

# How to fund social care?

## 15 options for funding social care

### Briefing

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# Introduction

Since the publication of the Royal Commission into funding for social care in 1999, there has been a steady stream of proposals for different financing systems. Despite a broad consensus that the current means-tested approach is flawed, none of the proposals have so far been adopted and implemented by government. At the time of writing, the much-awaited social care green paper is due for publication. It is hoped that this will form the basis of a constructive debate around the future of social care in England.

To inform the funding element of that debate, we have summarised and reviewed the various proposals that have been put forward over the last 20 years. In this summary document, we have set out the origin of each proposal and assessed their strengths and weaknesses. The intention is that this collection will serve as a useful resource for those engaged in the debate about the future of social care.

# National-level mechanisms

## General taxation

### Description

Funded from the same pot as the NHS and other public services. There would be an extra option to ring-fence some tax revenue so it could only be spent on social care.

### Proposed by

Various. For instance, the [LGA](#) have called for a rise in income tax or national insurance. It's also reported that politicians have [considered](#) ring-fencing one element of general taxation. The [Lib Dem manifesto \(2017\)](#) proposed an additional 1p on income tax ring-fenced for NHS and social care.

### Pros

- ✓ Pools risk across society and has potential to protect against catastrophic costs.
- ✓ It's simple, flexible and well understood.
- ✓ It could inject cash into the system in the short and long term.
- ✓ The fact that income tax applies to pensions ensures revenue would be raised from the older population as well as working age. This will be important as that group increases in proportion to working age population.
- ✓ National collection and redistribution offers potential to address regional disparity.
- ✓ [Evidence that people would be prepared to support this.](#)
- ✓ If the tax is ring-fenced, this offers a degree of transparency and may help to make demands for contributions more publicly and politically palatable.

### Cons

- ✗ Contributions may need to rise steeply over time to keep pace with growing need.
- ✗ If the tax is not ring-fenced, it's potentially subject to political change and different spending priorities.

- ✘ If the tax is ring-fenced, [it's inflexible if strictly hypothecated, and receipts might not keep pace with need](#).
- ✘ Depending on how it is structured, it may not tap into wealth (e.g. if only levied on income). People who are asset-rich but income-poor might shoulder less of the burden than those with higher incomes who, for example, don't own property. This could lead to concerns, particularly over intergenerational fairness.

## Contributors

All taxpayers.

## Literature

- [Social Market Foundation, 2018](#)
- [LGA Green Paper, 2018](#)
- [King's Fund and Health Foundation, 2018](#)
- [Health Foundation and RAND, 2019](#)
- [Institute for Fiscal Studies and Health Foundation, 2018](#)
- [King's Fund, 2014](#)

# National insurance increases

## Description

National insurance is deducted from earnings and is only paid by people under state pension age. Employers also pay.

## Proposed by

Ministers have been [rumoured](#) in July 2021 to favour extending National Insurance contributions by 1%, which would raise an estimated [£10 - £13](#) billion per year from employees, employers and the self-employed. The funds would first go to addressing the backlog in the NHS, so there are questions around when and how much would go to social care.

## Pros

- ✓ Has potential to pool risk across society.
- ✓ It could inject cash into the system in the short and long term.
- ✓ Contributions are already in place, so the mechanism is relatively familiar to people and simple to

administer.

- ✓ Politically more palatable than other tax increases (e.g. income tax) as national insurance is generally associated with the NHS.

## Cons

- ✗ National insurance is not hypothecated (not ring-fenced for a specific cause), which means funds can be redirected according to political priorities – media reports have hinted that this raise would be used for the NHS backlog and then social care reform. This means it lacks transparency and may mean it is difficult to build public support for the increases.
- ✗ National insurance is [levied on earnings only so does not tap into wider income or asset wealth](#) (e.g. savings, pensions, property, investments).
- ✗ People are required to pay in at lower levels of income than with income tax. Those with the highest incomes also pay proportionally less tax, so the burden falls on those with the lower incomes.
- ✗ National insurance is relatively opaque, with a [complex taxation schedule](#) which hides some of the inequities of the mechanism. It is not clear to what extent the public fully understand it.
- ✗ [National insurance is levied on weekly earnings](#) but in comparison to the pay period – which is a disadvantage to those on more unstable contracts. In comparison, income tax is levied annually (on annual income).
- ✗ People over the state pension age don't make contributions to national insurance – unlike income tax. This raises questions of inter-generational fairness.

