National Care Fund : Supplementary Paper One

By James Lloyd

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About this Report

This report is a supplementary paper to the ILC-UK discussion paper *A National Care Fund for Long-term Care*, published in February 2008 and available to download from: www.ilcuk.org.uk

The purpose of this supplementary paper is to address key questions and issues raised by the original paper. As such, it does not explain or describe the model put forward by *A National Care Fund for Long-term Care* and is therefore appropriate only for readers who are familiar with the detailed model set out in this original paper.

This supplementary paper is organised as a set of questions and answers.

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However, the responsibility for this report is entirely the author's own and the views expressed here should not under any circumstances be attributed to any of the aforementioned individuals.

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Q1: Would a *National Care Fund* suffer 'adverse selection'?

A: No.

Adverse selection occurs when individuals can correctly, or sufficiently accurately, guess their own risk-profile, i.e. whether they are high-risk or low-risk. In such circumstance, when individuals are given the choice of participating in an insurance risk pool, the risk pool will become dominated by high-risk individuals, thereby pushing up premiums, deterring low-risk individuals and ultimately making the insurance risk-pool unsustainable.

Given the application of 'auto-enrolment' by a *National Care Fund*, the relevant question is whether 'adverse *de*-selection' would occur, i.e. having been automatically enrolled, would low-risk individuals opt out, or opt out in higher numbers than high-risk individuals.

Adverse de-selection would not occur for the simple reason that it is impossible for individuals to correctly guess their own risk-profile in relation to the costs of long-term care. In contrast to the general risk of ill-health - which research suggests individuals can anticipate - individuals cannot correctly predict their long-term care costs, e.g. whether they will require three weeks of residential care or three years. Of the individuals that withdrew from a *National Care Fund* in the belief that they were low-risk, some would turn out to be low-risk and some high-risk: the balance of risks within a *National Care Fund* would be unaffected.

A related question is whether the incentive for individuals already in receipt of long-term care at the point of being automatically enrolled into the Fund would distort the risk-profile of the Fund because their incentive to remain would be higher than individuals not in receipt of care. This distortion would not occur because the state would contribute an extra amount for the small number of individuals in this category, matching the difference between their contribution and the equivalent cost of an immediate needs annuity.

Q2: Would a *National Care Fund* be jeopardised by 'post-decision'?

A: No

A *National Care Fund* is based around the principle of auto-enrolment: individuals are automatically enrolled but retain the right to withdraw.

However, as an insurance fund, a *National Care Fund* would clearly be jeopardised if the option to withdraw was available in perpetuity: as time progressed following automatic enrolment, individuals would be able to anticipate their risk of needing care much more precisely right up to the point of death and could choose to withdraw when it was clear they would not in fact require care.

For this reason, the option to withdraw from a *National Care Fund* is limited to a 12-month period following auto-enrolment. In this sense, enrolment could alternatively be described as 'mandatory with the option to withdraw in the first year'.

Q3: Would mandatory contributions not be preferable to 'auto-enrolment'?

A: Only if politically feasible.

A National Care Fund for Long-term Care recommended auto-enrolment as a politically acceptable compromise between voluntary enrolment (which would risk low participation rates) and compulsory enrolment (which would likely be seen as equivalent to a tax and therefore to generate considerable opposition).

A number of commentators have argued that it would be preferable and simpler for enrolment into a *National Care Fund* to be mandatory. However, the author continues to believe that mandatory enrolment would be politically unfeasible[i], but believes that several years after

implementation of a *National Care Fund*, in which the principles of a *National Care Fund* became widely accepted and understood, it may in fact become feasible for mandatory enrolment to be introduced.

Q4: What happens if someone died two weeks after their 65th birthday?

A: Their charge would be cut.

To achieve widespread support, a *National Care Fund* would have to be perceived as fair, and would therefore need to overcome some of the situations in which the operation of insurance schemes are perceived as unfair by individuals or seem intuitively unjust.

