public finance.

Change requires firm implementation of new policies. The first is the removal of perverse incentives arising from uncoordinated health and social security budgets. The second is the lessening of the Treasury grip on budget re-structuring. The evidence on the latter is that the Treasury gives first and, it sometimes seems, sole priority to resisting any significant change to the structure of public expenditure. As a taxpayer I am happy to see restraint on unnecessary increases in public expenditure. As a member of the community, I do however, expect expenditure to relate to the realities (including the demographic changes on the ground) of the ways in which society is evolving.

There is wide acceptance amongst practitioners and users that effective spending must match the facts. Lack of full co-ordination of relevant budgets in health and social care produces bad care and wastes precious resources. Many additional examples could be cited.

The above examples form just some of the justification for insisting the Government seize upon the Dilnot Report as a trigger to, as well as platform for, policy formulation.

But, do we not already have a policy? In England the answer is, 'No'.

What we have is uncertainty. Uncertainty is the lot of those who have needs of such care, or who are attempting to make provision for themselves and close family in the future.

This begs many questions. For the potential users of the care system: Where do I go? Whom do I ask? How much will it cost? Can I, will I be able to afford it? Can I insure against future need?

For the potential insurers: How much should I charge in insurance premiums? Is there a cap on total liability? Are the risks pooled in any way?

For the private sector, and the banks who might consider lending: Should I invest in building, extending, or refurbishing care homes? Should I lend to someone who plans to do any of these? Can rates of return be reliably estimated? Will local authorities place clients in our homes? Will they pay fees adequate to cover real costs?

All of these uncertainties are complemented by the worries of those receiving care. Is there equality across postcodes and local authorities? Are benefits assessed and commissioned to common standards? Are they portable if I move to be nearer my family? Will I have to sell my house? What happens if my money runs out?

The uncertainties are widespread, complex and stressful. They will not be resolved or even confronted until there is a clear will to turn the idealism of early days in office into firm sustainable policies.

The Dilnot Report is the best offer of a starting point which we are likely to have for another ten years.

Good care + funding reform = bad politics

By Rt Hon Paul Burstow MP, former Care Services Minister

Tough decisions are the lifeblood of politics.

But there's nothing tougher than facing the prospect of losing almost everything you own to pay for care. This deeply unfair situation is faced by thousands of people across the country all of the time, causing them untold stress and worry to their families and loved ones.

For the past decade politicians have steered well clear of discussing who should pay for care, knowing full well that if they tip their toes in the water they could drown in waves of politically-toxic headlines. If you want to talk seriously about reforming the way care is financed, you have to be brave enough to say how and who must pay for it.

Some argue this is a debate we need to have at the next General Election – but by that time it will be too late. Too many people will have faced the catastrophic costs of care and that number continues to rise. So this is me sticking my head above the parapet. I'll be accused of not knowing basic politics, of unnecessarily kicking the hornet's nest of social care. But quite frankly, I've reconciled that when it comes to making decisions on care it will be tough; but it will be the right thing to do.

Professor Andrew Dilnot's proposals are the only viable option when it comes to securing the future of care in this country. Treasury officials have tried and failed to knock them down or come up with an alternative and their silence on the matter is deafening. But what the Treasury fails to

see is that reforming care financing would be a huge public health intervention – saving far more money in the long term by encouraging people to engage with the need to plan for the future.

Of course, there are those who accuse Dilnot of merely protecting those with assets worth protecting. But this is a gross misinterpretation of a system that would actually shelter those at risk of high care costs, regardless of wealth.

I fully back Dilnot's model of a capped system of care linked to an extended means test of £100,000. In the past a £35,000 cap has been mooted – but the cost this cap would entail is, I believe, an unrealistic option for the Government at a time of budget squeezes. After careful consideration, I believe a cap of around £60,000 (linked to an extended means test of £100,000) would pool the tail end risk, while shielding the most vulnerable and delivering choice and control for everyone.

It is estimated that a cap of £60,000 in today's prices would cost the Treasury £8.4 billion in total between 2015 and 2018/19. It is a lot of money to find, but there is a way of raising the funds that is both fair and progressive. What I propose is a new social contract, where in exchange for peace of mind, those with the broadest shoulders will take some of the financial burden.

In order to realise this social contract it makes sense to use a benefit that 80 per cent of older people do not require to help the 75 per cent who will need care.[47][48] The Winter Fuel Payment (WFP) costs over £2 billion a year and is paid to around 12 million people. If we were to only distribute WFP to those on Pension Credit our research suggests that it would raise £1.5 billion a year.

