

Funding care: how can each generation pay its fair share?

Viewpoint
Informing debate

March 2010

A new system of social care needs to share the cost equitably. This *Viewpoint* argues this could be done through a two-track levy where each generation pays its own costs. An initial charge on inheritance would be gradually replaced by funds built up through extra National Insurance payments levied on younger age cohorts.

Key points

- There is now wide agreement, accepted by government, that our present system of paying for care needs replacing. A new settlement needs to be fair, transparent and sustainable.
- The big sticking point is finding the extra funding sources required to cover needs that will grow over time as the population ages.
- The Green Paper on care funding leaves open the issue of how to make care affordable to users. Facilitating voluntary insurance may not work: we need to consider the fairest and most socially acceptable ways of levying additional taxes or compulsory insurance charges.
- A new Care Levy could be seen as fair if it ensured that each generation contributes to the costs of its own care in later life.
- Today's older people have not put aside funds to cover these costs, but have built up other assets. A first part of the Care Levy taxing these assets at a modest rate on inheritance could meet the funding gap in caring for this generation.
- Younger people could start to build up funds through additional National Insurance contributions as part of the Care Levy. Each successive age cohort would have the inheritance part of the levy reduced to reflect this. People aged 30 or less when the scheme was introduced would have no levy on inheritance.
- In addition to these two parts of the Care Levy, care would be funded partly through general taxation as at present and, potentially, through small charges to users.
- Such a broad sharing of costs among different generations, linked to ability to pay, could be presented as a fair and equitable settlement.

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Introduction

As life expectancy continues to grow, we can all celebrate the prospect of living fuller lives for longer than our parents and grandparents. Yet the quality of these lives will be severely damaged if we fear that we will not be properly looked after should we need care as we grow older. We need urgently to overhaul how we organise and pay for such care.

A key deficiency is our present care funding system. Politicians from across the political spectrum, and the Government, now all agree that it needs replacing by one that is fairer, clearer and better funded. The biggest sticking point is where the new funding needed for major reform can come from. Recent debates have revealed the risk that political consensus on the need for change will be upset by intense political division on the means for bringing change about.

At the heart of the issue is who should pay for the care of older people. Issues around compulsory state levies versus voluntary or private contributions are overlaid by questions of justice across generations. Should today's older people have their care provided entirely at the expense of today's working generation, or should they have to use some of their own assets to help pay?

The need for reform

The three core principles behind a new care funding system are that it should be fair, transparent and sustainable (JRF, 2009). These requirements are not being met at present, because:

- The system lacks consistency. Two people with similar means who need care costing a similar amount end up with different state entitlements according to their condition and situation. This is clearly unfair.
- The system is heavily means-tested. This is not intrinsically unfair, but goes against a strong social expectation that the state should give at least some help to everyone with care needs (Caring Choices Coalition, 2008). This view is related to the sometimes huge burden of care costs, which under a fully means-tested system can require people to impoverish themselves before getting help.
- The system is ridiculously complex, with multiple sources of support applying different rules from different agencies. Even professionals often do not fully understand it, and the inability of potential users to comprehend their entitlement creates damaging uncertainties in people's lives.
- The system of state support is inadequately funded. As the number of people requiring care grows with an ageing population, the burden on private individuals will increase under the present system and the overall quantity and quality of care services available are unlikely to keep up with rising demand (Hirsch, 2005).

Proposed solutions have varied over time. Two proposals in the late 1990s would have made personal care free to users either through compulsory insurance (Joseph Rowntree Foundation, 1997) or through tax funding (Royal Commission on Long-term Care, 1999). However, later reports suggested that users should make some financial contribution to their own care, on top of a clear, universal entitlement of support from the state (Hirsch, 2005; Wanless, 2006), and the case for doing so has been supported in stakeholder consultations (Caring Choices, 2008).

The Government has now accepted the argument that new universal public entitlements are needed, as part of a partnership with users. Its 2009 Green Paper set out its own model for sharing funding responsibilities (Department of Health, 2009). However, the level of entitlement to public resources which it proposed in its 'partnership' option differed in a crucial respect from that proposed by the Wanless (2006) inquiry, which was widely supported in the Caring Choices consultation involving a wide range of stakeholders and users. The Wanless model provided the majority of resources publicly (two-thirds of a care package plus matched funding for the remainder) and brought substantial new resources into the system to make this possible. The Green Paper partnership model would require private individuals to find the majority of resources – two-thirds to three-quarters – themselves. Since few individuals with high care needs could find such large sums from their incomes at point of use, this model of 'partnership' simply displaces the issue of how to bring the necessary new resources into the system (or else would rely on a heavily means-tested system as at present). The Green Paper therefore went on to suggest two alternative ways of funding – effectively voluntary or compulsory insurance schemes.

This two-stage approach to funding in the Green Paper has made the arguments somewhat more complex, but we can think about the fundamental options about 'who pays' as shown in Table 1.

