REFORM

Paying for long term care

With Lord Warner, Penny Mordaunt MP, Clive Bolton, Richard Humphries, Nick Kirwan, Paul Lewis, Mark Pearson, Nick Starling, Emma Stone

Association of British Insurers
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Reform is an independent, non-party think tank whose mission is to set out a better way to deliver public services and economic prosperity.

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REFORM

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Introduction

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Patrick Nolan, Chief Economist, *Reform*

Stuck in the slow lane

Long term care needs reform. The major parties all agree that the current system is outdated and unsustainable. They also recognise that an ageing population and changes in morbidity mean the cost of care will continue to rise. Efforts to adopt solutions are, however, stuck in the slow lane.

On coming to power the Coalition Government set up the Commission on Funding of Care and Support. The Commission will report in July and will make recommendations on how to achieve an affordable and sustainable funding system for care and support. But we have been here before. In 1997 the Labour Government made reforming the funding of social care a priority. A Royal Commission reported in 1999 and it took until 2009 for the Government to set out options for fundamental reform.

Yet change has to take place. Government programmes are largely funded on a pay as you go basis. With the ageing of the population the proportion of people who work and pay the taxes that fund services is falling. The reliance on public funding must fall and recipients must fund more of the cost of services through direct charges and payments.

For every year for the last 15 years social care funding has increased in real terms.[1] Demographic changes mean this rate of increase in tax financing cannot continue. If the current system remains unreformed by 2030 the cost of long term care would rise to 1.7 per cent of GDP compared to 1.2 per cent in 2010.[2] This is just one of a number of areas where population ageing means that existing programmes will become increasingly unaffordable. Indeed, as the IMF has noted, by 2050 the world-wide fiscal cost of the ageing population ageing will be equivalent to facing nine of the recent global financial crises.[3]

But this is not just a financial argument. There are other important reasons for addressing the costs of population ageing and for doing so quickly. The problem of affordability is not going to go away and delaying change will make the challenge harder. It will reduce the time available to prepare for changes in policy frameworks such as requiring individuals to make greater individual contributions to funding care.

For any change to a system of funding long term care there will be a group of people who are disadvantaged in the transition. This will include people who are below but close to age of taking up care. These people will have little time to change their plans for funding their care. Given this it may be tempting to delay any increase to ensure that they do not lose from the change, but this would make future problems worse. Population ageing means that more people could be caught in the transition if the change is delayed and that the group of losers would be larger.

It has been 15 years since the Joseph Rowntree Foundation first published the results of their Inquiry into the Costs of Continuing Care.[4] Someone who was 40 when this document was published would now be 55 and have little chance of significantly building up assets to draw on in retirement. As concerning as this is at an individual level, from a national perspective there is even greater ground for concern. Unless changes are made soon even more people will approach retirement age without an adequate plan for their future. Waiting another 15 years for action should not be an option.

The summit

On 15 February 2011 *Reform* brought together around 100 delegates, from politics, public service, business and the third sector, to listen to and debate the presentations of nine speakers on funding long term care. The speakers were:

- Lord Warner, Commissioner, Commission on Funding of Care and Support
- Penny Mordaunt MP, Chair, All Party Parliamentary Group for Ageing and Older People
- Clive Bolton, Managing Director, Equity Release, and At Retirement Director, Aviva
- Richard Humphries, Senior Fellow, Social Care, The King's Fund
- Nick Kirwan, Assistant Director, Health and Protection, Association of British Insurers
- Paul Lewis, Financial journalist
- Mark Pearson, Head of Health, OECD
- Nick Starling, Director, General Insurance and Health, Association of British Insurers
- Emma Stone, Director, Policy and Research, Joseph Rowntree Foundation.

This summit provided the chance to hear the views of these figures and, in turn, provided them with the opportunity to receive questions from a range of delegates. A booklet containing short think pieces was published with the summit. Presentations and questions and answers during the day were recorded. This report contains a copy of the agenda of the event, the booklet that accompanied it and the transcript of the discussions.

1 Humphries, R. *Social care funding and the NHS: An impending crisis?*, The King's Fund.
2 Commission on Funding of Care and Support (2010), *Call for evidence on the future funding of care and support.*
3 IMF (2009), *Fiscal implications of Global Economic and Financial Crisis.*
4 Joseph Rowntree Foundation (1996), *Inquiry into the Costs of Continuing Care.*

The summit received extensive press coverage. *The Daily Telegraph* and *The Daily Mail*, for example, both focused on Lord Warner's comments ruling out "100 per cent universal State provision" and the need for the wealth tied up in housing assets to play a part in any funding solution. *The Guardian* highlighted Lord Warner's indication that compulsory insurance has been ruled out.

Still in denial

The summit, and the coverage it generated, highlighted the poor understanding of the costs of long term care. Survey data suggest that 57 per cent of people know nothing or very little about the current system of support.[5] Too many people still expect that the State will cover costs as with the "free at the point of care" NHS. Many people only discover the costs of care at the moment when they or a family member are considering entering care and so effectively make "crisis purchases."

The scale of this challenge was shown by a 2010 Government white paper on national care services, which estimated that the number of older people and younger adults with potential care needs will rise by around 1.7 million over the next 20 years. 75 per cent of those aged over 65 will need some care during their retirement and around 20 per cent will face care costs of more than £50,000.[6]

The coverage of the summit also highlighted the challenges of having an open debate on changing the ways in which care is funded, with the summit generating headlines like "Baby boomers can 'afford to fund own care in old age': Government adviser determined to raid their property." In developing their report the Government's Commission on Funding of Care and Support will have to consider some tough proposals, such as using the value of homes to help fund care. These proposals deserve a reasonable hearing.

Greater individual contributions must play a part

The summit highlighted the widespread dissatisfaction with the current system. Many people condemn the current system as unfair and there is particular angst that some people are "forced to sell their homes" to fund care. Not only is this view wrong (people are not currently required to sell their homes) it overlooks the very strong case for requiring people to contribute to the cost of care from the value of their assets.

Some people argue that additional tax spending should fund long term care as the elderly cohort have made National Insurance Contributions and paid taxes during their working lives. But these contributions and taxes have largely been spent on a pay as you go basis. They have also, in aggregate, tended to be lower than spending with governments running persistent deficits since the 1970s. This reflects a "borrow now, pay later" culture. While such an approach may have been possible, although not wise, when the working aged population was growing faster than the elderly population, this approach cannot be sustained with an ageing population.

An implication of this is that it will become increasingly important to consider value for money from spending on the elderly. This must include a greater requirement to contribute to the costs of support, such as long term care, through releasing the equity in assets like housing. It has been estimated that people over the age of 60 have more than 80 per cent of Britain's wealth and over £1 trillion in unmortgaged equity. This cohort has benefitted from windfall gains from a long period of house price inflation higher than wage and price inflation.

Failing to require people over the age of 60 to contribute to the costs of their care from the value of their homes would be unfair to younger generations. The shrinking working age population means that in the absence of reform tax burdens facing younger people will have to be higher and the guarantee of services lower. Younger people will face the prospect of paying more for less while the elderly population enjoys a heavily subsidised lifestyle and unearned windfall gains. There is growing evidence that people accept this case for change with many people no longer expecting cradle to grave State provision.[7]

A new partnership between the State and the individual is required. All over the world countries are reforming their systems of long term care. This includes broadening the expectations on who should contribute to long term care. Systems that previously looked to fund social care through social insurance or general taxation are now requiring people to make a greater contribution to the costs of their care. These are the ideas that England now needs.

5 Ipsos MORI (2011), *Public opinion research on social care funding: A literature review on behalf of the Commission on the Funding of Care and Support*
6 *Guardian* (2011), "Cost of care in old age rises to average of £50,000", 21 March.
7 *The Daily Telegraph* (2011), "Baby boomers 'prepared to pay for long-term care'", 17 February.

Transcript summary

Welcome and keynote speech

Introducing the summit on behalf of the Association of British Insurers, **Nick Starling**, Director of General Insurance and Health, noted the significant demographic changes taking place. We all know that people are living longer, yet old age and the costs of retirement and social care still too often take people by surprise. The way in which people understand these issues needs to catch up with the generational shift in ageing.

In his keynote speech **Lord Warner**, Commissioner, Commission of Funding of Care and Support, set out four priorities for reforming the funding of long term care. The first priority is for people to have the opportunity to protect themselves and for the private sector to do more to deliver better products for consumers. The second priority is to overcome the lack of public awareness on how the system works and the need for individuals to plan for their own needs. The third priority is for there to be greater clarity on how funding long term care interacts with the wider public system of support, particularly on the boundaries between health and social care. Too often older people and their families believe the NHS will provide for their care needs only to find out during a moment of crisis that this is not the case. Finally, with the costs of care set to rise, a new partnership is needed to fund future needs. Lord Warner stressed there is no silver bullet to reforming the system and any changes in funding must not undermine the of quality delivery. He ruled out a 100 per cent State funded solution and said the Commission would be wary of proposing compulsion as part of any solution. A partnership between the State, individuals and their families is needed.

The scale of the challenge

The session on the scale of the challenge was opened by **Penny Mordaunt MP**, Chair of the All Party Parliamentary Group for Ageing and Older People. She highlighted that many of the challenges are already starting to be felt, with there being existing levels of unmet demand for support for the elderly population. Already too many people do not have access to services and too often older people's issues are absent from planning, as shown by the low number of local authorities who mention older people in their housing strategies. She also highlighted concerns with the delivery of care and the operation of the system of mean-testing, which means some people are provided free care while other people are required to fund care out of the value of their assets.

Richard Humphries, Senior Fellow at The King's Fund, also highlighted failings in the current care system. As he said, if there was an international award for a poorly designed system then England's system would be the favourite to take it out. The current system is one of the "stingiest, most confusing, fragmented and poorly understood" in the world. The system not only needs to change to address these current failings but to also reflect important demographic changes. To make a start with this one important step would be, as he noted, to improve the quality of information and advice available to people planning for their care needs.

The journalist **Paul Lewis** argued that there is not really a problem. The resources to fund the costs of care are available (such as the housing assets held by the over 60s) and the only issue is an unwillingness to require contributions to the costs of care to be made from the value of estates. Yet this unwillingness is a real barrier to developing a fair funding system. Excluding these assets from funding calculations is patently unfair. At the very least we need to recognise that the older cohort who hold these assets have benefitted from a windfall (unearned) gain in the increasing value of their homes.

Options for funding long term care

An international perspective on options for funding long term care was provided by **Mark Pearson**, Head of Health at the OECD. As he noted, many countries are grappling with the funding of care and using assets as a funding source has played an important part in reform in Australia, Ireland and the United States. Reforms around the world have also emphasised the need to broaden out who they expect to contribute, moved towards more universal coverage and funded long term care in a similar way to the way that health services are funded.

Emma Stone, Director of Policy and Research at the Joseph Rowntree Foundation, also highlighted lessons from reform in other countries. She noted that a key lesson is to avoid the mistakes of tinkering around the edges or failing to look beyond this Parliament. The scale and nature of the challenge means that reform, and the recommendations of the Commission, must be radical and move towards a more simple system.

Clive Bolton, Managing Director, Equity Release, and At Retirement Director, Aviva, discussed the attitudes of people towards retirement. There are three broad groups, those who are focused on the meeting the costs of retirement, those who are in denial and those who have not started to think about it. It is a hard thing to say, but many people fail to appreciate how much they need to do to prepare for their retirement, and realistically what lifestyle they can expect when they retire. The unsustainable patterns of working and retirement also raise the issue of intergenerational fairness.

The final speaker of the summit, **Nick Kirwan**, Assistant Director, Health and Protection, highlighted the need for a new settlement in the balance between individual and State responsibility. The insurance industry needs to play a key role in filling the protection gap, and should continue to work in partnership with the State. He noted that the people at or close to retirement and who, in many cases, have too little time to build up assets to draw on in retirement pose real challenges. But the challenge of increasing the savings levels of people in their 40s must also play a part in a 20-year strategy for reform.

Programme

08.30 – 09.00	Registration and coffee	
09.00 – 09.30	Welcome and introduction	**Andrew Haldenby, Director, *Reform*** **Nick Starling, Director, General Insurance and Health, Association of British Insurers**
09.30 – 10.00	Keynote speech by Lord Warner	**A keynote speech by Lord Warner, Commissioner, Commission on Funding of Care and Support, on the case for change**
10.00 – 11.00	The scale of the challenge	The costs of long term care are increasing. At a national level an ageing population and changes in morbidity will create a “funding gap” of at least £6 billion by 2026. In addition, the current system creates inconsistencies in the level of support and puts pressure on local authority budgets. Individual contribution is essential to fund long term care, but the costs and the complexity of the system are poorly understood. **A panel debate chaired by Patrick Nolan, Chief Economist, *Reform*** **Penny Mordaunt MP, Chair, All Party Parliamentary Group for Ageing and Older People** **Richard Humphries, Senior Fellow, Social Care, The King’s Fund** **Paul Lewis, Financial journalist**
11.00 – 11.30	Coffee	
11.30 – 12.30	Options for funding long term care	There is a broad consensus that the costs of care should not be funded entirely through taxation. The terms of reference for the Commission on Funding of Care and Support make clear that it will consider a range of funding ideas, including voluntary insurance and partnership schemes. This session will explore the possible options for reform, including the possible roles of individual contributions and the financial services industry. **A panel debate chaired by Patrick Nolan, Chief Economist, *Reform*** **Mark Pearson, Head of Health, OECD** **Emma Stone, Director of Policy and Research, Joseph Rowntree Foundation** **Clive Bolton, Managing Director, Equity Release, and At Retirement Director, Aviva** **Nick Kirwan, Assistant Director, Health and Protection, Association of British Insurers**
12.30	Close and lunch	

Pamphlet articles

Decision time

Long term care needs reform. All parties agree that the current system is outdated and unsustainable. All recognise that an ageing population and changes in morbidity mean the costs of long term care will continue to rise. There is a broad consensus that long term care should be funded by a partnership between the individual and the State. Yet efforts to adopt solutions are stuck in the slow lane.

The Coalition Government has recognised there is an urgent need for reform and the Commission on Funding of Care and Support will report in July. But we have been here before. In 1997 the Labour Government made reforming the funding of social care a priority. A Royal Commission reported in 1999. It took until 2009 for the Government to set out options for fundamental reform. This delay now means that the costs of change are higher and that people have less time to begin planning for their future costs of care.

Any approach taken to funding long term care will require difficult choices to be made. But they must be made. Further delay will simply mean harder choices tomorrow.

Lord Warner
The case for change

The funding of care and support needs to change – because times are changing.

Thanks to better lifestyles and improvements in healthcare, many people are now living much longer than in previous generations. This is something to be celebrated, but it does mean more people need care and support, and they often require it for longer periods of time. This demographic change means that in the future more resources – private, public and voluntary – will be needed.

Currently the State spends around £140 billion on supporting older people, of which only 6 per cent is on social care. Many people are left unsupported and can face catastrophic costs with the risk of losing their home should they ever need care and support. There are few ways in which people can protect or insure themselves against these costs.

This has got to change to ensure the provision of care and support for adults in England keeps pace with rising demand and that people are able to access the services they need and achieve the outcomes they want.

The Commission is looking at this issue afresh, and from a broad perspective. In recent years, there have been a number of different models of reform proposed by Government, a Royal Commission, think tanks and academics. We want to build on this work, whilst also analysing the issue independently and seeking new reform options.

This is a genuine opportunity to recommend an ambitious and realistic programme for change, one which could make a real difference to not only the individuals and families using the system now, but everyone who may have a need for care and support in the future.

Lord Warner,
Commissioner, Commission on Funding of Care and Support

Mark Pearson
From a "safety net" to a collective solution

It is easiest to start by ruling out one option for funding long term care: we cannot rely on people paying for long term care "out-of-pocket." Across a range of countries, average long term care expenditure amounts to up to 60 per cent of disposable income for those right up to the top two quintiles of the income distribution. The median voter is never going to accept a system which exposes them to the risk of paying that sort of money. Whatever the solution to financing long term care is, it needs to be collective, with people pooling risk – either through private insurance schemes, social insurance or tax-based financing.

Looking around the developed world, only the United Kingdom (excluding Scotland) and the United States still have "safety net" or means-tested schemes for long term care. All other countries have bowed to the logic of the previous paragraph, and have moved towards universal, collectively-financed long term care arrangements. But there is no consensus of which model of finance they are introducing. Recent changes (and a very high proportion of OECD countries have recently implemented reforms) have included tax-funded systems, dedicated social insurance schemes, universal in-kind or cash personal care benefits. Furthermore, although nearly all countries have collective schemes, they still differ substantially in how redistributive they are.

