No easy options

Exploring the options for reforming social care funding and eligibility

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EXECTUIVE SUMMARY

The present system of social care does not protect people from the catastrophic costs that can be associated with long-term care. Private-sector actors has had time to develop financial products to insure individuals against the cost of care but these products have not materialised and a functioning market has not formed. There is very little public understanding of the social care system, which amounts to a lottery of catastrophic costs. Many people do not understand that under the existing system, they will need to pay for their social care and do not understand how much this will cost them and how they may need to deplete the value of assets they have built up over a lifetime. Change is needed, so the SMF has examined the options for the level of social care that the State should provide, and the measures that could be implemented to raise more money for care.

Who should be protected from the costs of care?

The four options of protection explored are:

- free personal care
- amending the level of asset protection
- capping the cost of care
- introducing a cap alongside an increase in asset protection

The cost of these policies ranges from saving the government money to costing £7bn in 2020/21.

The introduction of a cap alongside changes to the asset floor is often cited as a popular reform for social care. This would cost £5bn extra in 2020/21. Meanwhile, implementing free personal care throughout England would cost £7bn extra. The marginal cost is relatively modest, given the significant increase in the number of people who would benefit.

How to raise the funds?

We analyse eight ways through which the funds needed to reform social care could be raised. For each option we analyse how the policy measure compares across five distributional dimensions including wealth, income and region.

The eight options are:

- **Payment at 65**: *Each individual would become liable for a one-off charge on their 65th birthday to insure them against future care costs. Eligibility to pay would be based upon the level of household wealth per adult. The amount paid would be based upon the level of protection and future care cost predictions for the population. This policy would only be paid by those with high levels of wealth and would generationally fair as it is only paid by those over 65.*
- **Inheritance tax increase**: *The rate of IHT would need to increase by 54 percentage points (to 94%) pay for free personal care. It would only be paid by those with significant wealth. The majority of payers would be living in London or the south.*
- **Age related levy**: *An additional tax paid only by workers aged 40 to state pension age and their employers. A levy of 0.7% of wages for eligible employees and*

employers would cover the costs of free personal care. The costs fall on those with varying levels of wealth and income. Those 40 to 55 are the most likely to pay.

- **National Insurance increase**: *The rate of National Insurance would need to be increased by 0.7 percentage points for employees and employers to cover free personal care in 2020/21. The cost would fall on working-age people as older workers are exempt from paying National Insurance.*
- **Introduce National Insurance payments for those above state pension age**: *This would raise approximately £0.8bn in 2020/21, significantly below the requirement for all the options for reforming the level of social care protection.*
- **Income tax increase**: *Income tax would need to increase by 1.11 percentage points (more than "a penny in the pound") to pay for free personal care. Most income tax is taken from those of working age, and many payers have very low or even negative levels of wealth.*
- **Council tax increase**: *Council Tax would need to rise by 14% in order to pay for free personal care. This would have distributional implications as Council Tax is regressive: those on low incomes already pay a significant proportion of their disposable income on council tax.*
- **Corporation tax**: *A 3% increase in corporation tax would be needed to pay for free personal care. Additional costs may be passed through to consumers. The distributional consequences are difficult to calculate.*

Recommendations

A funding solution for care that relies on changing and raising existing taxes will either fail to raise sufficient revenue, or raise too much revenue from the wrong people and thus be socially and politically unsustainable. By a process of elimination, we conclude that **the best way to raise the money needed for the most attractive level of provision (free personal care for all) is to introduce a new charge on people with significant assets when they reach 65**, when they would become eligible for care.

We recommend levying a one-off "payment at 65" on those with household assets of more than £150,000 per adult. A charge of £30,000 would raise enough to fund free personal care in England in 2020/21.

We reach this conclusion after modelling higher and lower asset thresholds for the charge. Levying the charge on those with assets worth more than £100,000 would mean extracting too large a share of accrued wealth from too many people. Setting the threshold at £250,000 would see the charge levied on too small a group of people.

Setting the asset threshold at £150,000 would mean the charge could be set at £30,000. Qualifying individuals would be become liable for the charge on their 65th birthday. **However, this payment could be deferred to death if the individual does not have liquid assets, by putting a charge on their estate.**

The prospect of paying such a substantial sum, either in life or after death, is unlikely to be immediately attractive to asset-owners. However, **the benefits that arise from that payment are considerable, and produce an outcome that is significantly fairer than the current system,** where around 10% of care recipients pay more than £100,000 for personal care, money that is almost always realised from their accrued assets including property. By contrast, that £30,000 charge would provide insurance against such costs by funding free personal care for all.

Alternative new models of provision would also see people who would pay our one-off charge actually paying much more than £30,000. For example under a cap-and-floor system, an individual with £150,000 in household wealth per adult would need to pay £50,000 for their care before receiving any state support with care costs. Under our "payment at 65" rules, this individual would be liable to pay £30,000, either on their 65th birthday or through a deferment, and then receive free personal care.

We also reiterate that the only realistic alternative way to raise sufficient revenue to adequately fund social care would be a substantial increase in income tax, a new burden that would be placed on working-age people. Many of them have limited or even negative assets. **We do not believe it is fair or sustainable to require younger, asset-poor workers to pay more tax to fund care for older asset-owners.**

We anticipate that the implementation of **a one-off payment model would spur innovation in financial services products to help people amass or release funds** to make the one-off payment, especially by drawing on the value of property assets.

To ensure public confidence in the new care regime, **we recommend the formation of an independent Care Funding Committee** to oversee the creation and eventual implementation of the "Payment at 65" scheme, advise ministers on the optimum level of the charge, and oversee and the administration of the revenues raised.

CHAPTER 1: WHY REFORM SOCIAL CARE?

The UK's social care system is at a breaking point.

Successive studies have pointed out significant shortfalls in publicly-funded resources, notwithstanding the recent increases that have occurred via the social care council tax precept and the increases to the Integrated Care Fund.

At the same time, self-funders face almost unlimited liabilities. Assets below the value of £23,250 are protected, but above this level, individuals bear the risks and are unable to insure themselves. The Dilnot Commission estimated that one in 10 people, at age 65, face future lifetime care costs of more than £100,000.[1]

Efforts to address this dilemma have foundered repeatedly for a range of reasons. First, political and public debate has tended to focus on who bears the costs incurred through tax or insurance premiums rather than the benefits that the new policies bring and to whom. This is at least in part a consequence of the fact that the public are uninformed of the costs and liabilities associated with social care. When many people are unaware that the existing system currently involves significant numbers of people paying large sums towards the costs of care, it is perhaps unsurprising that many people focus on the potential costs arising from new care funding policies give less (if any) attention to the potential gains.

A second reason, partly driven by the first, is that political parties have failed to address properly questions of fairness and distribution in care funding. Given that those with the lowest levels of wealth already have their care paid for by society, any additional protection covered by the state will, by definition, benefit those with assets above this level. On a very narrow measure, any intervention is regressive.

To create space for proper debate, the public needed to be shown that there is a problem and that there are methods to address the problem which are equitable and sustainable, both *within* and *across* generations.

Now is an important moment to create space for this debate to occur. The Government is committed to publishing a green paper in autumn 2018, which should set out proposals for reforming social care.

Aim of the research

The aim of this research is to under how people should be protected against care costs and where the funding should come from. We will address the following questions?

- How much protection should the government provide?
- How much do each of the proposed protections cost?
- What are the possible methods for raising funds?
- Who will be impacted by these changes?

[1] *Fairer Care Funding: The Report of the Commission on Funding of Care and Support* (2011)

Research methods

The majority of this research was conducted by the SMF using the Wealth and Assets survey data from 2014/16.

Report structure

The structure of the report is as follows:

- Chapter 2: How much protection should the state provide?
- Chapter 3: How should the funds be raised?
- Chapter 4: How do these policies impact individuals?
- Chapter 5: Conclusions

CHAPTER 2: WHO SHOULD BE PROTECTED?

This chapter of the report focuses on the level of protection the government should provide to those who need social care within England. Put simply, how much social care should the government pay for? This chapter considers the four options of reform available to the government; option one is to cover all the costs of personal care, the second is to adjust the threshold of assets below which individuals pay for their care, the third is to limit the lifetime costs of social care borne by the individual and the final option is a combination of two and three, which includes a cap on care costs and adjustments to the asset threshold.

Table 1: Overview of current and proposed policy

Policy	Motivation	Cap level	Asset threshold level
Status quo	Current system	N/A	£23,250
Free personal care	Used within Scotland	N/A	N/A
Amend threshold of protection	Proposed within the 2017 Conservative manifesto	N/A	£100,000
Cap the costs of care	A cap was proposed by the Dilnot review in 2011	£72,000	£23,250
Cap and threshold	Proposed within the 2017 Labour manifesto	£75,000	£100,000

Option one: Free personal care

The first option considered within this report is to provide all individuals with free personal care regardless of their wealth or income. This policy is active within Scotland, where the Scottish Government provide free personal care to all individuals over the age of 65 who have been deemed as in need.[1] Free personal care for critical and substantial needs was recommend by the Barker Review in 2014.[2]

How much would it cost?

Research by The King's Fund and The Health Foundation suggests that providing free personal care in England would have cost an additional £4.3bn in 2015/16. By 2020/21 this policy would cost £26bn, which would require additional funding of £7bn.[3] The costs are based on current need assessment levels.

Who would benefit?

Many individuals would benefit from a policy that introduced free personal social care within England. All individuals with assets above the current threshold of £23,250 would now be entitled to free personal social care, given they meet the need requirements. The current means test includes an income element but the requirement for this is not the same across different local authorities.

Less than half (44%) of those living within residential care homes are fully-state funded.[4] Therefore at present 56% of individuals in residential care homes would benefit from increased support from the government. In 2015/16, 1.5% of the population over the age of 65 were paying for their own residential care, this is equivalent to 149,671 people.[5] These individuals would now receive a financial contribution towards their care. Due to the current means tests, the individuals most likely to benefit under this system will have wealth above £23,250.

In England, 349,131 people receive domiciliary care (care within their home) in 2015/16, of which 100,746 were privately funded. Those who are currently funding their own care within the home will benefit under the proposed system.[6]

Option two: Increase the asset threshold to £100,000

The 2017 Conservative manifesto initially proposed a policy that changed social care funding in two ways. First, it increased the asset threshold above which individuals are required to pay for their own care from £23,250 to £100,000. Second, the policy changed the assets included within the financial means test for those receiving domiciliary care. Currently. the value of an individual's home is not included in the means test, but under the proposed policy it would be.

How much would it cost?

It is estimated that adjusting the threshold to £100,000 and including property wealth of those receiving domiciliary care into the means test will save the government £0.7bn per year (2015 prices) in public spending by 2030.[7]

Who would benefit?

Under this policy all individual's in receipt of social care with total wealth between £23,250 and £100,000 would benefit immediately from state support. Those with wealth above £100,000 could find themselves paying less for their social care in the future.

Those who receive care residential care would only be affected by changes to the wealth threshold. We define total wealth as the financial household wealth per individual plus the total value of the property, although the property value is not included in some circumstances. Individuals with a total financial wealth of more than £23,250 but less than £100,000 would benefit directly. Based on the wealth of those aged 70 to 79 within England as a proxy for the wealth of those needing care, we estimate that 5% of individuals would benefit immediately (by being protected from paying for social care). A further 76% could benefit from reduced costs in the future.

Table 2: Proportion of individuals within each payment category based on residential care means test and increased asset protection to £100,000, *those aged 70 to 79*

Does not pay	Would have paid, now does not	Always pays
18%	5%	76%

Source: SMF analysis of Wealth and Assets Survey (2014/16)

The picture is more complicated if we focus on those who receive care within their home. Under the proposed system the financial means test will now include the property wealth of those who receive care within their home, whereas the current system only measures their financial wealth.

