A Good Retirement

Public attitudes to the role of the state and the individual in achieving financial security in later life

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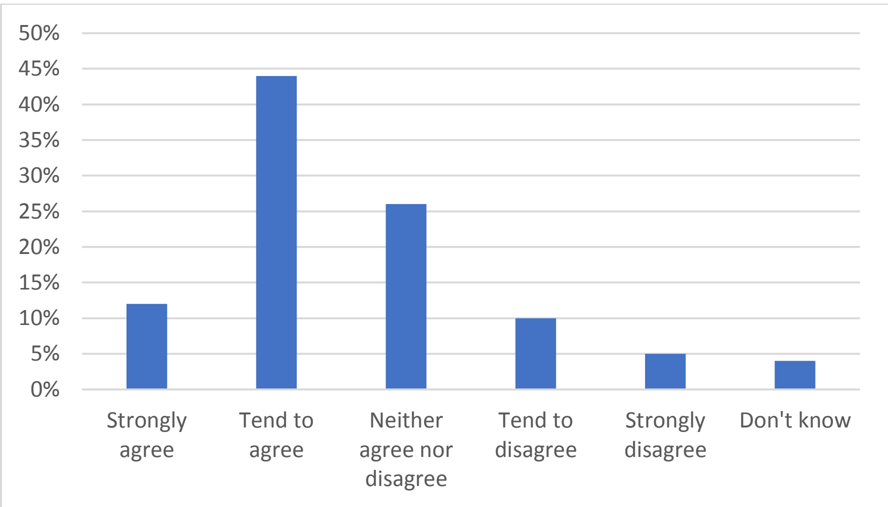
Executive summary

Demos carried out research during the summer of 2017 to get a better sense of how the public viewed their responsibilities in later life. We focused on the following questions:

- What do people define as a good retirement?
- How confident are they that they will achieve this?
- Who is actually responsible for achieving a good retirement – the state or the individual? What combination of the two?
- How can a good retirement be achieved?

Our research, including a survey of around 2,000 members of the general public as well as focus groups with people over 40, showed that people value health and financial wellbeing in retirement, and believe the government should provide a safety net of some sort, but most tend to agree that wellbeing in late life is a matter of individual responsibility (figure 1).

Figure 1 The extent to which survey respondents agreed with the statement 'It should be my responsibility to save so that I can pay towards the costs I will face in my retirement'

