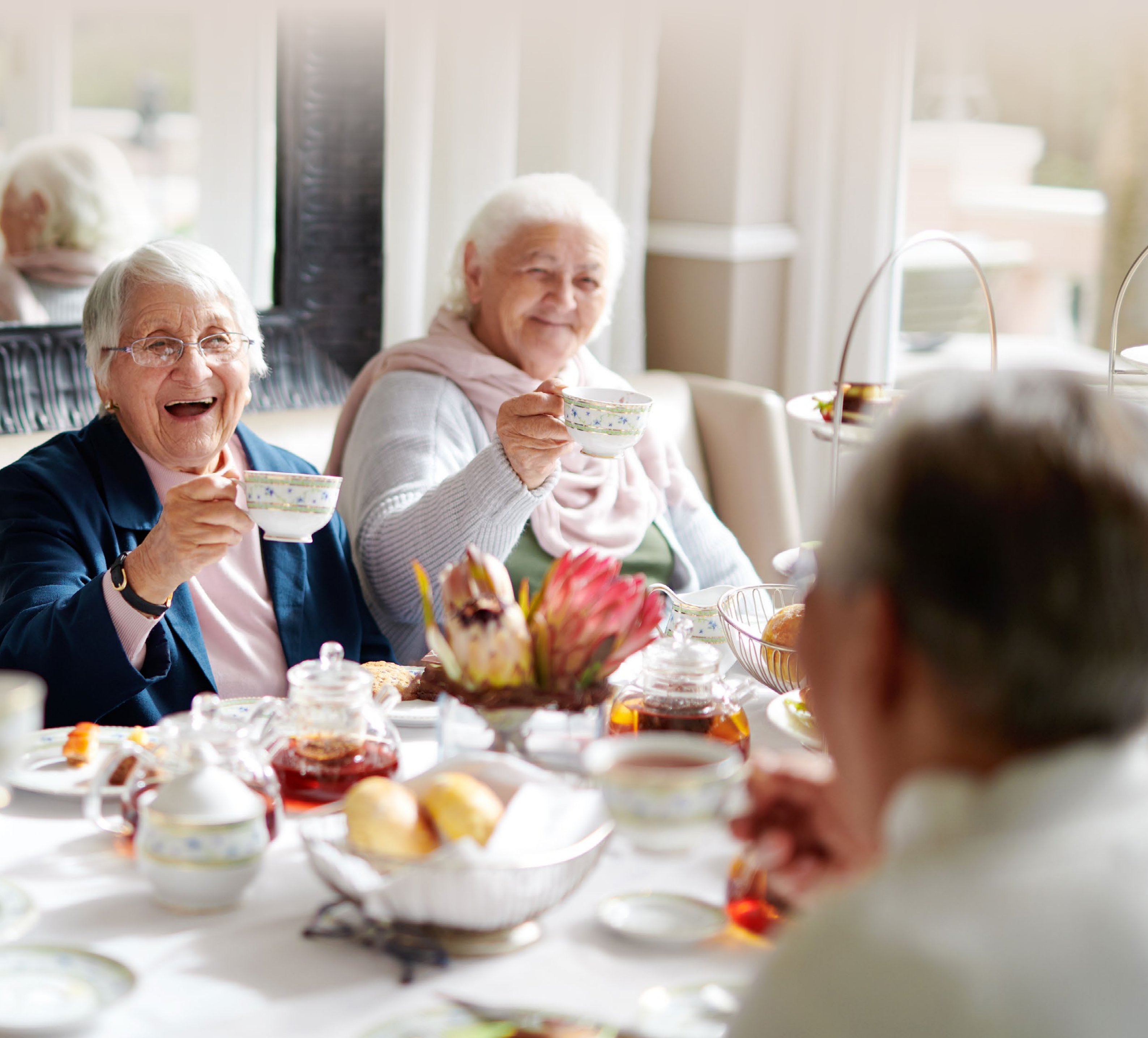
ST. JAMES'S PLACE
WEALTH MANAGEMENT

THE SOCIAL CARE REPORT

Tackling the UK's deepening social care problem



Foreword

By Tony Müdd

As we emerge from the coronavirus pandemic, the UK faces a multiplicity of huge challenges, ranging from rebuilding the economy to supporting the NHS as it attempts to deal with its enormous backlog. However, the Covid-19 crisis has also put the spotlight on the current state of social care in the UK and the need for urgent reform. While it is clear that all of these demands will continue to compete for Government attention – and spending – it is imperative that social care is not overlooked once again.

The reasons for this are clear. As many as 1.4 million people aged 65 or over in the UK receive some form of care[1]. However, among the 25% of St. James's Place clients who are 75 or over, we can see from their experiences that the current system is often unfair and unsustainable. Put bluntly, it fails to meet the needs of far too many vulnerable individuals.

Successive governments of all parties have been unable to tackle the issue. This is understandable, since any viable solution will ultimately need to include a greater level of public funding – possibly to the tune of £8 billion a year[2] or more – which is going to require unpopular decisions such as increasing taxation or making cuts elsewhere.

However, at St. James's Place, we also believe that private funding has a parallel role to play in rebooting the system. We are proposing that the state should provide a basic level of support that will be adequate for all, regardless of their financial circumstances – in a similar way to the state pension system – and individuals should have the opportunity to 'top up' their care using their own wealth.

In order for this scenario to be achievable for as many people as possible, financial institutions such as ours must work with the government to create viable investment vehicles so that people can save for their top-up care – and the public must be encouraged to participate on a mass scale.

Meanwhile, all financial advisers should be equipped to support their clients not only in terms of how they fund their present and future care needs, but also in helping them understand and navigate the complexities of the current care system.

One further crucial point is that, in order to overcome the current political roadblock when it comes to social care reform, a cross-party consensus is needed. This must be built on the foundations of an honest and transparent conversation with the public, greater education surrounding the issues created by an ageing society, and the general support of the mainstream media.

Finally, as you read this report and ponder the data, the arguments and the possible solutions, I urge you not to lose sight of the fact that we are dealing with real people who have made a major contribution to society and are now in need of support.

In short, this is a very human crisis that urgently requires human-focused solutions.

Tony Müdd
Divisional Director for Tax & Technical Support
at St. James's Place

1 Age UK analysis, November 2020

2 As estimated by Damian Green in his 2019 paper for the Centre for Policy Studies: 'Fixing the Social Care Crisis'

Viewpoint

By Jules Constantinou

Few people would disagree that the current state of adult social care in the UK is shambolic. Put bluntly, the primary cause of this situation is a lack of money in the system leading to a deterioration in the quality of care available, combined with little clarity as to what individuals will need to pay when it comes to managing their own care.

Urgent action is required, therefore. More than ever, we just need to start somewhere, even if we don't immediately develop the perfect solutions. In this regard, it's helpful to look at the examples set by Germany and Japan, as outlined in this report.

Both countries started to reform their social care systems some 25 years ago and have had to revise their schemes along the way. However, they have at least delivered enough certainty for citizens to clearly understand broadly what the state is promising them, around which individuals can make their own private plans and provisions.

This is very different to the current UK situation and this lack of certainty is where we have come unstuck.

In terms of formulating a solution, the insurance market has a big role to play. The state needs to put extra funding into the system and create greater clarity for individuals as to what their care entitlements will be. Then, whatever system the state opts for, insurers can build on top.

For example, if the state guarantees to cover basic needs, as is proposed in this report, the private insurance market will have the confidence to create products that allow people to 'top up' their care – say, for higher quality facilities or a broader level of care.

In the meantime, there are smaller – but important – things that can be done around the edges to encourage more people to save towards their possible future care needs. That includes increasing public awareness, as well as making it easier to use existing insurance and pensions vehicles to pay for care.

And let's not forget that there are already some insurance products out there, such as immediate needs annuities, that will help to cover the costs should you be unlucky enough to need care.

But when it comes to solving the national problem on a long-term basis, I can't emphasise enough the importance of taking a first step on the path to reform. As soon as we can move on from the current chaotic situation, I'm confident that both the public and private sectors will have the capacity to adapt as we go.

Jules Constantinou
Regional Manager, UK & Ireland at Gen Re Life

Viewpoint

by Camilla Cavendish

For decades, adult social care has been a major stumbling block for successive UK governments. Politicians have been understandably reluctant to acknowledge that the system simply cannot afford to fund the costs of all our care, which is one of the main reasons why we reached a crisis point some time ago.

However, the COVID-19 pandemic has put a huge spotlight on social care – how it is provided, how we fund it and who should fund it – and I am therefore hopeful that there could soon be a cross-party consensus that will lead us towards a solution.

Regardless of any new system that may be established, it is essential that people start to realise earlier in life that they need to save and invest for the future. Most of us are now living longer than we expected, so such financial prudence can help with maintaining our health, fitness and purposeful activity well into our 80s, or with meeting the costs of our care if and when we need it.

Organisations like St. James's Place, and the private sector in general, have two roles to play both now and in the future.