Table 3: Proportion of individuals by current and proposed payment status based on changes to domiciliary care means test and increased asset protection to £100,000, *those aged 70 to 79*

		Under the proposed asset floor	
		Does not pay	Does pay
Under the current system	Would not have paid	22%	34%
	Would have paid	2%	42%

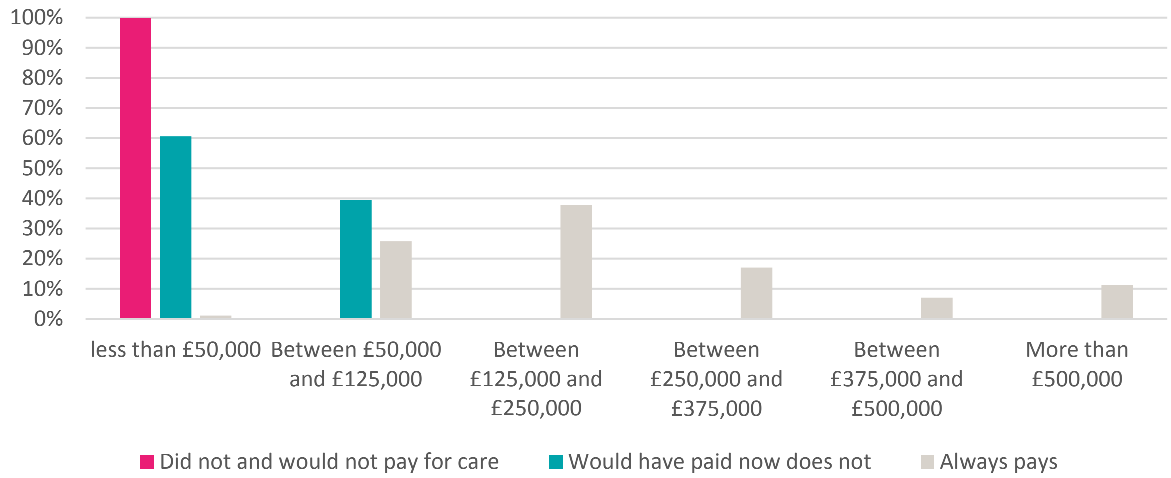
Source: SMF analysis of Wealth and Assets Survey (2014/16)

Based on our calculations and as shown within table 3, 34% of individuals who are currently not required to pay for their care at home, would have to pay under the proposed policy. This is because they have non-housing wealth below £23,250 but total wealth of over £100,000 once their property wealth is included. In contrast, only 2% of individuals who would be required to pay for domiciliary care under the status quo would now be eligible for free care under the reform. One fifth (22%) of individuals do not pay for their care in either scenario and two-fifths (42%) pay regardless.

Beneficiaries by wealth status

The chart below looks at the wealth distribution of individuals aged 70 to 79 by their care payment status for residential care. We use household financial wealth per individual plus property wealth to define payment status. Our measure of wealth used within the distributional analysis is total household wealth (financial and property) divided by the number of adults within the household.

Figure 1: Household wealth per adult by care payment status for residential means test, *aged 70 to 79*



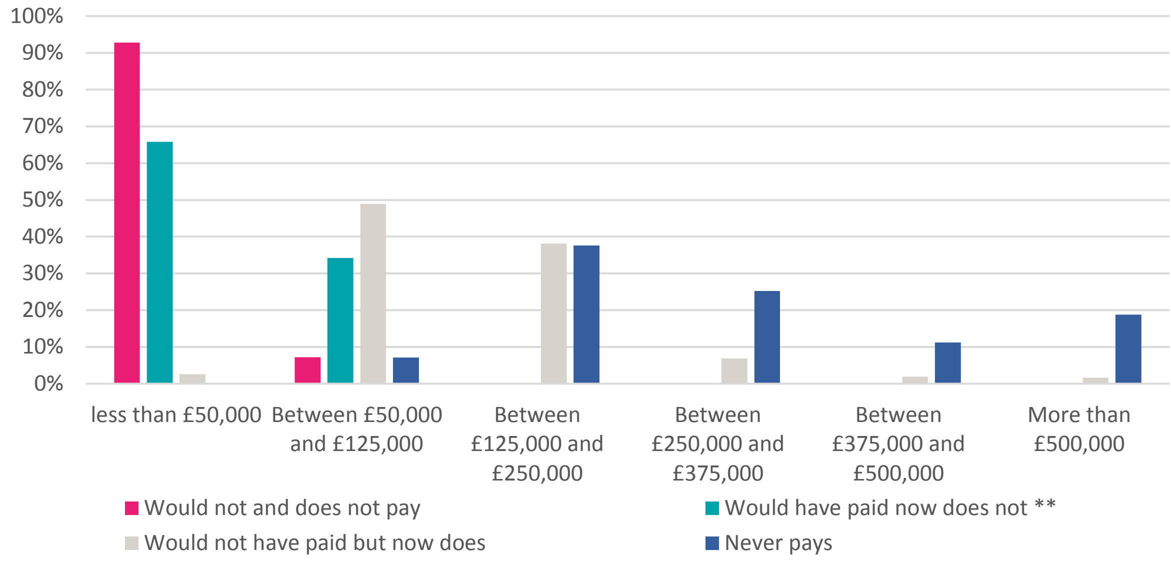
Source: SMF analysis of Wealth and Assets Survey (2014/16)

Figure 1 shows that 100% of those who are eligible for state support under the current and proposed system have a household wealth per adult of less than £50,000. In contrast, 60% of those who under the current system would have paid for their care but with the amended threshold would not, have household wealth per individual of less than £50,000 and 40% have between £50,000 and £125,000. We can conclude that those who benefit immediately from financial support from the state tend to have low level of wealth.

As we would expect those who are required to pay for their own care under both systems have a greater variety of wealth, with just over one-third (38%) having wealth of between £125,000 and £250,000 and a further third (35%) having more than £250,000.

The picture is more complex when focusing on those who would be receiving care within their home. Figure 2 shows that 93% of those who would not pay for their social care in either situation (the status quo or under the proposed policy of including their household wealth and increasing the wealth threshold to £100,000) have a household wealth per adult of less than £50,000. The remaining 7% have less than £125,000.

Figure 2: Household wealth per adult by proposed care payment status for proposed domiciliary means test, *aged 70 to 79*

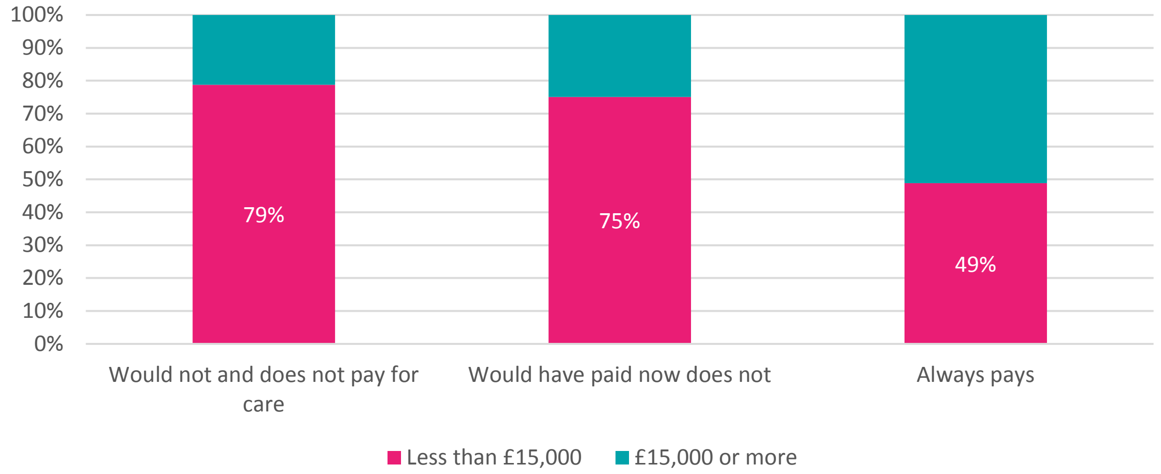


Source: SMF analysis of Wealth and Assets Survey (2014/16)
*Note: ** represents a small sample size*

Over half (52%) of those who would not have paid for their care but would now be required to pay have a household wealth per individual of less than £125,000. These individuals are by no means wealthy but due to the inclusion of property wealth within the means test find themselves needing to pay for care.

<u>*Income distribution*</u>
Changing the asset protection level is a wealth based policy and does not take into consideration the incomes of the individual. The income measure used within the analysis comprises of gross household income per adult within the household. The figure below shows the income distribution of individuals by their care cost liability status. The figure looks at those with household incomes per adult of less or more than £15,000, £15,000 was selected due to sample sizes within the data.

Figure 3: Household income per adult by proposed social care payment status for residential means test, *aged 70 to 79*



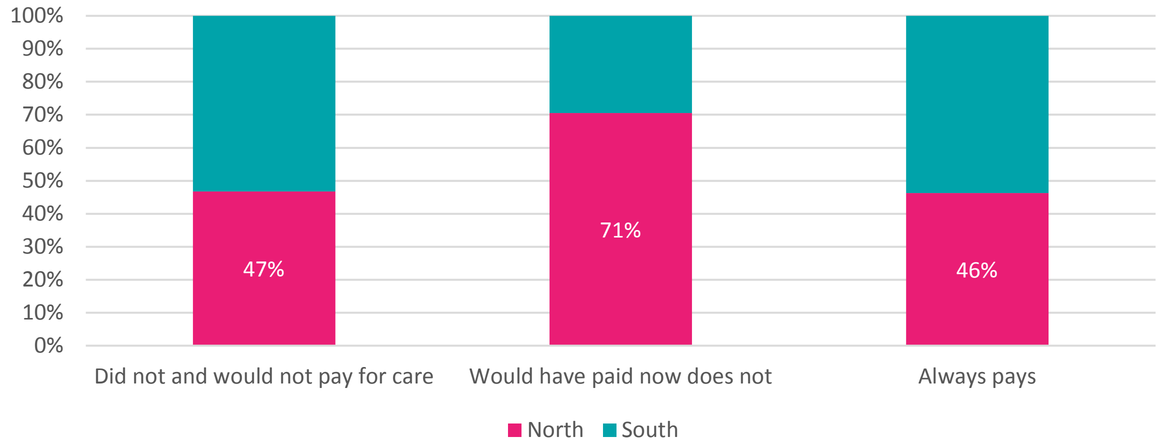
Source: SMF analysis of Wealth and Assets Survey (2014/16)

Figure 3 shows that the income status of those who would no-longer be liable to pay for their residential care is similar to those who are protected under the existing policy. The majority (around three quarters) have individual incomes of less than £15,000 per year. It is also highlights the proportion of individuals who are asset rich but may not have high levels of disposable income, nearly half (49%) of those who would always be liable to pay for their own social care have a household income per adult of less than £15,000.

<u>Regional distribution</u>

The charts below show where the winners and losers live. The vast majority (71%) of those who would benefit directly from the adjusted threshold for residential care live in the north of England. As is shown in figure 4, just over half of those who would not find their social care payment status changed, due to already being ineligible to pay or continuing to pay, live within the north.

Figure 4: Regional distribution[2] by care payment status for residential means test, *aged 70 to 79*

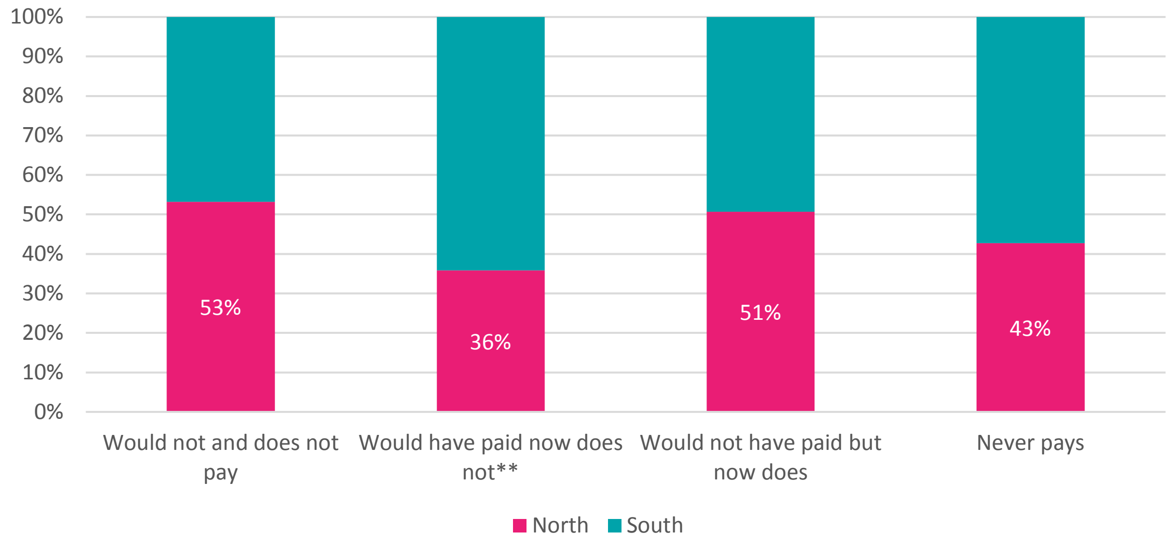


Source: SMF analysis of Wealth and Assets Survey (2014/16)

[2] North is defined as the North West, North East, Yorkshire & the Humber, East Midlands and West Midlands. South is defined as London, East of England, South West and South East.