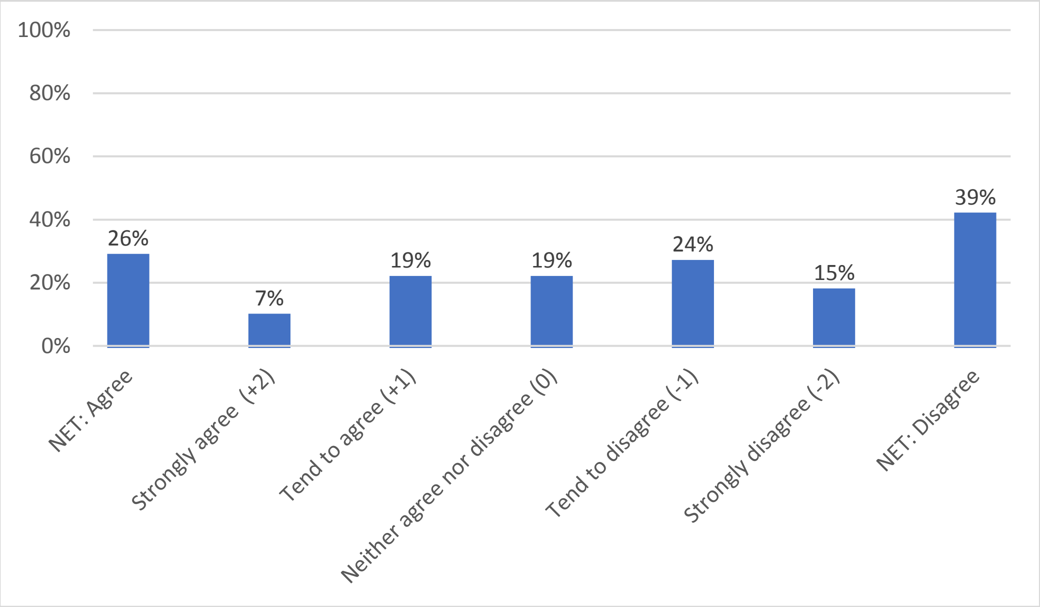


Social care can have a considerable impact on both health and financial wellbeing in later life – making it one of the key factors in determining the quality of one's' old age. We therefore paid particular attention to social care – a live policy debate in summer 2017. Again, most of the public believe that paying for care is a matter of individual concern, though expect the state to provide some form of safety net –

whether to ensure the poorest have access to free care, or that no one pays an excessive amount.

The number of people who believe that it is an individual's responsibility to pay for one's care appears to be growing with time. However, few people are actively preparing to meet their potential social care costs, and a quarter of the public remain complacent and assume the government will provide care free of charge (figure 2).

Figure 2 The extent to which survey respondents agreed with the statement 'If I need to use care and support services in the future, these will be free'



This report discusses how to square this circle. The government has announced there will be a care green paper and consultation on a funding model in 2018. Alongside developing a state 'safety net' model (whether through a care cap or some other variant), the government now has an opportunity to implement a strategy that:

- is open and clear about what responsibility the state will take on, and what is expected of the individual
- enables older people to fulfil their individual responsibility

Our research suggests that most of the public say they will either 'save up' or 'downsize' (use their housing assets) to pay for care in later life. And yet we know that very few people save regularly – it would be almost impossible for most working age adults to save enough to pay for their potential care bills. We also know that most older people resist moving home for practical, emotional and other reasons. With this in mind, it is clear that saving up or downsizing are not viable strategies for paying for care in and of themselves, but rather need to be leveraged through the use of financial products. The government can help people fulfil their individual responsibility in paying for their care in later life by ensuring they engage with financial products – variants of insurance and equity release products can make a reality out of the public's instincts to 'save up' or 'use the house'. The government may simply invest in more provision of advice to improve understanding and take up of such products ('demand side' stimulus), but it may also help supply by developing suitable products in partnership with the financial services sector, actively encourage their use or, potentially, underwrite or (co)deliver such products itself.

We recognise the shift in political and policy thinking regarding the cost of an ageing society. Years of ring-fenced spending on pensions and older people's benefits is drawing to an end, in the face of pervasive and ongoing cuts to working age services and benefits. An age of greater individual responsibility is upon us, and all the indicators suggest that soon almost everyone will have to pay for their care in later life, subject to a limited safety net. We conclude by explaining that this does not divest the government of all responsibility – on the contrary, the government has an important task ahead in preparing people for this shift.

1 INTRODUCTION

This report presents the findings of research carried out by Demos over the summer of 2017, and then discusses the implications of these findings for practitioners and policy makers. Against a backdrop of social, demographic and political change, we sought to explore how the public as a whole viewed their impending retirement – what they valued, how they thought they might pay for it, and whether they thought the state had a role to play in this. We paid particular attention to the role of care and care costs in retirement at a time where the state's role in this policy area has been called into question.

Background and policy context

Looking back: income growth and improved living standards for pensioners

The past 40 years has been described as a 'golden era' for pensioners.[1] Significant growth in the average income of this group – unmatched for working age adults and their families – has led to dramatic improvements in pensioners' living standards. Between 1977 and 2016, the average income of a retired household tripled, from £10,500 to £29,000 per year in real terms, whereas for non-retired households it doubled from £20,200 to £41,900.[2] As a result of the increase in their incomes greater numbers of older people are able to enjoy their retirement to the full, having more money to spend not only on their daily living costs, but also on travel and leisure pursuits.

The difference in the experiences of working age adults and pensioners has become particularly pronounced over the past decade, especially following the economic downturn. Young people, families and working age adults have borne the brunt of spending cuts pursued under the austerity programmes of the Coalition and Cameron governments, whether through the increase in university tuition fees or widespread cuts to working age benefits.