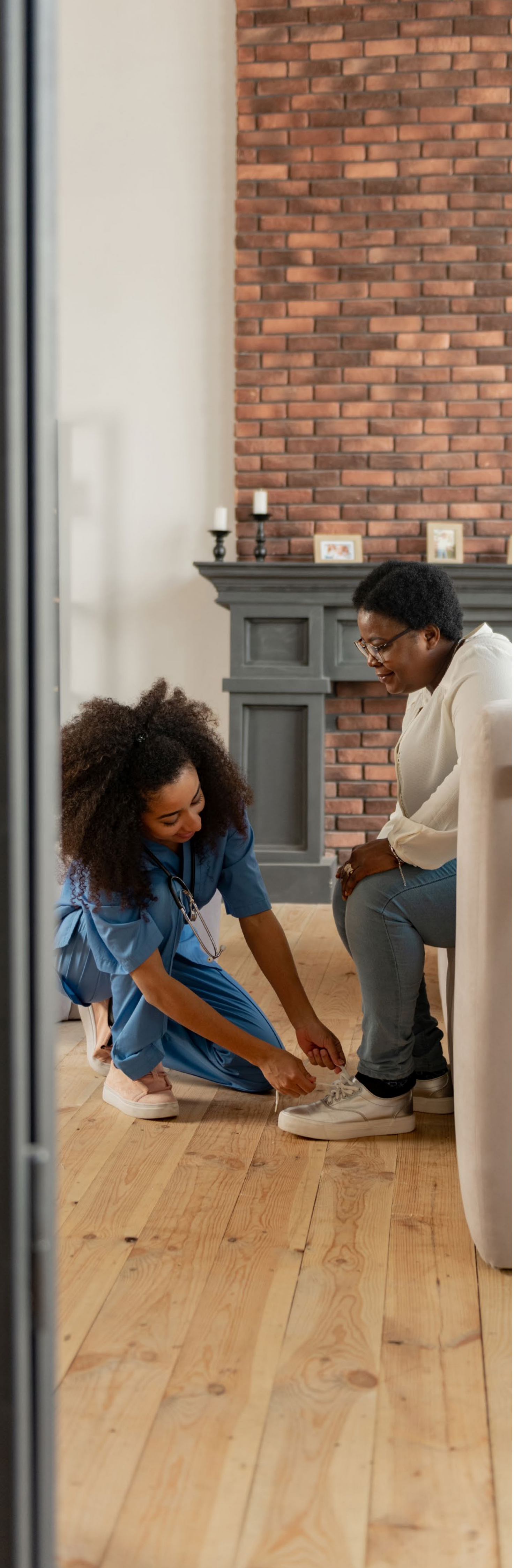
One is to become a stronger voice for those who are having to self-fund their care – which is nearly half of all care home residents, for example – since most of the political conversations are about local authority and state funding. The other is to be a source of help for people who suddenly find themselves in a situation where they need care for themselves or a relative, as currently it's very unclear where to turn or how to obtain information.

It's also important to understand that the current crisis is partly about funding, but also about quality. If all we do is pour money into an unreformed system, ultimately it won't provide the right solution for our loved-ones and ourselves. It is essential, therefore, that we keep a strong focus on outcomes.

My vision for adult social care is not that it just picks up the pieces towards the end of people's lives. Instead, we need to reconceptualise the system as a 'care continuum', which starts with prevention and social prescribing, goes through to good rehabilitation and only towards the end provides solutions like nursing homes.

This is one way to help our longer lives become happier and healthier – which, given that many of us could have an extra 20 years when compared to our grandparents, should be a very exciting prospect for most of us.

Camilla Cavendish
Author of 'Extra Time: 10 Lessons for an Ageing World', and adviser to the Department of Health on the future of social care.



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UK Context

Care is a devolved issue and separate administrations set out their overall strategic frameworks and legislative basis for the delivery and funding of adult social care. Whilst this paper focuses primarily on England, although there are necessarily references to the UK, we believe the issues, challenges, lessons we can learn from other countries and the potential way forward, applies to all administrations.

Introduction

Prime Minister Boris Johnson promised to "fix the crisis in social care once and for all, giving every older person the dignity and security they deserve."

Over the last 30 years there have been a huge number of reports, white papers, green papers, commissions and reviews around the state of social care. While most have contributed to the debate and almost all made the case for a reform of the system in one form or another, none have led to any meaningful change. The only exception was the Dilnot report which lead to the 2014 Care Act, however even this was never fully enacted.

It is easy to forget when reviewing the statistics and views presented in such reports: number of individuals requesting and receiving care, the quantum of state and local authority spending, sustainability of the current system, geographical variations and the inequalities between NHS and Social Care, that we are dealing with real people. It is essential we do not. These are people who have made a major contribution to society but who are now vulnerable and in need. In his first speech as Prime Minister Boris Johnson promised to "fix the crisis in social care once and for all, giving every older person the dignity and security they deserve". Hopefully this statement will turn out to be the starting point of fixing the social care system. A system in its current form that is often unfair and unsustainable. From our own experience as advisers we believe the system is also complex, confusing and failing to meet the needs of far too many vulnerable individuals.

This paper sets out our views on the state of the social care system against the backdrop of what we, as stakeholders, can contribute to providing a solution, not just for our own clients but for the wider society.

1. Understanding the issues

In order to analyse the relevant issues, potential options and ultimately propose some recommendations we need to have a firm grasp of the current challenges, as well as those we can reasonably foresee.

1.1 Public perception/understanding of Social Care

It is clear from a number of studies as well as our own experience that the public have a very poor understanding of how social care is both delivered and funded. More specifically the public are either under the misapprehension that it is provided free at point of need by the state and funded from taxes already paid during their lifetime; or that if this is not the case believe that it should be. In a report prepared by The Kings Fund while people understood the State could not pay for everyone or everything, there was nevertheless a clear view the State should be the main funder of care needs[1]. Further, also from the report, once the means tested cap that currently exists was explained, individuals were shocked at the low financial threshold and at the idea that housing assets could be included in any assessment[2]. The housing issue in particular evoked very strong negative reactions[3].

The importance of the public perception or more specifically their understanding of how social care operates should not be under-estimated. Whether the current system remains as is or is fundamentally changed, a proportion of society will need or want to have some involvement in both the commissioning of their care and/or have responsibility for some or all the costs. Failure to understand the system and quantum of potential costs will inevitably result in a failure to plan for it. This will have a number of undesirable consequences ranging from: having insufficient funds to meet the type and quality of care an individual wants, running out of funds and becoming reliant upon the state, being unable or unwilling to pass on assets to the next generation, and a number of variations therein. Fundamentally a vibrant funded private care market lessens reliance and financial strain on the State.

1 Making Change Possible: A Transformation Fund for the NHS.

2 National Centre for Social Research's British Attitudes Survey 2017

3 A Fork in the Road: Next Steps for Social Care Funding Reform

1.2 Regulation

A significant percentage, currently estimated at 52%, of individuals will ultimately be self-funders or part self-funders i.e. will not be entitled to state/local authority support or will choose not to receive it. We believe these individuals would benefit from receiving financial advice. The receipt of such advice should enable the recipient to select and remain in receipt of the care of their choice, would remove or limit the need for financial support from the state, and enhance their ability to pass funds on to the next generation.

Receipt of good advice requires robust regulation, particularly in respect of an audience for whom vulnerability will be prevalent. While the FCA has done a lot of good work in respect of vulnerable clients, which in itself is broader than just the elderly, when it comes to providing financial advice in the social care arena there are a number of outstanding issues, principally:

- The FCA have defined 'vulnerable clients' however they have not provided a definition of who or what a care client is for the purposes of accreditation for long-term care advice.
- While the FCA have set the minimum standard of accreditation to provide advice at Chartered Insurance Institute CF8 exam (a level 3 qualification), this in our view is an inadequate accreditation.

While we recognise this is only a baseline we see additional value for clients in setting a higher bar for our advisers. As a result St. James's Place (SJP) chose to define a care client as "an individual who is in or about to enter residential or nursing care, is in receipt of domiciliary care or live in care or in receipt of ad hoc care where the recipient is also in receipt of Attendance Allowance." Furthermore, we set out our minimum accreditation standards as being a member of the Society of Later Life Advisers.

Over ten years of using such criteria has resulted in insufficient qualified advisers operating in the care market. As a result, from May 2021 SJP advisers with CF8 and our own internal accreditation can provide financial advice to 'care clients' provided clients are first referred to an independent 3rd party on our panel: Care Sourcer, who provide a care concierge service assisting clients to navigate the social care system (see 1.8).

1.3 Political Consensus

The plethora of green and white papers and commissions indicates a clear cross-party political desire to address social care. However, this desire over the last 30 years appears to have been tempered by practicality. The older generation represent a considerable percentage of the voting population and are very sensitive about anything they see as them making further contributions to meet care costs having; "paid tax and national insurance all of their lives". Any attempt to tax them or their beneficiaries to help contribute to costs of care is well understood by politicians as being controversial and problematic. Most recent examples have been Labour's proposals in 2010 that the Conservatives called the Death Tax – Labour lost the election. Then in 2017 we had Conservative proposals, which were more generous than the present system, that Labour called the "Dementia Tax" and the result saw Theresa May's government losing its sizeable majority.

1.4 Access versus Supply

There is an increasing mismatch between the number of individuals seeking care and those who are receiving it. From 2018/19 local authorities have received over 100,000 more requests for social care support, an increase of around 6%, compared to 2015/16. Over the same period 18,000 fewer people received social care support, a decrease of 1.7%[4]. 2018/19 alone saw an increase in new requests for the social care support of 44,000, an increase of over 3% over the previous year[5].