When we look at the impact on those who would be requiring care within their home, the results show a very similar picture. Individuals who will find themselves newly paying for residential care under the proposed system are almost equally likely to live in the north or south of the country. The value of an individual's property will have a significant impact on their payment status under the new proposed means test for those receiving domiciliary care.

Figure 5: Regional distribution by care payment status for proposed domiciliary means test, *aged 70 to 79*



Source: SMF analysis of Wealth and Assets Survey (2014/16)
*Note: ** represents a small sample size*

Option three: Cap social care costs at £72,000

The Dilnot review in 2011 proposed applying a cap on social care costs. A cap on care costs would mean that no individual could spend more than a given amount over the course of their life on their social care. The review argued that the current system was confusing, unfair and unsustainable, and as a result suggested that a cap should be introduced to protect people against very high costs of care. The report suggested that this cap should be within the range of £25,000 and £50,000 and put forward a recommendation of £35,000.[8]

Following the publication of the review, the Government included a cap on social care costs within the Care Act 2014, however, the amount was significantly higher than that recommended by Dilnot. The government proposed a cap of £72,000 which was initially due to come into force in 2016.[9]

How much would it cost?

Whilst the Dilnot review put forward a range of costs for a variety of cap levels, none of these caps were as high as the level proposed within the Care Act and therefore costs estimates are difficult to come across. Dilnot has suggested that the £72,000 cap could cost approximately £2bn in today's prices.[10]

Who would benefit?

The £72,000 cap on care costs (Care Act 2014) would benefit all individuals from catastrophic costs associated with care. Research suggests that 1 in 10 of those who pay for their care would benefit directly as their costs exceed £72,000.[11] The policy is designed to protect those who spend large amounts on their social care.

Under the current system individual's need to continue to pay for all their care until they have wealth below £23,250, therefore those with long term conditions and significant amounts of wealth are at risk of spending vast amounts of money on their social care. Under the reformed system they would not be able to spend more than £72,000.

Option four: Cap social care costs at £75,000 and amend the threshold to £100,000

The Labour Party 2017 election manifesto proposed a lifetime limit to care costs and to raise the asset threshold below which people are entitled to state support.[12] The Conservative Party also adjusted its policy to adopt the same approach. This combines policy option two and three, individuals in receipt of care would receive government support if they have assets of less than £100,000 and if they reach the care cap.

How much would it cost?

Current evidence suggests that this policy would have cost an additional £3.2bn in 2015/16 and by 2020/21 an extra £5bn would be needed.[13]

Who would benefit?

Increasing the threshold to £100,000 alongside a cap on social care costs impacts a number of people over the long term. The immediate impact would be felt by those who have wealth between £23,250 and £100,000 as they would no longer need to pay for social care.

Those with wealth between £100,000 and £175,000 would benefit from the asset threshold change before they reach £75,000 in care costs, these individuals will be protected against high care costs and reduced asset reduction. An individual with £150,000 in wealth would now need to spend £50,000 on their care before receiving support, whereas under the current system they could have face care costs of up to £126,750.

Those with more than £175,000 in wealth would only benefit from the cap on care costs. Previously these individuals would have spent a significant amount on care before receiving any financial support from the government. Under the proposed system individuals will only face care costs up to £75,000.

CHAPTER 3: HOW TO RAISE THE FUNDS AND WHO PAYS?

There are several options available to policymakers for raising the additional revenue needed to cover the increased costs of providing social care under any of the proposed reforms. In this chapter we describe these options and who would pay. We test each policy on several distributional measures including wealth, income, region, generation and gender.

Table 4: Overview of funding measures explored within this chapter

Policy	Details
Payment at 65	This policy consists of a charge of £30,000 upon an individual's 65th birthday
Inheritance tax increases	A 10% increase in the current rate of inheritance tax
Age related levy	Additional 0.7% tax on employers and employees over 40 until retirement age.
Universal national insurance increase	A 0.5% increase on both employee and employer national insurance.
National insurance for over 65s	Applying national insurance to individuals who continue working beyond state pension age
Income tax increases	Increasing all rates of income tax by 1p
Council tax increases	Increasing the rate of council tax
Corporation tax increases	Increasing corporation taxes

Funding policy one: Payment at 65

This policy would require an individual to pay a lump sum for their future social care needs upon their 65th birthday. In England, 566,478 people were aged 65 in 2016.[14] We model the impact of protecting those with lower levels of wealth from being liable to pay. One major benefit of implementing this charge at 65 in comparison to upon death is that individuals would have less opportunity to exhaust their assets or to avoid the tax. A considerable proportion of individuals will have illiquid assets, and therefore this payment could be deferred until death, whilst there may be ways to incentivise individuals to pay early.

How much would it raise?

Analysis of the Wealth and Assets Survey shows that if you applied the £30,000 charge to all individuals aged 65 with household wealth per adult of more than £100,000 the policy would raise £10.8bn and if the threshold was raised to £250,000 £4.8bn would be raised.

Table 5: Revenue raised from the payment at 65

Policy	Cost in 2020/21	How much does it raise?
Free personal care	£7bn	This policy would need to be applied to 233,334 individuals or 41% of the population aged 65.
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	This would need 66,667 people to pay, representing 12% of the population aged 65.
Cap and floor	£5bn	To raise these funds 166,667 people aged 65 would need to pay, which is equivalent to 29% of the population aged 65.

Source: SMF calculations based on the Wealth and Assets Survey (2014/16) costs are from previous references.

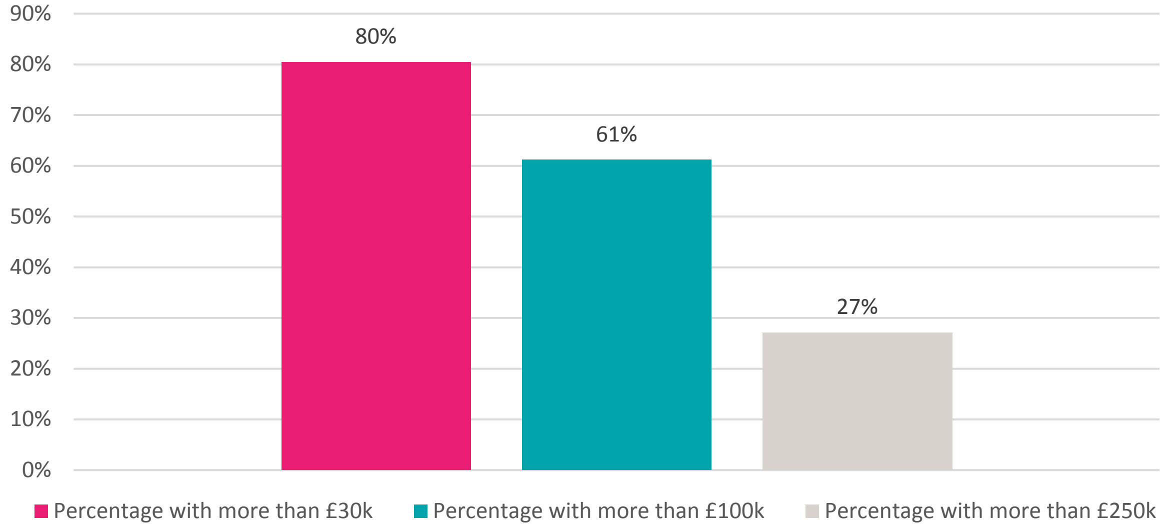
Who would pay?

The following analysis looks to understand who would be required to pay the policy, focusing on a range of distributional factors.

Who pays by wealth status

Whether an individual is required to pay the payment at 65 is determined by their level of assets. Figure 6 shows the proportion of the population aged 60 to 69 (as a proxy for assets at 65) with net household wealth per adult above a predetermined threshold. A large majority (80%) have a household wealth per adult of above £30,000. If the payment was applied to those with wealth above £100,000 then 61% of individuals would be required to pay, this drops substantially if the threshold was increased to £250,000 when only 27% would be required to pay.

Figure 6: Proportion of individuals with net household wealth per adult above a predetermined threshold, *aged 60 to 69*



Source: SMF analysis of Wealth and Assets Survey (2014/16)

The proportional impact of a £30,000 payment would vary significantly across the distribution. Applying the policy to individuals with more than £100,000 but less than £250,000 would result in individuals loosing between 30% to 12% of their total wealth. A 30% reduction in wealth is a considerable loss and highlights the importance of choosing a threshold that is fair across a range of metrics.

Who pays by income status

Due to house price growth in several areas of the country there are a number of older individuals who are asset rich but income poor. This group of individuals should be considered when designing wealth based policies.

Figure 7, shows the proportion of individuals who would be liable for the payment at 65 based upon their gross household income per adult and assuming an asset threshold of £100,000. One in four (43%) of those with a household income per adult of less than £15,000 would be required to pay. The ability to defer payment may help some of these individuals meet the payment requirements, though some may also have liquid assets or savings.

Figure 7: Proportion of individuals liable to pay by income group, *based on £100,000 threshold*

Source: SMF analysis of Wealth and Assets Survey (2014/16)

Figure 8 shows the proportion of individuals who would be liable to pay by income group if the threshold for payment was increased to £250,000. It is clear to see that a much smaller proportion of individuals with relatively low incomes would be required to pay. With only one in ten (11%) of those with incomes below £15,000 being required to pay.

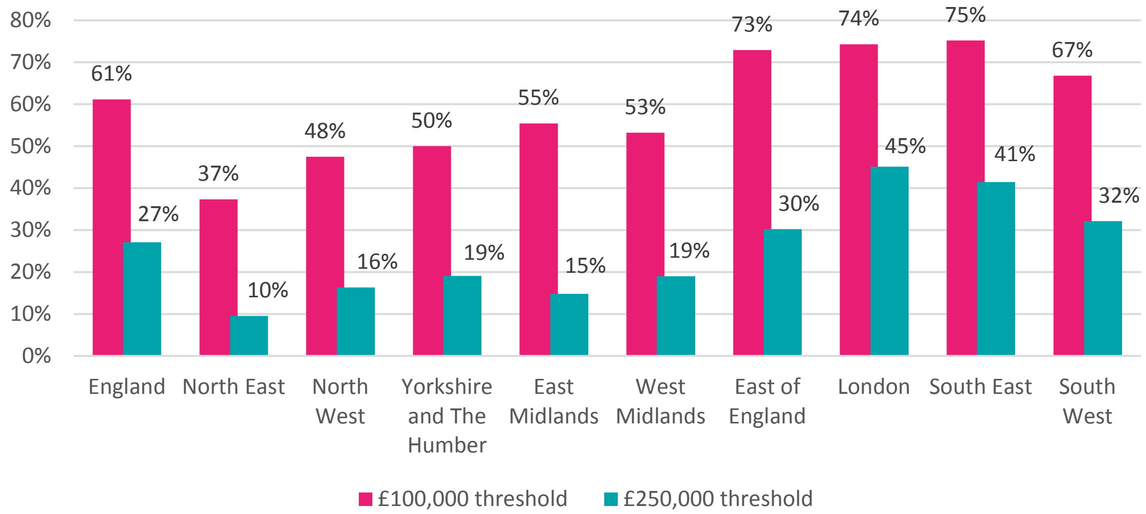
Figure 8: Proportion of individuals liable to pay by income group, based on £250,000 threshold, *aged 60 to 69*

Source: SMF analysis of Wealth and Assets Survey (2014/16)

Who buys by region

The proportion of individuals who pay by region varies dramatically depending on where the threshold is set. If the threshold was set at £100,000, 37% of individuals in the north east would be required to pay, compared to 75% within the south east. If the threshold was £250,000, the proportion of 65-year olds in the north east who are required to pay is 10%, compared to 45% of people in London.