At the same time, a series of reforms has proactively sought to improve living standards for older people. The introduction of the triple lock in

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[1] P Collinson, 'Pensioners living in golden era as income rise outstrips workers', *Guardian*, 8 Aug 2017, https://www.theguardian.com/money/2017/aug/08/pensioners-living-in-golden-era-as-income-rise-outstrips-workers (accessed 7 Nov 2017).
[2] ONS, 'How do incomes for retired and non-retired households compare?' in 'Household disposable income and inequality in the UK: financial year ending 2016', statistical bulletin, Office for National Statistics, 10 Jan 2017, goo.gl/xeAdfv (accessed 7 Nov 2017).

2011 ensured that the basic state pension would be guaranteed to rise by a minimum of 2.5 per cent, the rate of inflation or average earnings growth – whichever is largest. As there has been poor earnings growth in recent years this policy has benefited pensioners significantly, at the same time as the income of workers has languished. Between April 2010 and April 2016 the value of the state pension increased by 22.2 per cent, compared with a growth in earnings of 7.6 per cent and a growth in prices of 12.3 per cent over the same period.[3] Furthermore, new freedoms give over 55s unrestricted access to their private pension pots; £9.2 billion has been cashed in since the policy was introduced in April 2015.[4] Taken together, protection from spending cuts and new reforms have enabled the median income for retired households to rise by 13 per cent over the past decade, despite the economic downturn. In contrast, the median income for non-retired households has *decreased* by 1.2 per cent.[5]

Looking forward: the end of the golden era?

Against a backdrop of economic stagnation and spending cuts, positive government action has enabled the income and living standards of the average pensioner to continue to rise in recent years. However, there are signs of change being afoot in light of demographic and political developments.

People are living longer than ever before. According to the most recent projections of the Office for National Statistics (ONS), by 2039 the number of people aged 75 and over will have risen by 89 per cent to 9.9 million.[6] As a sign of better health, wellbeing and sustained medical progress this is to be celebrated, but an ageing population comes with significant cost implications. Every person who reaches retirement age needs an income. While our current structures may enable most pensioners to be financially supported in retirement, the system will come under increasing

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[3] C Emmerson, 'Would you rather? Further increases in the state pension age v abandoning the triple lock', Institute for Fiscal Studies, 27 Feb 2017, https://www.ifs.org.uk/publications/8942 (accessed 7 Nov 2017).

[4] S Kirby, 'Over £9.2 billion released by pension freedoms', news story, HM Treasury, 25 Jan 2017, https://www.gov.uk/government/news/over-92-billion-released-by-pension-freedoms (accessed 7 Nov 2017).

[5] Ibid.

[6] ONS, 'National population projections: 2014-based statistical bulletin', Office for National Statistics, 29 Oct 2015, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2015-10-29 (accessed 7 Nov 2017).

strain as the population ages and the taxes collected from the relatively smaller working population must stretch further.

There are signs of change in the political environment too. During the 2017 election campaign, Theresa May took a notable departure from previous Conservative party policy in pledging three policies that would rein back the support available to pensioners:

- replacing the triple lock with a double lock (and therefore removing the 2.5 per cent minimum annual rise on pensions)
- making winter fuel payments a means tested rather than universal benefit
- inferring that the care cap – a limit on the amount older people would have to pay for their social care before the state took over the costs – would be dropped, motivated by an alternative approach of greater intergenerational fairness (creating a policy where younger people were not paying for older people's care through their tax contributions, but rather older people would pay for their own care – primarily through their accumulated housing equity)

Although the first two of these policies were dropped as a result of the confidence and supply deal made with the Democratic Unionist Party following the election, they signalled a certain level of political intent to move away from providing unrestricted support for older people towards a system where individuals take greater responsibility for themselves in later life. Furthermore, developments since the election further signal the government's continued plans to row back on support for pensioners, with the government announcing an increase to the state pension age seven years earlier than planned. Even more significantly, despite the Prime Minister reaffirming her commitment to the care cap policy during the election campaign, the government has since announced that it will not be "taking forward the previous government's plans to implement a cap on care costs in 2020". Although the status of the cap policy remains unclear, these developments suggests that the government remains undeterred in its plans to reduce the support available to pensioners, and that it is no longer willing to favour older people at the expense of the working age population any more.