We anticipate that total costs of long term care will double or triple in the next few decades. We hope that countries have learned enough from the painful experience of pension reform that delaying difficult decisions is reprehensible. Countries need to:

- *Target care benefits to care needs*, for example via cost-sharing policies, better definition of care needs levels triggering entitlement, and reassessment of the services covered.
- *Move towards forward-looking financing policies,* involving better pooling of financing across generations, broadening of financing sources, and elements of pre-funding.
- *Develop financial instruments* to pay for the board and lodging cost of long term care in institutions (eg bonds/equity release schemes, public measures to defer payments, and private-sector products).
- *Exploit inertia*, by introducing automatic enrolment schemes. Private long term care insurance has a potential role to play in some countries, but unless made compulsory will likely remain a niche market.

Mark Pearson,
Head of Health, OECD

Julia Unwin CBE
Fit for *all* our futures

It is 15 years since the Joseph Rowntree Foundation (JRF) published the results of our own Inquiry into the Costs of Continuing Care. Ever since, we have pressed for reform to a system that is woefully inadequate. Those 15 years have been truly challenging.

First, a "wait and see, and hope for the best" attitude had become embedded. It is a huge obstacle, not least for the financial services and insurance industries which finds itself unable either to plan or to innovate. It is telling that no new pre-funded long term care insurance products can now be purchased in England.

Secondly, demand is growing and becoming more complex. This is not only because of the growing size of the ageing population, but also because of growing diversity and changing expectations. We have challenged the Dilnot Commission to consider how a new funding system can support people to achieve the outcomes they want and value. Will the system be flexible enough to work beyond existing and narrow service-based choices?

Thirdly, social care has been chronically underfunded. It is over-reliant on informal care – with carers and ultimately society paying the cost as carers' own health, wealth and well-being is undermined. At a time of unprecedented cuts, it will be difficult to resist targeting funds at anyone other than those with most acute needs. This puts at risk much-needed investment in providing "that bit of help": the low-level support that enables people to live with modest comfort in their own homes, thereby saving money through reducing or delaying the need for costly services (especially NHS).

We have recently produced a report to shine a light on what we already know on "How local authorities with less money can achieve better outcomes for older people" through investing in low-level support (www.jrf.org.uk).

We cannot wait any longer. For the sake of all our futures it is now time to ask ourselves what value we are all prepared to place on social care and support. We urgently need a way of managing, providing and funding long term care that is fit for the future: it needs to be fair, transparent and able to provide long term security for us all as we age.

Julia Unwin CBE, Chief Executive, Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust

Clive Bolton
Individuals need to protect themselves

Aviva is delighted to co-sponsor *Reform's* long term care summit alongside the Joseph Rowntree Foundation. Care costs are a major concern for our customers – 27 per cent of the consumers we surveyed cited the "need to pay for care for me or my partner" as their biggest financial worry in retirement. We are therefore committed to working with government, care providers, charities and industry to help shape the future of care funding and provide prosperity and peace of mind to our customers.

As one of the UK's leading providers of retirement products we conduct regular research to better understand our customers. Our *Real Retirement Report* series is a quarterly analysis of the financial concerns of people who have retired or are approaching retirement, and we are keen to share this understanding to ensure care reform is fair, affordable and sustainable.

We have seen growing numbers retiring with significant debt, and declining levels of savings among over 55s. This challenges assumptions "asset rich, income poor" retirees can comfortably meet care costs through their property wealth or pension pot alone.

We therefore believe insurance can play a role in helping those with average incomes and modest wealth smooth the costs and risks of requiring care. However, there are well documented barriers to a private financing market flourishing in the current system.

Many of Aviva's products allow individuals to supplement the support they receive from the State. A clear public funding settlement must include real incentives for individuals to take steps to protect themselves and must ensure private funding products integrate simply with State support, offer flexibility and leave no gaps in cover. Any new system must also make it easy for people to understand what funding and services they are entitled to, and how and where they can access it.

Insurance products may then be able to play a large part in helping people meet the shortfall between any State funding and total cost, and we look forward to working with the Commission to help investigate how this could work in practice.

Clive Bolton,
Managing Director, Equity Release, and At Retirement Director, Aviva

Penny Mordaunt MP
The scale of the challenge

We are all getting older, but only some of us seem to realise it. In seven years as a hospital visitor I have heard countless people lament that "I never thought I would end up like this." The fact is that there is no way of knowing which of us will ultimately require care in later life, and individuals and the government cannot afford to be unprepared.

The title of this article is "The scale of the challenge". Perhaps nothing expresses this so well as the bald statistic that 17 million Britons alive today are expected to reach their 100th birthday. It is unrealistic for the State to fund any and all care for whoever needs it, and so individuals will have to contribute; but how?

The Government has to make it as easy as possible for people to make their own provision for later life. The creation of tax breaks for care savings schemes, a cap on individual contributions to care, and a plethora of funding options to protect assets are all worthy of consideration.

Care should not, though, be applied like an on/off switch when one's situation becomes so extreme that residential care is the only option. People would be better served and be in better health if we can finally integrate health and social care, and GP commissioning represents the best opportunity yet. If people are monitored by their GP such that care can be prescribed in modest increments quality of life and independence will be prolonged. A person's first experience of care should not be admission to a residential home. The integration of health and social care would end the debilitating politeness of the NHS and local authorities over care as each says to the other "please, after you".

We have finally become seized of the scale of the pensions challenge, and we must be similarly aware of the care challenge which follows quickly behind for the same generation of baby boomers. This is a generation accustomed to steadily improving standards of living, and it will not accept the low grade of residential care currently available in many areas. Individuals and society, then, must meet the challenge of our increased longevity; the government must assist and facilitate; and providers must meet the needs, expectations and desires of their residents.

Penny Mordaunt MP, Member of Parliament for Portsmouth North and Chair, All Party Parliamentary Group for Ageing and Older People

Nick Starling
Long term care: The insurance industry perspective

Funding of long term care is a major issue facing the UK. With the Commission on Funding of Care and Support due to report its recommendations for funding reforms, and the Government's release of their vision for adult social care, 2011 seems set to be an interesting year.

The Commission knows the challenges facing this sector. Changing demographics and care needs, and developing wealth, societal and technological trends will need to be studied and understood, but no amount of reform will be fully effective without changing consumer attitudes. Any new system needs to address three different generations:

- Those in need of immediate care (typically 85+)
- Those who are retired but do not have immediate care needs (typically 65+)
- Those of working age (typically 45+).

The ABI has been working closely with the Commission on Funding of Care and Support, and believe it is clear that whatever system is chosen, individuals will have to contribute to their provision. We think that a partnership system where the government pays a clear sum towards care costs and then introduces ways to ensure that individuals plan ahead for their contribution, would pool the risks more effectively. We do not think a purely voluntary system would work. As the risks of paying for long term care are offset by government contributions, there would be space for the insurance industry to create new products to suit each generation.

We believe the more people that are persuaded to make their own private provision for long term care, the less strain there will be on limited government resources. The more the industry is involved, the more consumers will be able find personalised solutions for long term care. This will allow the government to focus its money on those most vulnerable in our communities.

Nick Starling, Director, General Insurance and Health, Association of British Insurers

Jules Constantinou
Affordable and sustainable funding

The Commission on Funding of Care and Support has been tasked to make recommendations "on how to achieve an affordable and sustainable funding system for care and support."

Sustainability can only be achieved through cross party consensus on what the total package will cost. What are the levels of care and support that we should expect to receive in the future? When will this care or support start and how will this change as the person's condition deteriorates? An equally important consideration is who will provide the care? The danger being that the provision of the funding will inflate demand which without the necessary infrastructure will lead to an upward spiral in costs.

There are then a couple of levers to manage the State's obligation: the first is who will the State provide funding for and the other is how it will raise the necessary funding. The most obvious options are through general taxation from the employed population, although other countries have successfully engaged employers, retirees and even used beneficiary copayments to fund part of the package. Another option may be to allow people to access their retirement savings.

Other countries have also established successful private public partnerships. For example, the private sector are the administrators and the risk underwriters of the "mandated" Eldershield system in Singapore, the private sector provides the "mandatory insurance" for people opting out of the compulsory German State system and "integrated" (common triggers for benefits between the State and private sector products) for top-up insurance in France.

More importantly, though, several of the systems have been reviewed since their inception as the outcomes have not met the financial expectations at outset. It is from the findings of these reviews that we could probably benefit the most.

Jules Constantinou, Head of Marketing, Gen Re Life UK

Full transcript

Welcome

Nick Starling: Good morning everybody, my name's Nick Starling, I'm Director of General Insurance and Health here at the ABI, a very warm welcome here to the ABI. I'll start with one or two housekeeping notices. Could people please turn off mobile phones and Blackberries and I say turn off because even if they are on silent they tend to interfere with the PA systems and speakers. I know this is a sexist remark, but I know for a man to have your Blackberry off for a couple of hours is a pretty shocking thing to have to put up with, but you'll be able to catch up at the end of the session. We are not expecting any fire alarm tests so if the alarm goes off it will be the Real McCoy. In case of fire the exit is just behind this large *Reform* poster and down the stairs, exit the building on the ground floor and an ABI staff member will lead the way. Toilets are on the seventh floor landing on either side of the lifts, ladies first, gents beyond but you can go down to the fourth and fifth floors in the lift, those are the ABI floors, and use the facilities there as well. Please note that *Reform* are going to be, indeed are, recording this event for website transcription purposes so everything you say will be on the record.

I went to see a film at the weekend – don't be too alarmed, Richard, this is not going to be a film critique. It is a film called *Never Let Me Go* based on a book by Kasuo Ishiguro and it is set in a parallel UK where they have made a couple of breakthrough discoveries in the 50s. It starts in the 90s, and I was very struck by the opening words narrated over the film that said, 'well we had sorted out health problems, average life expectancy was over a hundred.' I'm not going to spoil the film by saying how they achieved life expectancy over a hundred, but it struck me that that's not such a surprising statement. If it had been said twenty or thirty years ago it really would have been in the realms of science fiction, but the idea of people living to over a hundred seems to be much more commonplace, even if it is not average life expectancy.

It struck me too that we really have in the last few years started to see a real generational shift. The age at which people get married throughout the entire Western world has shifted from early 20s to late 20s. The age which people have children, my elder daughter is 23 and my wife was 31 when she was born and she was an elderly primigravida. Now that does not seem surprising at all, in fact you could well be the youngest person in the ward having the baby.

My grandmother came to live with us when she was 60, she was an old woman, that was 50 years ago and you couldn't conceive of that now. My father was not only the first generation to go to university but is the first generation to be in his 9th decade. So we are beginning to see huge changes in generations and how people live their lives. The increase in life expectancy, as I understand it, has been linear over the last hundred years, it has been linear, not flattening off and we expect the number of people over 85 is going to double by 2030. Yet despite all this, old age seems to take people by surprise and I imagine a lot of people my age in this room have only really thought about it and experienced it when it has happened to them, happened to one of their parents or parents-in-law and you suddenly have to confront the issues about what long term care might mean, what it might cost, how you might fund it and so forth. It certainly happened to me and I work in the insurance industry for goodness sake. I was also struck, this morning, by the report from the Health Service Ombudsman about the care of the elderly in the NHS. Looking after people at the end of their lives as they grow older has not caught up with how this generational shift has happened.

> "...old age seems to take people by surprise and I imagine a lot of people my age in this room have only really thought about it and experienced it when it has happened to them..."

Well now it is very firmly on the agenda. The ABI and the insurance industry very strongly believe that we have a role in tackling this issue and sorting out this issue alongside government and others. We are very keen supporters of the Commission on Care and Support which has been set up by this Government and we very warmly welcome the opportunity to host this seminar today because it is a very timely and important issue for all of us, both professionally and personally. So I'll hand over to Andrew who will steer you through the day. Thank you.

[Applause]

Andrew Haldenby: Nick, thank you very much indeed. I'm Andrew Haldenby, I'm the Director of *Reform*, which is an independent non-party think tank whose mission is to find a better way to deliver public services and economic prosperity in the UK. It is just fantastic for a think tank like ourselves to have such a wonderful group of people come to an event like this, such a senior group across all of the stakeholders in this debate, so thank you so much for coming. I hope and I'm sure that this debate today will move the debate forward. In every Parliament there is a narrow window at the beginning where you can actually say truthful and honest things before all the compromises come into play later on, and we're in that window now.

This is a particularly good moment to be addressing these extremely controversial issues such as long term care and of course the public finance environment gives us a new imperative. As Patrick was saying to me, we may have had conferences like this before, and we have all, I know, been talking about this issue for a long time. My first job in politics was in 1995 and I am pretty sure that on that day John Major announced that he wanted the legacy of his Government to be a situation where nobody had to sell their house to pay for long term care. So that was 1995 and here we are in 2011 but perhaps the thing that is different is a public finance imperative. We know the state of the public finances, I don't need to go into it, which means that these long term costs which really have got the ability to derail public finances, have to be addressed. So perhaps that's why so many people have wanted to come this morning to talk about this issue and we are delighted about that, thank you.

As Nick said, we will transcribe the event and this event itself will play into the debate and inform the debate and also form the basis of a *Reform* research report later in the year. Nick, thank you so much for hosting this, it's perfect to be able to do it in proper surroundings like this, thank you so much. I also want to give my particular thanks to our sponsors for today, to Aviva and to the Joseph Rowntree Foundation. The policy debate needs the support of informed corporate organisations who know so much about their customers and their markets and independent research organisations like the JRF who have been monitoring these issues for many years. So thank you so much for enabling us to put on this event today and there will be speakers from both of those organisations in due course.

> "In every Parliament there is a narrow window at the beginning where you can actually say truthful and honest things before all the compromises come into play later on, and we're in that window now."

How we will do the day? In a moment Patrick Nolan of *Reform* will introduce Lord Warner who will give his keynote speech and we will have questions. We will then have a panel to discuss the nature of the challenge, what exactly is it that we need to put right in this new period of reform. We will then have coffee and then talk about the funding options and close at 12.30. As I say, let me just repeat my thanks to you, please speak freely and creatively and innovatively, there couldn't be a more timely moment to put new ideas into this debate. We will capture those ideas and through that I'm sure that today will make a big difference on what is one of the most timely political issues. So can I hand over to Patrick to introduce Lord Warner.
[Applause]

Keynote speech by Lord Warner

Patrick Nolan: Thank you and good morning. As Andrew said, our objective for today really is to try and push this debate, on this incredibly important issue, forward. Having said that we are so pleased that Lord Warner agreed to speak particularly as the Commission is still at a relatively early phase of its work so hopefully Lord Warner can tell us a bit about his thinking.

Lord Warner barely needs any introduction, I think he will be extremely well known by this group and he is an incredibly supportive friend of *Reform* as well. He is, as I mentioned, a Commissioner on the Commission on Funding Care and Support, he is a Labour member of the House of Lords, a member of the Lords Select Committee on Science and Technology and was a former Health Minister from 2003 to 2006. He has also spoken for us before at health events that we have done. I think the interface between health and long term care is particularly important and his background there is incredibly valuable. If you could join me in thanking Lord Warner, in welcoming him to the stage here, and Lord Warner if you want to provide your remarks. Lord Warner will speak for 15 minutes and then we will have a 10 or 15 minute Q&A session, thank you.
[Applause]

Lord Warner: Thank you very much Patrick. I don't usually get a clap even at the end so to get one before is even better! I have to say, Nick's remarks about the ageing society is born in on me every day if you wander around the House of Lords which increasingly is looking like an Age Concern day centre and one of the great hazards is that you are likely to be knocked down by an 85 year old speeding on a motorised wheelchair. So on a daily basis I am exposed to the ageing society and the challenges it actually provides.

What I want to say is a little bit about how the Commission has actually gone about its job. We have an excellent chairman, who is an economist, who was very keen before we started to actually define the mischief that we were going to try and solve. Trying to actually sort out what the problem was that we were going to tackle was something we've tried to tackle very seriously.

Two of the three Commissioners, myself and Jo Williams, have spent more time than we care to think about in our careers dealing with issues of long term care of one form or another. We are all particularly pleased to have been given this chance to use this quite interesting alternative to a Royal Commission, which is a three person Commission, to tackle this particular set of problems in terms of long term care and support.