Table 1: Who pays under different proposals

<i>Scheme</i>	<i>Care costs funded through tax or compulsory insurance</i>	<i>Who funds the public cost</i>	<i>Percentage of personal care costs covered by individuals at point of use</i>	<i>Other sources</i>
Continuing care insurance (JRF, 1996)	All	Mainly wage-earners through National Insurance. Partly general taxation, especially in early years	None	n/a
Wanless (2006) partnership model	67-83% of a package	General taxation	Up to 1/6 of package, matched by state	n/a
Green Paper (2009) partnership only	25-33% of a package	General taxation	67-75%	n/a
Green Paper (2009) voluntary insurance	25-33% of a package	General taxation	67-75% if uninsured	Insurance options including voluntary inheritance levy
Green Paper (2009) comprehensive option	All	General taxation for 25-33%; levy on assets for the rest	None	n/a

One thing to note about the Green Paper options is that none of them entail a Wanless-type ‘copayment’ likely to be affordable to users. The choice between voluntary insurance and the comprehensive option is between having only a minority portion of the costs of care guaranteed through the state and having all of it guaranteed. The Green Paper rules out a system funded 100% by general taxation – although recent JRF consultation with users has shown that there remains considerable public support for this idea (Beresford, 2010). Yet its comprehensive option, like the funded social insurance scheme proposed in the late 1990s (JRF, 1997), would fund all personal care costs (although not accommodation costs) through compulsory state levies, whether labelled as taxation or insurance. The big difference is that whereas a social insurance scheme would have been paid for almost entirely by levies on the incomes of people of working age, the comprehensive option would cover most of the cost with a levy on users’ assets, for those who have them.

In identifying a politically acceptable way to provide funding, therefore, the two main issues will be:

- Is it feasible to create an acceptable system mainly by adding *voluntary* insurance to existing resources?
- If not, what means of raising extra resources through compulsory levies would be seen as socially just and sustainable?

There are several reasons why the answer to the first question may be ‘no’. Given the inability of the private insurance industry to provide attractive products in view of long-term uncertainties about the level of care need, such a system is only likely to work with significant state backing, potentially creating significant costs to the taxpayer. While a voluntary system does not rule out such an option, it does not fully get round the problem of finding extra public resources.

But the biggest issue is whether such a system would be seen as acceptable given the possibility of very low take-up. The most powerful likely cause of low take-up – people's unwillingness to face up to the strong chance that they themselves may one day need care – can be exacerbated by the very arguments against compulsory insurance being deployed by some politicians: that it would disadvantage people not requiring these services. On the contrary, there needs to be a loud awareness campaign telling people that they have a one in three chance of needing personal care in old age.

One view is that if people have been given the option of insuring themselves, society should not worry about the price paid later by those who decline this option. Yet 'moral hazard' is almost certain to be an issue, especially where the state is called on to protect a vulnerable person who failed to take the choice of protecting themselves several decades previously. This would be exacerbated by the fact that someone making a decision whether to insure might bet on there being a different system to protect them in the future when they needed it.

In the late 1990s, the Government decided against Frank Field's proposal for a compulsory, funded system for providing a second tier of pensions on top of an inadequate first tier provided by the state. It opted instead for a voluntary system of stakeholder pensions. In 2003, Lord Turner was asked to examine whether a voluntary system was proving adequate. His answer was no, and the reforms designed to improve the guaranteed level of pensions are only now in the process of being implemented. Nearly a decade was lost in finding out what many commentators had predicted from the start: voluntarism does not work in providing for people's essential needs in retirement.

On the other hand, buying into compulsion is a difficult political choice. In the coming years of austere public budgets and inevitable cuts in services, it will be particularly difficult to find new public resources to do new things. The current state of the public finances makes it especially hard to envisage there being sufficient political will to expand the money available for care funded by general taxation. The alternative is to raise this money in a way that makes the public feel that we are making a specific collective choice to earmark money for care – and that by doing so we are each protecting ourselves from the risk of facing arbitrary and much larger private bills.

A generational duty of care

A big stumbling block in shifting to a more adequate care funding system is that of justice across generations. Introducing a new social insurance scheme can involve today's working generation paying twice, once for their parents who have not built up contributions and once for themselves. Conversely, imposing a levy on the wealth of older people may be seen as unduly harsh, and potentially unpopular. There is thus a need for some new kind of bargain between generations to create a system that is both socially and financially sustainable.

