



Select Committee on Economic Affairs

Corrected oral evidence: Social care funding in England

Tuesday 27 November 2018

3.40 pm

Watch the meeting

Members present: Lord Forsyth of Drumlean (The Chairman); Baroness Bowles of Berkhamsted; Lord Burns; Lord Darling of Roulanish; Baroness Harding of Winscombe; Lord Kerr of Kinlochard; Baroness Kingsmill; Lord Lamont of Lerwick; Lord Lipsey; Lord Livermore; Lord Sharkey; Lord Tugendhat; Lord Turnbull.

Evidence Session No. 3

Heard in Public

Questions 24 - 36

Witnesses

I: John Godfrey, Corporate Affairs Director, Legal & General Group; Rob Yuille, Head of Retirement Policy, Association of British Insurers.

USE OF THE TRANSCRIPT

1. This is an uncorrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.
3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 14 days of receipt.

Examination of witnesses

John Godfrey and Rob Yuille.

Q24 **The Chairman:** Mr Godfrey and Mr Yuille, welcome to the Economic Affairs Committee. I need to begin with an apology, because there may be a Division in the House any minute now, in which case we will need to adjourn.

Perhaps I may ask the first question and, if there is an adjournment, you will have eight minutes to think about it. The first question is a general one. To what extent do you think the insurance industry can address funding challenges in social care?

John Godfrey: Our view is that there are a variety of ways in which the insurance industry can help, not all of them necessarily classic insurance solutions. The first way is the provision of investment in housing and housing adaptation, such as ExtraCare retirement villages and facilities of that sort. We think that with the right sort of accommodation one can dramatically reduce demand for care among the elderly and delay the onset of acuity, which requires institutional care.

The second way is by helping self-funding individuals to release liquidity in their current assets, such as through immediate-needs annuities, which is an existing but smallish market, but, more importantly perhaps, through lifetime mortgages or equity release, which is roughly a £3 billion market in the UK and growing.

Then there is another way to help, which again is in the prevention sphere, or delaying the onset of care needs, and it is incorporation of health models into insurance packages for life and critical illness for younger people; Vitality is an example of an insurance firm doing that.

A final way is by investment in the development of care tech to deliver a more efficient and more effective care model.

The Chairman: So is the answer to my question “not a lot”? You have given a number of examples of things that are part of caring, but they are not directly related to insurance. We had evidence from a representative of the IPPR, who said: “I do not think there is much evidence that an insurance system is particularly feasible”. Do you agree?

John Godfrey: It depends on what exactly you mean by an “insurance system”. I think there are a lot more detailed questions to come about the nature of such a thing. The current set of insurance products used for elderly care—in other words, whole-of-life, immediate-needs or deferred annuities—are small markets indeed, which suggests that there is limited scope for growth. One reason for that, of course, is that the broader policy on elderly care is not understood by most people. Most people find it difficult enough to save for retirement. We all expect to grow old. The expectation of growing old and sick is harder to envisage. Therefore, it is harder to sell those products.

The Chairman: Of course, social care is not just about the elderly.

Rob Yuille: I agree that the industry has a role to play.

In answer to your follow-up question, it is important to distinguish between the different types of funding challenge, which does not always happen in these debates. It will clearly be a problem to which the public and private sectors offer some solutions; there is no single solution. It is important to distinguish between the shorter-term and longer-term challenges. Only the state will pay for care for people who do not have income or assets in retirement. That is obvious but not always apparent in these debates.

To build on what John said about what insurers can offer, existing investment in pension products is partly a savings solution, but it provides some of the liquidity that can be used to purchase an insurance solution later in life.

Q25 **Baroness Kingsmill:** Could you explain “purchase an insurance solution later in life” a little better? Surely the earlier people take out some insurance, the better it is.

Rob Yuille: That is likely to be the case. We can expand on the reasons why people do not want to do that, because they now can. John mentioned immediate-needs annuities, which are bought with a cash lump sum but generally at the point of crisis. They will pay a guaranteed income to your care provider for the rest of your life, which takes away the risk of running out of money.