If an individual were to die shortly after entering the risk-pool of a *National Care Fund* having not actually drawn on the Fund, but were liable for their full contribution, family members may perceive this outcome as unfair. It would therefore be sensible to provide a mechanism for refunding or waiving the contributions of individuals who experience unexpectedly early mortality. For example:

- Death in the first three months following enrolment would result in a 100% waiver of the contribution.
- Death in the first year would result in a 75% refund.

Q5: Would individuals engage in 'temporal discounting' in relation to the risk of long-term care?

A: Possibly, but this can be addressed in the operation of a *National Care Fund*.

Unlike most forms of insurance (home, travel, health), a *National Care Fund* requires individuals to consider the risk of an event that is likely to happen as much as 20 years into the future. This may create some scope for individuals to engage in 'temporal discounting', i.e. discounting the risk of something happening when the event is most likely to occur far into the future. The tendency for temporal discounting might result in individuals withdrawing from a *National Care Fund*.

However, temporal discounting is just one factor that may cause individuals to underestimate the risk of needing care and therefore withdraw from a *National Care Fund*. As such, it can be considered alongside other behavioural barriers to becoming insured for long-term care and can be addressed in the context of a *National Care Fund* in the same way. When individuals choose to withdraw and self-identify themselves as underestimating the risk of needing care, they would enter a process in which the Fund sought to communicate and convey fully the risks of needing care so that individuals properly understood and framed this risk. This process might include the provision of information through the mail and one-on-one telephone counselling.

Q6: How would the means assesment for a *National Care Fund* be undertaken?

A: The limited assessment that would be required could be undertaken through a variety of mechanisms, but represents far less of a challenge than sometimes assumed.

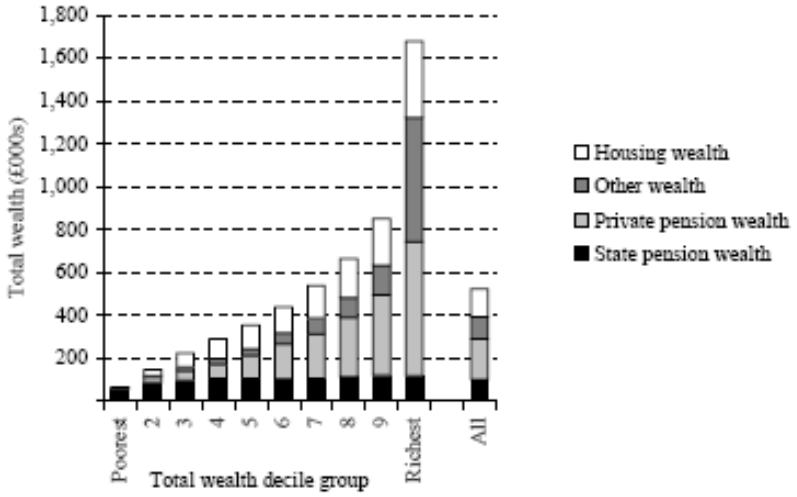
Given that some individuals will always arrive at retirement with no assets, some variation in contributions to a *National Care Fund* would clearly be required. It is this variation that necessitates a *social* insurance fund and implies contributions to a *National Care Fund* would vary according to means. This suggests an assessment of means of every individual enrolled into the Fund, which would be a considerable administrative task that various commentators have rightly identified.

However, it is critical to put this administrative task in context and to properly understand the nature of the challenge and how it could be addressed. The administrative task involved – the extent of means-assessment - would be directly determined by the structure of premiums for a *National Care Fund*: the more complex the structure, the greater the amount of means-assessment required. However, as explained below, because of existing means-assessments of older cohorts undertaken by the Pensions Service, it is possible to imagine no new means-assessment being required.

The complex interaction of means-assessment and structure of contributions requires careful elaboration. A number of background remarks are therefore set out below followed by some scenarios that imagine how the means assessment for a *National Care Fund* would be organised.

- *Different Types of Retirement Wealth are Positively Associated*

The graph below shows mean total wealth by wealth decile broken down by type of wealth for individuals aged 50-65. The analysis uses 2002 data from the *English Longitudinal Study of Ageing*[ii]:



(Source: Banks J et al.: 2005)

As research has shown and as can be seen in the graph above, different forms of retirement wealth are positively associated: an individual with a high level private pension saving is also likely to possess a high level of housing wealth.