One way of creating such a bargain would be to use a mixture of methods to ensure that as far as possible, each generation helps to pay for itself through a new Care Levy. A starting point, as in the Green Paper, would be for the state to fund a quarter to a third of care through taxation, and for the Care Levy to fund the rest. Crucially, it would work differently for different age cohorts. Today's retired people, who have not had to contribute to any kind of care fund during their working lives but who overall have accumulated a large pool of assets (in particular housing wealth), would collectively pay the levy from these assets. Young people under the age of 30 would pay through an extra National Insurance charge that built up a fund specifically earmarked for when they needed it (Spiers, 2008). Developing this concept, people aged between 30 and 60 when the scheme came in could use a combination of these methods, paying the extra National Insurance charge while working and a proportionately reduced asset levy.

There would be a number of options over how to impose the asset levy, but the most straightforward would be through a percentage tax on all inheritances over, say, £25,000. Importantly, this would differ from the Green Paper comprehensive option by not being a flat rate but proportionate to the size of the inheritance, which would appear fairer. In order to provide the £20,000 suggested by the Green Paper for each person subject to the levy, its level would have to be about 9% on all inherited wealth above £25,000 per estate (calculation based on HMRC, 2009). (Alternatively, to avoid increasing the maximum rate of inheritance tax, the care levy rate could be imposed only on the portion that is now untaxed, in which case the rate would have to be 11%.) In another scenario, if the inheritance levy were used to find the extra resources needed to implement the Wanless reforms, which brought more money into personal care through private co-payments and through a re-allocation of Attendance Allowance, the rate could be as low as 3½% (or 4½% if only imposed on presently untaxed parts of inheritance, based on HMRC, 2009 and Wanless, 2006).

Unlike the Green Paper comprehensive option, the Care Levy would not involve a permanent addition to inheritance tax, but one that reduced over time. Lower rates would be imposed on successive age cohorts according to how long they had made contributions through additional National Insurance. For example, people aged 50-60 when the system was introduced could be charged three-quarters of the initial inheritance tax rate, people aged 40-50 a half, those aged 30-40 a quarter, and anyone under 30 when the scheme was implemented would pay their entire costs through additional National Insurance. Potentially, the reductions by age group could be more detailed than this, but the scheme would not rely on how long an individual worked or be contributions-based: the breakdown would be by age group not by individual.

At the same time, the burden on current workers in terms of taxes and National Insurance contributions imposed would be significantly lower than the 1.5% levy originally proposed for a funded social insurance scheme (JRF, 1997). Bringing in money from older people's assets would reduce the cost today imposed on these other sources. The exclusion from the package of the cost of 'accommodation' in care homes (i.e. the non-care elements of living there) would also reduce the tax and National Insurance revenues. And they could potentially be reduced further by adopting the Wanless idea of a small private contribution at the point of use. New costings for this element would need to take these factors into account, as well as updating the original assumptions.

Key advantages of Care Levy: summary

- *Fairness across generations*: the generation that has not had to pay a levy on earnings in their working lives makes a contribution through accumulated assets. No 'double payment' imposed on a generation having to fund themselves and their parents.
- *Fairness within generations*: levy is linked to ability to pay.
- *Sustainability*: builds up long-term funds to meet future care needs.
- *Affordability*: inheritance levy could be between 3.5% and 11% under different scenarios; National Insurance surcharge substantially lower than if it had to fund the scheme fully.
- *Collectability*: based on two existing revenue collection mechanisms (inheritance tax and National Insurance).
- *Immediate revenue flow*: unlike some insurance schemes, these tax mechanisms would generate substantial income from the start.
- *Ring-fencing*: all revenues collected would be exclusively devoted to paying for care.

Conclusion

No single option for paying for care is today attractive to the general public – nobody likes having to pay more. Yet backed by the concept of each generation taking responsibility to provide for themselves through a Care Levy, the merits of a socially fair system could potentially be sold to the public.

This paper has suggested a ‘deal’ between generations in which the present older generation pays for their care through assets, allowing younger people to build up their own care funds through social insurance contributions while they are working. In addition, by continuing to fund some care costs through general taxation, intergenerational solidarity would be expressed through a funding source shared across generations. All these contributions would, moreover, be linked to people’s ability to pay, with a greater contribution being expected of wealthier and higher-paid groups, who are better able to afford it. Yet everybody would make some contribution, and there is scope to maintain a modest charge on users themselves, to reflect a shared funding responsibility for those who actually receive care.

The Caring Choices (2008) consultation suggested a readiness to accept a shared responsibility for funding care, with private responsibilities sitting alongside a larger contribution by the state. Translating this into political reality is tough: it is easier in today’s public debate to stir up opposition to any new form of taxation than to build support for it. Yet even a sensitive measure such as inheritance tax could be seen differently than in the past if it were perceived as helping to protect the very groups of people most likely to pay it. The same people who would have to give up a small portion of their housing assets on death would be the homeowners who otherwise could face the prospect of a much bigger loss in their lifetimes to fund a stay in a care home. And if such a tax were seen as part of a package, and one that would disappear over time as people start to make advance provision to pay for their care in old age, it may yet play its part in creating a fair, sustainable and affordable settlement for funding long-term care.

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