A shift towards individuals taking responsibility for their care in later life could have stark implications for the pensioner population: with less financial support available from government, the growth in income and living standards that many pensioners have enjoyed in recent years may slow, unless individuals are supported in taking financial control of their futures.

The costs of care

As explained above, the government has taken a relatively active role over the past decade in supporting older people to cope with the general costs of retirement, including by providing universal benefits and generous pensions policies. Only now are we beginning to see signs that the balance could soon be shifted towards individuals having to take more financial responsibility for meeting their needs. However, during this past decade – and for many years before that – the state has been far less active in helping people to cope with what is potentially the single largest cost in later life, though only some older people face: the cost of care.

Social care is a means and needs tested service in England. Only those whose income and capital is assessed to be under £23,250 and whose needs are deemed to be (in most local authorities) 'critical' receive any financial assistance with the cost of care in the home or in a residential setting. As a result, most adults who need care pay for it themselves, with the state taking minimal responsibility in providing a safety net to the least well off.

Paying for care can have a devastating effect on a person's finances. In 2016 the average cost of a single room in a full-time care home was £30,926 per year – £16,470 more than the average pensioner's income of £14,456.[7] Older people who need care are often forced to eat through their savings, and many who move into care homes are required to sell their property to finance this.

Although most people who require social care pay for it themselves, or at least contribute significant sums to the cost, the social care system is in crisis. Because of Britain's ageing population there is more demand than ever for social care, yet adult social services in England have had to cut £4.6 billion from their budgets since 2010.[8] In order to manage the impact of these twin pressures, social care has been increasingly rationed, and is now only granted to those with the most severe needs. The Kings Fund has estimated that the number of older people getting state-funded help in England fell by 26 per cent between 2009 and 2014.[9] To relieve the pressure, from 2016/17 the government has allowed councils to

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[7] K Morley, 'Care home fees top £30k for the first time – and are rising at 10 times the rate of pensioner incomes', *Telegraph*, 17 Aug 2016, www.telegraph.co.uk/news/2016/08/17/care-home-fees-top-30k-for-the-first-time---and-are-rising-at-10/ (accessed 7 Nov 2017).

[8] BBC News, 'Reality check: who gets social care and who pays for it?', 8 Feb 2017, www.bbc.co.uk/news/health-38907054 (accessed 7 Nov 2017).

[9] Ibid.

charge a social care precept of 3 per cent to council tax bills, and an emergency cash injection of £1.5 billion was announced this year. But it admits that these solutions are a temporary fix designed simply to prevent the system from grinding to a halt.

It has been widely recognised across the political spectrum that a radical overhaul of social care funding is needed. The previous government had been wedded to the idea of a care cap, but as mentioned above, this policy may well have been scrapped, and will at least not be implemented in 2020 as planned. Dropping the cap proved a highly controversial suggestion during the election campaign – although, as we have explained above, most people already do and will continue in the future to pay for their own care. Nonetheless, media coverage at the time implied this was a newly implemented Conservative policy that would see older people spending tens if not hundreds of thousands of pounds on care costs in a new 'dementia tax'. The hysteria this generated suggests that a fairly large proportion of the public believe that care costs already fall within the responsibility of the state.

The question now is what new regime will be proposed in the green paper, and whether responsibility for meeting the costs of care will shift even further towards the individual. The Conservative manifesto's attempt to end the care cap policy, and its subsequent announcement that it would not be implemented in 2020, suggests that the current government favours individuals taking even greater responsibility for their own care costs.[10] If a care cap is eventually implemented, it is likely to be much higher (less generous) than initially suggested in the 2011 Dilnot report, which first proposed this policy.[11] The manifesto's other social care pledge, to 'extend the current freedom to defer payments for residential care to those receiving care at home, so no one will have to sell their home in their lifetime',[12] seems to suggest the government favours greater use of housing equity to pay for care costs through some form of equity release[13] or deferred payment[14] option. This reflects the finding in 2014 that older people owned at least £1.23 trillion in unmortgaged

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[10] Conservative Party, manifesto, 2015, https://www.conservatives.com/manifesto2015 (accessed 9 Nov 2017).

