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A Cohort Approach to Social Care Funding

In this paper we suggest the problem of social care funding is approached by tailoring the solutions to each generation. We refer to this as a cohort approach to social care funding.

In Summary

The need for social care will increasingly be an issue for both individuals and wider society. More people are living to be “very old”, the risk of devastating illness at younger ages seems to be increasing, in part due to increasingly sedentary lifestyles, and increasing numbers of adults live alone as a result of social and demographic changes. Taken together, these trends mean that the need for some form of paid care for help with daily living will become a reality for increasing numbers of the population.

Whilst this issue has received a fair amount of attention, and indeed the recommendations of the Dilnot Commission¹ are currently due to be implemented in 2020, when balanced against the costs or potential costs and social impact the subject remains relatively unexplored. The true scale of the issue is as yet unclear; accordingly the importance of providing as robust and efficient a solution as possible should not be underplayed. Whilst the financial (as well as the practical) consequences of needing care can be devastating for individuals and the consequences for society are huge, the UK could develop solutions at a macro-economic level to provide better services more efficiently and avoid catastrophic costs falling on future generations of taxpayers.

Various solutions have been developed but it is clear that none fit the needs of everyone. However, there are commonalities within generations. We suggest that considering each generational group separately, and developing solutions for the group, will enable a robust, practical and workable set of solutions to be developed for the longer term. This paper, which is based on the position in England, briefly explores the issues and how such a cohort approach may be developed.

Social Care and the Need for Further Work

Social care (or long-term care) is an umbrella term used to refer to a wide variety of services to meet non-medical needs of people with chronic illnesses and disabilities. It also covers some medical needs which do not fall under the auspices of the NHS. At present it is the responsibility of the individual to meet the costs of their own social care, although some state support is provided by way of a safety net.

¹ *The Commission on Funding of Care and Support reported back to Government in July 2011. For further details see the Annex to this paper.*

The developing need for social care is not yet very well understood. A variety of factors will undoubtedly impact on how this need develops over time. Improvements in longevity have not necessarily been matched by improvements in healthy life expectancy. An increased time spent in poor health is likely to increase the need for some form of social care. Moreover changes in demographics coupled with changes in social attitudes may mean that those in need of such support are more likely to live alone. This increases both the risk that some form of paid social care will be needed and the likelihood that this will be on a residential rather than domiciliary (continuing care at home) basis.

Benefits of a Cohort Approach

A lot of research and policy development has already been undertaken on the funding of social care. The resulting papers have proposed a range of products and incentives that could improve the funding of social care. However no one solution would meet the needs of all, particularly once the effects of previous policies and decisions on different generations are taken into account. Rather than set proposed approaches aside in search of a single panacea we suggest that the different challenges facing each generational group be considered separately. This “cohort approach”, which reflects the difficulty of developing long-term solutions in an evolving world, should improve understanding of the current landscape and help frame pragmatic, workable approaches for the longer term.

Modelling the manner and form in which social care needs will develop on a cohort basis could better reflect the impact of various factors. These include improvements in healthy life expectancy versus actual life expectancy, demographic change (for example changes in marriage rates/cohabitation) and the impact of sedentary lifestyles on the incidence of illnesses which may give rise to social care needs at younger ages. Such an approach is essential; it would be dangerous to consider solutions assuming that needs will continue in broad terms as at present.

A cohort approach has parallels with the way thinking has evolved in other policy areas. For example, in pension provision (where older generations are relatively well provided for) auto-enrolment/New State Pension have been developed to address gaps in provision at younger ages. In the personal savings area the new lifetime ISA seeks to meet an identified need for the under 40s.

In the remainder of this short paper we examine the different cohorts and touch briefly on the fit with social care funding approaches discussed in some of the papers referenced.

The Cohorts

Looking at the generally recognised generational groups alive today, a brief analysis of the generations or cohorts is given below. Of course the descriptions below are of general trends/characteristics; on an individual level there will be significant variation.

Whilst this paper concentrates on the differences between the cohorts there are also a number of relevant factors which cross generations, such as the need for raised awareness and education, effect of disincentives to save² and a general reluctance to insure.

² Analysis in the *Future of Social Care Funding, Who Pays?* paper, (see Annex) shows that, based on the care caps as set out in the Care Act 2014 for individuals with savings of up to £110,000, the effect of the cap is to reduce any incentive to save.

a) Pre Baby Boomers

This encompasses both the *Silent Generation* and *Greatest Generation*, covering those currently aged 69 or over. People in this group form the majority of those currently facing significant social care costs, and consequently are the main focus of press attention on the subject at present.