- *The Upper Limit on Contributions to a National Care Fund*

Contributions to a *National Care Fund* would require a fixed maximum level. Without such an upper ceiling on contributions and in the context of wide inequalities in means among older cohorts, the contributions of the richest individuals would become excessive and uncompetitive compared to what could be offered by the private sector. An upper limit on contributions might apply to the wealthiest 30-50% of older households.

- *Existing Means Assessment Structures Already Exist*

The Pension Service deals with a large number of individuals aged over 65. During 2006/07, over 11.7 million individuals received the basic State Pension from the Pension Service[iii]. Pension Credit, which is means-tested but does not take account of housing wealth, is received by around 3.3 million of these individuals, i.e. around 28%. Assuming that it would be feasible for the Pension Service to ask individuals if they owned their own home and given the availability of Land Registry data on house prices, this means that around 28% of pensioners could be fully means-assessed for the purposes of a *National*

Care Fund at negligible extra cost. It is important to note that among individuals aged 54-70 in 2006, around 85% were owner-occupiers[iv]. It therefore appears that around the current threshold of Pension Credit, some pensioners are owner-occupiers.

- *Administrative Costs, Means Assessment and the Contribution Structure of a National Care Fund*

In any form of means-assessment system organised by the state, the complexity of the structure of contributions or taxes directly determines the administrative costs involved. For example, the largest system of means-assessment in the UK is income tax and some of the administrative costs of implementing income tax arise from the existence of different income tax bands.

The structure of contributions to a *National Care Fund* would determine the amount of assesment required: the more complex the contribution structure (i.e. the number of different levels of proportional contribution), the greater and more detailed the assessment that would be required, and the higher the administrative cost. At one extreme, a *National Care Fund* contribution structure might involve 20 different levels of contribution depending on assessment of someone's overall net wealth. Such a contribution structure would clearly necessitate high levels of adminstrative costs.

At the other extreme, a flat-rate contribution might see all individuals with means above a certain level required to pay a single standardised level of contribution. For example, although Pension Credit does not involve assesment of housing wealth, a *National Care Fund* might see all individuals *not* entitled to Pension Credit required to pay the same level of contribution, e.g. £15,000. Under this structure of contributions, the administrative costs for a *National Care Fund* would be much lower.

This point highlights the trade-off that would exist in fixing the structure of contributions to a *National Care Fund* that mirrors debates around income tax bands. A single fixed-level of contribution applying to a large part of the population would be much cheaper and simpler to administer, but would see some individuals being forced to contribute a greater proportion of their wealth than others, which for some commentators would be regarded as an unpalatable result. Such a structure would be regressive and involve a significant 'cliff-edge'.

This trade-off, and the complexity of the structure of contributions for a *National Care Fund*, would represent one of the key political choices about its design. Indeed, this trade-off is identical to similar debates around the structure of taxation bands, which fill many academic textbooks.

Having set out these background issues, it is possible to imagine some scenarios relating to both the structure of contributions to a *National Care Fund* and the administrative costs involved in the means-assessment required.

Scenario 1: An upper-level of contribution of £15,000 applies to the wealthiest 72% of pensioners.

All individuals not entitled to Pension Credit (i.e. the wealthiest 72% of pensioner households) are required to pay £15,000. There would be no additional means-assessment costs associated with a *National Care Fund*. As described above, this structure of contributions would be regressive and involve a significant 'cliff-edge' at which the incentive to engage in 'deliberate deprivation' of assets may be high.

Scenario 2: All owner-occupiers are required to pay a £15,000 contribution.

As described, among the key cohort aged 54-70 that is of importance to the long-term funding debate, around 85% are owner-occupiers. Although housing wealth is associated with pension wealth, some individuals in future are likely to own a property, but nevertheless be entitled to Pension Credit as it is currently designed, i.e. be 'asset-rich but income poor'. A flat contribtution of £15,000 could therefore be required for all those who own their own property. In this scenario, no new means-testing beyond that undertaken by the Pension Service would be required.