## Contributors

All employees (including most self-employed) under the state pension age.

## Literature

- [Institute for Fiscal Studies, 2021](#)
- [Institute for Fiscal Studies](#) paper on merging national insurance with income tax, 2021
- [Resolution Foundation, 2021](#)
- [IPPR, 2018](#)

# National insurance extensions (at full or reduced rate) beyond state pension age

## Description

Some have proposed extending national insurance to over 65s at a reduced rate alongside other mechanisms (e.g. Barker Commission suggested it in addition to Dilnot proposals; or could be combined with a means test on pensioner benefits such as winter fuel).

## Proposed by

Various. Panel convened by Liberal Democrat [interim report](#) (2017); also by the [Barker Commission](#) (2014) and the [LGA](#) (2018).

## Pros

- ✓ As a national tax, it pools risk across society.
- ✓ Potential to raise extra funds for social care.
- ✓ Potential to address intergenerational fairness by requiring older population to make contributions post-retirement.
- ✓ Mechanisms already in place.

## Cons

- ✗ Some of those [working beyond 65](#) (and therefore potentially have relatively high income) might be doing so because of low asset wealth or low pension – extending national insurance to them may make them poorer.
- ✗ Revenue raised would depend on rate of contributions, but modelling by the [Resolution Foundation](#) suggests receipts from national insurance extension alone could be modest.
- ✗ Contribution rates likely to need to rise to keep pace with need for care.

## Contributors

All work income earners choosing to work beyond retirement age (where currently they are exempt). Potential to also place additional levy on [some pension income](#).

## Literature

- [Social Market Foundation, 2018](#)
- [LGA Green Paper, 2018](#)
- [Resolution Foundation, 2018](#)
- [King's Fund, 2014](#)



# Social insurance fund (mandatory)

## Description

Individuals pay into a fund that is ring-fenced for social care. This is usually deducted automatically from wages or pensions and managed by an independent or arm's-length body. Employers usually also make contributions for those in work.

## Proposed by

Used by many other countries (e.g. Germany, Netherlands and [Japan for part of their system](#)).

## Pros

- ✓ Pools risk across society.
- ✓ Compulsory so guaranteed to raise money immediately and in the long term.
- ✓ Levied as income, so higher earners contribute more.
- ✓ Offers transparency around where contributions are going.
- ✓ De-politicised – usually managed by arm's-length insurer (e.g. sickness funds in Germany).
- ✓ Potential to require pensioners to continue to pay in, which would help to address intergenerational fairness and increase revenue.

## Cons

- ✗ Pure social insurance systems are reliant on a strong economy – if people are out of work, revenue drops.
- ✗ No recent precedent of social insurance in England, so might be difficult to persuade public. There would also be a need to create the infrastructure in place in terms of arm's-length insurance bodies.
- ✗ Low scope for flexibility in care offer: if there are no mechanisms for topping up the fund from taxation, the revenue raised may not meet care need without premium rises.
- ✗ If contributions are shared with employers, there might be opposition from employers who may fear the impact on their businesses.

## Contributors

Potential for wide number of contributors. For example in Germany, all earners of working age and employers, plus the retired (from pensions income). In Japan, only over 40s contribute a percentage of their income. People continue to contribute post-retirement (from pensions income).

## Literature

- [Nuffield Trust, 2018](#)
- [Health Foundation and King's Fund, 2018](#)
- [Social Market Foundation, 2004](#)
- [House of Commons Parliamentary Review, 2018](#)

# Opt-out auto-enrolment schemes

## Opt-out voluntary insurance – based on personal insurance model

### Description

Similar to private insurance schemes, except individuals would be automatically enrolled. Deductions from wages would be collated into a pooled fund. Individuals have the option to opt out. Upon meeting eligibility criteria, the insurance would pay out compensation to cover some, or all, of the costs of care for those enrolled.

### Proposed by

Secretary of State for Health ([as reported in the media in 2018](#) and [updated in 2019](#)) proposed scheme based on ‘auto enrolment’. It is not clear if the proposal is for personal insurance or a pension-style fund.

