Comparing options for Older People's Long-term Care Funding

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Why is LTC funding reform needed in E&W?

- Unmet need.
- Reliance on ‘excessive’ informal care provision at household level.
- Demographic pressures on public funding.
- Exposure of individuals and families to ‘catastrophic’ accumulated costs for care purchased ‘out-of-pocket’.

Outline of reform

- Reform is required that will:
  - Drive significantly more money into the system.
  - Direct this funding through risk-pooling mechanisms:
    - Taxation
    - Public/privately organised insurance schemes.
  - Thereby - increase volume of formal care (+ assistive technology etc.) in the system.

How to evaluate different funding options?

- How effective at driving new money into the system?
- How effective at pooling risk?
  - Which risks?
  - Which population? Size of population?
- Politically feasible?
- Is it fair?

Funding options compared

- Three core approaches:
  - Taxation.
  - Social insurance funds.
  - Private sector insurance market.
- However, multiple variations/versions of each approach are possible.

Funding options compared

- Universal free personal care funded by general taxation, i.e. income tax.
  - Fiscally unsustainable given ageing of population and welfare state obligations.
    - NHS
    - State Pension.
  - Unfair to younger cohorts who would shoulder new financial burden.
    - In context of older population with significant wealth assets.

Funding options compared

- Universal free personal care funded by a new inheritance tax (ring-fenced levy) on all estates.
  - Easy to administer.
  - Politically challenging given size of levy required.
  - Ties LTC funding streams to the investment performance of the residential property market.

Funding options compared

- Pre-funded insurance from the private sector.
  - Supply-side barriers: lack of interest from industry would be problematic for creating a competitive market.
  - Multiple demand-side barriers, including:
    - Discounting of risk by individuals.
    - Low liquid savings among target group to purchase insurance.
    - Mistrust of financial services.
    - Requirement to visit financial adviser.

Funding options compared

- Immediate needs annuities
  - ‘Point-of-need’ product.
  - Pools longevity-risk among those already in need of care.
  - Demand-side barriers similar to any kind of life annuity.
    - Individuals don’t like paying a large lump-sum for uncertain return.
  - Access issues.
  - Cost of product vs. liquid wealth available.

Funding options compared

- ‘Matching contributions’/‘Partnership’ model
  - E.g. £1 of matching contribution for every £2 of private spend.
  - Extensively discussed in UK.
  - Improved mechanism for balancing responsibility between individuals and state than pure ‘carer-sighted’ needs-assessments.
  - Mechanism for rationing demand for public funding.
  - Does not bring new money into system.
  - Administratively challenging given extent of means-testing required.

So where does this leave us?

- There is no easy answer.
- Core challenges remain:
  - How to get new money into system?
  - How to increase scope of risk-pooling?
  - How to bring wealth of older population into LTC funding system, i.e. property wealth?
  - How to make it as easy possible for people to insure themselves?

The future

- Problems of fiscal cycle suggest public spending will always be uncertain.
  - Need for funding mechanisms not routed via Exchequer.
- Challenges of creating insurance/risk-pooling via private market suggest role for state-sponsored insurance scheme.
- Need to give older population flexibility of contribution mechanisms.
- Staged approach: reform in steps with different funding solutions for different cohorts.

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