While some of these increases can be explained by a growing population, in our view, other factors are in play. In 2015/16 more than 587,000 individuals were receiving formal long-term care but by 2018/19 this had fallen to less than 550,000 despite an increase in the older population of nearly 470,000[4]. This can probably be explained by an increase in short term care designed to maximize independence plus local authorities use of 'asset-based approaches' where individuals are sign posted to less formal types of support normally provided by the voluntary and community sector. However, while this is appropriate for some it is impossible to measure the effectiveness of such a strategy.

Furthermore, it is unlikely the voluntary and community sectors have capacity to provide support in all areas. We also believe local authorities are motivated to adopt such approaches due to having to restrict their services to those with the greatest need in order to cope with budget restrictions. This inevitably leads to a conflict of interest and tension between operating with such strategies and investing in appropriate services. Such tensions are unhelpful and do not contribute to good outcomes.

4 Social Care 360 – The Kings Fund 2020

5 Independent Age and Institute and Faculty of Actuaries, 'Will The Cap Fit'.

1.5 Expenditure

Spending on adult social care is decided by the 152 local authorities, with funding provided from a combination of central budget, income from social care service users and income from the NHS. While spending on adult social care services rose in 2018/19 when it stood at £18.7 billion this was still nearly £0.4 billion below the level of spending 2010/11.

While the level of expenditure in 2018/19 being below the level in 2010/11 is of concern these figures alone may not fully reflect the actual lack of expenditure. It does not take into account increases in the older population, the increasing levels of demand for support nor since 2015/16 the above-inflation increases in costs to the local authorities of purchasing residential, nursing and home care. All of which could have been expected to contribute to increases in expenditure rather than falls.

2018/19 alone saw an increase in new requests for the social care support of 44,000, an increase of

3% **over the previous year[5]**

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Despite falls in expenditure between 2018/19 and 2010/11, expenditure in 2018/19 was £941 million more in real terms than 2015/16[6]. However, this increase was almost entirely absorbed by spending on commissioned services, principally costs of residential and nursing care. In turn at least some of this expenditure has been used to cover increasing work force costs within the social care sector, primarily driven by increases in the minimum wage. At which point it should be noted for 2020/21 there will be an increase in the main rate of living wage of 6.2% which will almost certainly see the cost of commissioned services rise further, without an increase in support services or capability.

1.6 Providers, work force and carers

Despite the increasing demand for social care there has, since 2010/11, been a long and slow decline in the number of care home beds available: primarily private accommodation. 2018/19 alone saw the loss of more than 250 care homes and 3,000 beds. There are now fewer than 15 nursing or residential home beds for every 100 people over the age of 75. However, in reality this downward trend may be expected as it not only fits with the broad policy direction towards supporting individuals in their own home but also the increasing desire by individuals to receive care at home. Whether support for care at home has sufficiently increased to compensate for the decline in residential capacity is unknown as this data is not available.

Irrespective of the number of available beds in residential and nursing care or the extent of demand for care at home, supporting individuals requires a strong and vibrant work force of carers. Although adult social care remains a large employer, 1.13 million in England in 2018, jobs growth is almost at a stand-still and vacancies are increasingly difficult to fill. Full time equivalent jobs increased by just 0.5% in 2018 which continues a trend that has seen jobs growth in this sector stall since 2014[7]. The reasons for this are unclear. Demand for care is increasing and although more individuals are being declined for publicly funded care, we haven't seen a compensatory job growth in self-funded care.

6 Key fact and figures about adult social care – November 2019, Kings Fund

7 National Audit Office, 'Adult Social Care at a Glance' – 2018

It is possible that many of those who are eligible for publicly funded care are relying on unpaid family carers, however it is also likely some of them are going without care at all[8]. There are other possibilities, most noticeably that staffing ratios may have increased however there is no official data on this, so it is impossible to say.

What is certain is the increasing difficulty in filling posts and although job losses as a result of COVID-19 may change the position it is too early to tell. Pay has often been sighted as the reason for high vacancy rates. The problem for social care employers is that staff can still earn more in other sectors. 2018/19 saw care workers paid less than shop workers and cleaners. Uncompetitive levels of pay don't just impact on vacancy rates, they also drive the high rate of staff turnover. Year-on-year on average at least 1 in 3 social care staff change their job during the course of a year – equivalent to over 440,000 people. For care workers in the home care sector this figure is closer to 1 in 2. Although most do stay within the care sector, turn over adds cost to the employer and results in a lack of continuity of care for the recipient[9]. Pay is, by no means the only factor; access to training, better job security, more contracted hours and even a greater appreciation of the importance of their role will also need to be addressed. COVID-19 has at least started to address this final point. How long this will last is a matter of conjecture.

Finally, there can be little doubt of the importance of the role of the family carers: without which the current system, already struggling, simply could not cope. Although data is limited in 2018, the number of individuals who self-identified as carers stood at 7% (in the 2011 census for England, although now out of date, 5.4 million identified themselves as carers – around 10% of the population). Even this figure, as high as it is, probably fails to represent reality. A Carers UK survey found that most carers took more than a year and some far more to even recognise their caring role.

1.7 Quality of Care

Although not a perfect indicator of the quality of care, care quality ratings increased over the four years to 2019, with most services now being rated as good or outstanding. By April 2019 3.5% of services were rated outstanding with 80% rated good. Furthermore since 2014/15 an annual survey of people using local authority social care has consistently found around 2/3s of individuals are satisfied with the services they receive. Based upon this, why are the public perceptions of care services, at least public perception pre-COVID-19, not as positive as we may expect? In our view this is likely to be down to a combination of factors:

- Despite increasing care quality ratings, it is still the case that 1 in 6 care homes and care home services are rated as below par.
- Not only does 1 in 6 represent over 3,700 care home and care home services, but these are not evenly distributed across England such that in some parts of the county the ratio of poor performance is considerably higher, and
- There can be little doubt that adverse media coverage (again pre-COVID-19) with numerous high-profile reports of the very worst cases, even though disproportionate, stick in people's minds.

1.8 Complexity of the System

If the issues already outlined above were not sufficient challenges to delivering an adequately funded social care system, there are inherent complexities within the current structure of the care systems that also need to be addressed. This was best described in the Kings Fund report of 2013 'Paying for Social Care: Beyond Dilnot' where it stated *'who pays for what across health & social care is confusing and incoherent. Reform has been made harder because of the fragmented way the social care system has evolved, leaving a system that is crisscrossed with fault lines between NHS and local authority social care, private and public funding, and private and public delivery'*. In our view this position continues to this day.

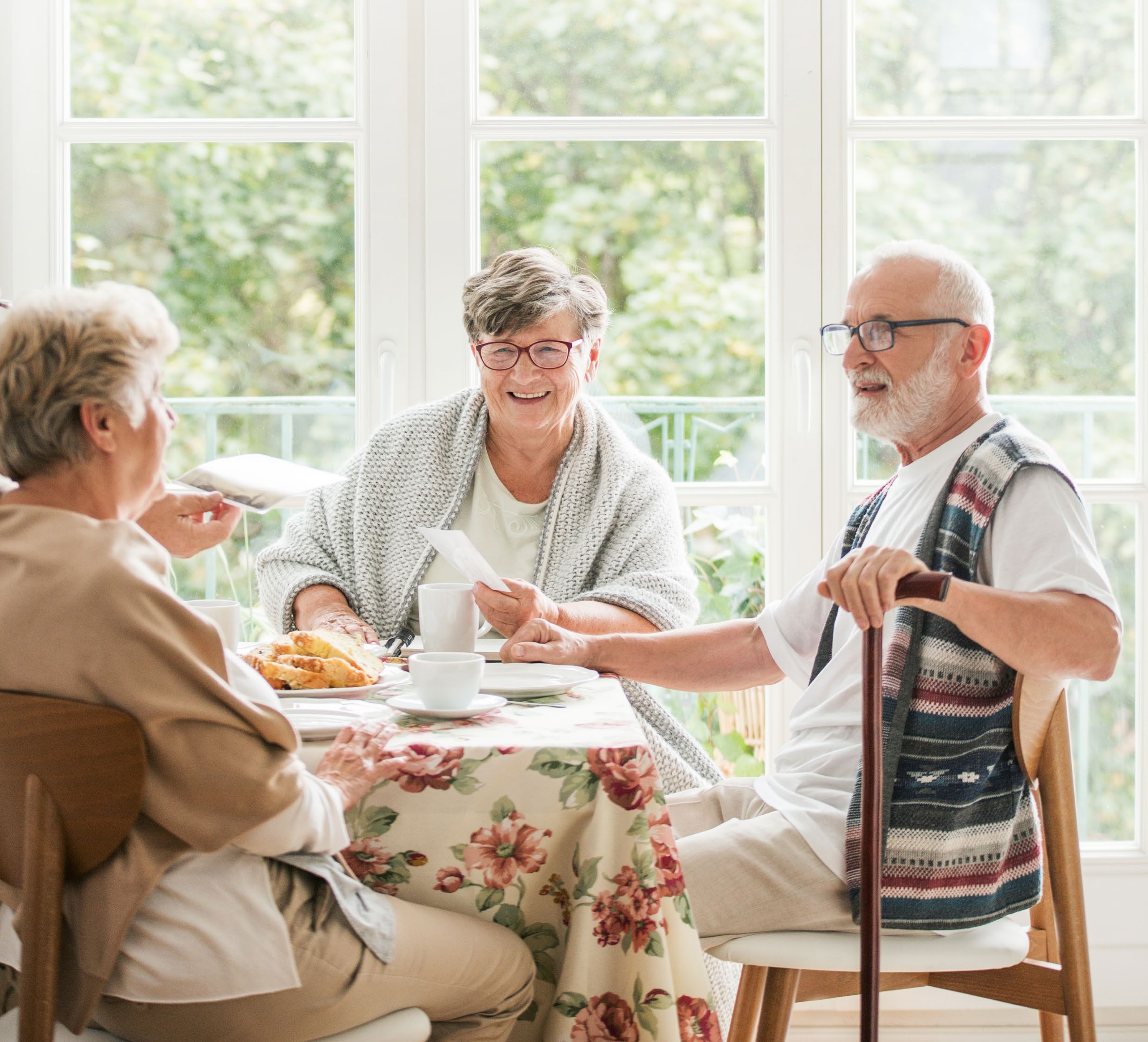
Ignoring COVID-19, which has certainly not helped, it remains the case that the majority of individuals and their families in need of care have nowhere to go for advice to help them navigate the social care system and no-one to answer the plethora of questions the majority will have. This fact alone is recognised by many as one of the most significant barriers to the receipt of good quality care and does little to ease what, for many, is a very stressful period of their life.