Baroness Kingsmill: You can insure against all sorts of risks—your dog getting hurt or falling down the stairs at home or whatever—but why has there never been an insurance product for institutional care?

The Chairman: I am sorry. We have to adjourn the Committee.

The Committee adjourned for a Division in the House.

The Chairman: We can resume. I think you were in the middle of answering a question from Baroness Kingsmill.

Rob Yuille: The question was: why are there no insurance care products now, or why have there never been any pre-funded care products? I mentioned that there is a small market for life insurance products that pay out early on a care need, but in the past there were pre-funded, stand-alone products. We can come on to talk about why that is not the case now.

It comes down to demand and supply reasons. On the demand side, it is not really a risk that people like to think about. It is very distant, unlike the pet example that you mentioned and various others, where the risk is of something happening in the next year. This is far longer term. As well as being at the back of people’s minds, it is not really a priority. We know how difficult it is to encourage people to save for a pension, so to

persuade them to think about a need that they may not encounter is even more of a struggle.

There is also uncertainty from the rational point of view on the part of the individual. It is very difficult to predict, decades hence, what you might get from the state and the degree of support that you will get from your family. On the supply side—

Baroness Kingsmill: Before you go on to that, the insurance industry is pretty good at driving demand for its products; it knows how to do that sort of thing. Are you saying that it is not profitable to do it?

Rob Yuille: There are a lot of factors behind the lack of demand. The insurance sector might sometimes be good at driving demand for its products—the pension example is a good one. We were well aware that there was undersaving in society; there were not enough people and there was not enough saving. A cross-party effort from the Turner commission delivered the step change in pension participation that was automatic enrolment.

Baroness Kingsmill: Profitability?

Rob Yuille: There are a few factors on the supply side. Just as there is uncertainty for the individual, there is uncertainty for the provider as well in terms of the risk and what the state will offer. John might like to expand on that. It is expensive to hold capital against such a long-term risk, and the provider will be uncertain about what the state offers. Those pre-funded stand-alone products started to disappear around the turn of this century. I cannot say for certain whether there was a causal link, but it was around the time of the Royal Commission on Long Term Care for the Elderly. The feeling that something is about to happen with the state offer holds the market back.

Q26 **Lord Darling of Roulanish:** Mr Godfrey, you have described the sorts of products that you can provide. It struck me that you are actually talking about people who can probably look after themselves, who have access to annuities and surplus that they can draw down—other assets and so on. Do you think it would ever be possible to get a mass market of insurance? We have had evidence from Policy Exchange that in America they hoped to do something similar with the Affordable Care Act and it has simply not happened for people on middle and low incomes. Could this ever be a goer in covering everyone, or nearly everyone, or are we talking about people who, frankly, can probably look after themselves?

John Godfrey: If you are talking about a voluntary system, that is incredibly difficult to do for the mass market, partly for the reasons that Rob has run through, which you could summarise as two risks from the supply side. One is the long-tail risk: how long we are insuring for? The second risk is what we call adverse selection, which is that the only people who want to buy it are those who think they are going to use it. So it is a bit different from pet cover or mobile phone cover or those types of things.

Getting it right for a mass market is difficult for a number of reasons. Almost any structure that you care to invent for funding elderly social care—I will stick to elderly care rather than adult social care in total—boils down to the fact that under any system there will always be a group of self-funders who will have enough assets and wealth to do it themselves. There will always be a group of people who do not have enough assets or income and have to be clients of the state for this and will have to be supported.

It is the group in the middle, and to make a mass-market product work for them you have to have a degree of compulsion to get enough in to avoid the adverse selection. You have to have a high degree of certainty about what they are covering themselves against and what the alternatives are to not covering themselves.

Lord Darling of Roulanish: If you are going to have a high degree of compulsion, you might as well as call it a tax—and be done with it.