[11] A Dilnot, *Fairer Care Funding: The report of the Commission on Funding of Care and Support*, 2011.

[12] Conservative Party, manifesto.

[13] Equity release is a financial product for the over 55s, who can draw down equity from their home by taking out a loan secured on this. The loan only has to be repaid when the borrower dies or permanently vacates the property.

[14] Deferred payment is a payment plan offered by local authorities whereby they pay for an older person's care, and then claim back that amount (plus interest) from that older person's housing equity once that person dies or the house is sold.

housing equity[15] – so many older people are more than capable of covering their own care costs if they were able to liquidate part of their assets.

Other options – including insurance and immediate needs products – may suit some older people better than equity release (as we discuss further below). These all need to be considered closely now – while the government's original manifesto commitments may have been dropped, the government is clearly now alert to the fact that state resources cannot continue to guarantee as comfortable a retirement as has been enjoyed in the past for a rapidly increasing population of older people. We will no doubt see the balance tip further towards individuals taking responsibility for their financial wellbeing in retirement generally, and care costs in particular, in the care green paper due in 2018.

This project

As the balance between state and individual responsibility for retirement seems now to be open to realignment, this report explores how the public feel about this balance – in particular, our research set out to uncover public attitudes to four key questions:

- What do people define as a good retirement?
- How confident are they in achieving this?
- Who is actually responsible for achieving a good retirement – the state or the individual? What combination of the two?
- How can a good retirement be achieved?

We pay particular attention to care costs as a major part of retirement spending, and when we consider the fourth of the questions above (in chapter 5), we explore how the government might go about helping individuals in meeting their care costs in a way that does not lead to financial hardship.

Methodology

Research for this project took place from July to September 2017. It was made up of:

- a review of existing research
- a survey of more than 2,000 members of the general public

[15] Knight Frank, 'Retirement housing 2014', 2014, http://content.knightfrank.com/research/696/documents/en/retirement-housing-2014-2388.pdf (accessed 7 Nov 2017).

- three focus groups with 40–69-year-olds

Rapid evidence assessment

We started by reviewing existing research relevant to the concept of a good retirement. Focusing on financial security and care, we sought evidence relating to how far people are preparing for retirement and how far they are able to achieve it. We collated results from previous surveys of the public concerning attitudes to the key questions outlined above, in order to set our own survey against longitudinal trends. Finally, we gathered examples of innovative financial products that have been used successfully to help older people enjoy financial wellbeing in their retirement. The review encompassed academic, policy-oriented and grey literature.

Survey of the public

We worked with Populus Data Solutions to administer a survey to 2,120 members of the general public. Participants were selected in order to achieve a representative sample across key demographic variables, including age, gender, region and social grade. The questionnaire consisted of 11 questions designed to gauge attitudes relating to the four key questions set out above.

Focus groups with 40–69-year-olds

We conducted three focus groups with aged 40–69-year-olds, one each in London, Birmingham and Leeds. Each group was recruited to achieve a mix of backgrounds among participants in relation to age (within the 40–69-year-old bracket), gender, ethnicity, occupation and level of housing assets. We asked participants to reflect on their responses to the four key questions set out above.

This report

This report is structured as follows:

- Chapter 2 presents our findings on what the public think constitutes a 'good retirement'. We explore the aspects of life people value (or expect to value) in their retirement, how they prioritise those different aspects and why they matter to them.
- Chapter 3 explores our findings on how well prepared older people are for retirement, their levels of awareness (or lack thereof) of the basics of retirement planning, and how far the

public are confident that they will be able to enjoy a good retirement.