Of course, this would mean that nine million people or around 70 per cent of those currently receiving this benefit would no longer receive this £100-£300 annual payment. To

47 www.policyexchange.org.uk/publications/category/item/cold-comfort-fuel-poverty-and-the-winter-fuel-payment?category_id=24

48 https://www.wp.dh.gov.uk/carecommission/files/2011/07/Fairer-Care-Funding-Report.pdf

put this into context, of those nine million, nearly two million of them have household assets worth £1 million or more.[49] Furthermore, linking the winter fuel allowance to those who claim Pension Credit would actually encourage those only entitled to receive small sums in Pension Credit to take it up in the first place.

I am also persuaded by the Institute for Fiscal Studies' suggestion of imposing capital gains tax at death. This measure would raise £0.6 billion a year and would target only the wealthiest with assets such as second homes or valuable antiques.

A combination of these two measures could total £2.1 billion and would allow us to shift the financial burden caused by increased hospital admissions away from the NHS and into a self-sustaining social care system. Between 2015 and 2018/19 this would raise £8.4 billion, with a small surplus left over to increase spending against the baseline in social care. This is not about removing benefits by stealth. It is about intergenerational fairness and communicating the clear advantages of paying for care in this way to those who will require it.

To make Dilnot a reality requires a multi-spending period decision and for the Government to outline a clear framework for funding – so that the financial services industry can innovate and develop a range of products. But in the end, it will be political will that tips the scales.

This is the biggest unaddressed social and economic issue of our time. Taking tough yet brave decisions is the only way of solving this care crisis before it is too late.

49 www.if.org.uk/wp-content/uploads/2012/10/PensionerMillionaires_DEFIN.pdf

Care in the twilight: an ABI perspective

By Dr Yvonne Braun, Assistant Director and Head of Savings and Retirement, Association of British Insurers

> *"The moral test of government is how it treats those who ... are in the twilight of life..."*
>
> *Hubert H. Humphrey*

The winner of the 2012 Cannes film festival was 'Amour' by the Austrian director Michael Haneke, an unflinching study of the effects of ageing and dementia on a previously happy, active Parisian music teacher couple in their eighties. It is fitting that the subject of ageing and care now receives a treatment on the big screen – how to ensure that people can live their last years in dignity is one of today's most important policy questions, and the flipside of the tremendous medical and social achievements of having extended our lifespan.

Given the critical importance of this issue, it is very encouraging that Government has now started a wholesale reform of the law on care in its draft Care and Support Bill, replacing more than a dozen pieces of legislation. It is welcome that the Bill seeks to create a system built around people's needs, and to clarify entitlements to care, so that people have a better understanding of what is on offer and can plan for the future.

The Bill requires local authorities to provide people with information and advice about care, in particular on how the care system operates in the local authority, the choice of types of care, and providers, how to access care, and how to raise concerns about the safety of adults needing care and

support. We believe there is one important gap in this duty to provide information – it does not include information about financial advice, even though funding care needs can be an immensely far-reaching financial decision, where financial advice can make a very positive difference.

This is illustrated well by the benefits of immediate needs annuities. A 2011 academic study has shown many more self funders could benefit from immediate needs annuities than currently use the product. Immediate needs annuities are designed for adults requiring immediate financial support with their long term care costs. Like other annuity types, they guarantee an income for life to fund care costs in return for a one off premium, but the annuity is paid directly to the care provider for the life of the individual. This allows individuals and families to insure themselves against the potentially catastrophic cost of residential care, shifting the risk of exhausting all their assets to an insurer, and gaining peace of mind.

However, there are less than 7,000 immediate needs annuities in force in England at the moment, compared to over 120,000 older people in residential care who pay the full costs of care themselves because they have eligible assets of over £23,350. The research suggests six or seven times more people could potentially afford immediate needs annuities, equivalent to 40 per cent of all self funders. This would not only provide peace of mind for the individuals concerned and their families, it would also prevent people having to turn to state support because their care costs are greater than expected. Encouraging people to take financial advice is therefore critical, and we will continue to advocate this being included in the Care and Support Bill.

However, this can only go so far, and immediate needs annuities will only address care needs at the acute stage. The fundamental, unresolved question remains of course the funding of social care, and how responsibility is distributed between the state and individuals. Many studies and forecasts, including the infamous Barnet "Graph of Doom", show that the costs of caring for our ageing society are rising

inexorably. At the same time, people do not plan for their care needs because they are unclear about their responsibilities. ABI consumer research shows that one in two are not aware of what help they are entitled to from the Government or local authority for paying their care costs, with one in three believing that "care is free like the NHS" and that there is no point in planning for future long term care costs.

We therefore need a clear settlement for the funding of social care, and the ABI fully supports the recommendations of the Dilnot Commission on the Funding of Care and Support.

