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Here's the latest news from Britain's biggest, campaigning pensioners' organisation, the National Pensioners Convention (NPC)

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Ten Minute Briefing

NPC NATIONAL PENSIONERS CONVENTION

May 2017

These new, ten minute briefings from the NPC aim to give you a quick analysis of the current debates surrounding older people in the UK.

Social Care Funding Options

Introduction

In the Budget statement on 8 March, the Chancellor Philip Hammond announced that the government would shortly be publishing a Green Paper which would outline the options for the long-term funding of social care. In making his announcement, he ruled out the possibility of a levy on estates, and is said to personally favour the introduction of some kind of personal saving scheme, such as a Care ISA or care vouchers. Since then, the election has been called and we are waiting for the main political parties to spell out how they intend to tackle the issue of long-term funding for the service. In the meantime, most of the main options, including the NPC's proposal for tax-funded system are considered in this briefing paper.

National Insurance Options

- Extending National Insurance to pensioners so that those in work above state pension age would pay 6% employees' National Insurance Contributions (Barker Commission). This would raise around £0.9bn a year.
- Increase from 2% to 3% the additional rate of National Insurance for those above the upper earnings limit (Barker Commission)
- An additional 1% point employees' National Insurance contribution for those aged over 40 (Barker Commission). This is similar to the Japanese scheme under which all those over 40 pay into an elderly care insurance system according to incomes and where they live. Over 65s would also see their premiums deducted from their pensions.
- A German-style national care fund, into which employers and workers pay. This could be achieved through a rise in NI. This has been put forward by the Local Communities and Government Committee in their latest report. However, they still

consider that social care would be means-tested and not free at the point of delivery.
- Liberal Democrat, Norman Lamb has also been calling for a new ring-fenced tax which would involve a one pence increase in either income tax or National Insurance, and is similar to this German scheme. This idea has now been endorsed by a panel of health experts set up by the Lib Dems - including ex-GPs chief Clare Gerada and NHS chief exec Sir David Nicholson – who have called for a hypothecated health and social care tax and an OBR-style independent body to assess what cash is needed for the NHS and social care. This is also something supported by Labour’s John McDonnell.
- In general terms, increasing National Insurance by 1% would raise an extra £5.6bn from employers and £4.3bn from employees

Analysis

The attraction of using National Insurance, in some form, is that it can include a contribution from both the employee and employer. A 1% increase also raises around £9.5bn every year – enough to provide all existing paid for social care, free at the point of use. A proportion of National Insurance (2%) is already ring-fenced for the NHS and in a way, increasing it could be seen as a simple extension of this practice. However, the recent u-turn the government has been forced to make over NI and the self-employed might make ministers reluctant to go down this route. The issue of whether or not pensioners should pay NI would also need to be addressed, and if so, at what level and rate would this be done? If NI is used, it would be difficult to argue that wealthier older people should not pay at all – especially given the current debate surrounding intergenerational fairness.

Personal Savings Options

A disability-linked annuity that provides benefit payments towards the cost of both domiciliary and residential nursing care, paid for through:

- A one-off upfront lump sum premium
- A regular monthly or annual premium which ceases if and when the benefits are triggered
- A dedicated Care ISA as promoted by Baroness Ros Altmann. Employers could also offer workplace savings plans specifically for care. This could be part of a flexible benefits package, with an employer contribution to help workers of all ages and income levels save up for care costs.
- Allowing some pension fund withdrawal to be tax free if it is used to pay for care, would also encourage more people to retain some funds in the tax-free pension for longer, just in case it is needed. If they don’t spend it on care, it will pass free of inheritance tax to the next generation.

Analysis

Health secretary, Jeremy Hunt is on record as saying the reason why the cap on care costs contained in the 2014 Care Act was delayed was because the private insurance *costs contained in the 2014 Care Act was delayed was because the private insurance industry was unable or unwilling to start providing some form of long-term care insurance. Despite government attempts, the industry recognises that very few people will take-up a voluntary scheme, and ideas such as a Care ISA will simply not attract enough people to make them viable. Many will also be reluctant to take out policies because they may either be unable to afford them, or simply feel they are unlikely to need care in the future anyway. These options are also far too late for those who are already in the care system. Fundamentally, these options add very little to the existing system.*

Elderly Care Vouchers

Media reports since November 2016 have suggested that individuals could be offered "elderly care vouchers" based on the existing childcare voucher scheme. Under this arrangement, employers would provide care vouchers through a salary sacrifice scheme. This means the individual agrees to reduce their salary by a certain value, and in return receives care vouchers to the same value that could then be used to pay for care. They would pay no tax or National Insurance on these vouchers. It can only be assumed that this would apply to people who have yet to reach pension age or are already in receipt of care, and like childcare vouchers would be a purely voluntary arrangement. It is unclear whether the scheme would allow you to obtain vouchers to pay for your ageing parents' care and/or your own care should you need it in the future.