We are focused, which is worth setting out right at the outset, we are focused extremely firmly on funding. That is not to say we would not take account of other factors in the delivery of long term care and support, but our mission is to sort out the funding problems, it is not to spend a lot of time talking about integration of health and social care, different delivery models and so forth. We will be aware of them, we will try to not do damage to them in the funding recommendations, we are adopting a level playing field approach in the sense that whatever we come up with shouldn't give preferences, wherever we can avoid it, to one form of care over another form of care. We need to produce a funding system that is as even-handed as possible between residential and non-residential care and different forms of care.

That's the role that we're trying to tackle and I want to give you a progress report really on what the Commission has done in its work so far.

Just to recap on where we started, what the starting point was and what the finishing line is. The starting point was the end of last July when Andrew Dilnot was appointed, the finishing line is this July, when whatever happens we will deliver a report to Andrew Lansley and George Osborne. They may not want to get that when they are going off on their summer holidays but they are going to get it. That's the mission and we will have done all this within about twelve months.

We've had a pretty busy time so far and we made a contribution to the Government Spending Review and we were pleased to see that social care got recognised in that Spending Review. Now a lot of people have been saying that the £2 billion extra is not going to get down to people at the sharp end, it is going to do mysterious things along the way, the mysteries of local government finance, first you see it then you don't. There is all that sort of stuff going on and I've heard it at conferences. I'm not going to go there. I think the important point that the Government made and the Treasury supported this, the Government made a genuine attempt in the Spending Review, despite all the difficulties, to ensure that the position in social care didn't get worse while the Commission was sitting. So there was a genuine effort to not let things deteriorate further in this area while we were meeting to try and think about the future, and I think they deserve a level of credit for that. I don't often give credit to the Treasury but on this occasion I feel some compulsion to do so.

We've been in evidence gathering mode for most of the time and what we've been trying to do is sort out the evidence. Gathering a lot of evidence, but also at the same time sort out what are the problems that we need the most evidence on and what are the biggest data gaps in this area. Now you might think that people have crawled over this area so often that there aren't any data gaps but I have to tell you, there are. I have also spent a bit of time working with the Personal Social Services Research Unit (PSSRU) on refining their model. We think that what will come out of this will be a more sophisticated model, a more updated model, which the PSSRU will be operating. But we think it is actually a bit more fit for purpose than it was when we were going through the delights of the Gordon Brown fantasy on free personal care at home.

> **"We are focused, which is worth setting out right at the outset, we are focused extremely firmly on funding. That is not to say we would not take account of other factors in the delivery of long term care and support, but our mission is to sort out the funding problems..."**

We do think what will come out of this is a better model. We are making sure that that work that we've done with the PSSRU on the model is given a clean bill of health by the Institute for Fiscal Studies. So I think you may not like the answers that come out of the model, but I think what we will be able to put in the public arena is a model which other people can use to play around with, so we won't have endless sets of arguments about the model. If anyone wants to build their own model then they are welcome to do so, but I can tell you, it will take you about a year to do it, and we didn't have a year to start again from scratch so we've worked on getting that model right.

What were the priorities for reform? Well I think where we've come to is there are basically four key priorities to address. The first one is it is very clear that people should have the opportunity to be protected against the future cost of care and support and the evidence that we've got is very, very clear on a lot of this stuff. Many people have to use up large proportions of their income and assets at the point of when they need care. Around a fifth of the people admitted into residential care will incur lifetime costs in excess of £100,000. That is a fact. That is what we are confronted with. People can't plan to protect their home or find ways to cover their costs that help them protect what they most value. It is very clear there isn't a very good system to enable them to do that. We believe that any reformed system of care and support should ideally offer people the opportunity to be protected against the future risk of care and support cost. Easy to say, difficult to do, but nevertheless it is something we should attempt to do.

> **"Now you might think that people have crawled over this area so often that there aren't any data gaps but I have to tell you, there are."**

The work we have been doing around this to date has included looking at how the private market can offer financial products to help people protect their assets and looking at the different ways in which the State could contribute. Now I don't want to be unkind to the private sector, particularly as I am standing in an ABI building, but we wouldn't be there if there were a set of private products that actually met a very large number of people's needs. Now we can have a debate about why that is the case but the truth of the matter is there wouldn't be a commission if there was a vast array of products that enabled people to make their own provision at a later stage. So there is an issue I think around that and there is still an issue around what the State should contribute, so that is key point number one and some of the evidence we have got so far.

Key point number two, and this is a really tricky area, people need to understand how the care and support system works and be encouraged to plan accordingly. Well, the position is not good. There is a huge lack of awareness as to how the care and support system works. 57 per cent of people say they know nothing or very little about care and support. That is not a good base from which we are starting to get people to prepare for the future, and what this does is lead to inertia and a lack of planning. Often the first time people engage with the care and support system is when a crisis hits them and they can no longer cope so you have a lot of distressed decision making and purchases. We are looking at how we can raise awareness and change behaviour so that people can plan the kind of care and support that they want and need. As part of this work we have undertaken a review of all the existing public opinion work that has been conducted. We hope to publish this very soon and what it really shows is that there is a lack of informed debate around social care funding and a huge, an absolutely huge, information gap that needs to be filled if any new proposals are going to be understood and accepted by the public.

We will be exploring public attitudes towards some of our emerging proposals later in the year through some deliberative events, but there is clearly a much wider programme of work needed. We are not going to be able to solve all these problems by July, but we are going to have to spend a chunk of our report explaining to the Government and the public what needs to be done, and offer some ideas on raising public awareness in this issue. Because unless we do, it will be very difficult to get significant numbers of people to prepare for the future.

What is very, very clear, and I can't say this too often, change is inevitable. The ways people want and need care are changing. New social and technological trends are afoot and these will impact on the future of care. So some sort of change, despite this lack of awareness amongst the public, is inevitable.

The third key point really that's emerged, is that people need to be clearer about the wider public system of support that is available, including the NHS and social security. In the current system there is considerable overlap between social care and the NHS and the benefit system. Just to put this in very clear context, for example social care spending represents only about 6 per cent of total public spending on support for older people. Although we are spending a lot of time looking at this issue of funding care and support, it is a relatively small proportion of the total amount of support that the State provides to older people in one form or another. Understanding the different ways in which people of all ages are supported by the State and the boundary issues that often go with this is extremely complicated. We are therefore considering the roles played by the adult social care system, the social security system, the NHS, housing support and public health and prevention services and how these services overlap.

> **"There is a huge lack of awareness as to how the care and support system works. 57 per cent of people say they know nothing or very little about care and support."**

Just to make this even more like three dimensional chess, we know there is a major reorganisation of the NHS going on. So we have got to take account of some of that, insofar as we can, in making our recommendations. As a result of these overlaps in services, people are unaware of the role of funding and social care and in relation to those other streams of public support. It is very clear that a very large number of older people and their families believe that the NHS is going to provide their care and support so they don't need to actually provide anything themselves. It doesn't help that all these services are not joined up very well, and what we are clear about though is, if we wish to make progress in this area, and a lot of the evidence that has come into us has made this point very graphically, the State needs to have a more transparent offer that it makes to its citizens in this area. It is not clear to most people what the State is actually offering and we need to get greater clarity on what that State offer is. The State needs to get its act together about what it is that it is actually offering its citizens.

> **"It is very clear that a very large number of older people and their families believe that the NHS is going to provide their care and support so they don't need to actually provide anything themselves."**

Lastly, the other key area – and it always comes down to this – where's the money? Increased resources are inevitable and increased resources will need to be dedicated to care and support in the future. We are all living longer, I won't go over that again but that's not just a problem, it is something to be celebrated, but it comes with a price tag. It is not just about getting older, as levels of mortality continue to fall the number of working age adults with learning disabilities will rise by about 30 per cent over the next 20 years. So we have got also a number of people coming up into the older age group who in previous generations didn't get that far. This means that we are going to have to spend more on social care and even if the current system stayed in place, by 2029/30 the government will be spending 1.7 per cent of GDP on long term care compared with 1.2 per cent in 2009/10. So doing nothing whatsoever would still push the proportion of national wealth up in relation to long term care.

So what is inevitable is that we have to do something. We have to do something that doesn't jeopardise informal care. I spent some time in the 1990s writing a report for the Carers National Association called *Better Tomorrows*. Well the tomorrows have got a bit better but I am sure if you talked to most carers they would say the tomorrows could get a lot better. The issue of respite care is still a big issue. What we must not do in our efforts to make a better set of proposals for funding care and support is do damage to the role of informal carers. We are very conscious of that and conscious of the need to make sure that we maintain the kinds of levels of support to informal carers, because if we don't, the State offer will have to be even larger. If carers fall by the wayside the damage to the system is very huge indeed.

What's the optimal mix of these? Well I'm not going to give you the answer to that, we can probably talk about it in questions, but what I can say absolutely clearly is it is going to have to be a partnership. Any fantasies about 100 per cent universal State provision, forget it. It is going to be a partnership between the State, individuals and their families, and that is inevitable. There is no other way to make progress, and much more to the point, I think the evidence is that underneath all this, the tectonic plates on people's attitude to State provision and the welfare state are themselves changing. There is good evidence now coming out of the latest social research that people no longer expect the State to sort out all their problems from the cradle to the grave, we are not in the 1940s any more so a partnership approach is absolutely necessary.

I don't want to spend much more time talking about this other than to emphasise what the objectives of the reform will be. We have done a deal, so to speak, with the Government. We had to agree with the Government a set of criteria by which people would be able to judge our report and that we would take into account in framing our report. So a new system has to be sustainable and resilient; it has to be fair for individuals, families, carers and the wider society; it has to offer an affordable choice to individuals, carers and families across a range of care settings and help people to prepare and plan for their future; it has to provide value for money; and, we need to provide a funding system that offers the chance of securing the highest quality care outcomes with the available resources. Lastly, and this is one that we added and got the Government to agree to, it has to be about ease of use and understanding, and making the system as clear and simple as possible for people and supporting them so that we can improve this situation of public understanding.

> "Any fantasies about 100 per cent universal State provision, forget it. It is going to be a partnership between the State, individuals and their families, and that is inevitable."

I want to stop there other than to say in conclusion there is no silver bullet. It is very clear already that we can't magic up a silver bullet that solves all these problems. Now I don't want to stop any of you going away here and having your Eureka moment, I will be happy to receive the modern day Archimedes Eureka moments, but I don't think you will find that there is a silver bullet that you can provide us with. We are still in the market for ideas but we are beginning the process now of having assembled on the table a wide range of options and ideas. We are starting now the process of winnowing them down and building up a discard pile as we narrow down some of the options to a manageable and most promising number. Thank you very much. **[Applause]**

Patrick Nolan: Thank you very much, Lord Warner, for what I thought was an incredibly clear and insightful start to the day. In particular I was struck by your four priorities for reform, that people should have the opportunity to be protected against their future costs, people need to understand how the care system works, people need to be clear about the wider role of care available, and also as an economist, I was particularly struck by the fourth, where is the money? I was really struck by your statistic that by 2029/30 we are going to be spending almost half a per cent of GDP more on these issues if we don't undertake any reform. One of the challenges I guess with long term care and pensions and when we think about these types of costs, we sort of think these are quite future costs but actually 2029/30 is not that far away. If people are going to have to start saving for themselves and going to have to start building up pots that they can use for their own retirement and covering these costs themselves, then people are going to have to start making these decisions now. There is a real urgency around dealing with some of these issues.

> "It is very clear already that we can't magic up a silver bullet that solves all these problems."

What I will do is throw it open to questions from the floor and I'll take clusters of questions, we are going to have about 15 minutes or so for questions so anyone want to kick off?

Billy James: I'm Billy James and my question is why Lord Warner said nothing about the shambles in the country's pension funds, which has been getting worse and worse? Just one thought, at the root of the problem is the abysmal governance of our pension funds. If pension fund members are given votes on the election of trustees, as shareholders have votes, that is one of the solutions to the governance problem that is bringing down our pension funds.

Patrick Nolan: On the pension fund issue, it does go back to the point you made very early on, Lord Warner, about if the private products were available in a sense there would be no need for this Commission. So there is quite clearly some kind of market failure here. Part of it could be the governance of the funds and people aren't confident in the sector or there may be other reasons. I don't know if you have any initial thoughts on why do you think the industry has not stepped up.

Lord Warner: Well I'll deal with the first question, why haven't we dealt with the so-called shambles in the pension funds? Because it's not part of our terms of reference and a bloke called Adair Turner had a good old go at pensions with a three person commission, in a year I don't think we can re-tread that ground even if we had any inclination to do so.

I don't know, you'd have to ask the industry. The industry have been telling us a number of things, I think at the end of the day the industry is basically an industry that looks at risk and prices risk and tries to produce products that respond to risk. Presumably the industry has had a bit of trouble trying to price this risk and produce products which could meet those risks. I think there are also parts of the industry which thinks that successive governments haven't stepped up to the plate in terms of the guarantees that they could give. But at the end of the day all we can do in a 12 month period is look at the products that are around, hear what the industry has got to say and see whether there are any new hopes and ideas on the horizon. I don't think it is Commission's job to dream up new products for the insurance industry, if I may put it quite as brutally as that. That's not our day job or our night job, that's the industry's job, and they will have to do their best at actually identifying what the risk is and what the products are.

What I would say is that the issue that is knocking around is equity release. Because such a big chunk of potential resource is the money that is locked up in fixed assets, in terms of people's houses. I don't think it is telling any tales out of school that equity release has not won the hearts and minds of the great British public. There is an issue around in that area that certainly needs a bit more creativity than we've got at the moment.

Audience member: Lord Warner, you just mentioned equity release, do you think that in principle though, regardless of how it has been sold by the industry at the moment, that it is an acceptable option for funding long term care?

James Lloyd: James Lloyd, Strategic Society Centre. Lord Warner, you mentioned a much simpler system. Some of us who have been in this debate for quite a while may read that as code for moving towards a national system for assessment and entitlement, i.e. away from a different long term funding system in each local authority and replacing that with a single national system that will be far easier to understand. Is that something that the Commission will be looking at?

Francis McGlone: Francis McGlone, United Kingdom Homecare Association. I was wondering what will happen about the large number of people who in fact won't be able to pay anything into their care? Recently we have had discussion about those who can't even pay a pension, particularly women in their 50s, and I'm rather concerned that what will happen is that the actual costs will fall on that middle group, those with some assets and certainly not the very rich who will in fact know how to actually deal with it.

Patrick Nolan: Great, three very good questions. The first was picking up on the theme under discussion on equity release, one on some of the issues around having a simpler system and the third one on whether people with some assets are going to be the ones who are particularly squeezed.

Lord Warner: Equity release. Other countries have struggled with this and we have just started to receive some thoughts that we asked the PSSRU to do on looking at how some other countries, Australia and Germany, France, Japan and Spain have been tackling some of these problems. What is clear is that those resources locked up in housing, people's private wealth in housing, is an issue in lots of countries, it is not peculiar to this country. What it has been bedevilled by is a lot of political tension, says he trying to find a form of words that is politically neutral, but it is actually a very difficult area. It is also an area where some people are making their own decisions to actually release their equity in their own way and they are not doing it necessarily through traditional equity release models but they are releasing their equity to make provision in their old age.

"There is a tension between localism and local assessment and people's expectation that there should be no postcode lottery and there should be a national offer. There is a huge tension there, I don't know how we are going to solve it."

I am part of a generation which frankly has done pretty well for itself in terms of its ability to build up assets, and the issue we have not touched upon, which I meant to mention in my speech, is this issue of inter-generational fairness. As this ageing population burgeons, the working population is shrinking. Now my kids regularly remind me that it is not for them to keep me in the style to which I've become accustomed. That's a joke, but it is also a serious point and I think we have to think about this a lot more clearly and the Commission is thinking about that a lot more clearly. I can't give you the answer, partly because I haven't got the answer and partly because it would be wrong to give you it if we did have the answer at this point in time. This issue is not going to go away and we are going to have to try and come up with something which is politically acceptable and workable in this particular area.

James Lloyd knows more about this than I do. There is a tension between localism and local assessment and people's expectation that there should be no postcode lottery and there should be a national offer. There is a huge tension there, I don't know how we are going to solve it. There is a lot of interest, as there has been for some time, in people having portable assessments. So if they move, they don't go through the whole process of assessment which is pretty mind-bending anyway some of the time. To keep going through assessments as you move from one area to another doesn't seem necessarily the smartest way to use resources in the public sector. Assessment is very staff intensive, it has very costly transaction costs in running the system, but there are tensions there and we are going to have to find some way of dealing with those assessments. I don't think you could read any more into my remarks than what I've just said. I am a master of blurring things when it comes to the need to blur things so that's where we are. You are right to identify the problem, again like equity release it is not going to go away, it is something we are going to have to say something about when we come to report.