8 Age UK, 'Estimating Need in Older People' – 2019

9 Skills for Care: Workforce Intelligence, The State of the Adult Social Care Sector – 2018

1.8.1 Regulatory & Non-regulatory Advice

All client circumstances and needs will be different. Their journey through the care system will be different. However, in order to help them navigate the care system, and ultimately find the care that is right for them, will invariably require two types of advice: non-regulated and regulated. Regulated advice will be predicated around how to best to meet the costs of care, to ensure that the individual does not run out of funds and become reliant on the State or how best to pay care fees and still leave funds on their death to loved ones. Such advice should be given by suitably qualified and experienced regulated financial advisers. In practice however, before such advice can be provided the majority of individuals will require non-regulated advice: without this the efficacy of the regulated advice is highly likely to be inappropriate, or at the very least lacking in some aspects. Non-regulatory advice deals with the questions the care recipient and their families will have around the social care system, such as the breadth of state support, relevant assessments, financial and health, the nature and differences in care services: from live-in carers, domiciliary care, residential and nursing care and the assessment and selection of appropriate care providers. The vast majority of regulated financial advisors have neither the experience nor technical understanding of these issues. Given that it is imperative that both aspects are covered it is therefore essential that advisers are able to either signpost clients to such services or work closely with organisations who are capable of providing such services so that truly joined-up advice can be provided.



2. Options for funding Social Care

The vast majority of people believe that we should be spending more on social care[10]. At the same time, these same people do not believe they should pay any extra tax. In reality of course, if the public want extra spending the Government will have to raise more money to pay for it. Unfortunately, despite the publication of The Royal Commission into funding for social care in 1999, and numerous funding proposals put forward by all parties, none have been implemented. It is our view both the delivery of care and its funding will ultimately need to be a partnership between public and private sectors. On this assumption we set out a variety of funding options for both public and private provision. Some have been previously considered and some have not, but in our view have some merit, along with our views as to the advantages and disadvantages of each, within cultural, demographic, economic and practical boundaries.

10 National Centre for Social Research's British Social Attitudes Survey 2017

2.1 General Taxation – Income

Funding social care, such that it is free for all, from general taxation, has been called for by a number of papers and commissions. Those who proposed a rise in income tax, also called for such funding to be 'ring-fenced' in order that it could only be spent on social care.

Advantages

- This would be simple, understood by the public, and easy to collect.
- It would provide an immediate injection of cash into the system for both short- and long-term needs.
- It would pool the risk across all of society and there is some limited evidence of public support.
- Taking funding from income tax should ensure revenue is raised from the older population as well as those of working age. This is essential as the number of older people increases as a proportion of the tax paying public.
- Ring-fencing should ensure both public and political support, as well as providing a high level of transparency.
- Using general taxation has the potential to ensure that funding is progressive i.e. those with the greatest ability to pay contribute the highest amount.

Disadvantages

- While it will be expedient to start contributions at a low level, to ensure public support, it is likely that the level of additional taxation will need to rise significantly over time in order to keep pace with growing need. However, on its own, at a level initially publicly and politically acceptable, it may not be enough.
- Increasing income tax will not necessarily obtain a sufficient contribution from the wealthy i.e. those individuals who are asset rich but income poor. Conversely it will penalise those who are income rich but asset poor.

2.2 General Taxation – National insurance

Alternatively, or in addition, increasing rates and breadth of National Insurance, which is ultimately another form of general taxation, albeit paid by slightly different groups, is another option.

Advantages

- As a funding mechanism it would be simple, easily understood and collection mechanisms are already, largely, in place.
- As another form of taxation, it would pool risk across society and has the potential to be progressive, such that individuals earning at higher levels will contribute the greatest amounts.

Disadvantages

- Unless National Insurance was extended to be payable to those over state retirement age, which would undermine the advantages of being able to use existing collection mechanisms, it would not gain a contribution from those most likely to benefit.
- As with general taxation an increase in National Insurance would not get a contribution from those who are asset rich and income poor.
- While this has potential to raise extra funds for social care it is unlikely that receipts from a National Insurance extension alone would be sufficient without making contribution rates both publicly and politically unpalatable.

2.3 General Taxation – Capital Taxes

Another option is to raise additional revenue from capital taxes: inheritance tax and capital gains tax, ring-fenced for care. Alternatively, or in addition, could be the introduction of some form of wealth tax, variations of which are found in a number of European countries.

Advantages

- Has the capability of providing an immediate source of revenue which, if ring-fenced, will also ensure that the use of these funds is transparent.
- If levied on a fixed percentage basis it will ensure that the wealthiest make the greatest contribution.

Disadvantages

- It is likely to be deeply unpopular with certain sections of society. Inheritance tax itself is commonly seen as unfair and the concept of a wealth tax is likely to be equally contentious.
- The introduction of a wealth tax would require the establishment of an infrastructure for assessment and collection: the cost of which may have a significant impact on the level of funds collected. However, if introduced for the purposes of COVID-19-related debt this may be less of an impediment.
- The quantum of revenue raised through a new wealth tax would be problematic given the uncertainties as to the amount that could be collected.

2.4 Mandatory Social Insurance

As in Germany and Japan, it could be made mandatory for individuals to pay into a separate social care fund. This could be deducted from income and pensions for the employed (and pensions for those in receipt of pension income) with separate fixed tariffs for the self-employed and potentially with employers making an additional contribution. Ideally funds raised would be ring-fenced and managed independent of the State.

Advantages

- The mandatory nature will ensure that monies are raised in the short and long term and would pool the risk across most of society.
- Has the potential to be progressive and by extending rates to pensions in payment would raise more funds and ensure a contribution was made by those most likely to benefit the soonest.

Disadvantages

- As a new concept in the UK it would present two problems: public acceptance and lack of infrastructure.
- With a combination of increasing contributions for auto-enrolment and the financial impact of COVID-19 the idea of contributions coming from employers is likely to be met with some resistance.
- Introducing a social insurance system of this nature, whether mandatory or not, in a post-Covid economy, will be difficult.

2.5 Private Care Insurance

Private care insurance policies, taken out on a voluntary basis, could be a solution for individuals wanting to protect themselves against the potential costs of care and/or not want to be reliant upon the State. Contributions would be based upon a combination of age, health, family history and benefit purchased. The benefit itself would be cash to be used on whatever level or type of care support the individual required on the assumption he/she met the qualifying criteria for payment to be made.

Advantages

- This could have the dual benefit of raising public awareness and moving some of the risk and funding to the private sector.
- Provided there was significant take-up it would spread the risk and costs across a section of society able and willing to establish such policies as well as giving individuals a further funding option.
- It would reduce the number of individuals looking for state support and therefore relieve financial pressures elsewhere.

Disadvantages

- Providers are unlikely to enter into the market, particularly for what would be an untried product, without much greater understanding of what the State will provide and when.
- The market would take some time to establish and it may be difficult to encourage providers to enter the market given the lack of experience of such policies and no certainty they will be embraced by the public.
- On the assumption these policies would only be affordable by those on higher incomes or with greater wealth, establishing a private care insurance market is likely to extend current societal inequalities in respect of care provision.

2.6 Care ISA

Rumoured to have been considered by the Government in 2018, a Care ISA could be established, similar to other ISAs, with contributions into broadly equity and cash-based funds benefiting from existing tax freedoms. The additional value of any Care ISA could be its exclusion from any means test provided funds were used to contribute to care cost.

Advantages

- A combination of exemption from tax and means test would encourage savings. On the assumption it could be passed to descendants it will be an attractive investment while at the same time raising awareness of the potential need for individuals to accept some personal responsibility to fund for their care.
- It could help address the issue of those who feel the system is unfair in not rewarding prudence.

Disadvantages

- As this would be based on an individual's ability to save, rather than insurance, it has the potential to fall short of meeting the individuals care costs.
- Without public education of care funding, uptake of a Care ISA is likely to be low. Furthermore, it is unlikely to be a concept that will resonate with younger investors.
- As with private care insurance, a Care ISA is likely to exacerbate the disparities in care provision between those with higher incomes and wealth, and those without.