Scenario 3: An upper-level contribution of £15,000 applies to the wealthiest 50% of pensioners in each age group, i.e. wealth deciles 6-10. Low-to-medium wealth households are required to pay £7500.

In this scenario, wealth deciles 1-3 are fully assessed as part of other retirement benefit assessments by the Pension Service. For the remainder of the pensioner population, estimations could be made. This estimation of a person's net wealth could use the limited personal data available (e.g. age, gender, address and National Insurance contributions) and modelling drawn from large UK surveys such as:

- The *English Longitudinal Study of Ageing*[v].
- The forthcoming *Wealth and Assets Survey*[vi].
- The 2011 Census[vii].

On the basis of such an estimation, which would be accurate within certain confidence intervals, an individual could be informed of their assumed level of wealth and required contribution (e.g. £15,000 or £7,500) and invited to request a full-assessment if they believe the estimation was inaccurate. Individuals in deciles 4-5 who are inaccurately assessed self-identify by requesting a full and detailed assessment that could be undertaken by the Pension Service.

This discussion highlights some of the key choices around designing the contribution structure for a *National Care Fund*, and how these choices affect both feasibility and administrative costs. These decisions also relate to political choices and the extent to which a *National Care Fund*, as a social insurance fund, could be said to penalise those who have saved for retirement.

Q7: Is it appropriate to charge a rate of interest equivalent to student loans on deferred contributions?

A: No.

In *A National Care Fund for Long-term Care*, it was argued that when individuals opted to defer the payment of their contribution to a *National Care Fund*, a rate of interest should be charged on this amount equivalent to the rate charged on student loans.

Since the publication of *A National Care Fund for Long-term Care*, it has been pointed out to the author that the rate of interest on student loans is so low as to effectively represent a subsidy from the state.

For this reason, the rate of interest of charged on deferred contributions could not be equivalent to the rate charged on student loans, but would in fact have to be equivalent to at least the government bond rate.

Q8: Would £15,000 be sufficient as an average contribution to a *National Care Fund*?

A: This depends on what a *National Care Fund* would pay for.

In *A National Care Fund for Long-term Care*, a figure of £9-15,000 was proposed as the average amount that individuals would pay as a contribution. However, the value and structure of contributions to a *National Care Fund* would ultimately be determined by the scope of services that a *National Care Fund* would pay for and this would determine whether £15,000 would be sufficient as an average contribution to a *National Care Fund*.

However, although the setting of average contributions is critical, it is important to put this issue in context.

At its core, a *National Care Fund* is a settlment between the state and individuals about how much older individuals contribute to insuring themselves against the cost of long-term care. The purpose of a *National Care Fund* is to be a 'settlement', i.e. a narrative, structure and 'bargain' which is capable of achieving widespread consensus while significantly increasing the capital available for funding older people's long-term care.

As such, the level at which the average contribution to a *National Care Fund* would be fixed will be determined by several factors, in particular, the cost of care that would be paid for by such a Fund. However, other critical factors include:

- The actual liquid and illiquid wealth possessed by older cohorts in different age-groups.
- The maximum amount that the older population will accept as an average contribution toward a *National Care Fund*.

The total wealth of older cohorts can only be determined by quantitative research of relevant data such as the *English Longitudinal Study of Ageing* (2006), the *British Household Panel Survey* and the *Wealth and Assets Survey*.

The maximum amount that the older population will accept as an average contribution to a *National Care Fund* will only be clear following consultation and debate and may emerge from the political process of building consensus that began with the publication of *The Case for Change*.

It is these factors that may ultimately determine the average contribution to a *National Care Fund*.

If these factors result in an average contribution that is insufficient to pay for the level of provision that individuals would expect from a *National Care Fund*, then the state may have to top-up the contributions of individuals. In effect, the contributions of individuals would then be 'co-payments', for example, with a £15,000 contribution from an individual matched by a £5000 contribution by the state. This scenario is explored further below.

Such a scenario would not represent a failure of the *National Care Fund* model. Rather, the *National Care Fund* would have fulfilled its primary objective of channelling the maximum politically feasible amount of wealth from the older population into the long-term care funding system through a new settlement.