John Godfrey: It is a very interesting debate as to whether auto-enrolment for something that is an insurance policy would work in the way that it does for pensions, or whether it has to be compulsory.

Lord Darling of Roulanish: While auto-enrolment has done a great deal, it still leaves out an awful lot of people, particularly those on low incomes or people who are self-employed—sometimes in reality, sometimes a bit of a fiction—and actually they are the ones we should be bothered about, because when they come up to whatever the retirement age is in the future it is doubtful that they would ever have the means to save if they are not auto-enrolled into anything.

John Godfrey: For that category of people, you are looking at a state-funded solution without a contributory or an insurance element. Some interesting work was done a few years by Professor Mayhew at Cass, who came up with a heat map of retirees' assets and income. There is a large hotspot of people who have negligible assets and very low incomes, the state pension being about it; maybe a tiny bit on top. Then there is another hotspot of people whose assets are around £125,000 and their income tends to be £18,000 or so a year.

Trying to find something that works in that space is important. For that, you have to have a really close look at how the means test works, how you might expect a premium to be payable out of that low level of income, and whether you need to eat into those assets. Again, that brings you back to means testing. So we need a clear state framework before we can try to frame an insurance offering.

Q27 Lord Darling of Roulanish: You have sort of answered this question: do you think a cap on individual costs would make any difference and, if so, what level would that have to be at?

John Godfrey: I personally think that the best you could say about a cap on costs is that it is necessary but not sufficient to make such a thing work. The £72,000 cap that was talked about and enshrined in the Care

Act is a cap only on the care hosts, not the hotel costs, as they call them, so what the individual pays could be twice that, maybe more, so you are not actually capping their overall cost, so it is not a very attractive offer.

From a public policy perspective, the difficulty with the cap is that it is quite regressive. It works fantastically well if you have a lot of assets, particularly housing assets, but it does not work very well if you live somewhere that is worth £150,000 as opposed to £1.5 million.

Lord Darling of Roulanish: If you look into the long term at the rising generation who are not buying houses and are paying more in rents, that would throw up a similar sort of problem, would it not?

John Godfrey: You need different solutions for different, broadly defined cohorts. For that group of people who are either already past state retirement age or are getting close to it—the baby boomers, if you like—housing wealth is a key component of this, because the over-65s in England and Wales have about £1.5 trillion of housing equity. Millennials will not have the same house price appreciation or home ownership, they will not have defined benefit pensions, they will have repaid student loans, and so on. So you need to find a different solution for younger people over the very long term. That may be where you get to a more auto-enrolled or compulsory long-term scheme with a small, slow accrual but over a long time.

Rob Yuille: It also does highlight how interconnected the policy issues are on housing supply, home ownership and pension provision, as well as long-term care funding solutions. I agree with John on the nature of the cap. In itself, it will not create an insurance market, but it will not prevent one either. What is most important from insurers' point of view is the clarity and simplicity of the cap, including how it is framed and how simple it is to explain.

The Chairman: Why are you saying that? Is not the argument for a cap that it at least enables the insurer to know what his liability is?

Rob Yuille: If it does not cover all the costs, the insurer will not know what their liability is.

The Chairman: That is an argument about the size of the cap and what it covers. The question was whether a cap would enable an insurance market to be produced.

Rob Yuille: Yes, but the design of the cap is important, and the one that was legislated for did not cover all the costs. There is also a political risk attached—going back to the uncertainty I mentioned earlier—and if I was to try to cap my care costs, I would not know what the cap would be decades hence when I need to claim against that insurance policy.

Lord Turnbull: You mentioned the fact that the scoring against the cap covers only care costs, not hotel costs, but there is another factor, which is what self-funders are paying, which we now know is often substantially more than the costs. There is a kind of cross-subsidy going on. In other

words, by the time you get to £72,000, or whatever the number is, what that family has actually paid could be twice or even three times that. There is a great deal of uncertainty about what the cap contributes if it is dealing with only one of the three major elements of the cost.