### Pros

- ✓ Pools risk (but only among those who have not chosen to opt out).
- ✓ Raises extra money for social care.
- ✓ Easy to understand: similar to other insurance schemes in its basic mechanics (e.g. home insurance).
- ✓ Depending on numbers remaining in the scheme and premiums, there would be potential to protect those who pay in against catastrophic costs.

### Cons

- ✗ If too many people choose to opt out, scheme may only be able to offer limited coverage. In this case, it would be unlikely to protect against catastrophic costs.

- ✘ Due to opt outs, it would take some time for the pool to grow sufficiently to meet high needs.
- ✘ Lower income earners (with less ability to pay premiums) may be more likely to opt out. It may prompt people to also opt out of auto-enrolment pensions.
- ✘ It only protects those who have chosen not to opt out. People who opt out would be vulnerable to high costs.
- ✘ Unless you meet eligibility for care, you would get nothing back (unlike in a [pension](#), to which this has been likened). Therefore opt-out rates may be high.
- ✘ Potential for adverse selection (only those at high risk of needing care remaining in the scheme) that would threaten sustainability.
- ✘ It would require the [insurance industry](#) to create new products – it's not clear how much appetite there is for this.

## Contributors

All income earners of working age (except those who choose to opt out). It is not clear if people would continue to contribute post-retirement. It is not clear from current proposals if employers would also pay in, as they would to a pension.

## Literature

- [King's Fund, 2018](#)
- [Financial Times, 2018a](#)
- [Financial Times, 2018b](#)
- [Pensions and Savings, 2018](#)
- [Telegraph, 2018](#)

# Opt-out pension-style fund (modelled on auto-enrolment pensions)

## Description

- An opt-out pension-style scheme would create an individual fund.
- Contributions would be automatically deducted from wages into a 'pot' that operates similarly to pensions.
- Individuals would have the option to opt out.
- It is not clear if the pot could only be spent on care and how that would be monitored.
- Also unclear is whether other features of pensions would apply (e.g. ability to cash out a lump sum; whether the 'pot' would form part of a person's estate).

## Proposed by

Secretary of State for Health, as [reported in the media in 2018](#) and [updated in 2019](#). It is not clear if the proposal is for a personal pension fund or for personal insurance (see above).

## Pros

- ✓ The idea of pensions is familiar to the public.
- ✓ Encourages people to save for care needs – raises awareness of the need to do so.
- ✓ Assuming it operates like a pension pot, individuals would be guaranteed to get something back, even if they don't need care, or could potentially transfer to next- of-kin so it may be more attractive than the insurance model ([see above](#)).

## Cons

- ✗ This does not pool risk across society.
- ✗ The size of an individual 'pot' is dependent on income, so is likely to increase inequality. Those on low incomes would be less likely to be able to save enough to cover high care costs.
- ✗ Given likely levels of contributions, eventual 'pot' likely to be modest so would not cover catastrophic costs for many people.
- ✗ It's not clear that it would inject money into the system in the short term.

- ✘ Sustainability is dependent on how much people are able to save and for how long they have a care need. Could the 'pot' run out? If so, who would pay for care?
- ✘ If it operates like a pension pot, it's not clear why people would pay into this instead of putting more into a regular pension unless there was clear additional benefit.
- ✘ It would require the [insurance industry](#) to create new products – it's not clear how much appetite there is for this.
- ✘ If the burden is too great, it may prompt people to also opt out of auto-enrolment pensions.

## Contributors

All income earners of working age (except those who opt out). It is not clear if people would continue to contribute post-retirement. It is not clear from current proposals if employers would also pay in, as they would to a pension.

## Literature

- [King's Fund, 2018](#)
- [Wanless, 2006](#)
- [Financial Times, 2018a](#)
- [Financial Times, 2018b](#)
- [Pensions and Savings, 2018](#)
- [Telegraph, 2018](#)

# Local-level mechanisms

## Local tax increases

### Description

This could take the form of the Adult Social Care Precept, which was created in 2015 to allow councils to increase council tax by a total of 6% over 2015/16-19/20. Or it could form part of a blanket council tax increase (which councils are allowed to increase up to a maximum percentage set by central government).

### Proposed by

The adult social care precept has been used in recent years by a number of councils in addition to blanket council tax rises.

The [Resolution Foundation](#) have put forward multiple proposals for a reformed council tax / property tax system.