Q9: Would a *National Care Fund* ever go bankrupt?

A: No.

The actuarial task of calculating the liabilities of a *National Care Fund* could be repeated on an annual basis. Long before funding shortages became a problem, the regulator of a *National Care Fund* could oversee an increase in funding from:

- Individuals; by increasing the value of required contributions.
- The state; by increasing the amount that the state contributes to the fund on behalf of the poorest older households.

Indeed, it is worth highlighting that following implementation and widespread acceptance of a *National Care Fund*, there may be significant scope to increase average contributions as the idea of having to make a contribution to insuring against long-term care becomes accepted.

Q10: Does a *National Care Fund* require the private sector to succeed?

A: Yes.

A *National Care Fund* would require long-term and widespread support and consensus to succeed and fulfil its purpose. This would require a *National Care Fund* to be part of a wider system of long-term care funding which was perceived to be fair, effective and satisfactory for all sections of the older population.

Widespread inequalities in income and wealth exist in the older population. Wealthier older households will always have sufficient funds to purchase a level of care above the benchmark level of care provided by a *National Care Fund*: the so-called “gold-taps” option.

However, it is rational for individuals to be insured up to the level of provision which they desire and expect given their wealth and means. If wealthier households wish to insure themselves up to a level of provision over and above that provided by a *National Care Fund* – the gold-taps option - then these households must be enabled to do so.

Since it would be unfeasible for a *National Care Fund* to begin providing different levels of insurance and provision, this would require the private sector to provide complementary insurance products to the provision of a *National Care Fund*.

If wealthier older households were unable to access such products, they would not be able to insure themselves up to the level of provision they wish and the system would not therefore be satisfactory to them. For a significant section of the older population, the system would then be failing, and this might result in fracturing of support and consensus in favour of a *National Care Fund*, particularly if a *National Care Fund* does in fact rely on a cross-subsidy from wealthier to poorer households within the Fund.

Behavioural economics also suggests that a *National Care Fund* would benefit from the existence of a fully-fledged private sector market in long-term care insurance. When faced with a new ‘product’ but lacking a frame of reference to evaluate it, consumers are often deterred. By offering alternative options for a standard benchmark level of care, albeit necessarily at a higher price, private sector insurers will help individuals frame the offering of a *National Care Fund* as worthwhile.

Q11: Does a *National Care Fund* penalise saving and responsible behaviour?

A: Only to the limited extent that retirement wealth results from saving and responsible behaviour.

As a social insurance fund with contributions determined by means, it could be argued that a *National Care Fund* penalises those who have saved and behaved responsibly during their working-life by requiring such individuals to pay more than individuals who have been irresponsible, profligate and have failed to prepare for their retirement.

While a valid perspective, three counter-perspectives deserve consideration:

a) The current long-term care funding system is means-tested and so, to an extent, penalises responsible behaviour: those with means in retirement are forced to meet

the costs of their own care. However, a *National Care Fund* would represent a significant advance from the current system by providing an extremely simple way for 'responsible' individuals to insure themselves in relation to long-term care. Indeed, because there will always be individuals arriving at retirement with no assets, any future system of long-term care funding will to an extent penalise saving and responsible behaviour. This is because the alternative – that poor vulnerable older individuals do not receive care and are left to suffer – is untenable. Given that nobody sees this as an acceptable outcome, there is no alternative to individuals with negligible assets receiving free care. The only system that would not thefore 'penalise' responsible individuals is universal free care.

b) Saving and responsible behaviour are not the only factors determining retirement income and wealth. Indeed, numerous other factors are involved including:

    - The incidence of ill-health and caring responsibilities during the working life that limit opportunities for earning income.
    - The incidence of marital breakdown, which adversely affects asset accumulation.
    - The extent of employment opportunities.