Figure 9: Proportion of individuals paying within each region based on £100,000 or £250,000 threshold, *aged 60 to 69*



Source: SMF analysis of Wealth and Assets Survey (2014/16)

Who pays by generation

Due to the design of this policy it is only paid by individuals who are 65.

Summary of payment at 65
Wealth – Due to wealth thresholds this policy would only fall on those with above a certain amount. However, there is potential to lose a sizable proportion of wealth. **Income** - Setting the threshold at £100,000 means this policy affects those on lower incomes, with four in ten of those with a gross household income per adult of less than £15,000 paying. **Region-** This policy varies significantly by region particularly if the threshold is set at £250,000. Only 10% of individuals would pay in the North East, compared to 45% in London. **Generation-** Due to the design of this policy it only falls on those aged 65.

Funding policy 2: Increasing inheritance tax

Increasing the rate of inheritance tax is one option available to policymakers to raise the funds needed for social care reform. Currently inheritance tax is paid at a rate of 40% on estates valued beyond £325,000, although the allowance varies depending upon who benefits from the inheritance. For instance, there is normally no inheritance tax to pay if an estate is passed onto a spouse / partner or to a charity. In 2014-15 only 4% of deaths were liable to inheritance tax which raised a total of £3.8bn and in 2016-17 inheritance tax raised £4.8bn.[15]

How much would it raise?

Increasing the rate of inheritance tax by 10 percentage points -- to 50% -- would raise an addition £1.3bn in 2020/21, which is significantly lower than the amounts needed to reform the social care system.[16] Table 6 shows that to raise sufficient fund the increase in inheritance tax would need to be large.

Table 6: Revenue raised through inheritance tax increases

Policy	Cost in 2020/21	How much does it raise?
Free personal care	£7bn	In this case we would need to increase the rate of inheritance tax by 54 percentage points, to 94%.
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	This would require a 16-point increase in inheritance tax
Cap and floor	£5bn	This would require a 39 point increase in the rate of IHT.

Source: SMF calculations based HMRC ready reckoner and care costs from previous references.

Who would pay?

<u>Who pays by wealth distribution</u>

Due to the design of this policy only those with very high levels of wealth would be required to pay.

<u>Who pays by region</u>

The value of an individual's estate is likely to be closely linked to the value of their home, and therefore we see large differences between the proportion of deaths liable to inheritance tax by region, as is shown within figure 10.

Using inheritance tax as a means to raise funds for social care would result in the costs of this policy being felt most heavily amongst those in London and the south east. In the north east less than 2% of deaths are liable to inheritance tax, which is less than half of the English average; in contrast in London this increases to 9%, which is more than double the English average.

Figure 10: Proportion of deaths liable to inheritance tax by region, *2014-15*

Source: HMRC (2017)

<u>Who pays by generation</u>

This policy raises funds from individuals who are deceased and therefore tends to fall upon the older generations.

<u>Summary of inheritance tax</u>
Wealth - Due to the design of this policy only those with high levels of wealth would pay. **Region-** There are significant regional differences in the proportion of individuals who would pay. Only 1% of deaths in the North East are liable to IHT compared to 9% in London. **Generation-** This policy is paid upon death

Funding policy 3: Age related levy

This policy consists of applying an additional tax on incomes of those aged 40 and above until they reach state pension age. This is similar in principle to the system in Japan. The Japanese social insurance system is administered at a municipality level and funded through a combination of social insurance payments, general taxation and user contributions. Every member of the population must pay into the system beyond the age of 40.[17]

How much would it raise?

If we assume an increase in tax of 0.7% on the employee and employer for those over the age of 40, this raises £7.4bn.[18] This is enough to cover the cost of free personal care.

Table 7: Revenues raised from the age-related levy

Policy	Cost in 2020/21	Ability to meet costs
Free personal care	£7bn	Covered by the 0.7% increase
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	This would require a 0.2% rise.
Cap and floor	£5bn	This would require an increase of 0.48%

Source: SMF calculations and care costs from previous references.

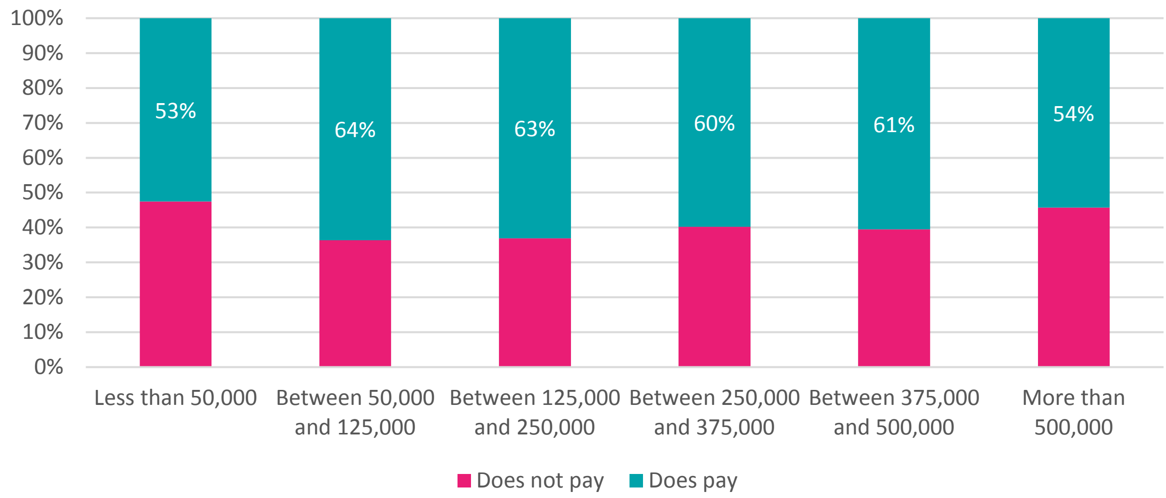
Who would pay?

Assuming this tax becomes payable at the same threshold as income tax 57% of individuals aged 40 to 64 would be liable to pay the age levy.

Who pays by wealth distribution

The majority of individuals aged 40 to 64 would pay the age-related levy regardless of wealth. Figure 11 shows that those with low to middle values of wealth (£50,000 to £250,000) are the most likely to pay the age related levy. Those who are approaching retirement may reduce their working hours which could translate into an income below the level needed to pay the age related levy. These individuals may have accumulated significant financial and property wealth over their lifetime and this could explain the reduction in the proportion of individuals within the upper wealth categories who are liable to pay the age related levy.

Figure 11: Wealth distribution by age related levy payment status, those aged 40 to 64



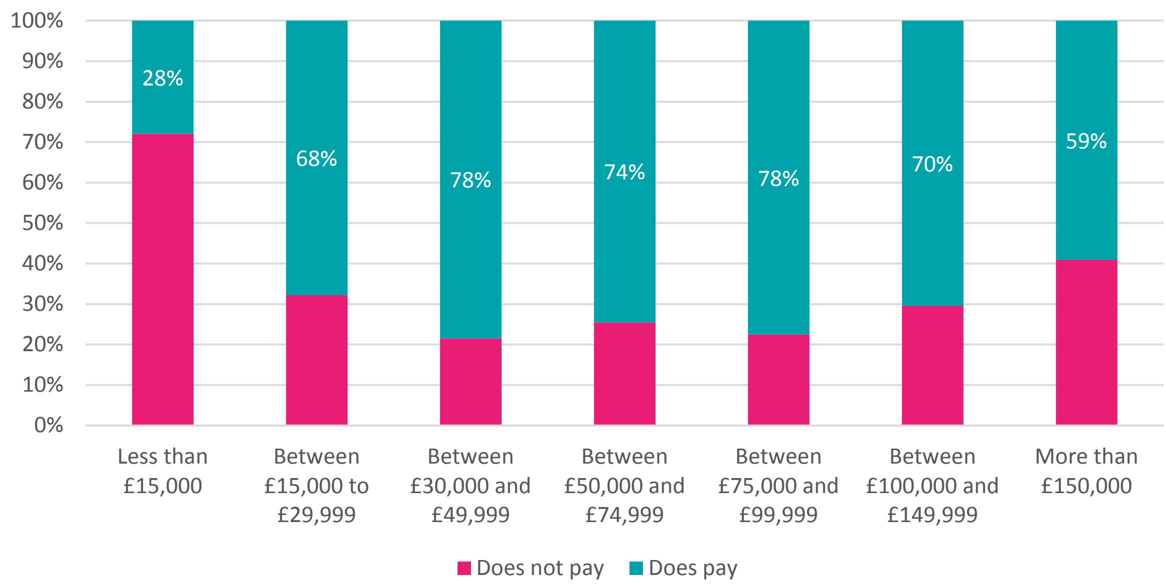
Source: SMF analysis of Wealth and Assets Survey (2014/16)

Who pays by income distribution

The relationship between payment of the age-related levy and household income per adult is clearly positive for the initial income groups, however as the level of household income per adult increase the likelihood of paying the levy reduces.

Household income per adult does not directly reflect an individual's earnings and therefore those in the upper income groups may not pay the age related levy as they live with high income earners or they obtain income from sources that are not captured by the income tax threshold that has been applied for the age related levy.

Figure 12: Income distribution by age related levy payment status, those aged 40 to 64



Source: SMF analysis of Wealth and Assets Survey (2014/16)

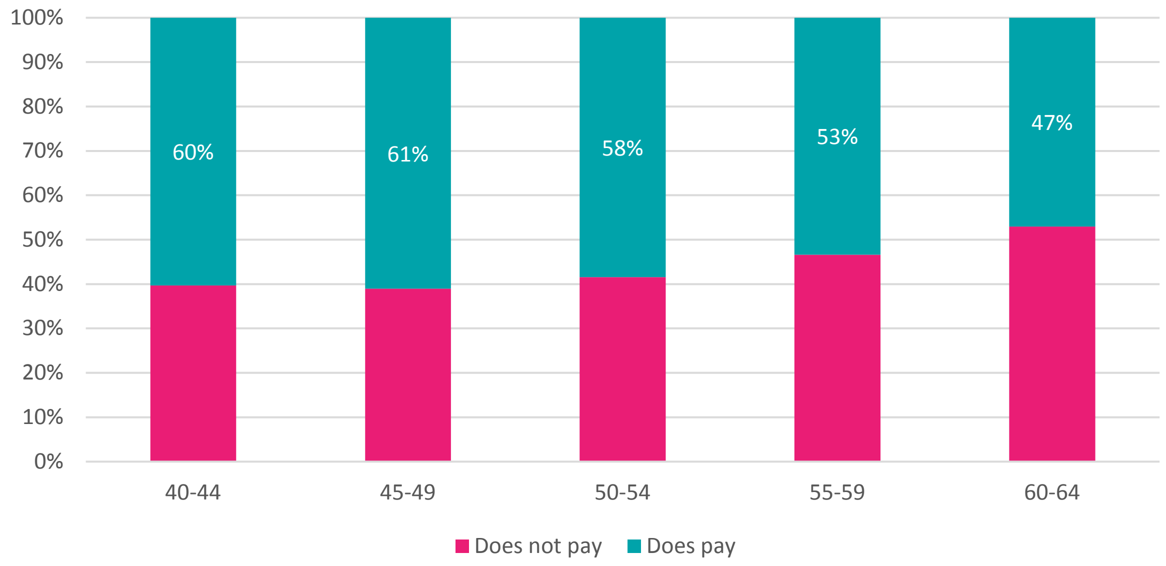
Who pays by region

The proportions of individuals aged 40 to 64 paying the levy varies slightly by region, with only 53% of individuals within London paying the levy compared to 62% in the south East. This reflects the differences in earnings between those aged 40 to 64 within the regions.