> "There will always be a safety net, we have a safety net now and we'll have a safety net in the future. The issue is where is the safety net line drawn..."

Lastly, the issue of the safety net. There will always be a safety net, we have a safety net now and we'll have a safety net in the future. The issue is where is the safety net line drawn and the issue is, are you going to have a cliff edge at the edge of the safety net or are you going to have something which is a bit smoother? I think in response to your question, what I would say is coming up very fast into the political arena, and it will be an issue I think in the next election, is the so-called 'squeezed middle'. The people just above the safety net whose tax burden, National Insurance burden, student fees burden, loss of job benefit burden, I could go on, but there is a whole raft of issues where their disposable income is felt to be under attack, rightly or wrongly. So we have got to try to deal with this in a way that – I mean I can say categorically there will be a safety net – the issue is what comes above it.

There are different views about whether the State should make an offer to everyone or whether that produces a lot of dead weight costs. That's not a doable thing in the present climate. But I think most people think that the cliff edge at the moment is far too stark so that's an issue that we will have to try to come up with some options on for the Government.

Patrick Nolan: Thank you. We have got Jules at the back and then there and at the front.

Jules Constantinou: Jules Constantinou, GenRe. Lord Warner, you have talked about a partnership between the State, individuals and their families, what about employers?

Lord Warner: I'm not sure what lies behind that question… I mean if the implicit thing there is are we going to dump things on a payroll tax? I think the answer is that we would be very cautious about dumping things on a payroll tax. That's not to say there isn't an issue there. But employers, at the end of the day, are going to come to a decision about what set of benefits to offer their employees based on factors, other than what the Commission says. That's the reality. If we actually look at the Occupational Pensions area, I don't detect a huge swell of employers actually seeking to increase their liabilities in that particular area, so I think we would adopt a rather cautious approach about assuming that that is an area that is going to provide all the answers.

Whether it is an area which could help with the collection, through something like auto-enrolment, is something which we are having a look at. It may be that employers could be a route into collecting some of the dosh, if we actually had a system for doing that, but I think you will find that the Commission will be extremely wary about compulsion. Forget who's in power at the moment but if you actually look at the evidence base about public attitudes, there isn't a large number of people saying let's have a nice piece of legislation which compels us to do this in some way. It's not there. The social support for that approach is simply not there so I think we would need to proceed with a good deal of caution. It doesn't feel to me at the moment as though it fits the public mood and that mood is for the foreseeable future.

Mike Parish: Mike Parish from CareUK. I speak as a provider of both social care and healthcare services. Firstly on the insurance points, it seems to me that it is almost counter cultural for people in this country to expect to pay for their care at any stage in life almost. It will never happen to me, something will turn up, the State will provide etc, why would I have to pay for this element of care and not the rest? Secondly, and I'm loathe to look for silver bullets but what I observe every day is fundamental inequity between social care and healthcare. I observe people receiving our services that have to do all kinds of things, make all kinds of sacrifices in their life to get care for something that's fundamental and absolute, there's no choice, they are in real need. Versus people receiving healthcare from us via the NHS that is relatively trivial in comparison and don't pay, therefore we get a real inefficiency in the system, a lot of wastage with no-show and bad behaviour if you like because it's a free system. I just observed that in a non-political way and I wondered whether there was an issue to address there.

> "Forget who's in power at the moment but if you actually look at the evidence base about public attitudes, there isn't a large number of people saying let's have a nice piece of legislation which compels us to do this in some way."

Laura Clarke: Hello, I'm Laura from the Royal College of Nursing and I think our RCN members would have liked to have seen in your terms of reference is some sort of acknowledgement of an attempt to improve the quality and make it more consistent in social care. There are good examples of social care throughout the country but I think everyone would agree that the current standards are varied.

Lord Warner: Well on the last point, I don't disagree that they are varied but one of the things I learned many years ago when taking over a job in social services was that my mission was not to make things worse and that's always seemed to me to be a good starting point when doing a job in the social policy area. I think what we were trying to ensure was that we certainly don't make things worse in the quality area. But I think if you feel we can actually in a financially manageable way drive up enormously quality in this field, I would be sceptical of the solutions. That is not a counsel of despair, it is counsel of realism. At the end of the day in my experience, if you just look round at the CQCs reports on the NHS, quality is not always a function of expenditure, it is comment on attitudes, quality of management, a raft of other things and simply assuming you can drive up quality through the funding system I think is a bit of a myth. Our job is to make sure a new funding system tries to encourage better quality, certainly doesn't make it worse and that's what we will do but, it certainly isn't going to be a big driver. Do go and have a look at those hospitals which have been weak and fair on care quality for a long period of time and it is not much to do with money, it is actually about how they can go about running their business.

"...quality is not always a function of expenditure, it is comment on attitudes, quality of management, a raft of other things and simply assuming you can drive up quality through the funding system I think is a bit of a myth...."

Mike Parish is right, Mike has fought the good fight on the subject of this boundary and will no doubt go on fighting the good fight. He is speaking as an individual rather than a member of the Commission and I agree with everything he says. The issue I think for us really centres around what should be the boundary between health and social care, there are boundary issues. You are quite right, the overwhelming majority of people think they are going to get their care and support from the NHS, that's where they are. The NHS has a number of problems, stacking up large number of 85 year olds in expensive acute care bed is probably not the smartest thing to be doing when you are in the financial state that the NHS will be in over the next three or four years, so the boundary issue is a difficult one. But I haven't seen any enthusiasm across any political party for co-payments for the NHS, I don't detect a groundswell of movement in that direction and we are stuck with the fact that we have a free at the point of use NHS which overwhelmingly the public is deeply attached to and we have a means tested social care system. How you can make that boundary work better is a challenge which no one has really cracked. There are models of integrated provision and integrated commissioning but they are pretty few and far between. What we need to look at is if we can make any of it any better, whether we can change that boundary in some way which is more sensible and produces better value for money and something that is easier for people to understand. We are certainly going to look at it, it is on the agenda and it certainly isn't in the discard pile.

Patrick Nolan: Well thank you, that is a very good note to finish on and if I can ask you all to thank Lord Warner. I thought it was an incredibly excellent opening to the day and what we will do is discuss a lot of these issues, which you have raised, particularly the four priorities for reform, throughout the day. We will be recording this so we will provide you with the transcript and hopefully that can be of help to you in what is an incredibly difficult job you have. You said that when doing social policy the goal should not to make things worse, well I am confident that actually the Commission is going to do better than that and hopefully the debate can get a real push forward with your work and we can actually start to resolve some of these difficult and challenging issues. So thank you. **[Applause]**

The scale of the challenge

Patrick Nolan: If I can just invite the panellists for the first session to come up, so that's Penny, Richard and Paul please, thank you. This is the first panel session today and I thought the first opening remarks in a sense actually set the agenda for the day quite brilliantly. The first session is going to look at the scale of the problem. I was actually going to look at Lord Warner's statistics around if we don't do anything, don't do any reform, actually how much more we'll be spending on these issues. The IMF have done similar work and they compared the cost of the global financial crisis with the cost of population ageing, and this is not just long term care but pensions and all the other things. By 2050 the cost of the global financial crisis is about 10 per cent but the cost of an ageing population is about 90 per cent, so population ageing is effectively nine global financial crises. So this is not a small problem we're facing in terms of the future of the economy, the future of public services and it affects the sustainability of big government

"By 2050 the cost of the global financial crisis is about 10 per cent but the cost of an ageing population is about 90 per cent, so population ageing is effectively nine global financial crises."

spending. It is an incredibly important discussion and we couldn't have a better panel, I'm thrilled about our panel.

What we will do is we are going to ask each of our three speakers to speak for about seven minutes then that's going to be followed by a question and answer session as before. In terms of our panel and the order in which they'll speak, we've got Penny Mordaunt who has been the MP for Portsmouth North since 2010, so congratulations Penny. She read Philosophy at the University of Reading and started her career in communications. She has done a lot of communications work for the Conservative party, but also quite interestingly brings a strong international perspective, having worked as Head of Foreign Press for the George W Bush presidential campaign in 2000 and also worked for George W Bush in 2004. She is Chair of the All Party Parliamentary Group on Ageing and Older People and she does a lot of work with the Centre for Social Justice on these issues.

We've then got Richard Humphries who has been at The King's Fund since March 2009. We are thrilled to have Richard and The King's Fund on this panel because they have done such important work on social care and he leads their excellent work in this area. He did his academic studies at the LSE but like Lord Warner he crosses the social care and health areas, and has worked as a Director of Social Services and Health.

Then we've got Paul Lewis who you all know from what is essential weekend listening: the *MoneyBox* programme. It is a radio show that I think has the important objective, and picks up on the points that Lord Warner made about market failure, of being a trusted source of financial information and news. That is actually incredibly important because we do have to communicate a lot of these quite difficult issues in ways that people understand, but also that they trust. Paul also writes a lot, he writes for *Saga Magazine* and has written for *The Daily Telegraph* and the *Reader's Digest*. So I think an incredibly exciting panel. So we'll go over to Penny and thank you.

Penny Mordant: Good morning everybody. I should just add, the introduction was talking about the things I have done on the political scene, but the main reason why I am interested in older people's policy issues is that for the last eight years I've been a volunteer hospital visitor. I really didn't have an interest in this policy area before doing that. I was so shocked and appalled by the stories I was told on a weekly basis. People consistently saying 'I never thought I would end up like this', tales of how the system doesn't work, how they are stuck in this bed and they can't go back to their house because social services have got to do X, Y and Z. We all know the types of issues that are raised there but that is why I really became interested in this area, because I think it is the most neglected group of people in the country. Even from wonderful organisations like the Centre for Social Justice who produced all these wonderful reports in the run up to the last election. I approached them about a year out from the election and said you haven't done anything for older people and I'm very pleased that they did produce some work on that eventually, but even really switched on organisations tend to approach the issues that are facing older people last, so that's why I'm interested in it.

I think our task today was to set the challenge out and I was also going to talk to you about some policy considerations that I think are going to be particularly hot topics. As I was writing the challenges I was getting more and more depressed so I am going to try and end on an optimistic note but please don't lose the will to live as I'm running through these.

The first is that obviously we have talked about the ageing population. There is a great focus on this and a great debate about how much it adds a year to the NHS social budget and social care. So when I looked at my local council's budget pressures this year, they calculated that over the next five years with the ageing population they would have 200 new adult social care clients, but there wasn't a pipsqueak in that about the 1,500 existing people in Portsmouth who we know have dementia but currently have no access to services. So an ageing population is one thing but also there is this massive unmet need that is really not being discussed.

> **"...an ageing population is one thing but also there is this massive unmet need that is really not being discussed."**

We've also got an ageing population that is extremely diverse. Take just the age range that we're going to get. People who may have done a manual job and may be exhausted at 60, and then there are silver entrepreneurs who are setting up their first business at age 75. So we are talking about a very diverse range of people here. Also there are new issues that we haven't had to really consider before. My All Party Group did a report recently looking at older people who are living with HIV, so again there are some new issues that we perhaps haven't encountered before that we really ought to consider.

We are also starting from a low base in terms of what options are out there in our communities. I think about 30 per cent of local authorities mention older people in their local housing strategy. No one else is talking about that and also there is a pretty poor understanding, if there is an understanding, of return on investment. I know we see this a lot in all areas of policy making, but if you are cutting day centre services you are going to get an increase in healthcare costs with hospital admissions, emergency interventions and also people accept this it certainly is not a factor in many decisions that are made at a local level.

The other challenge, that we have, as was touched on in the keynote speech, is that people do not wanting to think about this, for quite understandable reasons, and make provision for their old age. If I can draw a comparison with pensions. We have had a big push in getting people to think about pensions, getting younger generations to think about making provision, and we need to do the same with regard to care. We need to get people to focus on it but also get people to look at the existing products that are out there, as well as new financial products which may be created in the future. One of the things that the All Party Group discovered is that actually quite a lot of things exist already but people just don't know about them and aren't thinking about them. One of the things we have asked the Dilnot Enquiry to look at is having a much broader range of options for people as to how they fund their care. Quite often people become fixated on one particular route when actually there is a whole range of things that people can do and the more choice as far as we're concerned, the better.

> **"Quite often people become fixated on one particular route when actually there is a whole range of things that people can do and the more choice as far as we're concerned, the better."**

The thing I'm always banging on about is if you have a house and you aren't going to live in it any more, you want to move in to residential care, but you want to protect the asset, can we look at ways of renting that back to a local authority through a third party to offset your care, thus solving problems with local housing stock.

The other thing that we have currently is poor decision making in local authorities. There is a great range, some local authorities do things really well, my local authority doesn't do things really well. Just to give you a flavour of some of the things that are going on out there, everyone was talking about choice, individual budgets, all this sort of stuff, a lot of lip service paid to that but not a lot of follow through at a local level. In my patch I have older people who are looking to go to a day centre that they really like but they are being held on a waiting list until a place becomes available at a local authority-run day centre rather than send them to the one they want to go to which is either run by a charity or the private sector, even though it is cheaper than the local authority-run centre.

There is lots of silo working as well, so people not actually thinking about the cost to the public purse and the return on investment but just thinking about how they can slice their individual section of the budget. A lot of older people and disabled people are being taken out of residential care and put in a supported living environment because, in the first case that particular manager has to pick up 100 per cent of the tab, and in the second case they only pick up a quarter because they are entitled to housing benefit and all sorts of other things. So nutty decisions like that.

Poor commissioning frameworks, although Portsmouth is getting better it's not where it needs to be and again no focus on this unmet need and poor management in health and social care. I'll just give you another example from Portsmouth, a slightly related topic, we've got real issues with end of life care in our local hospital. As part of trying to sort that out a team of local people and some university students gave up their time, hit the phones and in six weeks we found cash and an end of life care nursing team that was donated by a pharmaceutical company, It was probably worth around a quarter of a million pounds, that could be given to the hospital for twelve months, help them double run some services, run training to train up ward staff in end of life care. The hospital wasn't remotely interested in that money or those services because it is focused on its £37 million deficit and it is not really interested in a quarter of a million. So when I hear all this stuff about the Big Society I am yelling at the radio and television 'We're doing our best' but we can't always get managers that engage and take these opportunities as and when they arise to improve services.

I'm going on a bit but I'll try and wrap up by just saying, in terms of policy areas and hot topics, we have got to look at the whole person when we are designing these services. We've got to stop talking about care in terms of residential care, assisted living, care in the home. We have got to look at the whole package and how these can integrate. I'll just give you one very brief example, when I have gone on my travels around my constituency there are a lot of places like hospitals, hospices and residential care homes that have bathing facilities which are under used and when I go to various people's houses there are lots of people who are at home, not engaged with any services at the moment but having real problems washing etc. Why don't we join them up, why don't we have a service that allows people to go in and use those facilities. It could create an income stream and reduce costs for people in residential care. I have been talking to a number of care home providers who are providing bathing facilities, they are now calling them spas, in their assisted living set ups, but could they not also look outward as well, look to the local community. What else can they provide that people can come in, use bathing facilities there, there might be some social benefits to the residents? So let's look at doing this in a much more joined up way.

> **"...we ought to capitalise on the healthcare reforms that are happening, because again those people who are not currently engaged with services and need them, are going to see their GPs."**

Areas of concern, inequalities is obviously a major issue but I do think there is cause for optimism as well. The buttons I would be pushing here are the localism agenda, but making sure that we are involving local people, older people at a local level in addressing those deficits in local authority plans. There is a massive focus now on this issue, not just in terms of policy makers but the new intake in Parliament. I did a quiet survey before I arrived in Parliament and all the people I interviewed put older people's issues in their top three issues, which I think is a tremendously positive thing. Finally I think we ought to capitalise on the healthcare reforms that are happening, because again those people who are not currently engaged with services and need them, are going to see their GPs. I am interested in exploring how GPs can have a better and more involved role in commissioning social care. So I hope that's given you a flavour and I haven't gone on for too long, thank you very much.

[Applause]

Richard Humphries: Thank you, Patrick. You asked us to talk about the scale of the challenge and actually I thought Norman Warner did an admirable job of getting over many of the points that I wanted to make actually. So I'm not going to repeat that just for the sake of it. I am actually more interested in options and solutions, rather than talking about how awful the current system is, but I am conscious there is another panel tasked with that, so I must be careful not to stray into this. So let me just make a few very brief points.