    In short, various types of adversity restrict or limit the scope for asset accumulation during the life course. To the extent that a means-tested long-term care funding system penalises saving and responsible behaviour, a long-term care funding system that lacked some consideration of a person's means would penalise individuals that have suffered adversity and misfortune.

c) It should also be highlighted that a considerable proportion of the retirement wealth holdings of older people do not result from earned income or saving. Illquid property wealth at retirement is for most people the result of asset-price inflation in property. Not only is this wealth un-earned, in relation to UK primary homes this wealth accumulation is also untaxed.

The extent to which a *National Care Fund* would penalise saving and responsible behaviour will depend on the structure of contributions to the Fund. It may be politically expedient – and as outlined above, administratively cheaper – to have a single flat-rate contribution apply to the majority of the older population. This would see less wealthy individuals with means contributing a greater proportion of their wealth than richer ones. However, this may be the only way to limit opposition to a means-assessed contribtion on the basis that this would penalise saving.

Q12: How would a *National Care Fund* respond to geographical differences in the unit costs of care?

A: By upholding as far as possible the principle that entitlement to a benchmark level of care should apply regardless of location.

The unit costs of long-term care vary by geographical location. This means that individuals choosing to receive a benchmark level of care in more expensive locations would in effect be drawing on a *National Care Fund* more than individuals receiving a benchmark level of care in cheaper locations.

It would clearly be desirable to uphold as far as possible the principle that individuals enrolled in a *National Care Fund* would be entitled to a benchmark level of care regardless of location. However, to the extent that rationing may be necessary, it may be that entitlement would not apply to locations where the unit costs of care are excessively high, such as central London.

Q13: How would a *National Care Fund* be funded in the short-term?

A: The most likely source of interim funding would be the capital markets.

An important aspect of the model of a *National Care Fund* is the option for individuals to delay paying their contributions by either paying monthly instalments or paying a lump-sum after death. Given that interest would be charged on deferred contributions, there would clearly be an incentive for individuals to pay as early as possible if they have the liquid wealth available.

However, it is likely that many individuals would opt to defer paying their contribution, which may result in a funding shortfall in the short to medium term when the assets of a *National Care Fund* were less than its liabilities.

This identifies a very important question: how would a *National Care Fund* be funded in the short-term? Given the limited resources of the state, the short-term funding would most likely have to be obtained from the capital markets. Three mechanisms could be conceived:

- A *National Care Fund* issues a bond implicitly or explicitly backed by the state. However, if such borrowing could not remain off-balance sheet, such a mechanism would impose significant pressure on public borrowing.
- Once the income stream of a *National Care Fund* was established, this amount could be securitised and sold on to capital market investors. Assuming all individuals aged 65 and over were given 12 months to de-enrol from the Fund, after this point it would become clear how many individuals had opted to stay in the Fund. The experience of the first 12 months would have shown at what rate individuals were choosing to defer payment as opposed to paying up-front in cash or monthly contributions. Actuarial calculations could establish how many individuals enrolled in the Fund would be likely to die within any given period. On the basis of such calculations, the revenue stream of a *National Care Fund would* be clear and could subsequenly be securitised.
- It has been pointed out to the author that if short to medium-term funding could not be obtained from the capital markets through institutional or collective mechanisms, the mechanism could be reduced to the level of individuals enrolling into the Fund, for example, by the use of a specific financial product.

Q14: What would happen if individuals transferred or spent all their wealth just before dying?

A: Any type of means-tested long-term care system creates risks of ‘deliberate deprivation’, and a *National Care Fund* would require a mechanism to cope with such action.

Given that a *National Care Fund* would enable individuals to defer their contribution until after death, this may create the risk of a new form of ‘deliberate deprivation’ in relation to long-term care, in which individuals run down all of their retirement wealth before death, in order that they have no wealth left to pay their contribution. Indeed, deliberate deprivation is a risk under any form of means-tested long-term care funding system, although in financial terms, the incentive to engage in this activity in relation to a *National Care Fund* would be far less than under the current long-term care funding system.

The key point here is the illiquidity of property wealth. The vast majority of those required to pay a contribution to a *National Care Fund* would be property owners: as shown above, property wealth is associated with other types of retirement wealth, and the number of individuals with significant liquid wealth in retirement but no property wealth is negligible.