John Godfrey: I agree. The other point, of course, is that the price of care varies considerably depending on where you live. There is this cross-subsidy point. The system is very messy, which is another reason why it is hard to use an insurance policy.

Q28 Lord Livermore: To what extent do you think that a mandatory system for insurance for social care is necessary in the long term to address funding challenges?

Rob Yuille: That comes back to the earlier question about what exactly we are talking about here. Is it a mandatory system of private insurance, is it something like national insurance, which is notionally earmarked for care, or is it a hypothecated tax? Whatever it looks like from our point of view—I think you have heard this from previous witnesses as well—if it is compulsory, certainly the public want that money to be ring-fenced and spent on care, which it was allocated for.

If we are talking about a mandatory private market, it could be made to work, but it prompts several further questions, such as: how do you enforce that compulsion? Do employers automatically enrol people into it? To what extent can the individual choose? How tightly regulated and standardised are those products? It is a possibility that could be explored in the Green Paper, but it would take a lot of working through.

Lord Livermore: Do you favour an auto-enrolment system?

Rob Yuille: That then begs the question: who is automatically enrolling into what, and can they opt out? With pensions it is very clear, and there is a long-standing relationship between employers and pensions. That is not the case with long-term care in this country. Pension saving will be right for most people but not for everyone, so it would seem sensible for there to be an opt-out system. If there was an opt-out system here, that would create moral hazard issues around what the state provides for people who have opted out.

Q29 Lord Lamont of Lerwick: In your written evidence you referred to soft compulsion and said that it merited further consideration. Could you enlarge on that, and how you think that would work?

Rob Yuille: The Green Paper needs to look at all the options—ways to encourage or prompt people to make their own provision as part of a wider suite of solutions. I do not think there is one single solution for everything. Realistically, soft compulsion would place a duty on employers to do that. It is worth exploring, but we are not advocating that as a solution.

Lord Lamont of Lerwick: Is that all it means: encouraging employers?

Rob Yuille: That is the obvious lever. I cannot think of many others. We are at a stage in the policy development process where there are no obvious solutions and the Government need to look for ideas.

The Chairman: We will try to provide some ideas. Are you done, Lord Livermore?

Lord Livermore: Half the present social care budget is spent on adults aged 18 to 65. Their care needs mean that they cannot earn an income of their own. So how could a mandatory system operate?

Rob Yuille: I was referring only to long-term care for the elderly.

Lord Livermore: You do not think it could be extended beyond that?

Rob Yuille: We have considered this issue only through the prism of long-term care for older people.

Q30 **Lord Tugendhat:** It has been suggested to us that the experience of Germany and Japan might offer useful lessons. How do you feel about that?

John Godfrey: Germany is a very interesting example and well worth looking at. Germany has a compulsory system, unless you have a better private alternative that enables you not to take part in the state system. The interesting outcomes in Germany are that, first, it demonstrated that what you could call a defined contribution approach to this can work, although over time it has reduced the benefits that are paid out to the claimant, to use insurance language. It has got rid of means testing and therefore reduced a large perceived stigma that existed for those who were subject to the means test, and was popular on that basis. It is very interesting to see how it pays out. It pays out either to an official care provider—the equivalent of a CQC-approved provider here—or to the family, so it enables the family to provide more care when possible.

In this country the vast bulk of social care, particularly elderly social care, is provided within a family setting on a voluntary basis. If you try to put a cost on that by paying people by the hour for what they provide for their spouse or relatives, the size of that market would be about £139 billion, according to Demos. So some encouragement to voluntary carers is quite a useful lesson from Germany.

There are some wrinkles in the German system, which would be important. One, as I understand it, is that this is lifted above the Länder governments and is administered from a federal level, which evens out some of the regional disparities. When we talk about different outcomes in different locations in the UK, that might be worth thinking about.