The first is this absolutely unalterable, unavoidable bottom line that Norman Warner referred to that, like it or not, as a nation we have to devote an increasing proportion of our national wealth to paying for long term care and the other costs of ageing. The Office of Budget Responsibility in its forecast last year reckoned that we are currently spending around 1.2 per cent of GDP on long term care and it reckons that by 2039 that will reach 2 per cent and by 2049 2.2 per cent. That is a near doubling, an eye-watering increase. This is a direct consequence of us generally living longer healthier and for many people, wealthier lives. It is the price of success, not the consequence of failure, and we should see this primarily as an economic problem and not as some kind of burden that we have got to carry.

It reflects a fundamental shift in the kind of society that we are in, in which there are more older people than young people. I think there are some profound challenges ahead in the way that we recalibrate current patterns of public spending and private wealth to reflect the fact that we will be a fundamentally different kind of society. So that's the first point and I'm not quite sure that point is well understood by the public at large.

The second point I want to make is just how crummy our current system is. If you wanted to make an award, the equivalent of an Oscar or a BAFTA for a system of care and support funding that was the stingiest, most confusing, fragmented and poorly understood then I think ours would be up there, ours would be the *King's Speech* of social care funding systems. It is largely because of this very precipitous cliff edge that Lord Warner talked about. If you have more than £23,250 I think is the current figure, you are on your own in terms of funding your own care and more and more people of course are falling over that cliff edge. The latest figures I saw suggest that around 44 per cent of care home places in England are funded privately. We have this rapidly growing private economy of social care which in many parts of the country has already overtaken the publicly funded system.

A consequence of that is that we have a situation whereby if you are very poor you're okay, because your care is paid for by the State, and if you are very, very rich, you don't need to worry because you can afford it anyway. It is everybody else in the middle that is experiencing the problems and one of the major problems is of course the huge amount of unmet need that this very means tested, highly rationed system that we've got generates, the extra strain that puts on carers and of course the wholly counterproductive consequence that people delay getting help until things have deteriorated to the point where they do need full time care. This is at a time when we actually need to keep people out of the expensive parts of the system and support them more cost effectively at home.

> “there are some profound challenges ahead in the way that we recalibrate current patterns of public spending and private wealth to reflect the fact that we will be a fundamentally different kind of society.”

This explains why with the system we've got the costs are escalating yet the outcomes are very poor. So we have the worst of all worlds with our current highly means tested system that is remarkably stingy when you look at the public funding element of other Western European countries where there is a much stronger universal element.

It is not that this Government and the previous Government hasn't put more money into the system. In fact for every year for the last 15 years social care has had real terms increases in resources, but it has struggled to keep up with the pace of demography, and we're about to publish a paper that will go into this in a bit more detail. If you look at the last five years for example, spending on older people has risen – this is local authority social care spending on older people – has risen by around 3 per cent which is okay but actually the population of older people has gone up by 6 per cent. The over 85 population, which is the group that makes the biggest demands on health and social care, has gone up by 24 per cent. At the same time you have a rising tide of younger people with disabilities that need quite expensive care as well, and many local authorities are posting quite big increases in spending on that group.

So that's the problem with the current system. A third point I want to make is this problem, which again Lord Warner alluded to, which is about local variation. Because actually what you get depends not so much on what you need but where you live and I thought he encapsulated it very well. If your local authority gives you a week's respite care and then you discover your friend down the road, just over the county boundary, actually gets two weeks then you feel that is unfair, and we call that a postcode lottery.

When you ask people in opinion polls and such like about their views about that, everybody thinks that is unfair. You go to ask them, do you think your local council should have the freedom to respond flexibly to local needs and local priorities, they say yes of course it should. So one person's postcode lottery is another person's localism and I think there are no easy answers to that, it is a massive policy tension, it is about the geographical aspect of fairness.

The fourth problem is about the very poor information about our current system. Many people actually think it is the NHS that will pick up the bill for long term care and they don't realise the scale of their potential liabilities until it's too late. The boundary between NHS care free at the point of use and local authority means tested social care has shifted quite dramatically over the last 30 years. In some respects that's been a good thing because it has seen the end of geriatric back wards in hospitals and much more appropriate models of care in nursing homes. But public understanding of responsibilities has not kept pace with that policy shift, and of course it is aggravated by the fact that in many cases social care is a distress purchase, it arises at a time of crisis due to health, due to bereavement, due to some other personal crisis. Information about the options is generally poor and people struggle, particularly those not entitled to public help, struggle to make the right choices. In fact social care is probably the only part of our economy where private money may actually result in you getting a worse service, worse set of outcomes. Whatever comes out of the Dilnot Commission, one thing that must change I think is we must have a much, much better comprehensive advice and information service of some kind or access to specialist information and advice. This currently doesn't exist anywhere, what we often have is a mixture of advice about inheritance, about wills, about pensions, about housing options, about care funding. As far as I can see there is no one single place people can access that information in a coherent way.

> **"...social care is probably the only part of our economy where private money may actually result in you getting a worse service, worse set of outcomes."**

So let me finish there, I'm sure I've exceeded my five minutes. There is lots more to say but I'll pause there and allow Paul to come in. Thank you.
[Applause]

Paul Lewis: Hello, thanks. I'm not quite sure why a two-bit journalist is here talking to all these people who are deeply rooted in research and thought. We are supposed to be talking about the scale of the challenge but I am actually here today to tell you there isn't a challenge. There's no problem, the money is there, the only problem is a psychological one.

Let me go back a bit first though and talk about people's understanding of how the system works at the moment. Lord Warner mentioned that many people just don't understand how the present system works and that's true of 99 per cent of my colleagues in journalism. Headlines recently, I think it was in the *Daily Mail*, but it was in the *Daily Express* a year or two ago, about people having to sell their home to pay for care. Under the present rules no one under any circumstances has to sell their home. They might choose to sell their home, they might choose to sell it because they are under a complete misapprehension about how the rules work but they don't have to sell it.

Under the current system in England but also in other parts of the UK, you can make a deferred payment agreement. So if you have to go into care and there is no one else in the home, and I'll come on to that in a minute, then you go into the home and your fees are paid for you and there is a charge taken against your property and the bill accumulates during your life interest-free, then when you finally die the bill is settled out of your estate. So you didn't have to sell your home to pay for care and as Penny mentioned, in those circumstances many of the heirs will rent out the home and make money to offset the fees, protecting their inheritance.

Now I'm sure some of you will be thinking, well my local authority has specifically said it won't do that, it won't join in with this scheme. It doesn't matter. There is an even older law dating back, dating back as long as me actually, the 1948 National Assistance Act which says local authorities have to provide care for people and if those people are asked to pay and they say no, it still has to provide care. In this case an almost identical system comes into effect where the bill is accumulated during their life and when they die the bill is met and it also accumulates interest free. The only essential difference between the two is how long that interest free period lasts after they die, weeks in both cases but they are different lengths. If you go into a care home and the local authority says you must pay, just say no, it's the most sensible thing you can do.

> **"Under the present rules no one under any circumstances has to sell their home. They might choose to sell their home, they might choose to sell it because they are under a complete misapprehension about how the rules work but they don't have to sell it."**

You also don't have to pay if you have a spouse living in your house or indeed a partner. You don't have to pay if you have a relative over the age of 60 living in your house. You don't have to pay if you have a younger relative who is disabled. There are also many local authorities who will make exceptions for younger people who have been living there for a long time and are your carer. There are many circumstances when you don't have to pay.

The question we have to ask ourselves is, is that system really fair? I had a neighbour, she was in her

80s when I moved to my house about ten years ago, she was a bit infirm, she had a hip operation, she had another hip operation, couldn't get about very well. Eventually she got early stages of dementia and had to go into care. She had been living in that house probably since World War II, she had inherited it from her own father and it was entirely her home. She had no children of her own and she used the money from the house to buy herself care in a home that she wanted to go into in a part of the country where she wanted to be because of friends. I think it would have been unthinkably wrong if the four or five hundred thousand pounds value of that house had not been used for her care and it gave her better care and more choice.

"...the scale of the challenge is not that the money isn't there to pay, it's that people probably of your age don't want your inheritance spent. That's the challenge."

Now supposing she had had a partner or indeed supposing the man who came in not to look after her but to help take care of her maintenance and affairs in her life had decided he was going to live there and he was well over 60. Would that have been right that that half a million pounds or thereabouts was sitting there while all the rest of us were paying for poor old Marjory's care? Like most people in care she lived a short time, I think she lived 15 months and the average is around two and a half years. But it seems to me that the – and I don't want to stray into solutions which is the next topic – but the scale of the challenge is not that the money isn't there to pay, it's that people probably of your age don't want your inheritance spent. That's the challenge.

Most of you will have parents who own their homes and would think I want to leave it to John or Mary but really is it their money? This is perhaps when I get a little controversial. The home they bought, they bought let's say in 1975. Since 1975 CPI, which is what the Government likes to use to measure prices, has gone up just under six times. So something that cost £1 then would cost £5.70, today if CPI is right, and it rose today to 4 per cent by the way in case you are not up with what's happening. RPI, which is the measure I prefer I must say, has gone up about seven times. Something you bought for £1 in 1975 would be worth around £7.10 today, and incidentally that went up to 5.1 per cent we're told in January. Wages have gone up by about ten times since 1975 so if you earned £1 then you'd earn £10.39 now. House prices have gone up 16 times, well over double the rate of inflation, far more than the rate of wage inflation which of course is why young people find it so hard to buy homes now. An average house costs about £160,000 now, that house would have been bought for £10,100 in 1975.

Now that gain, and people often say to me 'Oh I worked hard for that, we struggled to pay our mortgage' etc, etc, yes I'm sure you did, but it doesn't mean that you have in any sense paid for something worth £160,000. It's a windfall gain, it's a gain created by the way society works and there is an argument that society should take its share of that windfall gain, much more than the heirs who are waiting, sitting there thinking, 'No, society should pay for mum to go into care for four years otherwise I won't get the house'. This is the psychological problem and of course it is not just the heirs, not just people in their 40s and 50s who think this, it is also the older generation and I had this struggle with my own mother about what she should do with the money that she had. 'Oh I want to leave it to you and the other children'. We don't want it, we don't need it, spend it on yourself, spend it on having as good a life as you can.

Figures vary but there is approaching a trillion pounds sitting in valuable homes owned by people in the older generation, let's say over 60. You can get any amount of figures but there is certainly getting on for a trillion pounds. There may not be, as Lord Warner says, in the fashionable sense a 'silver bullet', but there is a pile of gold there to solve this problem and I think that we should be looking at the value of homes and I'd go even more than that, I'd say I don't care if you have got a partner living in the house or a relative aged over 60 or a carer, I would still take the value of that home as it's taken now, by putting a charge against it, letting the debt accumulate because at £160,000 the average house, flat, dwelling is more than enough to pay for two people's care for life and that is what I think the money should be used for and that would solve the problem.

Now we talked earlier, or it was mentioned earlier, about insurance and I think the insurance solution is not going to be part of this. Insurance is for things like burglary or car crashes, where there is a very small chance of an enormous bill. One in five of us will probably go into a care home, maybe one in four, no one really knows. That's not the kind of chance insurers insure against, that becomes more of an investment and nobody is going to put money into an investment if they have only got a one in five chance of getting anything back at the end of it, it's just not going to happen. So while you've got free care for people who don't have resources, don't have a house that's empty and other people have to pay, then that's not going to work. So really you have to have a system, and I know Lord Warner said there was no appetite for compulsion, there is no solution but compulsion. Take the value of homes and then the problem that we are all so worried about will disappear. Thank you.

"I know Lord Warner said there was no appetite for compulsion, there is no solution but compulsion. Take the value of homes and then the problem that we are all so worried about will disappear."

[Applause]

Patrick Nolan: Thank you, well three very interesting and provocative presentations. Penny talked about the diversity of the ageing population which is an incredibly important point that we had missed in the earlier discussion. She also talked about local authorities as well, which again is an incredibly important point, particularly given the budgetary pressures that are going on for local authorities. Richard talked about the need for better understanding around these sorts of issues and highlighted the increasing costs of the system. I particularly liked the reference to this being the equivalent to *The King's Speech* of poor systems, so if we were going to design a bad system this would almost be it. Paul I think made some incredibly important points. Speaking as someone from the Antipodes where there is much more of a culture where we do means test a lot more and you would have to consider selling your house, I think they are incredibly right and important points to make. Maybe we do need to slay this political sacred cow of the right to continue to own and pass on the home. So I'm sure there are an awful lot of questions going to come from those presentations so if I can throw it open to the delegates.

Peter Howell: Along with the previous speaker, Mike Parish, I am actually one of the few providers of care services so if I can be permitted to make two points. One is about Richard's so often repeated canard about the postcode lottery and the difference between social care and the fully funded provision through the NHS.

The other one is about selling your house. I think that raises a spectacularly interesting question which I am faced with quite often which is the question of shadow assets. Many people I come across were previously the chatelaine of several hundred acres of prime Cheshire farmland and they are dependent on the State because their assets are perfectly correctly passed down generations. Whatever Lord Warner comes up with, if there is something of that nature with people holding on to assets and it is absolutely right they have to pay for them, then people will engage in family planning to remove themselves from those assets and those shadow assets, that is the real issue. A way needs to be legally found, as the government found in taxing things that are passed on to generations when there is an interest in those assets.

Patrick Nolan: Okay, the cost of the care versus the NHS, maybe Richard if you want to pick up on that and Paul, the issue there around homes and Penny, either of those, but I would be particularly interested in your thoughts around the issue of the homes as well.

Penny Mordaunt: I think when we are doing the maths on this we need to think about what we want to see happen as well as what currently actually happens and I think we have got a distortion. We have got a lot of people who don't have access to services and then suddenly go into residential care, whereas if we were actually doing more to enable people to stay in their own homes or to downsize, if we were actually building homes that people could move into, and there is a massive demand for that, we might have a very different set of figures that we had to find a way of funding. That's the point I would make. We have to think about where we want to get to as well as what currently happens.

Richard Humphries: Yes, I think the challenge is how we get the best outcomes for people at the lowest cost. What the evidence seems to be telling us is that if you intervene earlier and offer people preventative low level support that enables them to live in their own homes for as long as possible, that is what they want. That in the long run will produce lower costs than the system we have got at the moment whereby people are basically allowed to deteriorate to the point of needing long term care. In terms of lifetime care costs that then looks more expensive.

Paul Lewis: Peter makes a very good point about shadow assets, really you are talking about tax avoidance in a different sense, avoiding the tax of having to pay for your own care. Most people make a clear distinction between tax evasion and tax avoidance, one of which is illegal and one of which is legal. I don't. They are all evading your obligations. They are all creating entirely artificial arrangements like trusts which date back to the Crusades, in order to prevent other people getting hold of the family assets and the problem we have, because we have become a nation of home owners, everyone thinks they can start a dynasty, everyone thinks they are the landed aristocracy. They're not, they've got a semi- detached house in Epping. It should be used.

> **"At the moment it is an extremely unfair system that we have, that is you are one side of the line you are fine and if you're on the other then basically everything has gone."**

Now you are not going to avoid very wealthy people with very good accountants and very good lawyers finding ways out of the sort you mentioned. It's an annoyance, I'm not sure how big the problem in terms of money it is. Maybe I'm wrong about that, I would be interested to hear, but I certainly think if you did have a scheme where everyone had a charge against their home then yes, there would be schemes devised to try and stop that happening to the wealthy who think they shouldn't be paying tax because that's something poor people do.

Audience member: Penny, as a leading MP in this discussion about old people's care I would be interested in your thoughts on Paul's comments about old people having to sell their homes and Paul, I am particularly interested in how we can get over the public hysteria I suppose that you are alluding to with the *Daily Express* and the *Daily Mail* about people selling their homes and how that can be used to fund care.

Craig Berry: Craig Berry, International Longevity Centre. This debate on funding care, we've not actually looked very much at what we're funding, what we're paying for and I do think we need to think about carers as well as care because often it will be the care workforce that we are actually funding. I think Lord Warner intimated this to some extent. When we are looking at the care workforce these are not just financial questions, it's not just about doing the maths but also about doing the economics, so we need to get the economics of the care workforce right before we can think about what we are paying for and how much it is going to cost. I think obviously informal carers, unpaid carers will always be a key part of the care workforce as well, so we need to think about the support that exists for them and that should be central to the funding system as well as central to how we deliver care.