### Pros

- ✓ Taps into property wealth with owners of higher value properties paying more.
- ✓ Potential to raise some extra money for social care.
- ✓ Mechanisms are already established for collection.
- ✓ The precept offers high transparency so people know exactly what that contribution is spent on.

### Cons

- ✗ Ability to raise income varies regionally and income is not redistributed nationally so potential to exacerbate regional disparities: [South East and London regions have more properties that fall into upper bands of taxation](#).
- ✗ In deprived areas, or areas with lower property values, ability to raise extra revenue is limited.

- ✘ Local government is restricted in terms of the percentage they can raise council tax, so it is not very flexible.
- ✘ Unlikely to be able to keep pace with growing care needs.
- ✘ Council tax potentially [represents a large share of low income earner disposable wealth](#).
- ✘ An increase in property value does not necessarily equate to an increase in household income. This is particularly an issue for people in the rental sector who pay the tax that is levied on a property they don't own.

## Contributors

All households in local areas that are not exempt from council tax.

## Literature

- [Social Market Foundation \(2018\)](#)
- [King's Fund and Health Foundation \(2018\)](#)



# Proposed amendments to the current system

## Raising the capital floor (means-test threshold)

### Description

Individuals pay care costs until their total assets have reached a 'floor'.

This is how the current system operates: a means test is applied and when a person's assets are reduced to between £14,250 and £23,250, they receive some state funding.

Those with assets below £14,250 receive full funding (note: definition of assets currently differs between domiciliary and residential care with housing wealth exempt from domiciliary care means test).

Proposals are to raise the level of the floor. Often talked about in conjunction with a [cap on lifetime costs](#).

### Proposed by

Several proposed changes to the current system include:

- [Dilnot](#) proposed raising the floor to £100,000 (for people in care home; those with assets between £14,250 and £100,000 will pay a contribution towards care).
- Unchanged for home care and value of home excluded.
- [Conservative manifesto](#) (2017) proposed raising floor to £100,000.
- Manifesto also proposed including housing wealth in means test for domiciliary care.
- [Mayhew](#) suggests a tiered means test in which the level of state support is a function of the number of years an individual can afford to pay for care.

## Pros

- ✓ Depending where the 'floor' is set, it could protect individuals with low wealth against catastrophic costs.
- ✓ Mayhew's proposed 'tiered approach' likely to be more progressive than existing system: as wealth increases, the floor increases.

## Cons

- ✗ Doesn't inject more money into the system – likely to cost more because the implication is that the state pays for more people under the 'floor'.
- ✗ No risk pooling for individuals with assets above the floor – those individuals are still bearing high costs.
- ✗ Depending on the level of the floor, a large proportion of people still likely to have to sell their home, which has been found to be controversial in the past.
- ✗ Complex and difficult to explain, especially if different levels for different types of care and if coupled with [lifetime cap](#).
- ✗ [There is potential for moral hazard](#): could encourage people to spend more to fall under the floor, and may deter people from saving for care.
- ✗ If means test is broadened to include house value for domiciliary care, may act as a disincentive for people to receive care in their own homes.

## Contributors

N/A Non-contributory.

All adult individuals with care needs who have assets above the 'floor' would pay for their own care. Those with assets below the 'floor' would be paid for by the state (with potential for staggered contributions in between).

## Literature

- [Social Market Foundation \(2018\)](#)
- [Dilnot \(2011\)](#)
- [International Longevity Centre \(2016\)](#)
- [Conservative Manifesto \(2017\)](#)
- [LGA Green Paper \(2018\)](#)
- [King's Fund and Health Foundation \(2018\)](#)

# Lifetime cap on care costs

## Description

Individuals pay for their care up to a predetermined limit. Costs exceeding the cap would be met by the state. Often coupled with a [‘floor’](#) (see above).

Usually refers only to care costs set at [local authority rates](#) and excludes other costs of care (e.g. room and board in nursing home).

## Proposed by

Several proposals including:

- [Dilnot](#) (2011): £35,000 for care costs.
- [Care Act Part II](#) (2014): £72,000.
- Conservatives pledged undefined cap on costs in the run up to 2017 election (after manifesto published). [Labour manifesto](#) also proposed undefined limit.
- [Proposed by both Conservative and Labour](#) governments in the run up to the 2017 General Election.
- [Independent Age \(2018\)](#): £100,000 cap to include care and ‘hotel’ fees.