Running down illiquid wealth before death in order to cheat on the contribution to a *National Care Fund* would therefore require individuals to transfer their property to a family member, sell the property and move into rented accomodation or take out an equity release product that consumed the full value of the property. Each of these activites have significant transaction costs which would reduce the incentive to avoid paying a £15,000 contribution. For example, equity release products can cost several thousand pounds simply to set-up.

For each scenario, a variety of mechanisms could be implemented in order to prevent individuals engaging in deliberate deprivation. For example, a change in the ownership of a property through transfer or sale could be restricted without notification of a local authority and the Land Registry, which in turn would be able to notify a *National Care Fund*. Providers of equity release products could be legally prevented from selling products to individuals enrolled in a *National Care Fund* that would leave them with insufficient housing equity to meet the cost of their contribution to the Fund.

Q15: How would individuals who did not own their own houses or have adequate savings be funded?

A: Those with low levels of means would have their contribution paid for, either entirely by the state or through redistribution within the Fund.

At present, only those individuals with less than £21,500 of assets are entitled to free long-term care. Taking such a value as a marker, under one scenario, it could be that all individuals aged 65+ with less than £36,500 (£21,500 + £15,000) in assets would only have to pay a nominal amount of, for example, £50.

Who would then pay a contribution into the Fund on behalf of these individuals? This could occur through redistribution from individuals within the Fund paying more, i.e. internal cross-subsidy, or it could be paid for by the state as a form of redistribution from taxpayers.

The balance between these two forms of redistribution would depend on the structure and level of contributions of a *National Care Fund*.

Q16: What would the implications be of a fall in the housing market?

A: Falling house prices have only limited implications for the *National Care Fund* model.

At a general level, falling property prices have negligible impact for the model of a *National Care Fund*. Individuals aged 50+ typically have sufficient housing equity such that falls in house prices from 2008 levels of 20-30% would nevertheless leave them with sufficient wealth to contribute to a *National Care Fund*.

The only real way in which falling property prices may affect the operation of a *National Care Fund* would be a situation in which declining property prices took someone's level of wealth from just above to just below a threshold level. The extent to which this would occur would depend on the structure of contributions to a *National Care Fund*. However, the average property wealth older cohorts and the average price of properties is such that extremely few individuals would be likely to be at risk of crossing the means-tested threshold in this way.

More widely, falling property prices would only affect a *National Care Fund* if prices dropped so far that most older individuals began to feel they could not afford a contribution despite sufficient unmortgaged housing equity remaining. This would affect public confidence and support in a *National Care Fund*. However, for such a scenario to occur, property prices would likely have to drop precariously, for example, in excess of 50%.

Q17: How would Government ensure that people who did not receive high levels of care still feel that they had benefited from the *National Care Fund*?

A: By ensuring that every individual enrolled into a *National Care Fund* felt that they had benefited from participation.

A *National Care Fund* enables individuals to defer their contributions until after death and those paying in this way would include individuals who did not in fact have to draw upon the

Fund. This type of 'post-payment' may be at risk of families objecting to a person's estate being used to fund a contribution given their deceased relative did not need care.

This demonstrates the importance of active 'customer relationship management' by a *National Care Fund* in order to ensure that even those individuals that have not drawn on the funds of a *National Care Fund* nevertheless feel that they have benefited from participation. This could involve:

- Regular postal communication every 6 months reminding individuals that they are enrolled, repeating the benefits of membership and reassuring individuals that they have addressed the risk of long-term care, and that their bequest is safe.
- Regular communication with participants deploying public health messages, such as advice on 'active ageing'.
- Vouchers for discounted services deploying the bulk-buying power of a *National Care Fund*.

Q18: Would a *National Care Fund* pay for care for those below the age of 65?

A: The model of a *National Care Fund* does not seek to adress care for children and working-age adults.

The proposed interaction of a *National Care Fund* and the funding of care for younger age-groups is set out in *A National Care Fund for Long-term Care*. As several commentators observed, different funding arrangements for different age-groups may be the result of any new system. As a result, it may be necessary to create a new narrative around long-term care for older people, such as "age-related care" that will help form the basis of a new settlement.