Who pays by generation

This policy is only paid by those aged 40 to 64. However, due to the earnings of those within the upper age brackets we can see that those aged under 54 are the most likely to pay the age-related levy.

Figure 13: Age distribution by age related levy payment status, those aged 40 to 64



The risk with this policy is that it could translate into age discrimination within the workforce.

Who pays by gender

Nearly two-thirds (64%) of men aged 40 to 64 are liable to pay the aged related levy, in comparison slightly fewer than half (49%) of all women are liable to pay.

Summary of age related levy
Wealth – Very little difference between the wealth levels **Income –** Those with low to middle household incomes per adult are the most likely to be paying **Region –** London has the lowest proportion of individuals paying, the south east has the highest **Generation –** Only payable between 40 and 64, but those under 55 are the most likely to pay **Gender –** A larger proportion of men pay the levy

Funding policy 4: Universal national insurance increase

The current national insurance system only requires employees of working age to pay if they are earning over £162 a week from employed income. Those who are self-employed are only required to pay if they earn over £6,205 per annum in profit.[19]

Within this section we analyse the impact of a universal increase in national insurance of 1 percentage point, with 0.5% being paid by the employee and employer. The recent House of Commons committees report on the long-term funding of adult social care suggested increases to national insurance as one of the options available to government to raise the funds for social care.[20]

How much would it raise?

An increase of 0.5% applied to the employee main rate, employee additional rate and employer rate would raise £4.92 billion in 2020/21.[21] This is short of the funds needed to offer free personal care in England but enough to cover the cap and floor.

Table 8: Revenues raised from a universal increase to national insurance

Policy	Cost in 2020/21	Ability to meet costs
Free personal care	£7bn	Liable employees, employers and the self-employed would all need to pay an extra 0.71% in NICS
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	Paid for by an increase of 0.2%
Cap and floor	£5bn	Paid for by 0.5% increase

Source: SMF calculations and care costs from previous references.

Who would pay?

In this analysis we have assumed that individuals with earnings of above £8,060 pay national insurance and the self-employed with profit above £6,205 are also liable to pay.

Who pays by wealth distribution

When focusing on who would pay national insurance by their level of wealth it is clear from figure 14 that there is a very weak relationship between wealth and the likelihood of paying national insurance. More than two-thirds (68%) of those with household wealth per adult of between £50,000 and £125,000 pay national insurance compared to just over half (52%) of those with over £500,000 in wealth.

There could be several reasons why those with large amounts of wealth are not paying national insurance including high volume of housing wealth amongst those approaching retirement, reduced working hours of those in the upper age groups and a reliance on other sources of income in addition to earnings.

Figure 14: Household wealth per adult by national insurance payment status, those aged 20 to 64

Source: SMF analysis of Wealth and Assets Survey (2014/16)

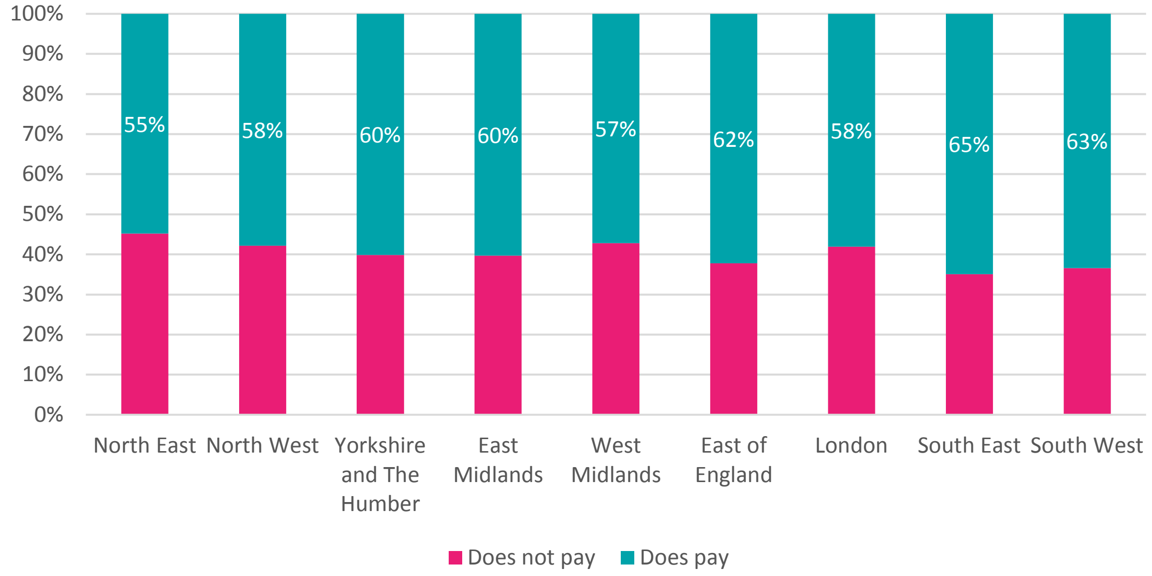
Who pays by income distribution

Eligibility for national insurance is based on income or profits and therefore we would expect a clear relationship between household income per adult and the likelihood of paying national insurance.

Who pays by region

There is a slight variation in the proportion of 20 to 64 year olds who would be liable to pay national insurance by region. Nearly two-thirds (65%) of individuals in the south east pay national insurance, compared to 55% in the north east.

Figure 15: Region by national insurance status, those aged 20 to 64

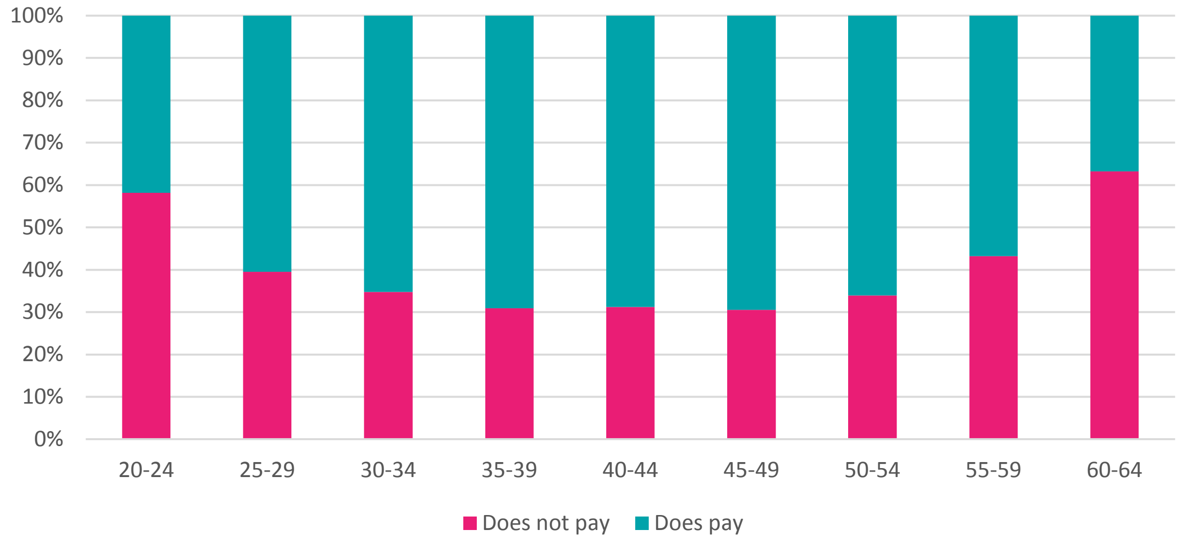


Source: SMF analysis of Wealth and Assets Survey (2014/16)

Who pays by generation

Through its design national insurance is only payable by those under state pension age. It is clear from figure 16 that age is related to the likelihood of paying national insurance. Individuals aged 35 to 54 are the most likely to be paying national insurance, whereas younger individuals and those approaching retirement are much less likely to be paying.

Figure 16: Age distribution by national insurance payment status, those aged 20 to 64



Source: SMF analysis of Wealth and Assets Survey (2014/16)

Summary of national insurance increases

Wealth - A greater proportion of those with middle levels of wealth are likely to be paying national insurance.

Income – National insurance is payable depending upon income levels

Region – Individuals in the south are more likely to be paying

Generation – Only payable when of working age and more common amongst those between 30 and 50

Funding policy 5: National insurance for those over state pension age

The current national insurance system only requires employees of working age to, once an individual is over state pension age they are no longer required to pay national insurance regardless of income or company profit.

Here we model the impact of levying national insurance payments on those who continue to work beyond the state pension age. This option has been explored widely by a number of organisations and individuals including but not limited to the Resolution Foundation, the IPPR, the Dilnot review and the Barker Review.

How much would it raise?

According to research by the Resolution Foundation this would raise £0.9bn in 2020.[22] This is significantly below the amounts needed for any of the proposed changes to the social care system.

Table 9: Revenues raised from national insurance for those over 65

Policy	Cost in 2020/21	Ability to meet costs
Free personal care	£7bn	In addition to the national insurance increase the government would need to find an additional £6.1bn.
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	This requires additional funding of £1.1bn
Cap and floor	£5bn	This requires additional funding of £4.1bn.

Source: SMF calculations and care costs from previous references.

Who would pay?

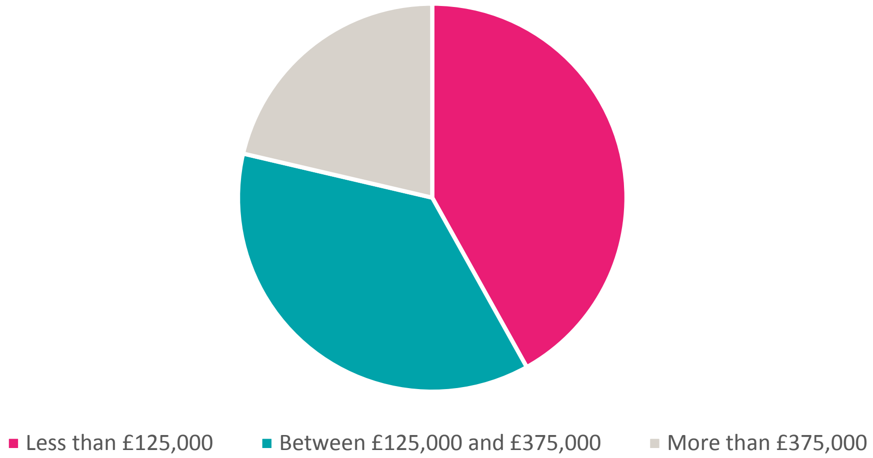
Within the following analysis we use age 65 as a proxy for state pension age.

Just under one in ten (9%) continue to work beyond the age of 65. Of those who continue to work approximately one third (39%) would be liable to pay national insurance based upon their earnings. This means that 3% of the over 65 population in England would be influenced by the proposed changes, this is equivalent to over 250,000 people.

Who would pay by wealth distribution

Our analysis suggests that a very small proportion of individuals would be required to pay national insurance beyond state pension age and this does not vary significantly by wealth. However, what is clear to see from figure 17 is that a large proportion of those who would be liable to pay have low levels of household wealth per adult. Four in ten (42%) of those who would be liable to pay have a household income per adult of less than £125,000 and two in ten (21%) have more than £375,000.

Figure 17: Wealth distribution of those who would be liable to pay NI over the age of 65



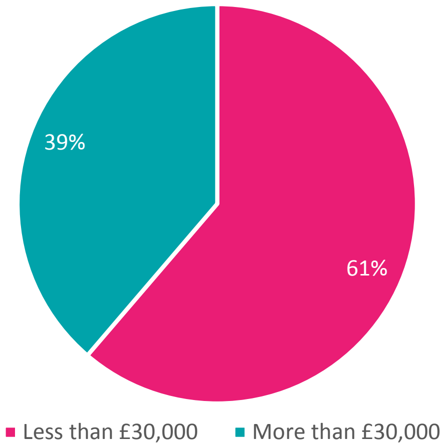
Source: SMF analysis of Wealth and Assets Survey (2014/16)

Who would pay by income distribution

Eligibility to pay national insurance is determined by whether an employee earns over £162 a week.[23] Whilst more than one in ten (13%) of those with a household income per adult of more than £30,000 would be liable to pay national insurance over the age of 65, lower income individuals make up the majority of those who would find themselves paying this tax.