Lord Tugendhat: I mentioned Japan. Do you have any knowledge of Japan?

John Godfrey: A little. In Japan if you are over 40 you have to pay into an elderly care insurance system. It is compulsory. The premiums are

calculated according to income and where you live. Indeed, the over-65s pay into that from their pensions. When you need state medical services in Japan, there is a system of co-payment, where individuals carry the cost of between 10% and 20%, depending on circumstances.

Japan is interesting. This has been well accepted in Japan, because there is a much greater understanding in Japan—then is a much more visibly ageing demographic than even we have. It has worked quite well there, as I understand it.

Rob Yuille: It has been part of the national conversation in a way that it has not been here.

There are a couple of points to note on how those countries have tackled the intergenerational challenges—without commenting on the merits of them. The Japanese system has additional contributions for those aged 40 to 64 and a separate one for those aged 65-plus. In Germany, childless adults pay more because they are less likely to receive care from their children; and the children of people who have care needs are ultimately liable for paying them, which can be recovered by the state.

That leads to a separate point about the trade-off between simplicity and fairness. There are tweaks you can make to a simpler system to try to even out the unfairnesses, but they create further challenges.

Lord Tugendhat: Both countries have very bad demographics. Perhaps that accounts for why they have been more advanced or imaginative. Have any other countries where the demographics are not so drastic been thinking about this? Australia seems to have got a lot of these matters under better control than the rest of us.

John Godfrey: Australia looked to be under better control than most of us for quite a long time. Actually, Australian superannuation, for example, has proved to be not as effective as we thought a few years ago. To go back to my very first point, what the Australians are very good at is providing the right sort of infrastructure—retirement villages and so on—and culturally they like that. So you are actually constantly reducing demands on the health system and the formal care system by preventing falls and providing a low level of care in a residential setting.

Q31 **Lord Sharkey:** Mr Godfrey, you talked about the federal system in Germany and the Länder system. Could you explain how the federal system works to smooth out differences in Länder incomes?

John Godfrey: I am not a terrific expert on this, but my understanding is that the rates at which payments are made are set at the federal level. This is whatever the opposite of devolved is—it has gone up a level—and that creates a degree of smoothing.

Lord Sharkey: It is a flat payment.

John Godfrey: The rates are flat, yes.

Q32 Baroness Harding of Winscombe: First, I declare my interest as the chair of NHS Improvement. You talked about a national conversation having happened in both Japan and Germany. What can we learn from how they started those conversations and got to a consensus? Accepting that we have quite a long way to go on that, what can we learn from them?

Rob Yuille: Previous witnesses to the Committee have done good work on this. I would draw on what has worked in the UK, which are cross-party exercises. In this sector, we frequently refer back to the Lords Committee report, *Ready for Ageing?*, and the Turner commission on pensions.

The Central government in Japan created a Cabinet Committee on delivering the 100 year life, you might be familiar with the book. It was a bestseller in Japan. It is quite difficult to pin down what Governments can do to drive cultural changes, but it seemed to work.

The Chairman: We might just check if the 100-year life book is in the Lords Library.

Q33 Baroness Bowles of Berkhamsted: You have touched on some of the questions that I was going to pose, but in a sense, if we improved social care funding by, say, a rise in national insurance for the over-40s, or had some other kind of mandatory system into which they had to pay, the feeling that I have back from you is that that might mean there will be more of a sense of entitlement and perhaps less informal care, which the Japanese and German systems to some extent catered for. Is that what you are saying, more or less?

John Godfrey: That was certainly my understanding of the point we were making. The interesting thing about doing this through national insurance—the point about tax which Lord Darling made earlier bears on this—is that the Government Actuary’s Department has already said that we will need to put up NI in order to fund the state pension. By 2035, it is going to look somewhat strained if we keep it at current rates. National insurance is not a bottomless pit.