Q19: Could individuals pay their contribution to a *National Care Fund* before the age of 65?

A: Yes.

There would be no reason to prevent individuals that chose to paying their contribution to a *National Care Fund* below the age of 65 at an appropriately discounted rate. For example, assuming a 4% interest rate, someone at 60 could make their contribution at a level of £12,350. However, the cover provided by the Fund would only take effect from the age of 65.

Q20: Could the principle of 'co-payment' be applied to a *National Care Fund*?

A: Yes.

The principle of 'co-payment' has been discussed extensively in the debate on long-term care funding in the UK, both as a mechanism to ration demand for care (by imposing a cost on individuals) and as a mechanism through which individuals pay for care. Co-payment could be therefore integrated with a *National Care Fund* model in two basic ways:

- Co-payment premiums to a *National Care Fund*

  Co-payment could be applied to the contributions individuals make to a *National Care Fund*. For example, the state could top-up a £15,000 average contribution with an extra £5000. This would make the offering of a *National Care Fund* even better value than anything that could be offered by the private sector and would further incentivise individuals to be enrolled in the Fund.

- *The 'insurance escalator' model*

  The *National Care Fund* model has the objective of ensuring that all individuals are insured up to a level appropriate given their means and aspirations. To achieve this, private sector insurance companies would have to provide complementary insurance products. The use of these products by individuals enrolled in a *National Care Fund* could involve a co-payment by the state. For example, for the first extra £10,000 that individuals spent on complementary pre-funded long-term care insurance, the state could provide a matching contribution of £1000. For the second £10,000 that an individual spends on such insurance, the matching contribution could be £500. Such a scheme would clearly amount to a subsidy for wealthier households. However, it would have the critical effect of rewarding those who have saved for retirement and therefore possess significant means, which is a critical issue in any means-tested long-term care funding system.

- Co-payments at the point of care

The principle of co-payment could be applied at the point of individuals requiring care in two ways:

- *State contributions to care*

  The state could pay for a proportion of the care costs for individuals whose care is paid for by a *National Care Fund*, e.g. 10%.

- *Individual contributions to care*

  Individuals enrolled in a *National Care Fund* and requiring care could be required to pay a proportion of their care costs, for example, 10%. This would have the important effect of rationing demand for care and the resources of a *National Care Fund*.

Q21: Wouldn't an inheritance tax be preferable to a *National Care Fund*?

A: No.

In enabling individuals to pay for the cost of insuring themselves for long-term care after their death, the model of a *National Care Fund* has been compared to an inheritance tax. However, in two critical respects, a *National Care Fund* is not akin to an inheritance tax: contributions are not mandatory and do not have to be made after death. In both respects, payment after death results from a choice by individuals.

Nevertheless, it has been pointed out that as the only other model that would enable individuals to allocate capital to long-term care after death, a hypothecated inheritance tax or 'care-levy' would be preferable. Undoubtedly such a levy would impose lower administrative costs and would be reasonably proportional. However, any estate charge resembling an inheritance tax would be politically toxic given the enormous opposition to inheritance tax. A hypothecated social care inheritance tax would also be upappealing to those families forced to pay such a charge whose parents did not require care. Policymakers have also traditionally resisted hypothecated taxes, except when taxes are designed to achieve specific behaviour changes.

[i] Recent press coverage of the issue of long-term care has underscored how politically controversial any notion of compulsory contributions to an insurance-based long-term care funding solution can be: http://www.dailymail.co.uk/pages/live/articles/news/news.html?in_article_id=566073&in_page_id=1770

[ii] Banks J et al. (2005) *Prepared for Retirement? The Adequacy and Distribution of Retirement Resources in England*, Institute for Fiscal Studies, London

[iii] The Pension Service (2008) *The Pension Service Annual Report and Accounts 2006/07*

[iv] Ross A et al. (2008) *The Age of Inheritance*, ILC-UK, London

[v] http://www.ifs.org.uk/elsa/

[vi] http://www.statistics.gov.uk/STATBASE/Product.asp?vlnk=15074

[vii] http://www.statistics.gov.uk/census/2011Census/default.asp

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