Patrick Nolan: So we have got even more on the housing issue and then maybe after that we'll draw a line under the questions on housing otherwise we risk losing the whole session. But also a very good question that picks up on the comment made by the RCN before about workforce issues and how do we ensure we also think about some of these workforce issues, that the supply of care is of a consistently good quality across the country. Penny.

Penny Mordaunt: Although I have some sympathy with what you say and that people have got to realise that as individuals we have got to make provision for ourselves in older age, I do disagree with the idea that the only way you can do this is through the sale of your home. The threshold is so low and it is such a steep cliff edge, there are a lot of people who feel very aggrieved and it is not just the children that are feeling aggrieved and writing the letters. Why do people invest in property? It might be to pass on to their children, I'm sure that part of it is that people do actually want to make some provision for themselves in older age, that is true. At the moment it is an extremely unfair system that we have, that is you are one side of the line you are fine and if you're on the other then basically everything has gone. There are also individuals who have to pay for several lots of care, a lot of people I get letters from are looking after elderly parents and a disabled child for example. So some of these costs are really considerable and I think there has got to be a bit more of a balance on that. The fear that I have is unless you incentivise people to do things, unless we are going to have tax breaks for people to make provision for themselves and they are not going to feel that they are going to be unfairly treated in comparison to their next door neighbour who may have led a completely different life and doing the same job as them and they are taken care of and they're not, then you will lose people wanting to own a home or invest in a pension or invest in a care ISA or whatever it might be.

Paul Lewis: These are the kind of headlines she means 'Spitfire ace forced to sell home to pay for care', it was in the *Daily Express* and the *Daily Mail* and various other papers a year ago and it wasn't true. I spoke to the man's daughter and in fact her mum still lived in the house so he wasn't going to have to sell it at all and not that he had to anyway, as I did explain to the woman concerned at great length. How you avoid it I don't know because if you read the article carefully, the journalist who wrote it knew that but it was in paragraph 94. He wanted a great story and you have a Spitfire Ace, being forced to sell your home, paying for care – three great buttons to press. So it is very hard to know how you stop that kind of thing and of course that kind of piece affects the views of lots of people and you don't lose everything, Penny, until it's all gone. Most people lose very little of the value of the home because they don't live in the home long enough, they might lose a quarter of it at the best. If it is empty and you rent it out then you get income in. So you don't have to lose everything. Even if you did I wouldn't care but that's a different matter.

> **"These are the kind of headlines she means 'Spitfire ace forced to sell home to pay for care' ...and it wasn't true."**

You talked about workforce issues and quality of care, Patrick, and I think this is a problem, I'm sure Peter and anyone here from the care industry knows, that because care home prices have been forced down and down by local authorities, not for individuals who have got the money themselves but for local authorities, the pay you give to people in care homes has been forced down and down and down and inevitably you don't get the quality of people we would all like for our parents or indeed ourselves at some stage. I think there is a problem of getting high quality care in someone's own home and I also support what he said about homecare not being a less expensive option, it is far more expensive to give people 24 hour care at home. I think the choices of two hours a day is about the same as going into a care home, and two hours a day is not going to be enough for a lot of people. So I think more people will go into homes and we have to improve the quality, that means paying them more, paying the staff more, and that means finding more money.

Richard Humphries: The social care workforce, one and a half million people, bigger than the NHS workforce, predominantly low paid, relatively untrained, unskilled and many do a fantastic job nevertheless. I think one of the arguments for closer integration with healthcare is that it would be much easier to offer people a much better integrated career pathway which would help with recruitment, retention and raise the overall baseline of competency. The other point that we mustn't forget is that one and a half million social care workforce, four to five million unpaid informal carers, so we need to keep that in perspective as well and the importance of supporting carers.

Robert Moreland: Robert Moreland. I have one simple question which is: reference has been made to other European countries and the impression that many of them do much better on this than we do and I wonder if we do have less on that. I noticed that Lord Warner made no reference to other countries procedures. Secondly, if I may say so and this really must show my ignorance, I didn't know and obviously I'm at an age where I may some time shortly have to think about it, the whole story about using my house and I read all of my Saga magazines and …

Paul Lewis: Well you haven't read my bits in there obviously!

Robert Moreland: Well actually because I don't pay for it I don't get it quite so often but my point really is, is this a lesson that we actually need to do much better on our information to people. Also in that context, your very last remark about local authorities, certainly one or two that I'm familiar with emphasised that they want to get people getting care more in their homes than in care homes but that seems to me to be the opposite of what they should be doing.

Richard Humphries: The issue about Western countries, nobody has got the panacea for this. I think we are starting in different places, most advanced Western economics are more generous in what the State provides in terms of State funded care so they are starting from a different baseline to us so therefore there isn't the same problem or scale of problem with unmet need. Other European countries also have systems which tend to be much more integrated with benefit systems and with healthcare, but they don't offer a panacea because the same countries are facing exactly the same pressures that we have got in terms of an ageing population and how to pay for it, so there is no panacea, they are simply starting from a better place than we are. I think the key difference is that they offer everybody something whereas we just offer some people everything in terms of the total cost of care, that's the key difference, but nobody has got that magic bullet that Lord Warner referred to.

> “Other European countries also have systems which tend to be much more integrated with benefit systems and with healthcare, but they don't offer a panacea because the same countries are facing exactly the same pressures that we have got in terms of an ageing population and how to pay for it…”

Paul Lewis: The money has got to come from somewhere. I saw an estimate and I have no idea if this is right but it was in the papers that came round to this meeting, that it was going to cost £6 billion a year extra to pay for what we need in care a year. Now that's about 2p on the basic rate of income tax. No politician, for reasons that completely baffle me, would ever dream of raising the basic rate of income tax, but it was only 2007/08 and the basic rate was 22p in the pound. Admittedly most of that will have been taken back because National Insurance went up and is going up again in April by a penny with the advantage that that brings you in twice as much because employers pay it and it goes right up to the higher rates as well, but we could solve this problem very easily by putting up income tax. But then there are a dozen problems we could solve very easily by putting up income tax and politicians just won't do it.

Okay, rule out income tax, certainly that's what we heard earlier from Lord Warner. Rule out income tax, insurance won't work for the reasons I explained and you may hear more about that later. So that leaves finding the money from somewhere. Now either you have to ask people, say 'Would you like to pay?' and some will say no thanks, or you have to make them pay, either through some sort of death tax which Labour suggested before the last election or some kind of compulsory payment once you reach 60 which I think the Conservatives were proposing before the last election or you have to take the money from their homes. It has got to come from somewhere. Or you have to say don't care, stay at home, sleep in your own faeces, we're not worried.

> “…you have to take the money from their homes. It has got to come from somewhere. Or you have to say don't care, stay at home, sleep in your own faeces, we're not worried.”

Penny Mordaunt: I am going to make the point I made at the beginning which is there has to be a range of options. Getting rid of your home might be an option for somebody, it is not going to be an option for other people. I would also say with regard to care in the home, there are a lot of people, a gentleman in my constituency is 85, he has cancer, he is the carer for his wife who is bedridden, he doesn't receive any help and actually needs it otherwise the State is going to have to pick up a bigger bill in the long term. Again, when we are looking at units of care over here and units of care over here, we have to look at what the additional cost to the public purse will be of going down one course of action and another.

Just another point that we haven't touched on and you mention other countries, one thing that my All Party Group is looking at is not just actually Europe but wider afield as well, about attitudes towards older people and the role of the family. There are again some practical barriers that stop families looking after older generations, the type of housing, the building, is one of them. I am a great one for tax breaks for looking after older generations of your family or indeed teenage pregnant daughters, I think that's the sort of thing we should be encouraging families to do.

Patrick Nolan: Great, thank you. Well we are pretty much at time to close the session so can we all thank the panellists. I learned quite a lot from this session, I didn't even know the size of the social care workforce, at 1.5 million, is bigger than the NHS, so it really does highlight the importance of information. I am so thrilled to have had a panel of people who play such an important role in their day to day jobs of providing information, Richard at The King's Fund, Paul through *MoneyBox* and Penny as a Parliamentarian. So can I congratulate you on this and also throw out the challenge that this is something we need to keep doing, we need to keep pushing information and having these debates. So thank you very much and if you can join me in thanking the panel.
[Applause]

Now we will break for about thirty minutes so you can all have a coffee and discuss the morning's goings on out there and we will be back at 11.30 for a discussion on options for funding care. Thank you.

Options for funding long term care

Patrick Nolan: Welcome back from coffee. We are now in the final session of the day and in the last session we started to get into issues around policy options or options for funding long term care so in this session we are going to examine these in a bit more detail. Again we are absolutely thrilled with the panel of people who have agreed to speak to us.

We've got Mark Pearson, who is the Head of the Health Division at the OECD. Mark has also headed up the social policy work at the OECD and he has spoken for us at a health conference so again he is one of these speakers who has been very good for us at *Reform*. He has also had an incredibly long, possibly the longest, commute of the day of us in the room. He has had to deal with the Eurostar this morning, so well done Mark, and thank you very much for coming in and making that special effort. Before the OECD Mark also worked for the IFS as a consultant, as well as for the World Bank, IMF and European Commission, so he brings incredible international experience on this.

Julia Unwin unfortunately can't make it today but we have an excellent replacement in Emma Stone who heads up policy at the Joseph Rowntree Foundation. I would also like to thank the JRF for sponsoring this event, and also for their on-going work on this issue. We are so thrilled to have Emma on the panel because the Joseph Rowntree Foundation has been doing so much work on this issue for such a long time now. I think it was 15 years ago they first started seriously publishing in this area so they really do bring incredible background and experience to bear on this debate.

We've also got Clive Bolton from Aviva who are also our sponsors, so again thank you very much to Aviva, and who also, like the JRF, bring incredible intellectual capital to this event. Aviva have a quarterly retirement report that they release and they have also done some important work called 'The Sandwich Generation' about younger people who are not just having to pay for their own retirement but the costs of their parent's retirement. So they have been incredibly active in this area. One of the reasons Reform exists is to work with and to try and learn from people like Aviva, so thank you for your sponsorship and we are thrilled to have you here on the panel.

Nick Kirwan is our final person on the panel from the ABI. He is the Assistant Director, Health and Prediction, at ABI, he brings incredible experience from the financial services industry, having worked in the sector for around 28 years including for companies like Scottish Widows and Abbey Group. He was named the Health Insurance Personality of the Year in 2007 for his work in promoting the industry, which is important because one of the key themes that we talked about in the earlier sessions was around information and actually how do we engage people with their need to take their own responsibility but also with these products. So people who have actually done this and worked at promoting the industry are incredibly valuable assets I think. So thank you and if I could pass over to Mark.

> **"One way or another, reforms are trying to suck a greater proportion of elderly people in need into the long term care net."**

Mark Pearson: Well thank you very much. Yes, my commute this morning was a bit longer than intended because there was a broken rail in the Channel Tunnel, which means I have not actually heard anything that's happened so far this morning, for which many apologies. I suspect I am not going to overlap hugely with what anybody has said so far so I think probably the most useful thing I can do is to try and put the discussions in the UK in the broader international context. Because what's going on at the moment is a wave of reforms in long term care that is basically unprecedented, we have never seen this much action going on in so many countries at one time. I think we can see a few trends coming through across countries. I should immediately say these are trends and there is absolutely no reason why the UK needs to follow those trends. I don't think we know whether the trends are good ones or bad ones, but you can nevertheless locate what is happening in the UK in an international context.

So the first trend I think that we can see has been going on for the past five or six years, and that is really a move towards universality. One way or another, reforms are trying to suck a greater proportion of elderly people in need into the long term care net. It might sound like an obvious thing to say but it's not been the case with previous reforms, which have been playing around at the margins and the reason why this is happening is obvious to you all. Even if you look at relatively small amounts of care requirements, say ten hours of care per week, if you look at what proportion of disposable income of elderly people that will take up in countries, it is well over 60 per cent right up to the 60th percentile. In other words, well over half the population cannot afford ten hours a week when they are elderly, across different countries. 60 per cent is significant because we are talking about a serious political problem and so the politics of the long term care system means that systems are trying to suck in more people. That's one trend that is going on. I can give you examples: Korea, France, Spain, even the US reforms.

> **"It sounds at first sight that countries are all over the place in how they are financing long term care, but in fact there is one common factor in all those countries: the way that they are financing long term care is identical in broad structure to the way they finance their health system."**

The second trend however is more to do with the affordability, which is that despite sucking more people into the system, there is much more targeting going on. Now to some extent, out of pocket payments are always difficult when I talk to a UK audience because there is a lot of confusion. Most long term care systems separate out board and lodging from nursing costs and when you talk about long term care systems in most countries, they are talking about nursing costs. For board and lodging, it is assumed that the individual will pay board and lodging costs, with a means tested social assistance last resort benefit to pick up for them. On the out of pocket payments, there is a convergence across a number of countries like for example Sweden, Switzerland and Australia, where out of pocket payments cover about a third of total costs, but with much more targeting. So you have got targeting both on need – Austria has gone to the extremes of saying very small amounts for those who don't have big needs but much more generous for those with big needs – or income as well. Austria for example, they have gone very much down that route of both targeting by need and by income, so there is a huge range in the amount that they will give to people according to their income and their need situation. So targeting is the second big trend.

The third big trend, is it a trend? At first sight the financing sources for long term care are all over the place. You have got tax finance schemes largely in Spain, Korea has gone for social insurance, US you have this employer based opt-in opt-out system with the Class Act, France is rebalancing public/private funding, Netherlands based on payroll contributions, Scandinavia municipal income taxes. It sounds at first sight that countries are all over the place in how they are financing long term care, but in fact there is one common factor in all those countries: the way that they are financing long term care is identical in broad structure to the way they finance their health system. Basically however they finance the health system, they are picking up and using that same structure to finance the long term care system.

So as I understand the way that the UK discussions are going, this is one area where you would clearly stand out from what's happening in other countries. It is not proposed, as I understand it – and you heard, I didn't – to be a tax financed system. I'm not saying there is anything wrong with this, I'm just saying that you stand out as being different from the international trends. I could make a case for why you should use the same system as you use for health financing to do with incentives to cost shift between the different systems, but I don't have time.

Fourth trend, very, very quickly because I am running out of time, countries are broadening who they are expecting to contribute for long term care. Even the social insurance systems where you normally expect workers to contribute out of their earnings for a fund that pays for long term care in retirement. That's all been relaxed, and that means that people beyond the age of retirement are also being required to pay contributions on their pensions towards long term care. The reasons are obvious, to do with the maths of people that you have in retirement compared with the working age population, the desire to reduce the tax burden on the working age, the tax burden on work. You see that in lots of other countries, as well as a greater use of tax finance rather than social insurance as a way of spreading the burden across a greater proportion of the population.

> **"One obvious conclusion from this is that the future elderly are going to be paying a much greater proportion of the bill for long term care than the current cohort requiring long term care."**

One element of that, and it is my last trend because it's not a trend but I know it has already come up this morning, is taking into account assets, particularly housing wealth, to pay for long term care. Here we are actually all over the place, this is one where there genuinely isn't a trend. You've seen Ireland, a commission in Australia, to some extent the

US, all talking about trying to tap into housing assets through equity release or through payment on death schemes. On the other hand you have also seen New Zealand and Canada who have gone in the other direction. Some provinces in Canada are trying to phase out use of housing assets in particular as a way of financing long term care. You have even got the Netherlands, which phased out reliance on housing assets, and now is proposing to re-introduce them. So this is one area where there is no particular trend and as I think, as you immediately can realise, reflects the complicated politics of trying to tap into people's housing assets in particular.

"This is a long-awaited and really valuable opportunity to address something that many of us have long been saying needs to be addressed."

That's enough, I've gone well over my time I suspect. I need some conclusions. One obvious conclusion from this is that the future elderly are going to be paying a much greater proportion of the bill for long term care than the current cohort requiring long term care. They will either be contributing in terms of social insurance or private insurance contributions, or it will be out of their housing wealth, or it will be out of some greater out of pocket payments in retirement. That's the one absolute guarantee in long term care, not just here but virtually everywhere. Thank you.

[Applause]

Emma Stone: One of the benefits of having heard this morning is it enables me to pick up on a few of the points that have been raised. I want to start by saying the Joseph Rowntree Foundation has been really interested in this issue for over 15 years. We haven't solidly done work throughout that period of time, but we are now at a stage where we are not advocating any one or particular funding model. What's really important to us is that any funding model meets certain principles, and a lot of those are principles that the Commission would adhere to as well. That's about a funding system being fair, being simple to understand, where it is transparent what people are expected to contribute, what the State will contribute, about it being sustainable, financially and socially and – really importantly – about it being capable of delivering the outcomes that people want and value, and those outcomes are changing over time.