The other interesting suggestion that is in the public domain on this comes from the Resolution Foundation, which has proposed a higher rate of NI for the over-40s and a cap on the amount of tax-relieved lump sums that can be withdrawn from a pension in order to close that funding gap slightly. There are various proposals on this. There is certainly the possibility of looking at this, but there will undoubtedly be a political backlash, and one thing that government, to my mind, does not do terribly well is joining up the issue of the cost of elderly social care with the broader context of the universal entitlements that are available for older people regardless of their means, such as winter fuel payments and so on, plus the connected issue of attendance allowance, which costs £4.5 billion a year.

How is that deployed on to elderly social care? There are lots of bits of this debate that do not join up properly. If we are talking about how you

get a national conversation going on this, you have to try to frame it in that sort of way: how are we going to get the best deal for our older people and for our younger people who are picking up the bill?

Baroness Bowles of Berkhamsted: So there is no huge appetite to increase national insurance, because it has to go up anyway to maintain what we might call a steady state. Could something be invented, such as a national care service, to persuade people that they are paying for something different?

John Godfrey: That was indeed the Resolution Foundation's proposal. It called it an NHS levy, which was to be done via national insurance on the earnings, among other things, of those above state pension age—at the moment, you do not pay NI past state pension age—and on the tax-free withdrawal of lump sums from pensions. You could call it that.

The problem to my mind of calling it an NHS levy is that we have further confusion with the NHS in that eligibility or not for NHS continuing care is one of the great unfairnesses about elderly care funding. If Rob and I were experiencing identical levels of acuity as he had had a stroke and I had Alzheimer's, he would in all likelihood receive his care free because he has a notionally treatable medical condition—this was the result of a judicial review back in 2002—whereas I would be in the local authority system.

That is an incredibly difficult thing to understand. It is a valuable prize, and we waste a huge amount of money assessing these cases every year, which, of course, does nothing to help people. It simply decides which category they should fall into, and they appeal it annually.

Baroness Bowles of Berkhamsted: Presumably the category of people who end up requiring care are more often than not in the elderly category, whereas with younger people it may come about more through accidents and other things. Does that mean that you have to have two different systems of payment in and that you cannot look at the problem of care for the elderly alongside that of younger people, which costs half and is increasing?

John Godfrey: Personally I believe they are two rather different things. As you say, a lot of people who need social care or care in working-age adulthood are there because of accidents. Some of them will have conditions that they were born with or whatever it may be, but with road traffic accidents, insurance will typically pay out for them over a long period, and it is similar with accidents that happen as a result of negligence at work or wherever it may be. They are two very different systems and deserve different solutions.

Baroness Bowles of Berkhamsted: Those who are insured are paid for in that sense, but if half the budget is going on those who are not in receipt of insurance payments, there is still a lot of care need for younger people as they grow.

John Godfrey: I would not argue against that. It is part of the entire picture.

Baroness Bowles of Berkhamsted: But you still see them as separate from elderly care.

John Godfrey: I do, because I do not see where the assets, premiums, money or however you want to define it comes from for those people if they are not from a family that has a lot of money.

Rob Yuille: In answer to the original question, I was not commenting on the merits or otherwise of increasing NI. From some of the work of the Resolution Foundation, which was mentioned, and the King's Fund, it seems that there is a great deal of public appetite among the people they have spoken to for a hypothecated tax. Without expressing a view, it would be wrong to say it is a non-starter.

The Chairman: Lord Burns has a question, which is not on the merits of a hypothecated tax.

Q34 **Lord Burns:** No, although I am interested in the end point we seem to have reached, which is that if we are looking to fund this through private insurance, it is unlikely to work for a lot of very good reasons, which you have set out, and because of the particular nature of what is being insured against. We then go down the national insurance route, which gets us to a hypothecated tax.

Some of the other arguments that we have heard have been that there is quite a lot of support for co-funding. We have also heard questions about whether different funding settlements for different generations are required. I would be interested in your attitude to that particular issue, because some of this just seems to be trying to fill holes and asking which people are most likely to be willing to pay this hypothecated tax, given their other obligations.