Analysis

Like the personal savings options, these are voluntary arrangements which place the funding burden solely on the individual. It would not add any additional money into the social care sector, will probably be irrelevant to those already in the care system and is unlikely to offer a universal solution to the funding crisis.

Levy on estates

- A payment after death or entering long-term residential care using the value of the home upon sale based on a percentage of the housing equity. Labour's Andy Burnham has suggested a levy of up to 15% on estates when an individual dies. This would effectively cap what people would pay towards social care, at the end of their lives. However, the Chancellor has already ruled this option out.

Analysis

Given that the Chancellor has already ruled out this option, it is unlikely to make it into the government's final proposals. One of the Conservatives' main objections is likely to be because it seems like an extension of inheritance tax – which is an area they have been trying to make more relaxed. It is also unclear exactly how much money this option would raise, and how quickly a fund could be set up to pay for those who need care now.

A Dilnot Mark II

Based on the original Dilnot Commission proposals, but updated for inflation.

- A cap on the costs of care, after which time the state would pay. The Care Act 2014 set this figure to £72,000, but has since been delayed until 2020.
- Raising the threshold for getting means-tested support from £23,250 to £118,000 (2014 figure).
- Those in nursing/residential care should contribute towards their general living costs, such as food and accommodation. The Care Act 2014 set this figure at £12,000 a year.

Analysis
At this stage, it is impossible to know whether or not the provisions for a care cap contained in the Care Act 2014 will actually be introduced in 2020, or whether or not a variation of this option will feature in the proposed Green Paper. The original proposal did very little to alter the current structure of the social care system – with its only real advantage being a cap on care fees after the individual had been paying for around two years. Its impact was limited largely because it affected just 1 in 8 people and did very little to remove means-testing. None of Dilnot's proposals were really about raising more money – just how the system was structured.

He has also recently described the social care system as "the most pernicious means-test in the whole of the British welfare state" and called for a new tax to fund adult social care for everyone who needs it. Dilnot also rejected claims that Britain can't afford a "decent care system", but stressed the need for older people to pay towards the cost of care – maybe through losing the state pension triple lock or benefits such as the winter fuel allowance. However, the latter would not raise anywhere near sufficient funds to improve the current system.

Taxation

- An increase in Income Tax in order to pay for free at the point of need, social care. An increase in Income Tax of 1% would raise £5.4bn in 2020/21 at the basic rate and £1.7bn at the higher rate.
- To raise this amount of money would be equivalent of adding 0.9p in income tax. To widen existing social care provision to include those 1.2m older people that have care needs, but are currently not receiving any support, would obviously cost more.

Analysis
As with almost all other public services, Income Tax is the main vehicle used for collecting funds. Older people that currently pay tax would also be included and so there could not be any argument about younger generations having to foot all the cost. On its own, it would just about cover existing paid for care, but without some kind of ring-fencing, the public is unlikely to simply want to pay more tax. There may also be a case for combining various forms of taxation (eg. Income Tax and NI) in order to fund social care in the same way as we currently do for the NHS.

Diverting other spending

- Over the next three years, Corporation Tax is due to be reduced from 20 to 17%. The cost of this phased reduction is £7.5bn.
- Pension Tax Relief is currently paid at two rates, 20% and 40% with two thirds of £34bn every year going to higher rate tax payers. Restricting pension tax relief at 20% for everyone would raise an annual £11.3bn.

Analysis
The latest BMG Research showed more than three-quarters of people wanted plans to slash the business tax scrapped; with most believing the money should be passed to the NHS. Of the 77% that supported this view, 69% said they would vote Conservative if there were an election tomorrow. Pension tax relief has long been a source of unfairness, with the majority of support going to the highest earners. This is long overdue for reform, and the argument is whether or not this is the way to fund part or all of the social care costs.

Conclusion
There is now widespread agreement that there needs to be a long-term solution to the issue of social care funding. However, this has been tried many times before, with very little success. The announcement of a new Green Paper gives the opportunity for that wider debate with the public, but in the short-term the sector still needs additional funding over and above what the Chancellor promised in the Budget.

We also have to be aware of the calls by the Local Communities and Government Committee to fund improvements in social care by using other expenditure currently available to pensioners. In their recent report they state:

"There then needs to be an open debate about where the money to fund social care should come from. The review must consider taking funding from a wide range of sources, including:

(1) *Hypothecating national taxation (income tax, National Insurance Contributions, asset taxes, inheritance tax) and, in particular, the feasibility of introducing compulsory social insurance on the German or Japanese model.*
(2) *All age-related expenditure (the state pension, including the triple lock pension guarantee, winter fuel allowance, concessionary bus fares, free prescriptions and, indirectly, TV licences)."*

The NPC's longstanding commitment to a tax-funded, public system of social care is certainly now part of the public debate and there is no longer the possibility of simply doing nothing. Our job is to promote our alternative at every opportunity.

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