

INSURANCE

LONG TERM CARE

OPINION

Ros Altmann: Everyone should have free basic care

Financial advisers must help clients fund their later-life care

By **Ros Altmann** | 6th August 2020 2:08 pm

Financial planning is currently fraught with risks, but there is one certainty – the vast majority of the population has no plan for paying later life care costs.

Even more worryingly, neither central nor local governments have



such plans or money set aside either, despite our ageing population.

With baby boomers entering their 70s, Office for National Statistics estimates suggest the proportion of the population over age 85 could double within 20 years.

Some financial advisers have been helping clients identify assets to meet possible costs, but most of the population are not lucky enough to have expert ongoing financial advice.

Care contributions

The pandemic has catapulted social care reform up the political agenda. The government is actively considering the issue, but reforms are expensive.

The underlying problem is the unjustifiable, artificial distinction between NHS 'healthcare' (free at the point of need) and 'social care' (which puts all the costs onto individuals needing care, plus additional cross-subsidy of council underfunding).

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How can one justify taxpayers covering all the costs for a millionaire with cancer and none of the costs for a widow with dementia? Both have a health issue and both need care.

Everyone should be entitled to free basic care at the point of need and everyone should contribute to the cost of this care entitlement, regardless of need.

Such social insurance is long overdue. National insurance provides a basic state pension in later life, but 21st century retirement resources must encompass more than pensions.

State pensions, annuities or defined benefit schemes only pay regular income, with no adjustment for care costs.

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The government should require everyone to pay ‘care contributions’ towards free basic elderly care – perhaps a 1 per cent tax earmarked for care spending – so all ages contribute to this new arrangement collectively.

Then, as with state pensions, new incentives should encourage private savings to supplement basic state care, giving freedom to have care sooner than state provision (councils won’t pay before someone has severe or critical needs), or for longer than just 15 minute care visits, or in their preferred care home.

Currently, taxpayers fund over £40bn a year to incentivise private pensions to supplement basic state benefits but nothing for care.

Such reforms would foster integration of health and care services, improve social care funding and standards while clearly signalling that families should plan for later life care, not just pensions and galvanise the industry to adapt or develop care products.

Solutions

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Here are some examples. Defined contribution pension holders could earmark some of their existing funds for care needs – maybe tax-free lump sums, or a separate portion of their fund kept for their 80s for care if needed – while unused funds are inherited tax-free. The government could allow tax-free withdrawals for care costs as added incentives.

The government could encourage earmarking some Isa savings as a care Isa fund, with an added incentive making care Isas IHT-free if unused, as long as they form a care Isa fund for those inheriting.

The government could establish a national equity release scheme, building on existing (but rarely-used) council deferred payment plans, to meet additional care fees from property.

Whole of life insurance, which pays out early if someone needs care, could be encouraged by exempting from insurance premium tax.

Introducing a £100,000 lifetime cap after which the government covers additional costs is unlikely to enable insurers to develop good value products to insure up to this level, due to inevitably high-risk margins and the currently small minority who pay such costs.

However, encouraging a couple to allocate this amount – perhaps in Isas or pensions – may be more realistic.

Ultimately, financial advisers will need to help people identify assets to help fund their care. The sooner there is a clearer, fairer system and new incentives to encourage such provision, the better.

Ros Altmann is a former pensions minister

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