- Chapter 4 presents our evidence on where the public feel responsibility for retirement lies – with the individual or the state. The chapter considers responsibility for financial wellbeing in general as well as care specifically.
- Taking into account public attitudes to the question of responsibility, chapter 5 explores what both the state and the individual can do to prepare for the costs of retirement, including possible care costs. We consider some of the financial products available to individuals to pay for care, and how the government might support or encourage people to make use of these as the inevitable shift from state to individual responsibility takes place.
- We conclude in chapter 6 by reflecting on the future of the balance between the state and individual in covering the costs associated with retirement, and present some recommendations for policy makers regarding how best to strike an appropriate balance between them at a time of political and economic uncertainty.

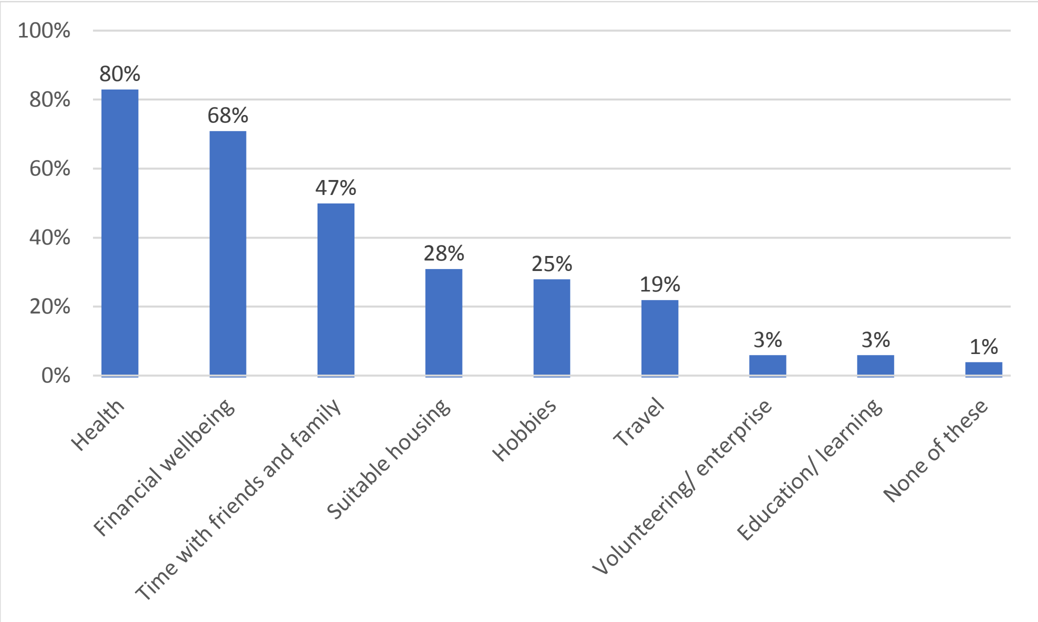
2 WHAT DO THE PUBLIC DEFINE AS A GOOD RETIREMENT?

In order to support people to enjoy a good retirement, we first need to understand what their priorities in later life are. This chapter presents our evidence on what people value (or expect to value) in their retirement, and why.