2.7 Pensions Personal or Occupational (Defined Contribution or Defined Benefit)

Registered pension schemes are authorised to pay out benefits to or in respect of a member in two forms – a pension or as a lump sum (or more commonly both). Payments outside of such parameters will be subject to an unauthorised payment charge of potentially 55% although exceptionally this can rise to 70%. These penalties exist to claw back tax relief and tax advantages given to the member in the event he or she withdraws in a way not envisaged and specifically does not result in an income tax liability in respect of the annuity purchased or draw down of income.

However, with a change in legislation it could be made possible to withdraw funds from a pension for the specific purpose of funding care, with tax exemptions from such funds used to provide monies going to a registered carer in much the same way as the rules apply to Immediate Needs Annuities i.e. an income tax exemption.

Advantages

- Pensions are an investment medium broadly well understood by the general public and extending their use to funding care costs removes the objection/problems of trying to encourage individuals to build up funds to meet their own care costs in the event that they do not require care.
- It is likely to increase the amount individuals placed into pensions thus lowering financial reliance of more individuals from the state in retirement.
- Such a significant change of the potential use of pension funds would increase the individual's ability to fund care costs as well as raise the profile of needing to take some personal responsibility for care costs.
- This could provide access to a significant level of funds, particularly in the medium to long term.

Disadvantages

- Additional tax relief as a result of higher levels of contributions to pensions represents an immediate cost, unless, as a result of a broader review of pensions, tax relief is reduced to a flat rate.
- It would require a change to primary legislation to avoid payments to a third party being treated as an unauthorised payment plus there would be a requirement for the pension industry to create new versions of an existing product without there being a clear appetite for it.

2.8 State Pensions Model

This formed part of the proposal in the 'Fixing Social Care' paper from the Center for Policy Studies, the most recent paper from the Government on dealing with funding proposals, although it was taken from proposals in the previous paper penned by Damian Green[11]. The idea here is to use the basic state pension system as a model for the provision of care.

Just as the basic state pension provides a level of income in retirement for all, some form of universal care entitlement could offer a base line of care whether at home or in a residential setting. While care needs would continue to be assessed locally, funds would come from central Government. This would take pressure away from local authorities and reduce the so called 'postcode lottery' in relation to care provision.

This proposal was more about delivery than funding and while there was acceptance the Government would need to raise more money to pay for such a model there was less clarity around how this should be achieved.

Advantages

- Providing a base level of benefit should give everyone a degree of comfort that a minimum level of care provision will be made available. A level of benefit which if it follows the basic state pension model should increase over time, subject to acceptable funding models, to permit increased levels of support.
- Removing funding responsibility from the local authorities should remove a number of issues: local authorities providing different levels of support for similar types of care recipients and authorities reluctance to take any actions that would encourage older populations moving to their locations.
- By establishing a base line of support this should provide sufficient information to product providers to design financial products to enable individuals to top up this provision, much in the same way as private pensions top up state pension provision[12].
- It is likely to be acceptable across the political divide. Further, as any top up system would not be compulsory it will be difficult for any party to criticise or label such plans as Death or Dementia taxes.

11 Green, Damian, 'Fixing the Care Crisis' (Centre for Policy Studies 2019)

12 The Kings Fund, 'Briefing': The Dilnot Commission Report on Social Care: 2011

Disadvantages

- Less of a disadvantage and more of an observation, namely: such a state pension model would require Government funding and Green estimated this could be up to £8 billion per year, a figure that would rise over time. If this is to come from central Government it will have to be raised through some form of taxation.

2.9 Equity Release

In a paper recently published by the Equity Release Council 'Solving the social care funding crisis' February 2021, research from Canada Life highlighted there was a total of £591 billion of unreleased equity in the UK owned by the over 50's.

It went on to point out that such levels of property wealth could be used to fund an individual's care. While it is the case that Boris Johnson stated, when he came to power in 2019, no-one would have to sell their home to pay for care[13], this statement need not necessarily conflict with the use of Equity Release. Firstly, Equity Release does not involve selling an individual's home and secondly, while ultimately the property may need to be sold to repay the debt this will usually not happen until the individual's death, by which time it ceases to be the individual's home.

Advantages

- For individuals requiring domiciliary care or paying for live-in carers, Equity Release taken on a drawdown basis, can provide all the requisite funds the individual needs without any diminution to the normal income.
- As indicated above there is not only a considerable amount of property wealth held by homeowners, but as of August 2020 there were well over 500 Equity Release plans available with a new product, in 2020, released every 24 hours. Such a plethora of products, through increased competition, should drive down prices and increase both innovation and flexibility to adapt to their changing needs.
- Research would indicate there is a growing comfort around the use of Equity Release to pay for care in a home setting.

Disadvantages

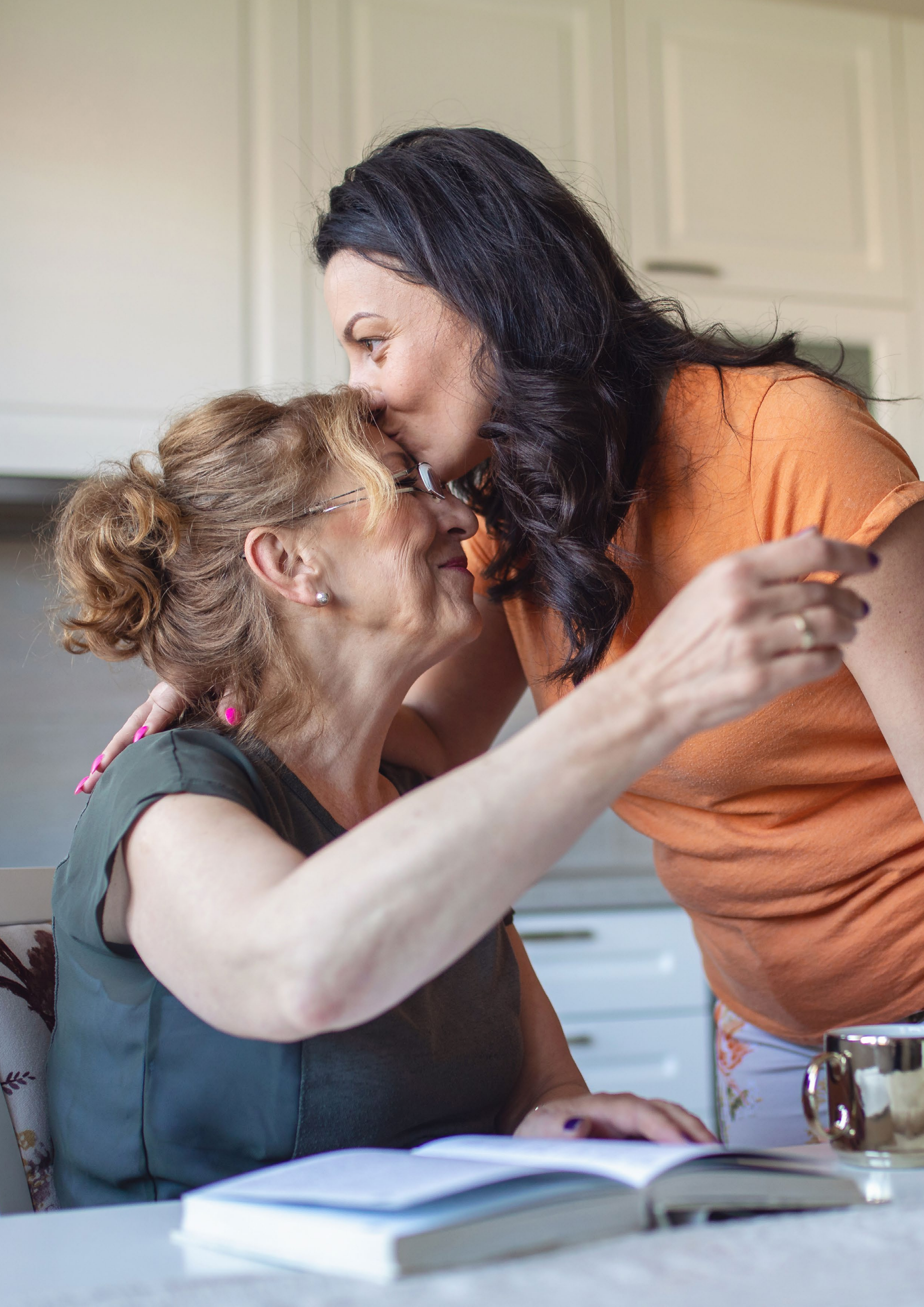
- While Equity Release is a viable option for some it will not be an option for all, including: those who do not own their own home, those who have outstanding mortgages where the remaining equity is insufficient for their needs, where the house is in considerable disrepair and potentially, where there is a Power of Attorney, who may be unwilling, for reasons that it may reduce his or her inheritance (irrespective of the requirement to act in the donors best interest).
- Equity Release is unlikely to be suitable for an individual going into residential or nursing care. Further, it is also unlikely to be suitable for someone who, while in receipt of domiciliary care, is likely to ultimately move into residential nursing care, as the debt would need to be repaid at which point the property would have to be sold. This is an issue that the Equity Release industry needs to address.

13 Johnson, Boris, PM Economy Speech 30 June 2020

A total of

£591bn

of unreleased equity in the UK is owned by the over 50's



3. What can we learn from other countries

Before we start looking at potential solutions to the care crisis, it is worth considering how other countries do it and whether there are any lessons we could apply.