I also want to say that one thing that the Foundation would encourage the Commission to do is to take a radical think about this. To really look far into the future, not just over this Parliament and the next Parliament. This is a long-awaited and really valuable opportunity to address something that many of us have long been saying needs to be addressed. I think if there is one thing I feel a bit concerned about, in amongst everything Lord Warner said which I thought was broadly very sound, was a sense that what we've got, we're stuck with. And that the Commission might be more tinkering at the edges or tweaking, rather than really taking this opportunity to think more fundamentally.

So from that point of view, what I'd like to do today is say a few things that I hope will provoke your own thinking and provoke the conversations that we can have. So we've heard and we can all agree that there is very little public support, if any, for co-payments in relation to how we pay for health, that there are changing views about expectations of State welfare and State role, that there are certainly spatial inequalities – that was the point that was made earlier – about locally defined eligibility criteria and entitlements. This creates divergence within England – and then there is the divergence between England and approaches Scotland, Wales and Northern Ireland.

We have, yes, a means tested social care system that is absolutely at odds with the way we pay for health. At this point, I think it is also important to say, as Lord Warner said, that most people think they will get social care through the NHS and are really surprised and shocked and distressed when they find that not to be the case. Actually what that implies is that most people think they already pay for it through general taxation, through National Insurance contributions. So it isn't surprising that many ordinary people, including people who use services, still say, 'general taxation, isn't that how we do it already?' Isn't that the best way, just as we do with the NHS?

Now as I say, the Joseph Rowntree Foundation isn't advocating any one model over another, including general taxation. But it seems really important to understand why so many people prefer this option. First, it creates parity with healthcare, it is about placing the same value on social care as we place on healthcare. It is also about creating a system where we don't come up against the boundaries and as Mark was saying, that tackles the perverse incentives for cost cost shifting that currently operate between NHS and social care spend.

It is also much easier to understand: people understand what they are entitled to in the NHS in a way that they absolutely don't understand in relation to social care. I think that is a really important message because we have heard all morning people talking about information and awareness. I think we have to be really clear that in going towards what I suspect is inevitable, a partnership based model, partnerships are complicated to understand and they are complicated to communicate. The greater the range of options, the

"...partnerships are complicated to understand and they are complicated to communicate. The greater the range of options, the more difficult it is to achieve a system that is really simple to understand."

more difficult it is to achieve a system that is really simple to understand. So I think we just have to be very honest about it.

The other thing that I want to talk about is about just clocking how different we are from many other countries and I thought Mark's presentation on this was really helpful. I don't want to go over much of the same ground other than to say that in 2008 we did our own quick review, it's on the JRF website, by Caroline Glendinning and David Bell. They are two very experienced academics who looked at what happens in other countries. It sounds as though Lord Warner and the Commission have commissioned some further research in order to update that because obviously times have changed since 2008. Some examples.

In Austria they have a cash care allowance that is funded from general taxation, they set it up in 1993, it is paid at one of seven different levels according to need and that covers all ages.

In Germany there is a long term compulsory insurance scheme for severely disabled people, again of all ages. One of the drivers behind this decision was to prevent people spending down their assets and savings in order to qualify for means tested social assistance to help with the costs of care. That's not something we would want to see happening in this country I'm sure.

In the Netherlands there is also greater universal care - again for all ages. There is a non means tested social insurance programme where people do pay a premium if they have incomes above a certain threshold. Those are just a few examples and we could cite others from France and Japan also. As you have heard already - universality is a really big trend in how everyone else is approaching this and for good reason.

Another big issue in the debate: compulsory or voluntary? Is this an area where we want private insurance products? Lord Warner made a very helpful point in his speech and he was very keen (given the surroundings) not to be unkind in relation to the private sector. But the challenge is out there in terms of private sector products. The reality also is that where there have been private sector products, they haven't been taken up by the public. Yes, the public appear to have little appetite for being compelled (as Lord Warner said this morning), but the public also seem to have had no appetite for paying for pre-funded long term care insurance products. We have seen a 'wait and see and hope for the best' approach in England, and wouldn't you do the same? I would like to know if anybody in this room has bought a long term care insurance product or would expect your children to buy one? [No hands in the audience were raised.]

> "...the public appear to have little appetite for being compelled (as Lord Warner said this morning), but the public also seem to have had no appetite for paying for pre-funded long term care insurance products."

So I think it is really important when we talk about compulsion to also think fairly and in a balanced way – and to acknowledge that there would be a big uphill mountain in order to get sufficient take up through any voluntary system of the level required to make products sufficiently attractive and affordable.

I'm going to stop there. I hope I have injected some balance and different perspective into today's conversations. There really is no silver bullet answer but the fundamental bottom line for me is I really hope the Commission does not waste this opportunity and does not stop short at just tinkering and tweaking. I hope the Commission really does take the chance to take stock and take a long term view. Thank you.
[Applause]

Clive Bolton: Good morning, first I'd like to say thank you for the opportunity both to sponsor and to speak here. This is something we have been really focusing on here at Aviva.

As some of you may have seen with our quarterly *Retirement Report*, we attempted to redress perhaps the over focus of our industry on wealthy people who are retiring, and actually give more voice to what it's really like to retire for everybody. Because nobody is a serial retirer, everybody does it once and they don't as a result have the knowledge to do it well, as they would say buying car insurance or going to the shops. As lots of people are disconnected from those people who can offer true advice for whatever reasons, they are not their type of people or some people think that advice should be free. They tend to look to a range of sources and a key one actually is their mum and dad, so they look to see how their parents have retired and they think that's probably what retirement is going to look like for me. As we know, things are changing hugely and few of us will be members of defined pension schemes when we retire, so we got really interested in this and realised that in actual fact this was the key.

> "Because nobody is a serial retirer, everybody does it once and they don't as a result have the knowledge to do it well..."

So if we look 'At Retirement' for just a little bit of background, the people are probably 55 and above. Because people at that age have got what they've got, by and large. We can't say to those people what you need to do is create more money and then save it to prepare for your old age, what they have is what they have in front of them. Perhaps a little note for us in the insurance industry, that means we must switch off the message that says save more for your retirement, perhaps even with a bit of a lagging figure, and say okay, you are who you are, this is what you've got, how can we help you to make the best of it?

If you look at our customer attitudes, they don't separate out long term care from all the other aspects of retirement. They don't separate out their long term care pot and their pension pot, for them it is just what it's like when I'm going to grow old. We have been in customer groups frequently enough to know there are three broad types: There are people who are very focused on it. They are very focused on what their retirement is going to be like, they maximise their pension arrangement potentially with their company, they know what they are going to do, they have plans and so on and so forth. Sometimes they are not always right but they are focused on it.

> **"...the reason why people don't think about it is because it is an affordability issue, it is just too hard and it seems too much money and yet, unless we actually engage the people we are doing this for, we won't get a consensus in our society."**

There is another group who basically use denial, they say they will muddle through, it is so horrible and I am not going to engage with it in the slightest and anybody who tries to talk to me about it must be after something, therefore I'm just going to blank you out.

There's a middle group, and usually if you know the format of an insight group, we meet in the evening, we give people beer and sandwiches and put them in a room and ask them to talk about stuff. That's probably the first time for a lot of those people in that 55-60 age group that they have ever, ever thought about what it's really going to be like in that next part of their life. You can see over the one and a half hours, as the conversation ranges, the penny actually drops – 'I'm really going to have to think about this.'

Our first point would be you are always better off to have a plan, I think that this has come up with a number of the talks beforehand. The first thing we need to do is to engage customers with a plan. You can do it, it's your plan, we're not saying you have to save £1,000 a month, but have a plan, and research what it's like, what your retirement is like. If you do have a plan then I think people naturally get into what it's going to be like if me or my partner falls ill and indeed around about 27 per cent of people of that age do worry about it. So it is there but they just put it to the back of their minds because it is too hard, like all the other too hard things that are going on.

Also what we have noticed as a result of the recession, if we talked to customers in 2007 and 2008 they were always going to do the same thing about their retirement. They were going to retire in their mid-50s, they were going to go to the South of France, they were going to travel and it was going to be absolutely fantastic and then when they were perhaps 70, 75, they would settle down and so on and so forth. Interestingly, as a result of the economic downturn, now when we talk to customers they say 'I'm never going to retire, I can't see my way out of this' and 'I might actually quite like work, it might provide me with some social benefits but I'm never going to retire.' I think that brings us to the point, we have probably talked about, is the reason why people don't think about it is because it is an affordability issue, it is just too hard and it seems too much money and yet, unless we actually engage the people we are doing this for, we won't get a consensus in our society.

That leads me on to generational equity, which I am very pleased has come up, because I think for the first time now we have to contract with the different generations in terms of what's fair. It doesn't take a huge mathematical brain to know we have got as many lives to pay for as there are lives lived in our country, therefore if you don't pay for some aspect of your life, say your retirement, then somebody else has to. It all averages out somehow, if not with any equity between generations. Then if you add another scary thought, that somebody joining the job market today aged 23 with a broad expectation of working until they're 60 because that's what their dad did, they have an even chance of being retired longer than they are economically active. When you put that together you realise that the system is completely bust and nobody will retire at that stage. That gives the point that I think was mentioned by the previous speaker, the option there is to play chicken. Play chicken with the State, so when I am 90 and my money has run out, you won't cast me out onto the streets because we're not that type of society.

> **"...somebody joining the job market today aged 23 with a broad expectation of working until they're 60 because that's what their dad did, they have an even chance of being retired longer than they are economically active. When you put that together you realise that the system is completely bust..."**

So what can insurers do? I'll just say a couple of words about equity release. I think equity release is the only way you can stay in your own house and guarantee you'll spend your last pound on your last day. It is a solution that is right for some situations and some people. If you are in the South East and you have a big house, downsizing works really well. It is not really a good tool for funding long term care when you are moving to a home, because you can sell your house as result. But it can work in some aspects of assisted living and it does provide some guarantees that the interest rate won't eventually cost more than your house. I think that's where insurance companies can work.

Another example would be to guarantee your cost of care and immediate need annuities, so the family isn't faced with a situation, where your mother – we heard that on average they live two and a half years – lasted ten years and you are left trying to find the money to keep them in the home they are used to. But I don't think what we can do is bet the economy.

We can't write a product in one welfare environment and for it to pay out in another and we can't shift money between generations.

Just in conclusion, I don't think we can separate long term care funding with pensions and all the other needs for people at that age and we must be aware that increasingly debt is an important aspect there. The first charge is to get rid of their loans, their mortgages, because they are still there even though they are 65, 70, then provide for their needs, living expenses, their pension and then provide for long term care. We need to engage people to plan, just think about their retirement in the absolute broadest sense, I'm not talking about financial advice. Ask the bill payer, if you assume that some other generation is going to pay for your older age and long term care, now is the time to have a really good discussion about it because that might not happen when you get there. And finally there are a lot of things insurance can't do but what they can do is assess risk because they've got skin in the game. They can smooth the payments and they can provide some guarantees if the full cost escalated and felt to the individual it would be outside their means. Thank you.

[Applause]

Nick Kirwan: Good afternoon everyone, let me be the first to say good afternoon, it's just gone past that time. It is a fantastic privilege for me to be here to speak to you about this very important topic on this very important seminar as well. I wanted to say that I completely agree with what Emma said about the need for a settlement and we at the ABI are very excited about the work of the Commission and we really hope this will come to a lasting settlement and a conclusion. I think what Emma said on this subject, that a lot of people wait and see, and certainly we have evidence to suggest that's true. There is some uncertainty, and one of the reasons why having a settlement is important is because people can only make plans if they know what they are planning for, and with this uncertainty of course does come this 'wait and see' attitude.

"...if people are saying 'I'm now not sure whether the State will pay for me or not', why would they spend quite a lot of money taking out an insurance product in the light of that uncertainty?"

There is actually some perhaps circumstantial evidence, but when there was a small market for insuring for long term care needs it stopped at the same time that we saw the Royal Commission start last time. I think if people are saying 'I'm now not sure whether the State will pay for me or not', why would they spend quite a lot of money taking out an insurance product in the light of that uncertainty? So we are excited about the Commission and we do think the starting point is to have a settlement and one that will last.

Our assumption about the Commission, and it is always dangerous to make assumptions isn't it, but I think our assumption is that it is not going to recommend that the State will pay for everything for everyone all of the time. I think that is a fairly safe assumption. But what that means of course is that that will leave a gap behind, and that's the basis of the partnership. The State will say 'we will pay this and there is a gap that you need to think about for yourself.' Our plea to the Commission is that we can work with pretty much any funding model however it defines what it will pay for and what it will not, whether it's in terms of wealth or whether it's in terms of need, or whether it's in terms of splitting the division between nursing care and residential costs or any of those things. I think the private sector can say we can work with any model like that provided the gap is well defined, that's the key. If the gap is well defined then of course people know what their responsibility is and what they are planning for and then of course the private sector can design products and services to help people meet their responsibilities, their share of these costs.

"If the gap is well defined then of course people know what their responsibility is and what they are planning for and then of course the private sector can design products and services to help people meet their responsibilities..."

So we do believe the insurance sector is well placed to help people do that and we do believe we would like to play an important part in helping people to fill that well defined gap. In terms of this, some of this has already been touched on slightly, but jut to say it very explicitly, we believe that there are three quite separate generations of people which we need to think about quite differently and have three quite different sets of solutions.

We might think of them in terms of this – the first is the people who are either in care or need care right now and we might characterise those as typically about 85 years old plus. The second group are people who are retired but who don't need care yet, are perhaps earlier in their retirement and we might think of those as being 65 plus. Then there are those people who have not yet retired, people of working age, and for these purposes we might think of them as being 45 plus.

The important thing about those groups is that the industry already offers a great selection of products to the people who are in care now. Particularly an immediate needs care annuity that helps people manage their life expectancy and importantly I think helps people ensure they don't run out of money and then fall back on relying on the State. Much more needs to be done to bring good information to people about the types of products that are available. Of course they will become much more affordable if they are only paying for a share of the costs because at the moment self-payers are largely paying for all of it and of course that determines the price of that product. Then there are equity release mechanisms to help people use the equity in their home to manage that stage of their life but importantly people at that age need good clear information on the sort of products that are available to them to face the crisis that is actually upon them.

The next generation are the people 65 plus and Clive has already touched on this. What makes them different is that they have done all the saving that they are ever going to do so that's not an option. We can't say to them, as Clive absolutely very eloquently said, 'you need to get more money together.' So our task there is to help them plan ahead with what they've got and organise their assets. That may or may not include thinking about buying some form of insurance or thinking about what types of assets they should have or organising their pension fund. But they do need to think very holistically about all of the things. I can't really say it any better than Clive, they need to have a plan because any plan is better than no plan. They are where they are but they need that plan. Again I believe the financial services industry could help them to develop that plan.

“The solution for people in saving, people 45 plus, it is a very, very long way into the future before the first person reaches retirement. The focus needs to be on those people 65 plus for the next 25 years, and that's where I think we need to centre the debate.”

The last group aged 45 plus that we talked about, they are characterised by already not saving enough for their retirement and the key challenge there is we just need those people to save more because if they have got a bigger pot when they retire then they can have choices. If they don't have a big enough pot then they have no choices to make, they have no options so it is absolutely essential that we encourage them to save more. We believe that's where the answer is.

The last point I'll make is just to think about where the focus of our attention should be. If we are thinking about a 20 year horizon in planning, which we may or may not be, but that might make sense as a planning horizon for this exercise. It is important to remember that that means that every single person pretty much who is going to go into care in that horizon, 20 years, is already retired, they have already done all of the saving that they are going to do. The solution for people in saving, people 45 plus, it is a very, very long way into the future before the first person reaches retirement. The focus needs to be on those people 65 plus for the next 25 years, and that's where I think we need to centre the debate. That's all I want to say and I look forward to your questions and a lively discussion, thank you very much indeed. **[Applause]**

Patrick Nolan: Thank you to our four panellists. We have about 20 minutes for questions and I think there was an awful lot that came up. Mark started by discussing the themes and reforms he has seen all around the world, he said he has never seen this much action in so many countries, so I guess that's quite good. It is always reassuring to know we can learn from other countries. He talked about the move to universality, the focus on affordability. Interestingly enough how most countries are matching the way they approach health funding with the funding for this area, broadening who they expect to contribute and broadening out the discussion on assets.