Due to the small proportion of individuals working above state pension age and earning enough that they would be required to pay national insurance the following chart focuses on those earning above / below £30,000. Figure 18 shows that 61% of those who would be liable to pay under the new system have a household income per adult of less than £30,000.

Figure 18: Income distribution of those who would be liable to pay NI over the age of 65



Source: SMF analysis of Wealth and Assets Survey (2014/16)

Who pays by region

There is very little regional difference in the proportion of those over the age of 65 who would be liable to pay NI.

Who pays by generation

Due to its design this policy only impacts those beyond state pension age, however three quarters of those who would be liable to pay national insurance are aged 65 to 69. Therefore, whilst this policy may seem to be targeted at the age group that use social care services. the vast majority of those who would be paying the policy and only slightly older than working age.

Who pays by gender

Two thirds of those who would pay national insurance would be male.

Summary of national insurance for over 65s

Wealth - Four in ten (42%) of those who would be liable to pay NI over the age of 65 have less than £125,000 in household wealth per adult.

Income - More than half (61%) of those liable to pay NI have a household income per adult of less than £30,000.

Region – Very little difference between the regions.

Generation - Three quarters of those who would be liable to pay NI are aged 65 to 69.

Gender - Nearly two-thirds (64%) of those who would be liable to pay are male.

Funding policy 6: Income tax increases

Here we model an increase to income tax of 1p for basic rate, higher rate and additional rate taxpayers. The Liberal Democrats 2017 manifesto suggested this policy to fund the NHS and social care services.[24] This would not consist of any changes to current thresholds.

How much would it raise?

A 1p increase across the income tax bands would raise £6.4bn in 2020/21.[25] This is above the amount needed to implement the cap and increase the threshold of protected assets, however it is below the amount need to provide free personal care.

Table 10: Revenue raised from income tax increases

Policy	Cost in 2020/21	Ability to meet costs
Free personal care	£7bn	This would require income tax to increase by 1.11 percentage points.
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	This would require a 0.35 percentage point increase.
Cap and floor	£5bn	Increase of 0.8 percentage points

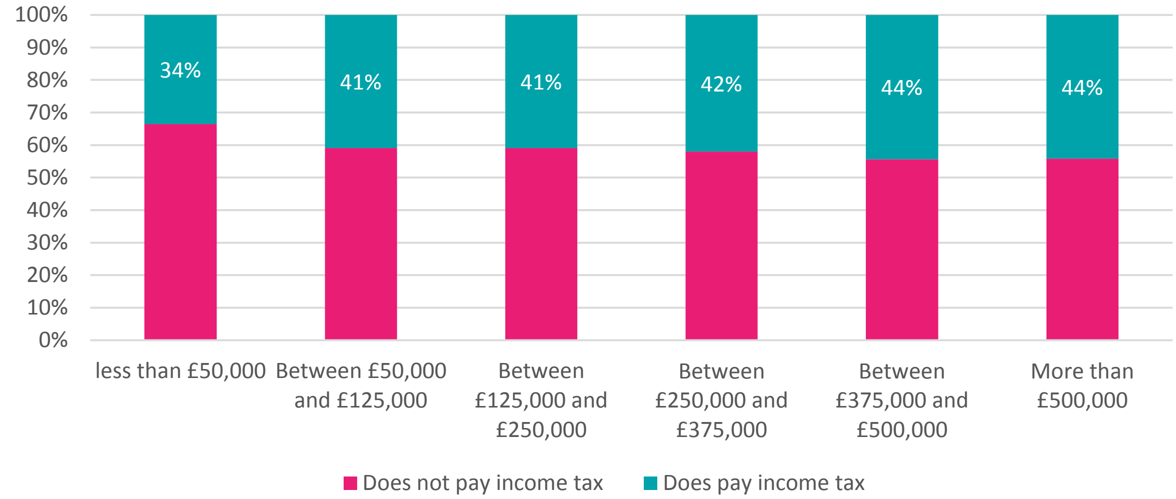
Source: SMF calculations and care costs from previous references.

Who would pay?

In 2014-15, 58% of English adults paid income tax, those who are currently eligible to pay would remain eligible.

Who pays by wealth distribution
The income tax status of an individual is not influenced by their level of wealth. As explored previously, there are considerable number of people with low incomes but high wealth and vice versa.

Figure 19: Proportion paying income tax by net household wealth per adult



Source: SMF analysis of Wealth and Assets Survey (2014/16)

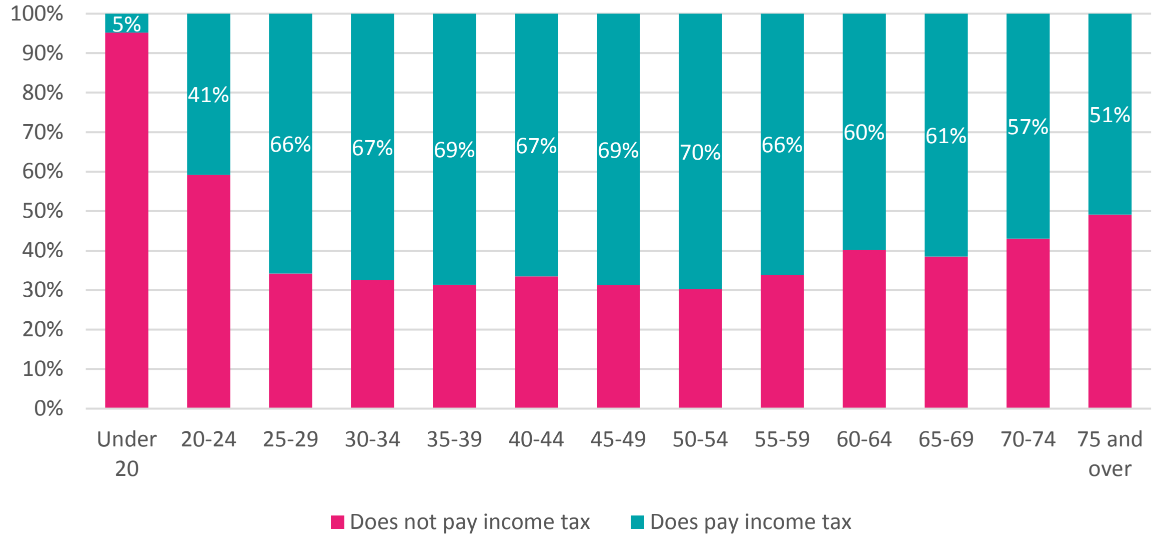
Figure 19 shows the proportion of individuals liable to pay income tax by net household wealth per adult, one third (34%) of those with positive wealth below £50,000 pay income tax. On the opposite end of the spectrum, less than half (44%) of those with household wealth per adult of more than £500,000 pay income tax.

Who pays by income distribution
In the current tax year individuals are only liable to pay income tax if they earn over £11,850 per annum. More than half of English adults pay income tax and the majority of taxpayers pay the basic rate.[26]

Who pays by region
The proportion of individuals who pay income tax is relatively consistent across the regions. However, the amount paid will vary depending upon the number of workers within the different income tax bands and average salaries within the region.

Who pays by generation
As income tax is payable on income, it is predominately paid by those of working age. However, as figure 15 shows the proportion of older individuals who pay income tax is still considerable, and the picture is not straightforward.

Figure 20: Income tax status by age

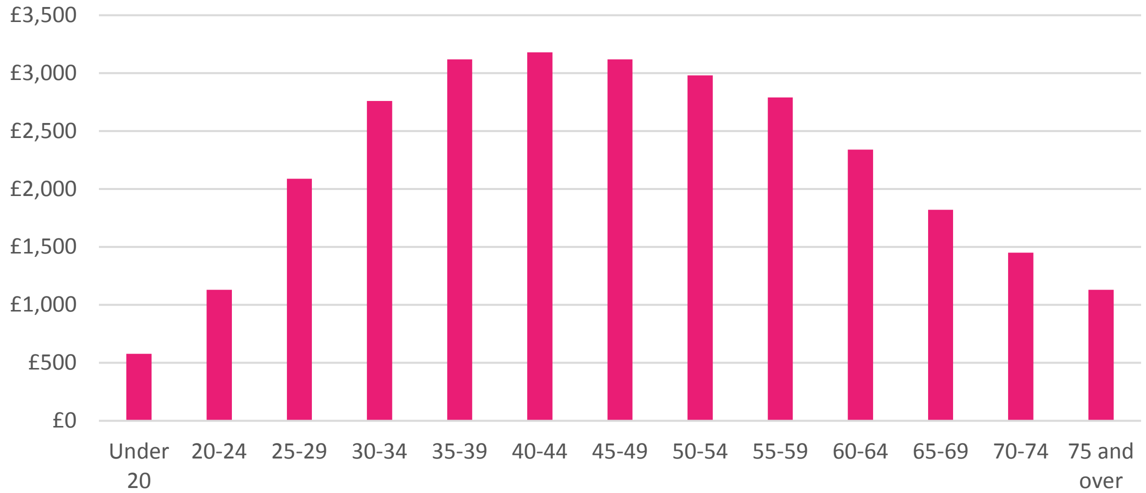


Source: HMRC

More than half of those aged above 70 pay income tax, whilst 70% of those aged 50 to 54 pay income tax. The comparatively high level of income taxpayers above the state pension age is explained by the fact that individuals do not a very high personal income to take them above income tax threshold once their state pension (maximum of £8,546.20) is taken into account.

However, income tax status only tells half of the story. The amount of tax paid varies substantially by age, with those aged between 35 and 49 paying on average over £3,000 per annum compared to £1,130 for those aged over 75.

Figure 21: Median income tax paid per annum by age



Source: HMRC 2018

Summary of income tax increases
Wealth - Over a quarter (28%) of those with negative wealth pay income tax and less than half of those with more than £500,000. **Income -** 58% of English adults paid income tax in 2014/15. The vast majority income tax payers pay the basic rate. **Region –** Very little difference between the regions. **Generation –** A majority of all age groups over the age of 24 would pay, but those of working age would be pay a much higher amount each on average compared to those above the state pension age. **Gender –** Just over half (57%) of those who pay are male.

Funding policy 7: Council tax increases

Up to now the fund-raising measures discussed have been adjustments to national policies or the creation of new policies. However, the present system relies heavily on councils raising funds for social care. Councils can currently use the social care precept to raise additional funds for their social care needs. In 2018/19 councils were able to increase their bills by 3%, this is on top of any increase in council tax that was already due.

In 2018/19, 148 out of 152 adult social care authorities will utilise some or all of the 3% adult social care precept.[27] This emphasises the funding pressures that local government faces.

How much would it raise?

It is estimated that councils will raise an additional £538 million in 2018/19 through the social care precept.[28] Research suggests that in 2020/21 a uniform increase of 1% in council tax rates would raise £0.5bn.[29]

Table 11: Revenues raised from council tax increases

Policy	Cost in 2020/21	Ability to meet costs
Free personal care	£7bn	For this we would need a 14% increase in council tax.
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	This would require a 4% rise.
Cap and floor	£5bn	This would require an increase of 10%.

Source: SMF calculations and care costs from previous references.

Who would pay?

More than 90% of the population pay some form of council tax; however, the amount varies depending upon the value of the property in which they reside and whether they receive a council tax reduction. For instance, students do not have to pay council tax and those who live alone receive a 25% reduction.[30]

Who pays by wealth distribution

There is a clear relationship between household wealth and council tax bands. More than 90% of those who have a net household wealth per adult of below £125,000 pay the lower bands of council tax. However, a quarter of those with more than £375,000 in household wealth per adult also pay the lower bands of council tax. Part of this could be attributed to the year in which property valuations took place and the difference between the historic value of their property and its current value and the implication this has on their current household wealth.

Figure 22: Council tax band by household wealth per adult

Source: SMF analysis of Wealth and Assets Survey (2014/16)

Who pays by income distribution

There is very little difference in the proportions paying council tax by income due in part to its standing as a property based policy. However, those on the lowest incomes tend to spend a much larger proportion of their gross income on council tax.[31] The figure below shows the proportion of gross income spent on council tax by income decile. Those in the bottom income decile spend almost 8% of their gross income on council tax in comparison to just over 1% for those within the top decile.