What becomes immediately evident when looking at other countries is that attempting to develop a large private insurance market for comprehensive social care, even where there is some element of capped costs such as the Dilnot proposal, is unlikely to be successful. Conversely a small insurance market to complement a state funded basic care package, with the right conditions, can be successful. In addition, those countries that have elected to provide full, free social care, without restrictions, saw costs reach unsustainable levels and almost all countries that tried this have been forced to restrict eligibility and reduce services.

What is clear and possibly the most important lesson, is to accept and embrace the need to make changes sooner rather than later. The problem will not go away, indeed it will only increase. Two countries, often quoted as good examples, are Germany and Japan. While by no means being perfect, they do, in different ways, have similarities with the UK and warrant specific further analysis.

3.1 Germany

Germany established its current social care system in 1995. In common with the UK it did so in response to the challenges of; an ageing population, rising care costs and at a time of significant economic upheaval (in their case in the wake of reunification).

At the heart of Germany's social care system is a mandatory national funding mechanism in the form of social insurance design to spread the risk across society to help protect individuals from catastrophic (but importantly not all) costs. The following principals are fundamental to its design:

- Everyone pays in a fixed proportion of their income,
- The system continues to levy individual's income beyond retirement,
- A fixed schedule of benefits, according to need, provides a guaranteed minimum level of cover to all,
- Individuals are expected to contribute towards their care costs in receipt of care,
- The national framework for eligibility operates regardless of age, means or diagnosis
- Contributions are strictly ring-fenced and cannot be diverted elsewhere, and
- Top-ups to the mandatory fund are not permitted. However private insurance policies are available to cover additional elements of social care if desired.

The result of these principals has provided both stability and certainty for care providers which has in turn created a buoyant and competitive market.

Lessons for the UK

It was evident very early that having a clear set of design principals – namely transparency, consistency, fairness, and simplicity – were essential to gain both public and political support.

This, for the same reasons, would also be essential for any similar system introduced into the UK.

Offering a guaranteed minimum level of benefits with individuals understanding they will be expected to make contribution to care has allowed the German government to contain costs. However, individuals are now facing rising costs as the cost of care has outpaced changes in funding.

Clarity over what costs are covered by the state is essential and the complexity of the Dilnot recommendations which meant benefits were far from clear needs to be avoided. By the same token, while only covering some of the costs will help the government contain expenditure, getting the modelling of funding implications for both the State and individual is essential if we are not simply to push the problem further down the road for later generations.

Germany's social insurance fund is strictly ring-fenced with the idea of being both self-funding and transparent. The intention was that this would enable them to contain costs and ensure the system is sustainable. However, the Government has now had to establish a reserve fund to cope with a combination of growing needs and a shrinking working age population. As a result, the principals of containment of costs and a sustainable system are under considerable pressure.

As Germany have found, a ring-fenced revenue source linked solely to income, while transparent, is inflexible and vulnerable to changes in the health of the economy and the health and longevity of the population that it is attempting to support. Any system of care funding in a similar way in the UK will need to be able to respond to changing demographics and be sustainable in the long term. It may also need to be based upon a combination of different funding streams, perhaps income and wealth which would offer greater flexibility and fairness across generations.

The most significant challenge within the German system is in respect of the work force. German care workers are, by international standards, highly qualified yet their status and pay remains low. While concerted efforts have been made to address the issue, the Government have now turned their attention to international recruitment as an alternative solution: the creation of a welcoming culture for immigrant staff as care workers.

Building a robust workforce strategy will be crucial and while more money in the system will help, other strategies for attracting staff will need to be undertaken. The increased appreciation, by the public, for care workers is sadly likely to be short lived.

The German system allows an individual to receive their care benefit by a way of direct support, in cash, or a combination of the two. The availability of cash has enabled individuals to choose to be cared for by family and as a result the German system is heavily reliant on informal carers. However, one of the unforeseen consequences is the rise of the 'grey' market of workers operating largely outside of any regulations.

While offering cash benefits in the UK is likely to be welcomed, policy makers would need to ensure that regulation, without being overly burdensome, does not exacerbate existing inequalities in informal care provision. Further, it would need to be recognised that informal care is not free. These carers would be unable to undertake other work which has implications for other areas of state expenditure, the economy and society more broadly. It would also be essential that the Government work with employers to establish employment rights in respect of paid short-term leave and return-to-work policies where the individual has taken on carer responsibilities.

While Germany's social care system is almost entirely based upon their mandatory national funding mechanism, there was always the intention for it to be much wider than just funding and providing for care needs. The intention was to promote prevention, independence, and social inclusion. However social and political debates around these elements are only now happening some 25 years later.

Prevention is invariably cheaper than a cure. Any future social care strategy should look at how it can best support and work alongside other public services as well as wider society to promote wellbeing, develop approaches for prevention and assist independence within supportive communities.

3.2 Japan

Japan introduced their long-term care system in 2000, aiming to provide a comprehensive care system according to need and at the same time to create a positive vision of ageing. The system itself is part social insurance, part taxation and part co-payment model. Since its establishment Japan has successfully created a competitive care provider market and facilitated a wholesale shift in care responsibilities – although not without difficulties.

While both geographically and culturally Japan is very different from the UK and the fact that its demographic, economic and social trends made it even more pressing to establish a social care system than even the UK, it nevertheless still represents an opportunity to learn lessons about potential reforms for the UK.

- In Japan in 2015 average life expectancy was 84 compared to 81 in the UK.
- The population aged 80 or over in Japan rose sharply from 0.9% in 1970 to 8.2% in 2016 – nearly twice the proportion in the UK.
- At the same time, it is estimated Japan's overall population will decrease from 127.4 million in 2016 to 124.3 million in 2025. As a result, the number of individuals aged 65 or over per 100 people of working age will increase from 46.2% in 2015 to 54.4% in 2025. In the UK this increase is estimated to be 31% in 2015 rising to 35.9% in 2025.
- While COVID-19 has substantially contributed to UK debt, currently around 90% of GDP, the establishment of Japan's long term care insurance system was during a period of prolonged economic stagnation, which remains to this day, when debt amounted to over 200% of its GDP.
- Before the introduction of Japan's current long-term care system its social care systems suffered from high levels of variation, was considered complex and was becoming increasingly expensive. State funded provision was limited to those with very low means and high needs and as a result a significant proportion of individuals relied on informal care from their families. The similarities with where the UK is now are clear.

Japan's care model is based around long term care insurance (LTCI) which provides comprehensive care to individuals over the aged 65 (plus those with a disability aged between 40 and 65). It is a needs-based system providing care regardless of wealth or income as well as seeking to promote prevention and independence. LTCI funding comes from; general taxation (50%) and social insurance (50%). However, when accessing services users must pay a financial contribution, although there is an exemption for those on low incomes.

Where an individual is deemed to be eligible for care services, a process managed by municipalities (our equivalent of local authorities) provides a care package to meet their care needs, within the budget available. The budget can only be used to purchase services and is not available as a cash allowance. Care recipients or their families are permitted to top up their care and buy services beyond those provided under the scheme.

Lessons for the UK

Culturally the use of state funded social care had the potential for considerable social stigma and the architects knew it was essential to take the public along with them. This was achieved by:

- A combination of commencing contributions at the right age – 40, and ensuring at launch the system was generous so contributors felt they were getting value for money.
- Ensuring the system was progressive – those on higher incomes contributed at higher levels.
- Ensuring there was clarity around both benefits and contributions and that the system itself could be easily understood, and
- Engaging in negotiations and consultations with broad groups of representative and interested parties prior to establishment.

Whatever future funding model is settled upon and however it is paid for, to have any chance of a smooth implementation public acceptance will be imperative. If this is to be achieved, it is also going to require political consensus and support within the media.

Furthermore, given the perceived complexity of the current system ensuring transparency of contribution and entitlement will also be essential.

Fundamental to Japan's LTCI was the expectation that the scheme would need to adapt and evolve as the population changed and medical science advanced. In practice both the demand for services and the cost of the system increased sharply and beyond expectations. Between 2000 and 2017 the number of individuals in receipt of services increased by a multiple of approximately 3.3: with costs increasing from £21 billion in 2000 to £71 billion in 2017. Despite the financial pressure this created, and the questions raised around the sustainability of the system, delivery of social care was maintained. However, significant structural changes were made in 2005 and were essential to contain the rising expenditure. The 2005 reforms were a combination of adjusting eligibility for care, ensuring only those with genuine needs were able to access services, raising co-payments and increasing insurance premiums.

A clear lesson for the UK is to ensure it does not underestimate demand. Age UK in 2017 estimated that 1.2 million people had needs that were currently not being met, with nearly 700,000 of them receiving no help at all. Having an accurate understanding of current and future demand is essential to design a sustainable system. It is also clear that any system needs to be able to adapt to changing pressures. Similarly having appropriate levers to manage demand and having a nationally determined eligibility criteria is likely to be similarly crucial for the UK.

The Japanese LTCI system was designed at outset to create a market for care provision. By the same token, by controlling what providers are paid for units of care, the Government were able to both shape the type of provision and control overall expenditure. However, this level of control created tensions: between what municipalities are prepared to pay and what service users required. In addition, a tight control over costs meant social care providers made little profit which impacted the sustainability of these businesses and the attractiveness of the market for new/alternative providers.