## Pros

- ✓ Offers some certainty to individuals.
- ✓ If the cap is set at a low level, has the potential to protect people against catastrophic costs.
- ✓ Theoretically means financial products could be made available to insure against risk of high costs (see [private insurance](#)).
- ✓ Creates awareness around individuals’ duties to plan ahead for care costs.

## Cons

- ✗ Doesn’t inject more money into the system – in fact, will cost more as the state would pick up the bill for costs above the cap.
- ✗ If the cap is set at a high level, individuals are potentially still at risk for high costs.

- × Mainly protects those with moderate and high means (depending on where the cap is set).
- × No risk pooling for individuals under the cap.
- × In some proposals (including the [Care Act](#)), costs that count towards the cap would be based on local authority rates. In reality, care providers charge self-funders higher rates than they charge for [local authority-funded](#) individuals, so people could be paying £20 per hour for care but only, say, £16 of that counts towards their cap, for example. Regional variation in care costs would have implications for fairness.
- × Complex and difficult to explain especially when associated with a '[floor](#)'.
- × [Requires admin to monitor care costs and changing care needs over time.](#)
- × [Not popular according to public polling.](#)
- × Offers [little help](#) to those who spend right up to, but not over, the cap.

## Contributors

N/A non-contributory.

People with care needs would have their costs capped at a pre-defined level.

## Literature

- [Social Market Foundation, 2018](#)
- [International Longevity Centre, 2016](#)
- [LGA Green Paper, 2018](#)
- [King's Fund and Health Foundation, 2018](#)
- [Independent Age and the Institute and Faculty of Actuaries, 2017](#)
- [King's Fund and Health Foundation, 2018](#)

# Extending the deferred payment

## Description

In the current system, individuals in need of *residential care* can defer payment, if they own their home but don't want to sell it, to pay for care within their lifetime. Instead, they can apply to the local authority to defer. They put a 'charge' on your property and it's taken out of your estate when you die.

Proposal was to include your home in the [means test](#) for those eligible for *domiciliary care* too (currently only included for residential care).

## Proposed by

[Conservative Manifesto](#) (2017) proposed extending current system to those in receipt of domiciliary care.

## Pros

- ✓ People don't have to sell their home immediately, so it reduces that stress during the lifetime of the person needing care.
- ✓ Depending on value of home and costs of care, it has the potential to cover high proportion of care costs.

## Cons

- ✗ This does not pool risk across society: burden of care costs falls on the beneficiaries of those with highest needs.
- ✗ Doesn't protect against catastrophic costs unless combined with a [cap](#) on costs.
- ✗ Doesn't proactively inject more money into the system, it simply defers payment.
- ✗ There is potential [for moral hazard](#): can be avoided, just like inheritance tax, with tax planning.

## Contributors

N/A

All adult individuals requiring care would be able to apply to defer payment.

## Literature

- [Conservative Manifesto, 2017](#)
- [King's Fund, 2014](#)

# Individual-level options

## Care ISA

### Description

- This would operate as other established ISAs, in which funds are set aside, free of tax, to contribute to care costs. In the case of a Care ISA, it would be free of inheritance tax.
- It could include [savings, housing equity, or a combination of both](#).
- Unused funds could be passed on to descendants tax free.
- The value of a Care ISA would [not be included in any means test, subject to a limit on the value of the fund](#).
- It is not clear if individuals would be able to withdraw funds for purposes other than funding care, and how that could be monitored.

### Proposed by

Rumoured to be being considered by government (as reported in the [Telegraph](#), 18.08.18).

### Pros

- ✓ Encourages saving and raises awareness of the need to prepare for future care costs.
- ✓ Proposal to exempt it from means test offers incentive to use it.
- ✓ Provides a tax-free mechanism for saving that doesn't exist at present (currently ISAs are tax free when passed to a spouse, but not free of inheritance tax when passed to descendants).
- ✓ May be attractive to people looking for tax-efficient savings/inheritance options.

### Cons

- ✗ Given current awareness of the need to pay for care is low among the public, ~~uptake~~ uptake is likely to be low (particularly among younger people who are unlikely to prioritise saving for old age above saving for a house, for example).