It is right that paying for social care should be a partnership between individuals and the state, that individuals should be protected from extreme costs, whilst making a financial contribution, and that everyone who receives their care for free now should continue to do so, which will protect the poorest and most vulnerable. However, in times of austerity, finding £1.7 billion annually and rising to implement the Dilnot Commission's recommendations is challenging, and any funding solution has to be sustainable - both future-proofed demographically, and also consistent with public expenditure constraints.

We therefore support Government investigating whether modifications to the Commission's model could make it more affordable, for example through adjusting the level of the cap.

However, whatever the details of the model, the most crucial element at this point is a clear signal from Government that it is prepared to act. What is needed is a cross-party consensus that can lead to a lasting settlement. This was achieved for the other difficult challenge of paying for life after work - pensions, where the report of the Pensions Commission started the process which put in place the ground-breaking new framework of automatic enrolment, which started in October 2012. Insurers are key to the delivery of the pension reforms, just as they can be key to helping people meet their long term care needs.

The philosopher Abraham J. Heschel said "a test of a people

is how it behaves toward the old. It is easy to love children. Even tyrants and dictators make a point of being fond of children. But the affection and care for the old, the incurable, the helpless are the true gold mines of a culture." The ABI looks forward to working with Government to live up to this test.

Policy recommendations and conclusions

Policy proposals contained in this publication:

- We agree with the Institute for Fiscal Studies that the relief of Capital Gains Tax at death should end. The current relief is a distortion in our tax code that is not justified, and it is a measure that would raise £600 million a year towards implementing Dilnot's proposals.
- We propose ending the universal entitlement to Winter Fuel Payment and to instead link receipt of this benefit to those who receive Pension Credit. This would create savings of up to £1.5 billion each year – which we propose should be spent on reforming the financing of care.
- This policy would incentivise those entitled to Pension Credit but not receiving it, to begin claiming – as we would merge the Winter Fuel Payment into Pension Credit, paying it as a lump sum at wintertime.
- We believe that a cap of between £50,000 and £60,000 in 2015 prices is the most appropriate level of a capped system of care funding. This cap will work in conjunction with an increased upper capital limit of £100,000 and would ensure a fair and sustainable system of care financing.

Summary

The Government needs to be clear in its message that a reformed capped funding system is the most appropriate way of dealing with a broken social care system, a crisis that has

lasted over ten years. A capped system cannot work without the private sector and so it is imperative that the Government commits to a clear and decisive message in favour of reform. Without reassurances from the Government, the private sector will not waste resources creating products that may not be utilised. A clear direction from Government is also fundamental if we want to deliver peace of mind to the thousands of people receiving care and their families.

The Treasury needs to grasp the 'best opportunity in a decade' provided by the Dilnot Commission, the goodwill expressed by the financial services industry and by care providers. Most importantly it should pay heed to the views of thousands of people who risk losing their entire life's work through having to pay for unexpected and unlimited care costs.

The Treasury must understand that the care funding crisis is one which will only worsen. The Treasury has failed to address the issue in any meaningful way so far and it has singularly failed to offer any alternative to the Dilnot Commission's proposals.

The care sector therefore needs to maintain its support for reform. The sector plays an important role in the funding debate and hears the effects of poor funding and support from the people they represent on a daily basis. They understand the turmoil that people receiving care go through. They also see how people's apprehensions and fears are compounded by the risk of losing their homes and savings in unlimited care costs.

The public and media needs to realise that funding reform is urgent and an essential part of comprehensive reform. This is an issue that has the potential to affect everyone in society, regardless of their wealth. Furthermore, it is an issue that will continue to cause enormous distress to people's lives when they are at their most vulnerable. But people must also concentrate on confronting and accepting the unlimited costs they are currently exposed to. Vast numbers of the public do not understand that firstly, care is not free, and that secondly, no system exists to limit their potential expenditure.

So what needs to happen next?

We believe the next step is to insert the appropriate legislative levers to allow Dilnot to be implemented in 2015 into the draft Care and Support Bill. This would require a consensus to be reached by the joint committee on the draft Bill in terms of what or if any clauses should be added. It would then rely upon Department of Health officials being allowed by the Treasury to draft up the necessary legislation.

Finally, the Coalition's mid term review is to be released any moment now. Many believe that social care is under debate for inclusion in this review, and there are hopeful signs that those writing the review will see it as their last chance to announce a legacy policy in this Government's lifetime. If the rumours prove to be true this would be a great victory for those who have campaigned long and hard for such comprehensive reform of the way people pay for care.

Such an announcement would also mean that Government had provided a clear message to the market. Without such a clear signal, financial products will not be developed and an unfair structure will remain - leaving thousands of people exposed to the anguish of a fatally flawed system.