In the UK there is already considerable pressure on local authority budgets with the result that social care providers are often unable to provide a sustainable service. Furthermore, pressure on funding what is largely a private sector residential care market has undoubtedly contributed to a significant number of business failures as well as a lack of new providers entering the market. This may be due to the fees paid by local authorities often being lower than the actual cost of providing care and although providers often cross subsidise private provision against local authority funded provision this is inequitable and has implications for the level of care in areas with lower numbers of self-funders. While implementing a national fee schedule for care provision in the UK would offer greater transparency, a level of certainty for care providers as well as a method of controlling costs and ensuring providers compete on the basis of quality of service rather than price comes with disadvantages. Namely the opportunity for care providers to make profit and the sustainability of the private sector which is crucial in the UK.

The greatest challenge facing the LTCI system in Japan is the care sector work force. An ageing population combined with a shrinking working age population is creating problems across all sectors but is particularly acute within the care sector. Limiting care providers ability to make profit has had a knock-on effect on wages

which now lags significantly behind other service industries and as a result Japan is facing a shortage of care workers which is estimated will be around 300,000 within the next 10 years. A problem exacerbated by the Japanese immigration policy.

There are similar work force pressures in the UK: low wages, low work status, high vacancy rates and high levels of turnover. The significant difference from the UK to Japan is the large proportion of overseas workers, and on this basis, there could be an argument for dispensation for the migration of care workers.

As in the UK, Japan's health service operates separately to their long-term care service with different funding and delivery mechanisms. Unlike the UK however, this division appears to be less of a concern and causes fewer problems: there appears to be two reasons for this. First, the Japanese system is geared much more around maintaining the individual's independence and removing the tension between services by having all those over 65 catered for within the long-term care system. Secondly, placing a care manager who oversees every aspect of an individual's care is at the heart of the system.

In the UK, despite the existence of care managers, the complexity of the social care system means the majority of individuals feel they are unable to navigate the current system. There is no question that in the UK there remains tensions between hospitals and the social care sector which must be addressed. However self-funders, who are commissioners of their own care, as well as those reliant on the State, require clarity around the eligibility and availability of services and support across both health and social care regardless of needs or financial circumstances.

While we believe the UK can learn a huge amount from the systems and experiences of Germany, Japan and other countries, it will be obvious to all that a social care system in England needs to suit our own social and cultural trends as well as financial capabilities. We could not, and should not, adopt either a German or Japanese system, but we can use many of the principles and experiences to frame a care system that is right for us.

4. Moving Forward

There can be little doubt that adult social care, putting aside COVID-19 which is a transient issue, is the most pressing domestic matter currently facing the Government. This paper has attempted to set out the myriad of issues any Government would face in finding the solution. A solution that all too often has been pre-occupied with funding. While funding, wherever it comes from, is a good start any solution must also:

- reduce the cost and increase the quality of care: make the social care system fit for purpose,
- address the issues of intergenerational inequalities, ensuring the younger generation do not pay for those in need now while also meeting the cost of their own care needs,
- increase supply of reasonably priced care options in both domestic and residential settings,
- ensure cross party consensus, include a programme of public awareness and media consultation,
- any new system should promote prevention, independence, and social inclusion. This will invariably be cheaper as well as better for individual's mental health and general well-being,
- accept that any solution will require a coherent public and private sector partnership, and
- accept the way forward will, by necessity, be multi-faceted and require the involvement and a degree of co-ordination from all stakeholders including the public, the beneficiaries of social care (both now and in the future) all political parties, local authorities, care providers, carers and the financial services industry.

Finding the right way forward will not be easy: if it was, previous Governments would have addressed the issue before now. We believe we are a key stakeholder and can play an important role in the future social care system. As a Wealth Manager our expertise is finance and the provision of regulated advice. As a result, although we have not limited our suggestions on a way forward for social care to these areas, they do represent the dominant factors within our recommendations.

4.1 Delivery

1. We believe, as set out by Damian Green in his Centre for Policy Studies paper entitled "Fixing the Care Crisis", the Government should look to the pension system as a model for social care. This would help ensure entitlement for everyone to a minimum level of care irrespective of means. This level of support would be much like the state pension in providing a base level of income. In our view, this should:

- provide the basis to a solution capable of achieving cross party consensus
- provide the assurance of a minimum level of a basic care, irrespective of financial means
- provide a base from which individuals, from personal means, can top up the level of care and support they need and/or require, and
- provide a base from which the financial services industry can build and design a variety of products for current and future generations to plan to be able to meet their own care needs.

2. As Damian Green outlined, just as the basic state pension has increased taking many pensioners out of poverty, hopefully too this universal care entitlement would also increase over time offering better and enhanced levels of care.

3. Funding for this universal care entitlement should come from central Government with assessment of needs and delivery of care remaining with local authorities.

4. Provide a small amount of additional ring-fenced funds to ensure local authorities; either provide guidance to enable individuals to navigate the social care system or signpost individuals to organisations who can, and signpost individuals to appropriately experienced regulated advisors for financial advice. We would suggest members of the Society of Later Life Advisors.

5. Permit the running of residential and nursing homes to be qualifying trades for the purposes of Social Investment Tax Relief (SITR), Seed Enterprise Investment Schemes (SEIS) and Enterprise Investment Schemes (EIS). This will, via this form of state aid, encourage private investment into the social care system to increase capacity and options for care provision. Use of SITR, SEIS and EIS could be subject to criteria including the need to offer both private and public care and for care workers to be paid a minimum of the living wage or a fixed percentage above.

6. A sustainable workforce will be critical. This is likely to require looking at pay, qualification and potentially a sympathetic immigration policy.

4.2 Clarity

1. There needs to be a broad co-ordinated programme of public awareness. While such a programme can only be carried out once the Government have decided how they wish to move forward with social care, increasing public awareness is also a fundamental part of the process. Unless people understand that social care is not part of the NHS and that their social needs, irrespective of the severity and their ability to personally contribute, will not automatically and fully be provided by the state, they cannot begin to plan for themselves. Whatever social care looks like moving forward an element, and for some a significant element, will be down to personal responsibility. A failure to make people aware so they can prepare may ultimately cause more long- term problems than the issues we currently face.

2. This, and the majority of the papers on this subject that have gone before it have requested or demanded a great deal from Government. Very few, even those with the ability to do so, have offered tangible support. It is our view that this is a societal problem and while the Government have a significant role to play it cannot be expected to solve the issue on their own. As the largest financial advisor group in the UK we not only have a responsibility to take an interest in societal issues where we have relevant expertise but we are prepared to take an active role. We are prepared to work with Government, with Media who also have a significant role to play, and take an active participation in raising public awareness. Furthermore, as one of the largest distributors of financial products we have the ability to influence the design, launch and distribution of appropriate products and services that can go towards addressing much of the funding issues that lay at the heart of the problem.

3. There needs to be clearer, more robust regulation in respect of all support services relating to social care. Residential and Nursing care homes are regulated by the Care Quality Commission (CQC) as are providers offering personal care in a home setting. However, regulation should extend to any organisation providing support in social care. Whether this relates to support and advice in obtaining care, care navigators or any organisation supporting this community. The FCA also needs to tighten its regulation in respect of financial advice for individuals entering care. In a similar vein to the work they have done in respect of vulnerable clients all financial firms operating in this sector should have a demonstrable strategy for how advisors will provide financial advice for those in care, including how these firms ensure advisors are sufficiently qualified and demonstrably able to provide high quality holistic advice.

4. By necessity, a new social care strategy will predominantly deal with the complexity of the current system, delivery of care and funding for those at, or soon to be at, the point of need. However, if we are to avoid having exactly the same problem in 10, 15, 20 years-time any strategy must also look at future generations.

4.3 Funding

It must be right that the very minimum ambition is to ensure individuals' basic care needs are met at the point of need, as with the NHS. The very existence of the State pension system is there to cover basic needs with the majority of individuals aware of the requirement to make additional financial provision: to take personal responsibility for their income in retirement. By aligning the state pension system with a care system that provides some form of basic support we can provide for those with the greatest needs and the least ability to pay and at the same time encourage people to provide for their own futures, not just in retirement, but for those who ultimately do have some form of care need.

It is our view the only way to secure a social care system over the long term is through a combination of increased Government spending, the funding of which is fair and transparent, and an increase in the level of private funding. As a result, we have broken down our recommendations on funding into Government funding for some form of universal care entitlement and private funding.

4.3.1 Funding the 'Pension Model'

In order to raise the sums required in the medium to long term we will need to introduce a system that ensures a contribution from a broad cross section of society (point 1). At the same time, we need to introduce funds in the short term to meet the requirement of those currently in need. At a time when public funds are stretched due to COVID-19 we believe this can only be achieved through savings in public expenditure and that these should be achieved primarily from those most likely to benefit (points 2 – 6).

1. It is vital to raise funds in the medium to long term, in a manner that is fair and transparent, that gets a contribution from all, is progressive, capable of being understood by the public and easy to collect. Income tax is the obvious candidate. Accepting that an increase in income tax may be difficult, an alternative could be to use the income tax system to collect a new social care tax (mandatory social insurance). This could be age dependent to ensure intergenerational fairness.

2. The triple lock should be re-examined. Between April 2010 and April 2016, the value of the state pension increased by 22.2% compared to growth in earnings of 7.6% and growth in prices of 12.3%. Ultimately during this period Pensioners saw their incomes rise at almost double the pace of the average worker. Earnings are forecast to bounce back strongly in the coming year - 2021. As a result, the OBR is now estimating that in 2024-25 alone state pension spending will be £3.2 billion more than it would be if indexed to CPI in this period.