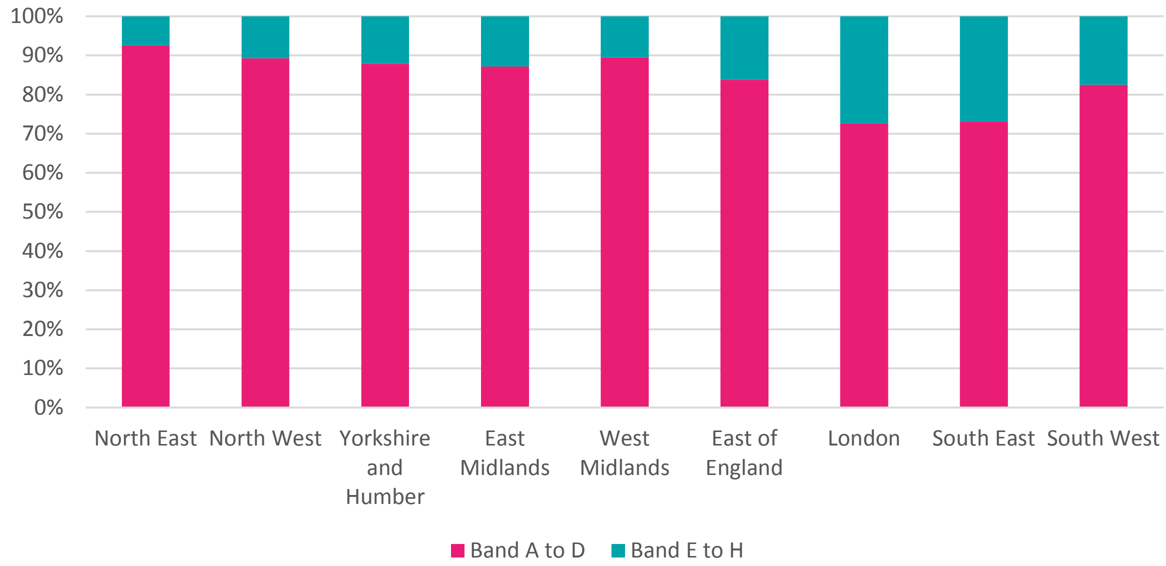
Figure 23: Council tax payments as a proportion of gross income by income decile

Source: ONS (2018)

Who pays by region

Again, the proportion of individuals who pay council tax does not vary by region. However, the proportion of individuals whose council tax is based on the higher bands is higher within London and the south east, as is shown within figure 19.

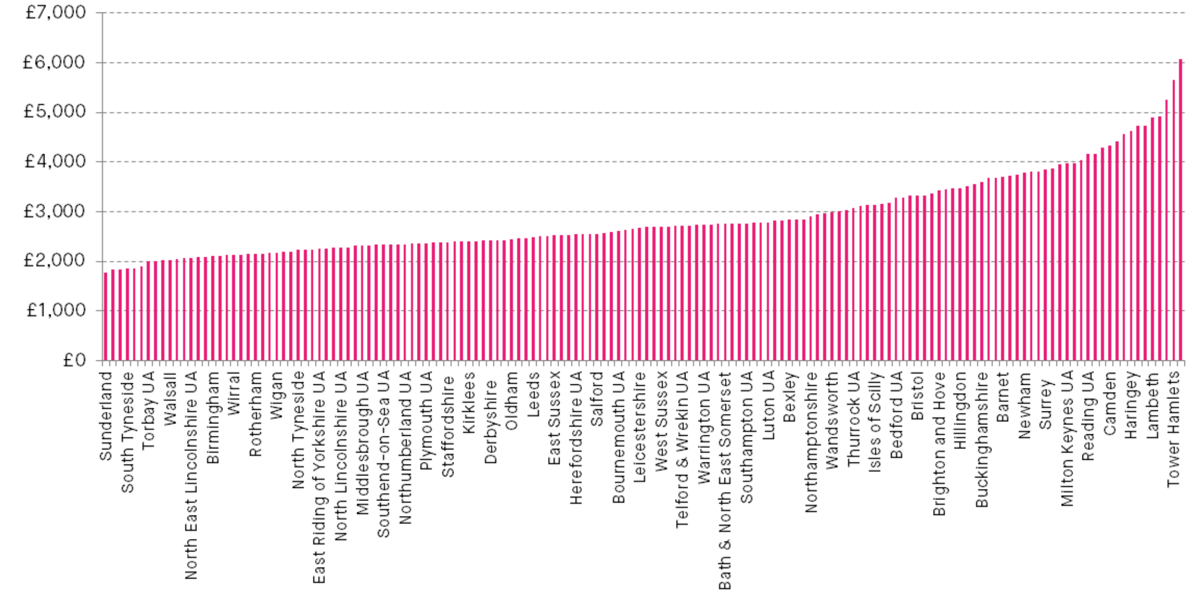
Figure 24: Council tax band distribution by region



Source: SMF analysis of Wealth and Assets Survey (2014/16)

However, this is only half of the story. The strength of the council tax base varies dramatically between areas with the consequence that many areas with high levels of social care need able to raise only modest additional amounts through increases to the council tax rate. Previous SMF analysis shows the difference in fund raising ability between local authorities within England. The chart below shows council tax receipts per person over the age of 65.[32]

Figure 25: Council tax receipts per person aged 65 or over (by local authority - not all named on axis)



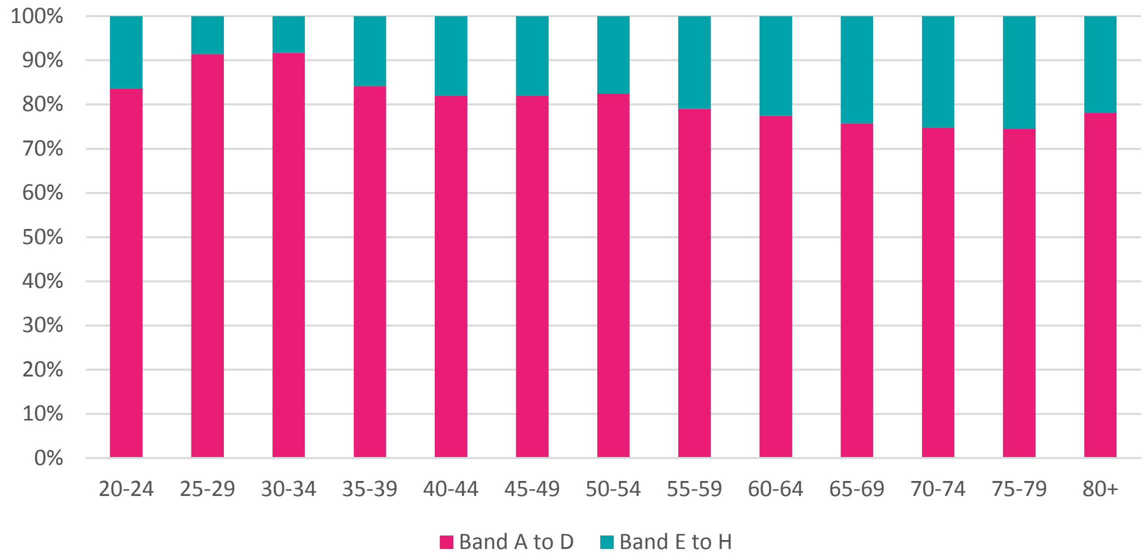
Source: SMF (2015)

Continuing down the path of using council tax to pay for social care is likely to lead to serious funding gaps within many local authorities.

Who pays by generation

There is very little difference between the proportion of individuals who pay council tax by age. However, older individuals are much more likely to be paying the upper bands of council tax, although the amount they pay in practice may be reduced due to council tax reductions for living alone or having a disability. Over a quarter of those aged 70 to 79 pay council tax in an upper band.

Figure 26: Council tax band distribution by age



Source: SMF analysis of Wealth and Assets Survey (2014/16)

Summary of council tax increases
Wealth - There is a clear positive relationship between wealth and council tax payments. **Income** - Those on the lowest incomes spend a large proportion of their income paying council tax. **Region** – Those in London and the South East are more likely to be paying the upper bands. There is a major dilemma around the local need for extra funds and the ability to raise revenue through this means. **Generation** - Older generations are more likely to be within the upper bands of council tax, however they amount they pay in practice may vary due to council tax reductions.

Funding policy 8: Increase to corporation tax

The previous fund raising measures have raised direct taxes on individuals to pay for social care, however corporation taxes could be used to raise the funds. A one percentage point increase in Corporation tax raises £2.8bn, although this can be offset by reductions in the tax base.

Table 12: Revenue raised from corporation tax

Policy	Cost in 2020/21	Ability to meet costs
Free personal care	£7bn	This would require a 3% increase in corporation tax
Amending the threshold (£100,00)	Assumed to save the government money	
Capping the costs of care (£72,000)	£2bn	This would require a 0.72 percentage point increase
Cap and floor	£5bn	This would require a 1.7% increase.

Source: SMF calculations and care costs from previous references.

Increases in Corporation tax can lead to reduced investment, less labour market opportunities and often increased prices for consumers. These range of factors make the distributional consequences of the policy difficult to calculate.

Summary of distributional impacts

The table below highlights how each policy measure compares across the five distributional dimensions of the analysis.

Table 13: Summary of funding options and their distributional impact

	Wealth	Income	Region	Generation	Gender
Payment at 65	Those with higher wealth pay the policy	A high wealth threshold protects those on the lowest incomes	A larger proportion of the funds raised will be from London and the South East	Only paid by those aged 65	N/A
Inheritance tax increases	Only paid by those with significant wealth		Wealth policies fall heavily on those in the south	Paid only by those who are deceased	N/A
Age related levy	Majority would pay regardless of wealth	Those on the lowest incomes do not pay	Very little regional difference	Only paid by those 40 -65	Two-thirds of men 40 to 65 are liable to pay
Universal national increase	Many of those liable to pay would have small values of wealth	Due to the threshold low income individuals do not pay	Very little regional difference	Those beyond working age do not pay	
National insurance for the over 65s	Many of those liable to pay would have small values of wealth	Due to the threshold low income individuals do not pay	Very little regional difference	Paid predominately by those aged 65 to 69	Two-thirds of payers are male
Income tax increases	Many income tax payers have very little wealth	Those on the lowest incomes do not pay and the majority of payers are basic rate payers	Very little regional difference	Those beyond working age do pay income tax, but they pay considerably less per annum	Just over half of payers are male
Council tax increase	There is a clear link between wealth and council tax payments	Council tax represents a considerable proportion of a low-income individual's disposable wealth	Those in the southern regions are more likely to be higher rate payers	Older generations are more likely to be top rate payers but often receive a reduction	N/A

CHAPTER 4: HOW WILL THE POLICIES IMPACT INDIVIDUALS?

This chapter of the report discusses the impact of adjusting how much social care the government will pay for alongside how the government will raise these funds. This summarises the protection the individual will receive against their care costs and how much they will contribute towards this protection.

We look at six stylised case studies to understand how these policies interact and who may be winner or losers.

Case study one: Bernard

Bernard is 75 years old and in receipt of care within his home and lives alone. His financial position is as follows:

- Financial wealth of £15,000
- Property wealth of £110,000
- Total wealth of £125,000
- Annual income of £10,000

Status quo - At present Bernard receives financial support for his care as his financial wealth is below £23,250.

Free personal social care - If the government was to implement free personal care Bernard would continue to receive support.

Adjusting the threshold to £100,000 - If the asset threshold was amended to £100,000, Bernard would be in a difficult position, although his financial wealth is considerably below this, the value of his home would mean that he would now be required to pay for his care. He would pay £25,000 towards the cost of his care before he was eligible for financial assistance.

Capping the cost of care at £72,000 - Whether Bernard was affected by the care cap depends upon whether the means test for domiciliary care changes. If the system was kept as is but with the introduction of a £72,000 cap on care costs Bernard would not be affected as he does not pay for care.

Cap and floor – Combining policy two and three would impact the amount Bernard pays for his care. When including the value of his property he has a total wealth of £125,000, which makes him eligible to pay. Bernard would reach the asset protection threshold before the cap came into force. He would spend £25,000 on care before help and be left with £100,000 in total wealth.