This cohort has seen significant longevity advances in their lifetime. Even if they would have had the capacity to save for social care needs earlier in life they would have been unlikely to see the need to do so. They now have neither the time nor the capacity (income) to save for costs of care. With relatively good housing and pension wealth, solutions that utilise this wealth to improve certainty for individuals, for example immediate needs annuities, the equity bank and equity for insurance, may have the most impact.

b) Baby Boomers

People in this generation currently range in age from their early 50s to late 60s. They typically have significant housing and pension wealth, more so than any other generation. Solutions that utilise this wealth are likely to best address their care needs. Future savings mechanisms can also play a limited part, particularly at the younger end.

This is the group for whom solutions focussed on the use of their pension wealth are likely to be the most useful, although the use of housing equity remains important. Although given their age profile direct savings solutions will have a more limited role, if suitable products were made available, insurance could still play a very important part. It should also be noted that this cohort tends to be relatively traditional in their thinking and therefore some effort will be needed to enhance their understanding of their own role in meeting their social care costs.

c) Generation X

People in *Generation X* are currently aged from their early 30s to their early 50s. They are the last generation likely to have such significant housing and pension equity at the point of retirement, although this is likely to be lower than enjoyed by previous generations.

People in this cohort still have some time to save. As well as solutions that take account of the assets that they have been able to accrue, they should therefore be able to save into new products to address their social care needs (although at the older end, there is unlikely to be sufficient time remaining in their working life to fully address possible social care costs through separate savings mechanisms alone). People in this group are therefore most likely to benefit from an approach which combines aspects of the approaches targeted to older and younger generations.

In terms of education, this group is typically more open to education that helps them to understand their place in meeting their future social care costs, although there is undoubtedly a level of preconception to overcome. It will also be important to consider this group carefully to determine whether lifestyle changes are likely to have an impact on the need for social care at earlier ages.

d) The Millennials

The *Millennials*, also known as *Generation Y*, are currently aged from 16 to their early 30s. As a group they tend to be asset poor and are likely not to enjoy the same level of pension provision as previous generations.

Increasing saving to meet their pension and social care needs will be important for this group. Whilst time is on the side of this generation, given the issues highlighted above and the other multi-faceted calls on their funds, this is not without challenge. However the group, who have grown up in a world of social media, should be more receptive to change and therefore targeted campaigns to raise awareness and education should be effective. Incentives to save are likely to be usefully targeted to this group.

e) Post Millennials

Whilst on current evidence the *Post Millennials* (or *Generation Z*) seem to be in a very similar position to their Millennial peers, their current age (under 16) means that relevant trends and issues have yet to emerge. A watching brief is therefore required.

If you would like to discuss any of these issues in more detail or have any questions please email barbara.sinkinson@gad.gov.uk or get in touch with your usual GAD contact.

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Annex

This paper makes general reference to current thinking and research on the funding of social care. Some recent papers of interest published by others are referenced below; these should not be taken to be an exhaustive list.

Care Act 2014

- The Care Act 2014 implemented the Government's reforms following the 'Dilnot report'. The full report remains available on the national archives ([Fairer Care Funding: The Report of the Commission on Funding of Care and Support in 2011](https://www.nationalarchives.gov.uk/20130221130239/)). Other papers published by the Commission are available <http://webarchive.nationalarchives.gov.uk/20130221130239/>
- The Care Act 2014 <http://www.legislation.gov.uk/ukpga/2014/23/contents/enacted> and associated guidance <https://www.gov.uk/guidance/care-and-support-statutory-guidance>.

2014

- Personal Care Savings Bonds: A New Way of Saving Towards Social Care in Later Life <http://www.actuaries.org.uk/documents/personal-care-savings-bonds-new-way-saving-towards-social-care-later-life> *Mayhew & Smith, Cass Business School*
- The UK Equity Bank - Towards income security in old age http://www.ilcuk.org.uk/images/uploads/publication-pdfs/The_UK_Equity_Bank_1.pdf *Mayhew & Smith, Cass Business School in conjunction with the ILC*
- Pensions and social care (as updated Jan 2015) <http://www.actuaries.org.uk/documents/how-pensions-can-meet-consumer-needs-under-new-social-care-regime-full-report-updated>
- Long-Term Care – A Review of Global Funding Models <http://www.actuaries.org.uk/documents/long-term-care-review-global-funding-models>

2015

- How financial products can work alongside the Care Act 2014 to help people pay for care <http://www.actuaries.org.uk/documents/how-financial-products-can-work-alongside-care-act-2014-help-people-pay-care>

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- Paying for Care Costs in Later Life Using the Value in People's Homes <http://www.actuaries.org.uk/news-and-insights/news/paying-care-costs-later-life-using-value-people-s-homes> *Mayhew, Smith & O'Leary, Cass Business School*
- The Future of Social Care Funding- Who Pays? <http://www.actuaries.org.uk/documents/future-social-care-funding-who-pays-0>