



A National Care Fund for
Long-term Care

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About the ILC-UK

- International Longevity Centre - UK (ILC-UK)
- Independent non-partisan think-tank focusing on longevity, ageing and population change.

Funding Long-term Care for Older People: What is required?

- More money in the system
 - Reduce reliance on excessive informal care provision.
 - Eliminate unmet need.
- More risk-pooling
 - Eliminate exposure of individuals to ‘catastrophic’ costs.
 - Reduce number of individuals left with the ‘longevity risk’ associated with their care.

What sources of new wealth are available to bring into the system?

State

Working age

Retiree

General
taxation

Specific
contribution

State Pension

Personal
Pension

Property Wealth

Liquid Wealth

Option: State-funded free care

State

General
taxation

- Universal free care funded by an increase in general taxation.
- Coherent with pay-as-you-go welfare state:
 - Tax-funded National Health Service (free at point of use.
 - State Pension

Option: State-funded free care

State

General
taxation

- Problem 1: Fiscal sustainability
 - Unaffordable
 - Demographic change:
 - Rising demand + declining elderly support ratio
- Problem 2: Generational equity
 - Extends scope of PAYG welfare state
 - Pernicious redistribution from first working-age cohort to shoulder extra tax burden to first retired population to gain new entitlement.

Private Sector Insurance

- Near total market-failure.
- Demand-side problems:
 - Ignorance of risk/need.
 - Behavioral barriers to using financial products, e.g. inertia.
 - Distrust of financial companies/product advisers.
 - No tradition of self-insurance for social care.
- Supply-side problems:
 - Uncertainty over longevity risk.

Retiree

Liquid Wealth

Personal
Pension

A different approach: *National Care Fund*

- A social insurance fund for the decumulation phase (65+).
 - Cohort-based risk-sharing.
 - Premiums and benefits limited to retired cohort.
- “Enable individuals to use their property wealth to self-insure”.
- “Make it as easy as possible for people to self-insure against the risk of needing long-term care.”

Retiree

Liquid Wealth

Personal
Pension

Property Wealth

National Care Fund: Premium

- Fixed 'community-risk' rated premium
 - Cheaper for lower income households
 - Requires state subsidy.
- Options to pay premium as:
 - Lump-sum
 - Instalments
 - Defer until after death through charge on estate.
- Seeks to bring property wealth into social care system that is otherwise left as inheritance.
- Poorer individuals have premium effectively paid by state.

Retiree

Liquid Wealth

Personal
Pension

Property Wealth

National Care Fund: Enrolment

- Enrolment options:
 - Mandatory enrolment politically unfeasible.
 - Voluntary enrolment creates risk of insufficient opt-in rates.
- ‘Auto-enrolment’ at 65 (state pension age) with option to withdraw:
 - Overcome behavioral barriers to becoming insured by changing ‘default option’.
 - Option to withdraw limited to first year to prevent ‘post-payment’
 - Individuals informed of enrolment and given information on how to withdraw.

Retiree

Liquid Wealth

Personal
Pension

Property Wealth

National Care Fund: Benefits

- Defined level of care?
 - Difficulties in describing ‘standard care’, ‘premium care’.
 - Uncertainty over future costs.
- So, defined level of cash benefits paid out proportional to need.
- Cash-based approach coherent with ‘choice and control’ agenda in social care.
 - And development of flexible market for care services.

Retiree

Liquid Wealth

Personal
Pension

Property Wealth

National Care Fund: Challenges

- Rate of interest charged on deferred payment?
 - Commercial rate? Government bond rate?
- Administration of ‘legal charges’ on assets to prevent deliberate deprivation.
- Legal/moral basis for auto-enrolment.
 - Coherent with informed consent?
- Rates of opt-out
 - Limitation of any ‘voluntary approach’.

Retiree

Liquid Wealth

Personal
Pension

Property Wealth

National Care Fund: Development Options

- Implement mandatory enrolment following culture in attitudes to 'self-insurance'.
- Implement payroll-based contributions into National Care Fund, but at levels required for individual accumulation.

Working age

Retiree

Specific contribution

Liquid Wealth

Personal Pension

Property Wealth

Further reading:

Funding Long-term Care – the
Building Blocks of Reform

A National Care Fund for Long-term
Care

...available to download from
ilcuk.org.uk



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