Bernard would not be affected by several of the policies used to raise the funds. Due to his age (77) he would not be affected by the payment at 65. At present, his assets are lower than the inheritance tax threshold and therefore he would continue to be exempt from inheritance tax. He is not in work and his pension is below the income tax threshold and therefore would not be affected by either an income tax rise or national insurance for the over 65's.

However, Bernard does pay council tax, although as he lives alone he does receive a reduction of 25%. The current 3% precept is equal to £30 of the average Band D council tax bill, assuming a 1% increase Bernard would find his council tax bill go up by an additional £10.

Case study three: Desmond

Desmond is 90, he receives care within his council home. His financial position is as follows:

- Financial wealth of £29,000
- Property wealth of £0
- Total wealth of £40,000
- Annual income of £12,000

Status quo – Desmond pays for his care as his financial wealth is higher than £23,250.

Free personal social - If the government was to implement free personal care Desmond would benefit immediately.

Adjusting the threshold to £100,000 - If the asset threshold was amended to £100,000, Desmond would benefit immediately from financial assistance with his care. Desmond does not own his home and therefore does not have property wealth.

Capping the cost of care at £72,000 – If the care cap was implemented in combination with keeping the threshold for of asset protection at £23,250 then Desmond would continue to pay for his care. As he only has £29,000 in wealth he will be eligible for support before reaching the cap, he would need to spend £5,750 before receiving support.

Cap and floor – The combination of policy two and three would see Desmond benefit immediately. Due to his wealth he would receive immediate financial assistance with his care.

Whilst Desmond may benefit from several of the policy options, he is unlikely to pay towards them through any of the policy funding measures, other than council tax.

Case study two: Jackie

Jackie is 80, she receives care within a residential care home. Her financial position is as follows:

- Financial wealth of £75,000
- Property wealth of £650,000
- Total wealth of £725,000
- Annual income of £24,000

Status quo – Due to her financial position Jackie pays for her residential care.

Free personal social care - If the government was to implement free personal care Jackie would benefit immediately.

Adjusting the threshold to £100,000 - If the asset threshold was amended to £100,000, Jackie would not be impacted immediately. Jackie has a total wealth of £725,000 and therefore would need to spend a total of £625,000 of her wealth on care before she was eligible for state support, which is unlikely. The average cost per week of residential care within the South East is £710.[33] Jackie would need to receive care for more than 16 years before receiving help.

Capping the cost of care at £72,000 – Jackie would benefit from a care cap if the costs of her care reached the cap of £72,000. If she hits the care cap then she will be able to hold onto over 90% of her wealth.

Cap and floor – The combination of policy two and three would see Jackie reach the cap care of £75,000 before she is eligible for state support based on her wealth.

Jackie will benefit from several of the protections above and she will pay for them through increased income tax and inheritance tax.

Case study four: Alison

Alison is 64, she is currently in work and plans to continue to work beyond the state pension age, she owns her home and lives there with her husband. Her financial position is as follows:

- Financial wealth of £34,000
- Property wealth of £270,000
- Total wealth of £284,000
- Annual income of £29,000

At present, Alison does not receive any form of care. In the future, if she was to need care she would benefit immediately if free personal care was provided. Her wealth means that she would be eligible to pay for her own her own care under the other three proposed options, although she would eventually receive greater financial support than under the current status quo.

Payment at 65 - Alison is only a few months away from her 65^{th} birthday and therefore under the proposed age payment she would be liable to pay £30,000 due to her wealth levels. This £30,000 would be equivalent to approximately 10% of her total wealth. Although, Alison owns her home with husband who is also approaching 65 and therefore they would both be required to pay.

Inheritance tax – Alison's wealth is below the threshold. However, she does expect to receive a large inheritance upon the death of her mother. She would be impacted negatively by future increases to the inheritance tax rate.

Age related levy – Alison and her employer would be required to pay the age levy until she researches state pension age.

Universal National insurance and for the over 65's – Alison is 64 and enjoying work and plans to continue to work beyond the state pension age. Her annual income puts her above the national insurance threshold and therefore she would be £2469.12 worse off in the tax year 2018/19.[34]

Income tax increase – Alison pays the basic rate of income tax. She would find that the amount she pays in income tax would increase by £171.5 per annum.

Council tax increase – Again, Alison would be negatively impacted by council tax changes.

Case study five: Zayn

Zayn is 30 and currently in work. He is living at home with his parents and saving for his first home. His financial position is as follows:

- Financial wealth of £14,000
- Property wealth of £0
- Total wealth of £24,000
- Annual income of £60,000

Zayn does not receive care and is many years off needing social care in later life, although the policies could protect him against large social care costs in the future.

Age payment – Zayn is 35 years away from his 65th birthday. The implementation of the age payment would give him an opportunity to prepare for this payment and save additional funds.

Inheritance tax – Zayn's is unlikely to be affected in the near future by inheritance tax changes as he does not expect to inherit large sums of money. He could be liable to pay in the future depending his own wealth accumulation.

Age related levy – Zayn is not yet 40 and therefore would not be immediately impacted by the implementation of the age related levy.

National insurance increase – Zayn pays national insurance and would find the amount that he and his employer pays increase.

National insurance for over 65's – Zayn is many years away from state pension age and would therefore not be influenced by this change.

Income tax increase – Zayn pays the higher rate of income tax due to his annual income of £60,000. His income tax payment would increase by £482 in the 2018/19 tax year.

Council tax increase – Zayn lives at home with his parents and therefore would not feel the impact of a council tax increase.

Case study six: Sarah

Sarah is 40 and working part-time. Her financial position is as follows:

- Financial wealth of £2,000
- Property wealth of £160,000
- Total wealth of £162,000
- Annual income of £10,000

Sarah does not receive care.

Age payment – Sarah is 25 years away from her 65th birthday. She believes she would struggle to contribute to the payment at 65 due to her small financial wealth but would be able to delay until death due to her property wealth.

Inheritance tax – Sarah would not be affected by any changes to inheritance tax.

Age related levy – the age related levy has the same income threshold as income tax and therefore Sarah would not be impacted.

National insurance increase – Sarah does earn enough to pay national insurance, the amount she and her employer would pay will increase under this method of raising the funds.

National insurance for over 65's – Sarah does not plan to work beyond state pension age.

Income tax increase – Sarah does not pay income tax as her earnings are too low, she would be unaffected by this policy.

Council tax increase – Sarah would be negatively impacted by an increase in council tax. She already spends a sizable proportion of her gross income on council tax and is worried about future rises.

CHAPTER 5: CONCLUSIONS

The previous chapters of this report have explored the options for reforming social care within England, concentrating on the level of protection individuals should receive and how to fund these reforms.

How much protection should the government provide?

The present system does not protect people from the catastrophic costs that can be associated with long-term care. The market has had time to develop products to insure individuals against the cost of care but these products have not materialised and a market has not formed. There is very little public understanding of the social care system. Many do not understand that they need to pay for their social care and do not understand how much this will cost them over their lifetime.[35] A combination of complexity, lack of understanding and rising costs means that the current system needs reforming.

The four options of protection explored are: free personal care; amending the level of asset protection; capping the cost of care; and introducing a cap alongside an increase in asset protection. The cost of these policies ranges from saving the government money to costing £7bn in 2020/21.

A **cap on care costs** with the current asset thresholds remaining in place protects people against care costs above £72,000. Under this system an individual with low levels of wealth could lose 75% of their assets before receiving protection against the costs of care. On the other hand, **increasing the level of asset protection** to £100,000 does not protect individuals against the risk of catastrophic care costs. As shown by Jackie's case study in Chapter 3, an individual with large amount of wealth could find themselves depleting a very large proportion of their wealth before receiving any help with social care costs. In isolation, neither the **cap** nor the **increase to the asset threshold** goes far enough in protecting individuals against negative outcomes. If one is committed to capping the costs of care to protect individuals against large care bills then research has shown that increasing the means test to £100,000 has a marginal impact on the cost of the policy.[36] Introducing this policy means that the Government would need to raise an additional £5bn by 2020/21.

For an additional £2bn the government could introduce free personal care for all individuals in England. This would ensure that no individual would find themselves spending significant amounts on social care or reducing their wealth by considerable proportions. Introducing free personal care will benefit those who have wealth or incomes above the asset threshold and ensure that care provision is universally available and affordable regardless of wealth and income. Many people already believe this to be the case and feel favourably towards this policy.[37] We believe that the benefits of this policy justify the additional cost of adoption.

How to raise the funds

There is no easy way to raise the funds needed to reform social care. Those policies that might be implemented without significant would not raise adequate funds either in the short or long term. Policies such as increasing national insurance, inheritance tax or council tax may seem politically feasible or even attractive to some, but in practice these policies raise very little additional revenue and would still leave large gaps in care funding.

With all of the options discussed, there is the potential to hypothecate revenues for social care… Hypothecation can offer political attractions, since it can make it easier for politicians to justify tax increases, since voters can be assured that the money raised will be reserved for a service they feel deserves more funding. But hypothecation raises economic problems, since the money raised can fluctuate from year to year and can be influenced by changes to the economy. For instance, income tax and national insurance receipts will fall during a recession or period of higher-than-average unemployment, this would reduce the amount available to the government to fund social care. Would the government of the day meet any shortfall in hypothecated care revenues from other revenues, or allow care spending to fall short of needs?

Of all the policies explored within chapter three only two policies raise enough additional funding to fund free personal care: **increasing income tax** and the **payment at 65**. There are positives and negatives associated with using income tax as the method to raise funds for social care. Income tax is progressive in nature with those with the highest incomes paying the most tax but very little income tax is paid by those beyond working age. While social care is consumed by older individuals, if that care is funded by higher income taxes it will be those of working age who will pay. We do not feel that is a sustainable outcome, either socially or politically, given persistent demands for a rebalancing of economic and political advantage from older to younger generations.

In summary, a funding solution on care that relies on changing existing taxes and policies will either fail to raise sufficient revenue, or raise too much revenue from the wrong people. By a process of elimination, we conclude that the best way to raise the money needed for the most attractive outcome (free personal care for all) is to introduce a new charge on people with significant assets when they reach 65 be become eligible for care.

Implementing the payment at 65, for those with household assets of more than £150,000 per adult, raises enough to fund free personal care in 2020/21. The earlier analysis discussed setting the threshold at £100,000 or £250,000, the former would result in people loosing considerable proportions of their wealth, whilst the later significantly reduces the proportion of people would be liable to pay. As described, this would require individuals to pay £30,000 upon their 65th birthday if they meet the payment criteria, which we envisage would be based on household wealth. This payment could be deferred to death if the individual does not have liquid assets. Implementing this policy to fund free personal care would ensures people are protected against high social care costs or significant wealth reduction. To put this into perspective, under a cap-and-floor system, an individual with £150,000 in household wealth per adult would need to pay £50,000 for their care before receiving any state support with care costs. Under our "payment at 65" rules, this individual would be liable to pay £30,000, either on their 65th birthday or through a deferment, and then receive free personal care.

We have so far not attempted to give a formal name to the payment at 65, but we recommend that careful thought and testing be given to the payment's name, which should invite comparisons with insurance premiums: there widespread social acceptance that it is necessary to pay the costs of insurance even if the payer never makes a claim:

those paying our payment at 65 would get in exchange the certainty of knowing their personal care would be free.

We anticipate that the implementation of a one-off payment model would spur innovation in financial services products to help people amass or release funds to make the payment, especially by drawing on the value of property assets.

The political sustainability of this policy is important for the long-term funding needs of the social care system. Therefore, *we recommend* the formation of an independent Care Funding Committee to oversee the creation and eventual implementation of the Payment at 65 scheme and the administration of the revenues raised. This committee, loosely modelled on the Bank of England's Monetary Policy Committee, would make public recommendations to Government on the level of the payment and the threshold at which it was payable. policy. In the event that the Government decided to hypothecate care revenues, the Care Funding Committee should have operational independence over the level of the payment and the threshold, to ensure that sufficient funds could be raised even during periods of economic challenge. If voters are to be asked to make significant payments towards a free care system – and we believe they should be – then they must have confidence that the fees involved are necessary and sufficient.

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