3. Currently those born after March 1961 now need to wait until they are 67 to qualify for a state pension and those born after March 1977 at age 68. We believe the Government should reconsider the report compiled by CBI Boss John Cridland which the Government commissioned, recommending that the state pension age rises to 69 between 2037 & 2039 compared to 2048 under the current plans and age 70 by as early as 2057 effecting anyone born before 1987.

4. Further ways of reducing the pensions bill could also include means testing the basic state pension or to tax pensioners based on income tax thresholds designed specifically for individuals over the pension age. Proposals that were previously made by the Deputy Director of Employment, Labour and Social Affairs with the OECD. This would obtain a contribution for those most likely to benefit from a new care system and recognise that the over 65's have the highest disposable incomes of all working people yet fall under a tax system of income tax thresholds designed for working households.

5. Remove the exemption from National Insurance for those who continue working beyond state retirement age. There is estimated to be 1.5m individuals in employment past State pension age and 500,000 self-employed with the resultant loss to the Treasury estimated in 2020/21 to amount to £1 billion[14].

6. The winter fuel payment is currently non-means tested and payable at £200 per eligible household between 65 & 80 and £300 where households contain someone over the age of 80. This could either be means tested or taxed.

4.3.2 Private Sector Funding

Getting private funding into the social care system is essential. Further, such funding needs to look at the short, medium, and long-term requirements of both potential recipients of care and the care system itself. The following recommendations are not in priority order, but from short to long-term funding options.

7. Given the vast levels of wealth held by the over 65's, tied up in their homes, property has a vital role to play, as it is currently doing, via sales to fund residential and nursing care needs, or downsizing and equity release for those requiring care or support in their own homes. Most older people have the vast bulk of their savings tied up in this illiquid asset and while the use of property for care polarises views, 51% of home owners age 45 and above see this as part of their later life plans and 37% of people over the age of 65 see property as part of their plans to pay for care if needed[15].

8. Property has the capacity to inject significant funds into the care sector and arguably stands almost alone in its ability to do so in the short term. The industry itself recognises this with its own paper, February 2021 'Solving the Social Care Funding Crisis': Equity Release Council. However, with increasing numbers of individuals wanting to receive care in their own home, new equity release products need to be developed with increased flexibility to cater for changing requirements and specifically individuals moving from care in their own homes to care in residential or nursing homes, where equity release currently forces a sale of the property.

9. For the medium-term, investments and saving vehicles have a role to play. Recommending the establishment of some form of 'Care ISA' may appear self-serving on the basis that SJP are the largest ISA manager in the UK. In practice, the ISA regime is already complex, plus we do not believe dedicated care investment products are needed. Individuals should invest or save in a way that is best suited to their abilities and lifestyle. What is required is; an appreciation of the need to prepare, a capability to save and an appreciation of how such savings and investments fit with their general financial position. In other words, sound financial advice.

10. The one area of savings that would benefit from specific attention is pensions. With minimal changes in legislation pension funds could be permitted to be used to pay for care (direct to the care provider) with a tax exemption similar to that available for Immediate Needs Annuities. This should encourage greater savings, provide individuals with greater pension wealth, and would align with the concept of using the state pension model for a universal care entitlement.

11. Finally, although the Dilnot proposals were ultimately far too complex and for us did not meet the criteria of fairness and transparency, Andrew Dilnot himself observed that the cost of care represented "the last big un-insured risk". He identified that the private insurance market for care costs did not exist for a number of reasons:

- Most people assumed that the state would be there in their hour of need. *Hence the need for public education.*
- That it is hard for product providers to design products when it is unclear what the state will provide. *Hence the importance of the state setting out what it will, and will not provide, and*
- Insurers will be wary of exposing themselves to extreme costs. *In practice that is the nature of insurance and in reality, care insurance does not need to operate on an open-ended commitment to be of value.*

12. As long ago as 2012 the University of Kent produced a paper[16], comparing the markets for Long-Term care insurance across major developed countries and concluded that 'the experience of other countries suggests that private insurance for long-term care could potentially have a bigger role to play in financing of long-term care'. It is our belief that; with a combination of increased public awareness and providers understanding the role of the state in Long-Term care going forward, a strong Long-Term care private insurance market can be developed. As significant distributors of financial products we will look to work with product providers to design products and encourage their development.

The injection of additional funds into social care from the private sector is vital as part of any social care strategy. As is the need for a combination of financial options in order to suit the personal circumstances and requirements of all generations. Ultimately long-term care planning needs to be a normal accepted part of an individual's financial plans. In much the same way as, protection, retirement planning, savings, investments and estate planning are now.

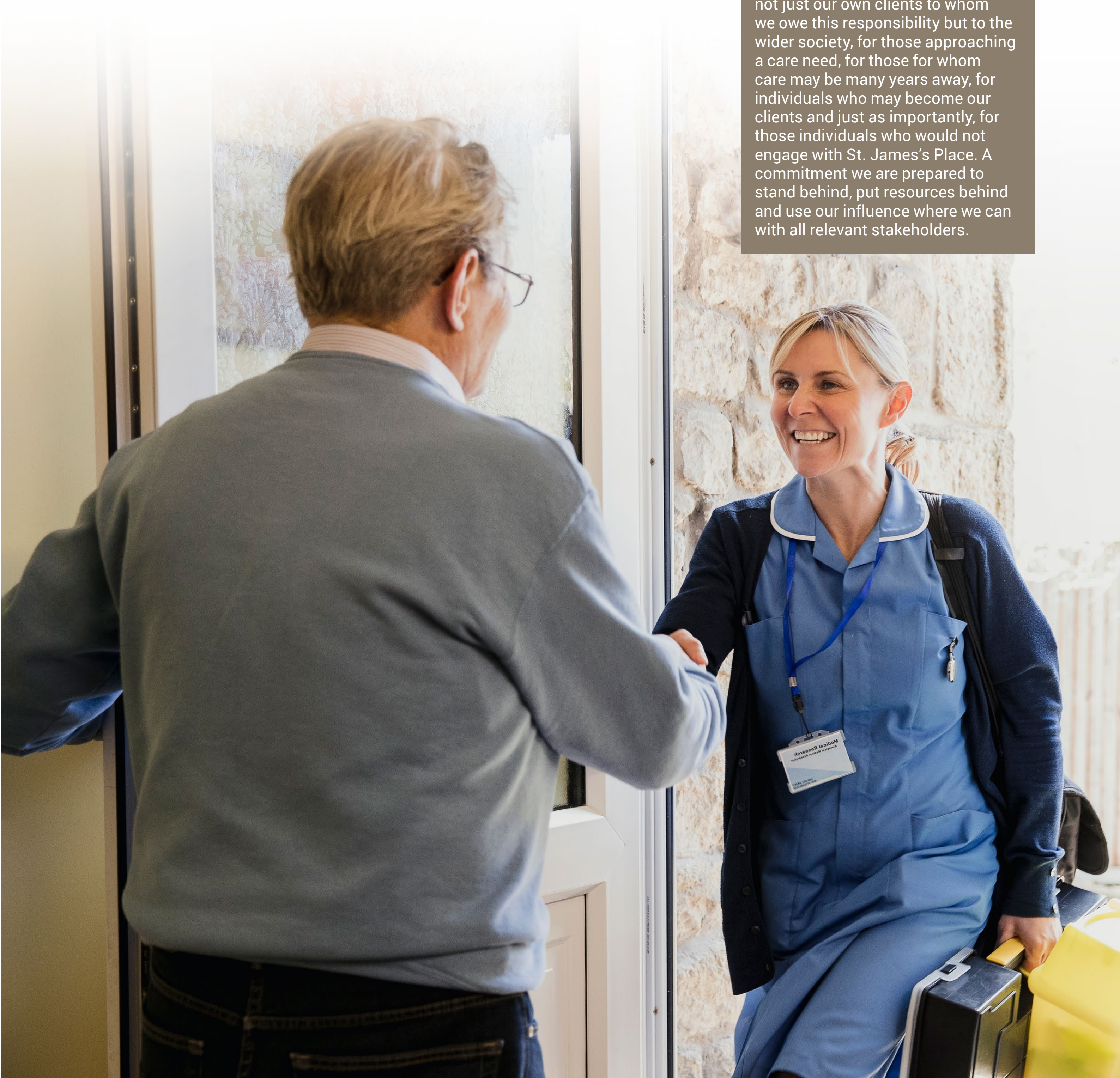
14 Institute for Public Policy Research

15 Beyond Bricks & Mortor: Equity Release Council, June 2019

16 Barriers to end opportunities for private Long-Term Care insurance in England: What Can We Learn From Other Countries?,

Conclusion

This paper represents the St. James's Place Wealth Management position on social care. It does not proport to address all of the issues particularly in respect of changes to infrastructure or delivery but instead has broadly concentrated on areas of our expertise, that of funding. Our intention was that this would contribute to the debate, but more importantly, to finding a way forward. Contributing to finding a solution and being part of the debate is something we see as our social responsibility. A commitment to not just our own clients to whom we owe this responsibility but to the wider society, for those approaching a care need, for those for whom care may be many years away, for individuals who may become our clients and just as importantly, for those individuals who would not engage with St. James's Place. A commitment we are prepared to stand behind, put resources behind and use our influence where we can with all relevant stakeholders.



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