We seem to have drifted into a position where this just becomes part of the general taxation arrangements and public expenditure with possibly some notion of co-funding whereby the individual is required to pay a certain amount themselves. Have I got the drift right?

Rob Yuille: As important as the mechanism for raising the funding is what it is spent on. Are we talking about increasing the coverage of the care that the state pays for: that is, the level of the means test and the level of cap? From our point of view, we should be looking for co-funding that is a state offer where private provision can sit alongside it.

John Godfrey: I agree. There is scope for co-funding.

On your other point, there is a considerable difference across different generations. We have this lump of housing wealth for the shorter term, and that seems an obvious and fair place from which to fund some of this for the generation that is using it. Over the longer term, how people work, how they save, what pensions they have and what asset accumulation they have will be very different, so that may be an area

where the state needs to take a much more engaged position through NI, hypothecated taxes or whatever it may be.

We have to be really careful about whether at some point there will be a cohort or generation that pays twice, once for their parents and once for themselves. You come up against this almost however you construct the system and you need to try to work the fairest solution that you can find. Otherwise, it is a very heavy hit for that particular group, wherever you choose to land them.

Lord Burns: We have spent much of today talking about the funding of care through insurance of one kind or another, but in many sessions we have spent a lot of time on the inequities of the present system of self-funding: that is, the contribution that comes from the individual.

You mentioned housing. We have had lots of examples of great inequity depending on one's personal circumstances in respect of a house—as to whether one's house is counted. Is not the background to this that, under the present arrangements, people perceive enormous inequities? Surely those need to be ironed out at the same time as one tries to go down any of the routes that you have described.

John Godfrey: Absolutely. I agree. The problem is that many people will not encounter this until it hits them personally—either it is them or an elderly parent. First, they do not realise that it is not free anyway. Secondly, they will not see the inequity between NHS continuing healthcare and local authority systems. They will not necessarily see the difference depending on where they live. They will not necessarily see the extent of cross-subsidy between the self-funder who is paying £750 a week and the local authority buying the same care package at £450 a week. Equally, they may not appreciate the unfairness that sits particularly around deliberate deprivation of assets.

Gaming the means test is a really important issue. I have not come across anyone who can get an accurate handle on how much money is lost that way. Estimates of it vary from £50 million to £500 million a year; it may be still higher than that. It is very easy to play the means test. One has only to look at the *Daily Telegraph* website and it will tell you how to do it; for example, by putting your family home in tenancy in common rather than in joint tenancy and so on. That contributes to huge unfairness. Most people do not express it as deliberate deprivation of assets; they conflate it with a similar thing, which is, "My neighbour has been feckless all his life. Three holidays a year in the last five years and now he is getting care for nothing. I've been very sensible and now I'm clobbered and paying for it myself, because I have more than £23,000 worth of goods to my name". Yes, it is very unfair.

Rob Yuille: As well as the unfairness, there is the complexity of the current system. Whatever solutions come forward need to be accompanied by our awareness. Our research suggests that people are aware that they will need to pay for care but have no idea what it could cost them. Research by the King's Fund suggested that one-third of

people think that the state will pay for everything. People need help to navigate the system. The Care Act places duties on local authorities to provide information, guidance and advice. I would like to see more consistent signposting to financial advice. A new guidance body is being set up. It would make absolute sense for social care to be part of its remit.

- Q35 **Lord Burns:** Finally, we are talking here about the possibility of people therefore paying a tax, national insurance or whatever, which will go on for a long time before they ever get anywhere near being eligible for such care. This area and pensions have both been subject to continual change by successive Governments. If you are paying for something now that is not likely to be delivered for another 40 or 50 years, to what extent will people be influenced by the fact that they do not know what the system will be at the stage when they might need it?