- ✗ It does not pool risk across society as it is an individual savings 'pot'.
- ✗ Individuals remain at risk for catastrophic costs. It is not clear what would happen when the 'pot' runs out.
- ✗ It is likely to exacerbate disparities: those with higher incomes and wealth would be able to save more and afford more/better care in old age.

## Contributors

Individuals who choose this savings option.

## Literature

- [International Longevity Centre, 2016](#)

# Other financial products, such as the Personal Care Savings Bond

## Description

Would operate similarly to Premium Bonds: investment with a fixed interest return and the opportunity to win prizes, these could be reinvested or cashed out.

An individual's fund could only be fully cashed out when qualifying for an eligible care need. If death occurred before cashing out, it would be transferred to inheritance.

The investments would be tax free.

It could be exempt from being included in the means test, subject to a cap.

## Proposed by

[Mayhew and Smith \(2014\)](#)

## Pros

- ✓ Encourages saving and raises awareness of the need to prepare for future care costs.



- ✓ Offers potential for individuals to grow an individual fund for themselves.
- ✓ May be attractive to people looking for tax-efficient savings/inheritance options.

## Cons

- ✗ It remains an individual fund so does not pool risk across society.
- ✗ It is likely to exacerbate disparities: those with higher incomes and wealth would be able to purchase more bonds to increase odds of winning prizes, and therefore afford more/better care in old age.
- ✗ It would take some time for the fund to grow so people would need to start investing at a young age – uptake among young people with competing spending priorities is likely to be low.
- ✗ Could be used by speculators – although this could be prevented with caps on investment.
- ✗ Would require administrative infrastructure to define and verify “eligible need”.
- ✗ If it can only be cashed out for care needs, it presents a very inflexible savings option – people more likely to opt to put money into a pension, for example.

## Contributors

Individuals who choose this option.

## Literature

- [Mayhew and Smith, 2014](#)

# Private insurance products

## Description

Tied in with [cap](#) proposal: financial products, such as private individual policies, could be taken out voluntarily by people wanting to protect themselves against care costs up to the defined cap. It was assumed that, because a cap would define the risk for insurers, it would encourage them to offer products. Having a defined limit, above which the state pays, would enable insurers to charge premiums acceptable to the public.

## Proposed by

Part of [Dilnot's](#) assumptions.

### Pros

- ✓ Could offer people the option to insure against risk of care costs up to the cap.
- ✓ Shifts some risk and administration costs to private sector.
- ✓ Raises awareness of the need to save for future care costs.

### Cons

- ✗ Even with firm cap proposals included in the Care Act (2014), few products introduced to the market – [industry](#) anticipated low [demand](#) and uptake.
- ✗ Sufficient numbers of people buying policies are needed to make it feasible.
- ✗ It rapidly becomes unsustainable if only those at high risk of developing care needs take out policies (adverse selection).
- ✗ Given low awareness of social care costs, uptake likely to be low unless made compulsory.
- ✗ If introduced alongside a cap, costs above the cap would still be picked up by the state, so may not make much difference to public finances.
- ✗ Unless it's made compulsory and risk is pooled, injection of money into the sector is likely to be limited.
- ✗ Likely to exacerbate inequalities: only higher income groups are likely to be able to buy private insurance products, leaving those least able to afford care exposed to the risks of high costs.

## Contributors

Individuals who choose this option.

## Literature

- [International Longevity Centre, 2016](#)
- [Mayhew and Smith, 2014](#)
- Commission on Funding of care and support ([Dilnot, 2011](#))

# Lump sum levies

## Inheritance tax increases

### Description

A certain percentage of inheritance tax above a certain threshold could be ring-fenced for social care.

### Proposed by

[Labour manifesto proposal \(2010\): 10% levy on all estates in addition to inheritance tax.](#)

### Pros

- ✓ Taps into accumulated wealth and shifts burden from income.
- ✓ As it's a fixed percentage, those set to inherit more, pay more.
- ✓ Ring-fencing the fund makes it transparent.
- ✓ Assuming money is pooled nationally, it offers potential to spread risk across society. Could also address regional inequality.