Emma also mentioned some of the principles of funding, echoing some of the comments that Lord Warner made, but I was also particularly struck Emma by your comments, about the need for the Commission to be radical and I think that is particularly important, and the risk is that we keep having this debate and we don't actually make some of these hard decisions, so I thought that was an important point.

Clive then made the point as well that people only retire once and so we do have to think about the different parts of the population and I guess that goes back to Penny Mordant's point that actually there is a great deal of diversity among the elderly population, but also the cohort of people who are having to start thinking about these sorts of issues. These were the themes I think Nick picked on quite well and elaborated in talking about the three generations. So I think there is an awful lot there for us to pick over in 20 minutes so I'll see if we can get a quick flurry of questions to begin with.

James Lloyd: James Lloyd, Strategic Society Centre. First question on equity release. It was a very interesting presentation by Paul Lewis earlier who talked at length about the deferred payment scheme that operates amongst many local authorities. If you actually think about it, the deferred payment scheme is actually a little bit like an equity release scheme run by the State, except one that is interest free because it is run by the State. So my first question was really to invite observations from the panel as to whether or not there is an issue there around equity release, whether it is organised in partnership with local authorities or the private sector, is that market or that potential option going to be dampened down in effect by the operation of an interest free deferred payment scheme in operation by local authorities?

“If people are going to insure themselves they need to know what they are insuring for and so they confront political risk effectively because they don't know what will happen in the future. What will the State offer be in 20 years? We simply don't know.”

A second observation, I have had lots of conversations with Nick many times about this issue of uncertainty. If people are going to insure themselves they need to know what they are insuring for and so they confront political risk effectively because they don't know what will happen in the future. What will the State offer be in 20 years? We simply don't know. That applies to what local authorities are funding and it applies also to what comes from the benefits system. I always disagree with Nick because he says we need fundamental settlements, and I say how do you tie the hands of a future government? That's the question I put to Nick, how does this Government say that no future government will just change the rules again in future? It seems to me like a really insoluble problem.

> **"We tend to always think it is either home care or residential care and actually increasingly there are a much wider range of options and we need to be investing in some of those alternative approaches."**

My third one, and I promise it's my last one, we have talked a lot about partnership today, partnership between the State and individuals and families and my thought on that is that we already have a partnership. It is a very unfair partnership because it depends an awful lot on individuals and families, not least the millions of carers who provide the majority of care in the UK, but should we in fact be thinking of a partnership between the private sector and the State around insurance solutions? A kind of public/private partnership approach might actually be more interesting.

A couple of speakers from a range of different backgrounds have acknowledged a lot of what might be called demand side barriers to people purchasing insurance. The fact that people don't really like to think about it and come up with any number of excuses to purchasing insurance. If you look overseas some of the most effective solutions to getting funding into the social care system have been through what are effectively public/private partnerships. I think of the Dutch system which is a social insurance scheme run by the private sector and the one scheme I particularly want to mention is the Singaporean system. There is actually a very interesting article by Jules Constantino in the programme today and I think Jules is here so maybe he can speak on it, but he talks about the Elder Shield system in Singapore which it is very difficult to categorise, it is very difficult for us in the UK to think about. Is it a public scheme, is it a private scheme? Effectively the State sets the premiums, sets the benefits but the whole thing is run by the private sector and the result is instead of having a market which is tens of thousands, it is tens of millions instead effectively. It would be interesting to think of that in the UK and how it would work out. So do we need to be thinking about those sorts of public/private partnerships? I was going to ask Clive, I notice that one of the providers of Elder Shield in Singapore is Aviva and is there any knowledge transfer you can speak to in terms of the experience of insurers in the Singaporean system and how it has been for them.

Audience member: Nobody has mentioned pro-family policies. I am aware in France for example the family can become responsible for the social care of their elderly relatives under certain circumstances and there is a whole panoply of measures by which the family is encouraged to take responsibility for each other. Is that something that is going to be considered in the UK or is it beyond the pale?

Patrick Nolan: Great. A very interesting collection of issues there, everything from whether the deferred payment scheme is crowding out the market, which goes back to the points that were mentioned about actually having the gap quite well defined. The issues of uncertainty and political risk and also some of the issues around the public/private partnership approach taken in other countries and also the pro-family policies of other countries. So maybe if we start with Emma and work this way, feel free to pick up on any of those things.

Emma Stone: I'll pick up on a few. Firstly, around equity release. One of the things that the Joseph Rowntree Foundation has been doing is working with an equity release provider and some local authorities to pilot an equity release product that is more affordable. It is aimed at a potential pool of around one million older home owners who have housing assets of over £100,000, but whose incomes are sufficiently low that they qualify for benefits. We have been very interested in seeing to what extent it might be possible to create products that are more affordable, that enable people to drawn down smaller amounts so they can still claim their benefits to pay for that bit of help, with gardening, maybe home repairs, all those things that enable people to have a better quality of life in their own homes. Those pilots still have six months to run. So I think there are going to be some really valuable lessons from that, but the big thing that we always come back to is that equity release is only going to be a solution that feels right and sits right for some people.

The bigger issue I think that we can perhaps talk about is support for older people in terms of downsizing and this may be something that people want to do to release some housing assets but it can also be a really positive move where people do it with support at the right time, in terms of actually living in properties that are more manageable and more affordable and enable them to enjoy a better quality of life for longer but the research we've done engaging with older people on this just says there are so many emotional and practical barriers to people moving out of larger properties. So whilst we look at products, financial products, let's not forget actually some of the bigger ways we can support people to make good choices at the right time in their life and not, as is often the case, at a point of crisis and distress.

That links to the third thing. We tend to always think it is either home care or residential care and actually increasingly there are a much wider range of options and we need to be investing in some of those alternative approaches. Housing with care, extra care, co-operative housing is interesting and could be of interest to some people, shared lives. There are all sorts of small innovative schemes happening in this country and elsewhere and we just need to think a bit more creatively.

I thought James's point on partnerships was really interesting but I won't say anything on that because I'm sure other people will pick up on that. The pro-family question I think is really fascinating. I don't know if anyone here remembers Baroness Deech, I think it was some time last year, made a speech in which she asked what the obligations that we should have for our parents in terms of care. She was very careful when she made the speech not to say that there should be a legal obligation on people but the furore that it created within the media meant that it was absolutely pressing that button of how do people feel about that. I think there is something really interesting about how in France it is described in terms of pro-family policies or legal obligations in terms of what's expected. In this country we tend to talk about it in terms of informal carers and informal care and a lot of that is people providing support because absolutely they want to or feel obliged to. But we need to not be too romantic about this because what we also know is that providing high levels of informal care without support can really damage people's capacity to earn and can really damage people's own health and mental health as well. It isn't always often or necessarily what the person receiving care wants as well, so I think we have to be very careful about how we talk about pro-family and informal care.

> "I do have a bit of a problem with where the debate seems to be going in the UK because it seems to be talking about public/private partnership in an end in itself. It seems to me that by far the most important issue and the one lying behind even the issue that we've been discussing here today on financing long term care, is the efficiency of the long term care sector. Because to be honest, the best way we can make long term care affordable is that it actually becomes much more efficient."

Mark Pearson: Okay, yes, thank you for those questions. Again, not having heard what went on this morning, in answer to the first question and the discussion about whether the State can crowd out the private market in equity release, I don't know if anybody has raised the Irish scheme recently. The Irish scheme is interesting as an example of a country with many similar features I suppose to the UK, which has gone down the route of a State run equity release programme, effectively to finance the long term care. In addition to an income test you are expected to pay 5 per cent of the value of your assets each year as a contribution to the cost of long term care, including your principle residence, although only for three years.

Now in order to make that work the State runs an equity release programme and it seems to be, well I don't know if it is a success or not. It is a relatively subsidised interest rate, lower than the market rate, that's one thing to notice. It has been taken up by about 15 per cent of people moving into long term care since it was introduced. I don't know if that's low or high but it is an example that equity release is not any kind of novel topic. The State is heavily involved in equity release in virtually every country, so talking about public/private partnerships as if somehow it is weird that you have got local governments or governments involved in equity release, well no it's not. This is just absolutely the core of systems all over the place.

If you want to then worry about whether that is crowding out the private market, this is where I do have a bit of a problem with where the debate seems to be going in the UK because it seems to be talking about public/private partnership in an end in itself. It seems to me that by far the most important issue and the one lying behind even the issue that we've been discussing here today on financing long term care, is the efficiency of the long term care sector. Because to be honest, the best way we can make long term care affordable is that it actually becomes much more efficient.

Now we know very little about efficiency in long term care but if you actually start framing some of these discussions about what you want public/private partnerships to do, what you want the private sector to be encouraging in terms of improving value for money, in terms of giving incentives to improve efficiency. That should be the way that we are discussing it, not public/private partnership as the end in itself, but how do we want to structure the market to get better value for money.

This to some extent also relates to the pro-family discussion. On the very narrow issue of do other countries have an assumption that the family must pick up care for elderly people? In theory it is there in legislation in lots of the countries with Napoleonic Code type legislation, so yes France, certainly Germany, Austria, Switzerland. With the exception of Switzerland, I would say it is fairly irrelevant these day provision, it is very rarely applied. The other thing you have got to remember though in understanding that is that Napoleonic Code inheritance law protects the rights of children to a much greater extent than in a common law system like this. So there is a trade-off here. It is not something you can just say, we should make children responsible for their parents. It is a package that you have where children also have greater rights to their parents' assets on death than here for example.

But, to absolutely agree with what Emma was saying, and this is where it does relate to efficiency. If your objective is to have an efficient system, a good value for money system, one that people actually value, the way that we should be thinking about the role of the family is as part of a continuum, we should be seeing that as part of the long term care system. We shouldn't be treating it as the State just picking it up when families can't cope. There should be a seamless system whereby the State is involved in actually helping families and friends care in order to keep people out of long term care in order to improve their cognitive functioning. Everything like that, that's what we need when we look at the long term care system through the value for money objective lens. Rather than treating it as something, can we use a bit more of that in order to reduce costs to the State, that's a useless framework, it must be trying to focus on the overall objectives of the system and how it all fits together.

Clive Bolton: Just on the question of could we compete with interest free equity release, the answer is no, of course not. Have we got any evidence that it is suppressing the private market? I don't think so and it is actually sold in a circumstance or given in a circumstance where we wouldn't offer an equity release product. If you are going into a care home we would not consider that a suitable situation for one of those products. Just a word of warning though, we tend to fixate on equity release being appropriate for somebody, to take Nick's example, somebody in their 80s or late 70s who needs money. Increasingly the Baby Boomer generation who have used their house as a source of income through their entire lives very skilfully and a lifetime mortgage is effectively what it is, is using the last throw of that dice. When you get into your late 60s few mortgage companies will let you re-mortgage your house unless you do it as an equity release and increasingly they are forming the market and they are driving the market because that's what they have always done. They have got no hang ups about it, it's the me generation and no hang ups about it being theirs rather than passing it on to their children. All their plans have been that their house is their pension so it seems natural for them to use it, so it could be the situation that by the time we say have you got any money for long term care, in actual fact the house has already been used up. As we've been talking throughout, the cost of pensions and clearing and consolidating other debts needs, which is a hire charge if you like on a house, has already exhausted that asset. I think that will be a real trend carrying forwards.

On private/public partnerships, I think you just have to work out what the partnership is and what you are asking a private sector to do. If you asking them to administer it, just can it do it efficiently, and in some cases it can and in some cases it does a good job because it is incentivised to do that. It also requires you to be explicit about what level of service you're getting for your money. If you are talking to the insurance sector it is more likely to be okay, even with an interest free equity release type product that was described there, you are making bets on the value of the housing equity going forwards. Who pays when the assumption underlying that is wrong? If the insurer pays then it is an insurance contract, if the government pays then really you have got an administration service there which is a different type of thing.

> "...have a plan and you are probably going to have to use your house."

Finally a very interesting comment about Singapore. I have no idea but I'll find out.

Nick Kirwan: Okay, a few comments, I'll gallop through some of those questions. Is the State run deferred payment scheme crowding out the private sector? I don't think there is any evidence of that, and I think part of the reason why anecdotally these schemes are a little bit hidden under the counter because of budget constraints in local authorities and that's a shame. I don't mean that in a critical way, but I think a lot of local authorities are under extreme financial pressures and they have to make those scarce resources go around all of the people who are coming in to their charge, and this is perhaps one of the consequences of that.

An interesting thing though, one of the things that the insurance industry can bring to this market is innovation and I was interested to note a fairly new product in the market in this area launched recently. One of the reasons why equity release doesn't work for people going into care is that it leaves the house empty because the people are naturally not going to be there, then the worry is that the house will go into decline because it's empty and therefore the value will be undermined. You get into a difficult situation where equity release is not really available, but what this new product does is package up a whole lot of things. The company says 'well we'll let the house out and use the rental income that's generated to help pay for the cost of care.' Then there is equity release to enable an immediate needs care annuity to pay for the balance. That is quite a neat solution. I use it only as an example of how the private sector can innovate and generate new products to help meet different needs.

There are some very exciting new products coming along in the States as well, where people can buy shared years of care between husband and wife, which again helps people plan for this need, so I think there is lots of scope for innovation in new products if we can get the market going.

Yes James, we have had a few exchanges on this difficulty of how do you tie in a future government. Well I think the question is you can only do that if the solution is demonstrably sustainable and it looks sustainable and people believe it's fair and you can get cross party support for it. Those are the things but if it has those characteristics, that we all believe it's fair and it looks to be financially sustainable, then I think it could be enduring. In terms of whether people will plan in that environment, actually there is a real difference between perception and reality and what's important is that people believe it's enduring. Even if it is enduring and people don't believe it, they won't plan, it is about their perception of it that is really important. So I hope that people will believe when the Government addresses this that we do believe it is enduring and that people can have confidence in it. Then I think that will help the perceptions to become reality.

I don't have much to say about the Elder Shield scheme in Singapore other than to say it is quite brutal in the way it works in terms of the near compulsion mechanism it has. It says look, it is a partnership model, as I understand it, it says you have to do this and the State will do that. If you don't do your bit, you don't get the State's bit either and that does mean – somebody said earlier playing chicken with the State, that's about as strong as you can make the game as chicken to encourage people to go into that scheme.

Lastly, just a final point about the pro-family policies, it is an interesting area. It has already been said that some of the Napoleonic countries do actually have formal inter-generational contracts where children are responsible for their parents as well as parents responsible for their children. Our contract is only one way round, parents are responsible for children legally under the Children's Act but not the other way round, the debate may run.

There are some cultural differences here as well. There is a question about is that financial support or is that actual support? My understanding is that in southern Mediterranean countries they are actually a lot better at looking after granny and they have closer families. I think part of that is that they have seen maybe less diverse, less movement of people through occupations and people working in different parts of the country, and so families do get a little bit more spread apart here than perhaps they do. I think some of those cultural differences will come into that debate about the intergenerational issues as well between children and parents.

Patrick Nolan: Thank you to all our panellists and thank you for those questions. We are about a minute or two over closing time so I will need to bring it to a close but I will use the Chair's prerogative here to ask just a very quick question, so I will give you all thirty seconds. We started the day with Lord Warner and speaking about the initial thinking the Commission is taking on funding long term care and we have discussed a lot of issues over the day. So now if you were suddenly sitting there writing the report for Lord Warner and you got the opportunity to write just one recommendation or just one line in the report, what would that one recommendation be? Emma?

Emma Stone: Take a long term view and be radical.

Mark Pearson: I think it would be to join up the informal family care with the home care with the institutional care.

Clive Bolton: I think it's have a plan and you are probably going to have to use your house.

Nick Kirwan: For the report, let's make sure this gap is very well defined so people understand it and for the Commission, be brave. I think people recognise that there is no silver bullet but what we need is recommendations that we can all get behind.

Patrick Nolan: I think those four points are excellent points to finish on. So thank you all and thank you to the panel. Just to let you know what's happening with this, this will not be the end of the event. What we will do is we are going to transcribe this, we will put it together in a booklet and we will send it to you all electronically and we will continue to do work on this at *Reform*. So if we could keep in touch with you all we would be thrilled to do so. So can I thank the panel for an incredibly interesting set of presentations and if you can join me in thanking the panel as well.
[Applause]

Can I also thank the sponsors, the Joseph Rowntree Foundation and Aviva and also the Association of British Insurers for hosting us today. We simply couldn't have done this event without your support so thank you all for that. Can I also thank you all as delegates for excellent questions and for bringing positive and enthusiastic tone to the day, so thank you for coming and I hope to see you all again someday at a *Reform* event, thank you. There will now be lunch served outside so keep the debate going.

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