Ros Altmann: Good pension not always enough for a good later life

By Ros Altmann | 11th September 2018 8:53 am

With the first baby-boomers now reaching their 70s, what will they need for their future?

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Approximately one in four older people (possibly one per couple) will need money in later life to pay for care. Final salary-type pensions or annuities are not designed for that.

The huge baby-boomer demographic means the number of over-85s is set to triple in coming years. Yet our care system is at breaking point even now.

Unlike pensions or healthcare, social care is not provided by the National Insurance system.

It is the responsibility of local authorities, and squeezed council budgets have meant significant cutbacks in the area.

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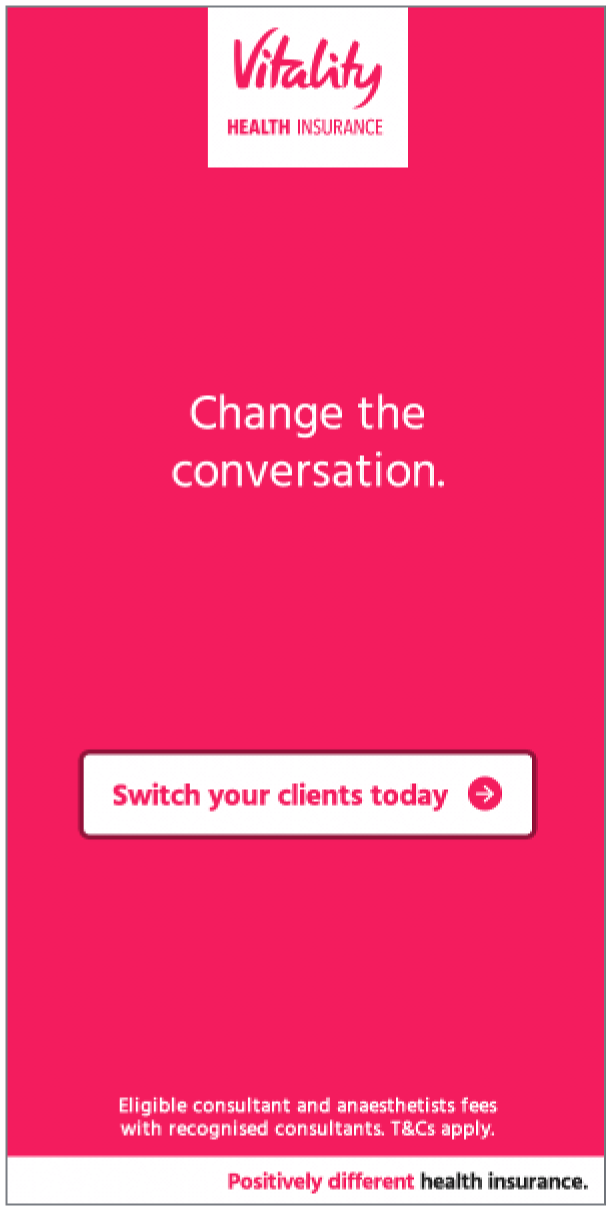

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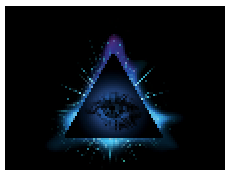
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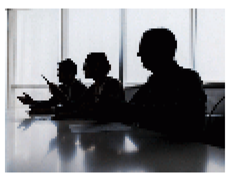
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The strict means test forces people to use almost all their assets, including their home, before receiving funding and this help is further rationed so only those with substantial needs qualify. Unfortunately, most families have no idea the NHS will not look after them or their loved ones if they develop certain illnesses.

Policymakers have totally failed to plan ahead for care funding. There is no money set aside and almost no private savings products or pre-funded insurance.

Nevertheless, eight million over-60s have £300bn saved in Isas – usually with no specific purpose. Even a small part of this could play a role in helping the crisis.

So, what about making people think about keeping some of that money for care? Introducing Care Isas could help people recognise the need to put money aside and encourage those already in their 60s, who have been responsible enough to save so much in Isas already, to keep funds in case they need care.

At little cost to the Exchequer, a specific amount could even be permitted to pass on free of inheritance tax – perhaps £50,000 or £100,000 per person.

As long as that fund stays earmarked for care for the next generation, no tax would be payable. If it were withdrawn for any other purpose, tax would be payable. Of course, this is only part of any solution to such a huge crisis; a whole range of reforms will be needed.

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Other potential measures could include allowing tax-free pension withdrawals or state-backed equity release.

Insurance products might play a role but strict qualifying criteria could mean people need savings to fund care at an earlier stage than a payout.

The government spends £40bn a year on incentives for people to top up their pensions but nothing to help them plan in advance for care.

Ideally, it should help people to pool risk, with everybody paying in something for a basic level of state care if needed, as is the case with

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That said, any NI care system would be strictly limited, so advisers would still want to encourage clients to have their own private savings to give them the quality of care they choose. Indeed, advisers have an important role in this debate.

Ros Altmann is former pensions minister

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