### Cons

- ✗ Perceived as unfair by some – issue of inheritance proved contentious in the past.
- ✗ Unlikely to keep pace with growing care need.
- ✗ Unlikely to raise large enough sums to cover catastrophic costs.
- ✗ Amounts could vary according to fluctuations in the property market.
- ✗ Difficult to project likely revenue into the long term, which would make planning services difficult.
- ✗ There is potential for moral hazard: inheritance tax is avoidable – [the wealthiest are more able to tax plan.](#)
- ✗ Likely to exacerbate inequalities: only higher income groups are likely to be able to buy private insurance products, leaving those least able to afford care exposed to risks of high costs.

## Contributors

Those inheriting an estate above the prescribed threshold.

## Literature

- [Social Market Foundation \(2018\)](#)
- [King's Fund \(2014\)](#)

# One-off payment on retirement

## Description

On their 65<sup>th</sup> birthday, everyone with assets above a set threshold would be required to pay a set amount into a central fund (a lump sum of £35,000 was suggested based on current demographics and need, but could be flexed). There could be an option to defer payment.

## Proposed by

- [Social Market Foundation \(2018\)](#)
- [Also suggested by Labour government in 2010 as one potential option within a state insurance scheme](#) (set at £10,000 in [Shaping the Future of Care Together](#) – Green Paper)

## Pros

- ✓ Pools risk across society. Everyone pays in regardless of whether they eventually have care needs.
- ✓ Raises extra money for the system.
- ✓ Simple and easily understood.
- ✓ Amount could be flexed according to need and demographics.
- ✓ [Potential to spur the development of financial products](#) to set aside assets/savings for this payment.
- ✓ Those with assets below the set threshold are protected.
- ✓ Burden falls on older generation, so potential to address intergenerational fairness.

## Cons

- ✘ Unless it's varied for level of wealth, it is regressive and is likely to be seen as unfair.
- ✘ It may be difficult to sell to the public – if nine in 10 of us don't face catastrophic costs, there's little incentive to pay up front.
- ✘ It represents a high sum for people, many of whose wealth is tied up in property and not readily available in cash. That would mean people deferring payment, which would mean it might take a long time for funds to build up.
- ✘ Would need to put in place mechanisms to protect against people disposing of assets to ensure they fall below the threshold.
- ✘ Those who have already passed their 65<sup>th</sup> birthday would be exempt.

## **Contributors**

65-year-olds with assets above a set threshold.

## **Literature**

- [Social Market Foundation \(2018\)](#)

# Other funding approaches

## Partnership model

### Description

The state defines a benchmark care package and provides people with a minimum guaranteed amount of care free of charge, which is a set percentage of the benchmark.

Beyond the minimum level of care, individuals can make contributions towards the benchmark. Their contributions are matched by the state. For every £1 put in by an individual, the state matches that until the benchmark is achieved.

There would be a limit to the total amount of state grants an individual could receive. The individual would thereafter be responsible for meeting the costs of their chosen care.

Those on low incomes would be supported in making additional through the benefits system.

### Proposed by

- [Wanless 2006](#)
- [Le Grand 2003](#)

### Pros

- ✓ Guarantees a basic level of care for all.
- ✓ Offers clarity about entitlement and contributions.
- ✓ It seeks to implement cost-sharing between individual and state, so therefore does not increase the burden on public funds as much as some other options.
- ✓ People on low incomes are protected.
- ✓ Gives individuals the choice of how much (if anything) they want to contribute to their care.
- ✓ Encourages people to save for needs.

- ✓ The benchmark care package could be adjusted to take account of changing needs/to address sustainability issues.
- ✓ Abolishing the means test would reduce administrative costs and save public funds.

## Cons

- ✗ It's complex so may be difficult to sell to the public.
- ✗ It's not clear how it would raise extra funds in the immediate term. Likely to cost more than the current system.
- ✗ Although everyone would be entitled to receive the basic level of care, those with higher means would be more able to make higher contributions and therefore likely to receive a higher level of care.
- ✗ It is not clear that it protects individuals with very complex care needs against very high costs.
- ✗ If an individual ran out of money, they would have to revert back to the state-provided minimum of care.

## Contributors


All individuals above care threshold who choose to contribute funds to care.

## Literature

- [Wanless \(2006\)](#)
- [Le Grand \(2003\)](#)

**Nuffield Trust is an independent think tank. We aim to improve the quality of health care in the UK by providing evidence-based research and policy analysis and informing and generating debate.**

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