The diversity of priorities

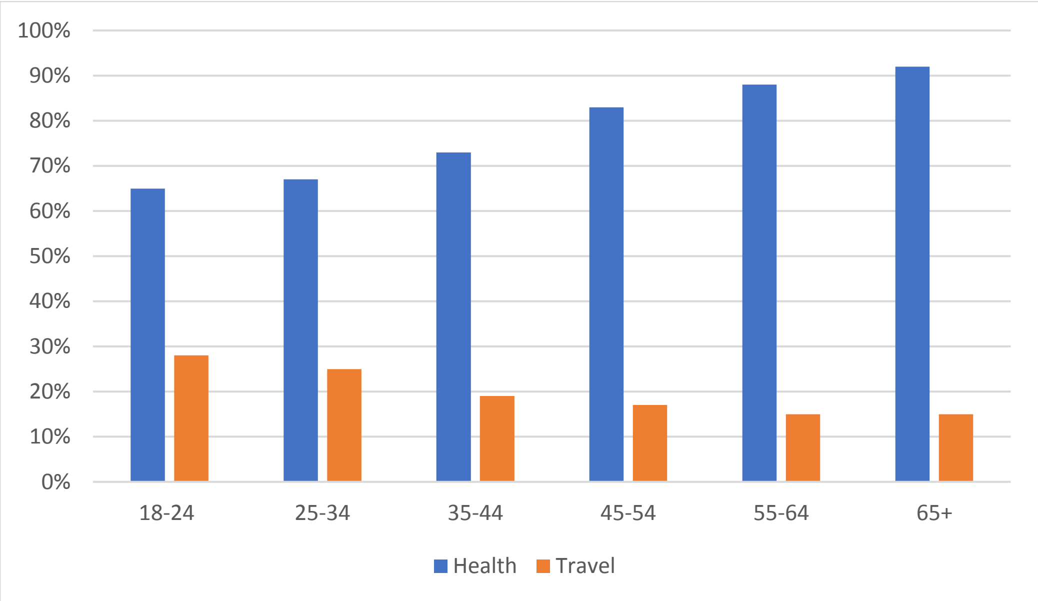
Unsurprisingly, our research shows that people have wide-ranging priorities in retirement. We asked respondents to our survey to identify up to three aspects of life (out of a list of eight) that were most important to them when thinking about a good retirement. Three options were picked by around half of respondents or more: health (80 per cent), financial wellbeing (68 per cent) and time with friends and family (47 per cent). Another three options were chosen by at least 1 in 5 respondents: suitable housing (28 per cent), hobbies (25 per cent) and travel (19 per cent) (figure 3).

Figure 3 The most important aspects of life to survey respondents (all ages, up to three options) when thinking about a good retirement



There were some noticeable patterns by age. Despite health being the most popular answer across all age groups, the proportion who picked it as one of their top three priorities in retirement increased with age. Over 9 in 10 of people aged 65 and over chose health compared with 65 per cent of 18–24-year-olds. Conversely, travel became slightly less important with age – 28 per cent of 18–24-year-olds chose it as a priority compared with just 16 per cent of people aged 65 and over (figure 4).

Figure 4 Whether health or travel is most important to survey respondents when thinking about a good retirement, by age group