Rob Yuille: Yes, to a great extent—

Lord Burns: How do you get round that? Politics is politics. Governments come, Governments go; people have different ideas about how to do it. We have had four different proposals for social care for the elderly in recent years. The pensions system has been changed any number of times in the past 20 years. Does that not also mean that any of these private or self-funding systems or attempts to insure yourself will be very difficult to fly?

Rob Yuille: There is, of course, a risk of that. How do we get around it? Long-term cross-party consensus will help—without labouring the point, I refer back to the Turner commission on auto-enrolment—but there are simple messages that remain true whatever the circumstances. If you have assets, you will probably need to use some of them to pay for care.

- Q36 **Lord Turnbull:** An idea has developed that there might be higher national insurance from the age of 40. Maybe this is brought from abroad somewhere. I suspect that those countries do not have a student loan scheme, because half the population will be graduates and by 40 will be only half way through this process. So they have 9% and the auto-enrolment and the national insurance is going to be higher. I do not think this is going to be a runner because people will say, "I cannot pay for all these things at the same time".

You have this idea of a national care service. That implies some kind of convergence with health. There are two differences, which you have highlighted: health covers a wider range of conditions and it has basically zero means testing. It seems to me that if you move the care system in that direction, the costs will go up. It will not be just that this number of people need care and we are paying this amount; the number of claims will rise dramatically. That is what happened in 1948: as soon as going to the doctor was free, people turned up in their millions and the cost to the NHS was substantially underestimated. Could we repeat that? The costs of making this a generally socially acceptable social benefit could turn out to be a great deal more than we currently calculate.

John Godfrey: There are two points to make in response to what you have just said. First, on people repaying student loans, if you think about how that applies, currently for men—and this is from a source called London Economics—for all occupations, with the exception of teaching, the marginal rate of taxation reaches 51% of earnings including student debt repayment, and this high marginal tax rate is paid for up to 17 years; the longest is for those in the medical professions. So, yes, people are being asked to pay for things at all stages, including people in youth and in early middle age. That is absolutely a fair point.

On your second point, I have already pointed out what the estimated cost of voluntary or informal social care would be if you had to put a price to it—£139 billion. If care were free from the state somehow—nothing is free, obviously, but if it was perceived to be free at the point of use—some of that would undoubtedly migrate there because people would go back to work or whatever; they would arrive their lives slightly differently. So I think it is a valid point.

Rob Yuille: One nugget from Japan, from the Nuffield Trust's research, is that when the service was introduced, co-payments were 10% and then rose to 30%. That was a factor in controlling demand. Then there was a concern that people do not necessarily claim what they are entitled to because of the co-payment. Arguably, insurance could be a way around that, with all the challenges that we have talked about, in that insurance products in this area would typically pay out on the basis of need, on the activities of daily living, which might help.

Lord Turnbull: On the point about co-payment, if you adopt a system using assets not income, whereas most use income as the basis of means testing, you pay up to a certain price—I think there is about a £7,000 gap—and then the state pays. A lot of other means tests work on the basis of sharing the costs so that at high incomes you pay a large percentage, possibly 100%, of the costs, and that share is moderated on a scale. But here it is basically you or the state and you go very quickly from one to the other. If we are going for co-payments, can we design them on a more sensible basis than at present?

Rob Yuille: I am sure we could. We have talked already about cross-subsidy between self-funders and local authority-funded places. There are no simple solutions to these questions. The more interwoven the public and private offers are, that creates challenges of its own. I come back to the point that we need a simple offer from the state that can be complemented by private provision.

The Chairman: On that note, we have to finish this session because we have another session to do. I am very grateful to both of you for tackling these difficult questions. Mr Godfrey, you used a figure of £139 billion as the estimated cost of care that is provided by families and others. Where did that figure come from?

John Godfrey: That was from research done by the think tank Demos for Legal & General. But we are very happy to share the full report with you.

The Chairman: If you could share that with us, that would be very useful. Thank you very much indeed for dealing with these questions. We will move to the next session.