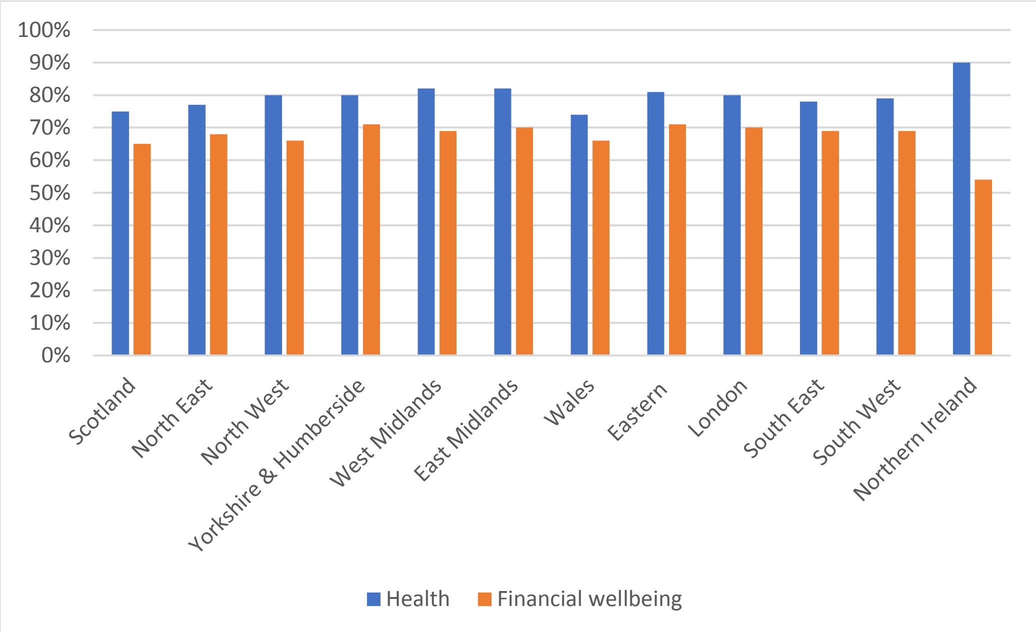


The fact that a smaller proportion of young adults identify their health as a priority indicates that there could be a mismatch between what people expect to matter to them in retirement and what *actually* matters to them once they reach that stage. Similarly, younger adults may expect to value travel but find that it is not as important to them as they grow older, or that their health does not allow them the opportunity to travel. However, there could also be a cohort effect at play explaining the decreasing importance of travel with age – with more opportunities for travelling on a budget (eg through using budget airlines), today's generation of younger adults tend to travel more than in previous generations, and may therefore continue to value travel in their retirement.

People value health and financial wellbeing the most in retirement

Our results show that although people have a range of priorities for their retirement, being in good health and enjoying financial wellbeing have the greatest importance for most of the public. This is remarkably consistent across different groups – for all ages and social grades, health is the top priority in retirement and financial wellbeing the second priority. It is also true for every region but one – Northern Ireland, where financial wellbeing ranks third after time with family and friends (and where health is a particularly popular priority) (figure 5).

Figure 5 Whether health or financial wellbeing is the most important to survey respondents when thinking about a good retirement, by region



The value placed on health and financial security in retirement appears to have remained consistent in recent years, for older generations at least – a 2013 study of the attitudes of 18,000 people aged 55 and over found that health ranked highest on a list of ingredients of a happy retirement, followed by having enough money to live comfortably.[16]

In keeping with the evidence from our survey, participants in our focus groups also considered health and financial wellbeing to be the most

[16] J Bingham, Money does help buy happiness, say baby boomers', *Telegraph*, 9 Oct 2013, www.telegraph.co.uk/finance/personalfinance/pensions/10365183/Money-does-help-buy-happiness-say-baby-boomers.html (accessed 7 Nov 2017).

important aspects of a good retirement. They recognised that good health was a prerequisite to enjoying other activities in retirement, such as spending time with friends and family, travelling and on hobbies – things which people felt they did not necessarily have enough time to do during their working lives:

> *You basically work all your life really and then you want to have some time when you can enjoy it and be healthy and sort of enjoy that quality time.*

Female focus group participant, Leeds

> *Well if you haven't got your health all the rest of it are immaterial then.*

Male focus group participant, Birmingham

This link between health, wellbeing and being able to carry out activities in later life is found in the wider evidence on this issue: in 2016 the ONS found that people aged 65 to 79 tended to report the highest average levels of personal wellbeing, stating that a likely reason behind this is 'having more free time to spend on activities which promote their wellbeing'. In contrast, wellbeing fell for people aged 75 or over, who 'are less able to participate in activities as freely as they once were'.[17]

Some participants also valued health because they did not want their friends or family to have to care for them, or pay for them to be cared for:

> *If I haven't got good health then I become a burden to someone and I don't want to do that, I want my independence as well.*

[17] ONS, 'Measuring national well-being: at what age is personal well-being the highest?', Office for National Statistics, 2 Feb 2016, https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/measuringnationalwellbeing/atwhatageispersonalwellbeingthehighest (accessed 7 Nov 2017).

Male focus group participant, Birmingham

Like good health, participants of our focus groups considered financial wellbeing to be an enabling factor – a prerequisite for doing the things that matter to them in retirement. Comments such as 'financial wellbeing will buy you everything else' (female focus group participant, London) were typical. Although the importance of financial wellbeing in retirement was widely recognised, people disagreed about what level of disposable income would make them feel financially secure. Some set a low bar stating that it was simply having enough to cope with daily living expenses; others set the bar higher, saying that they would only be content if they were in a position to enjoy luxuries such as trips abroad, regularly:

> *When you retire, you cut your cloth financially. You look at what you've got coming in. That's what you do as you get older.*

Female focus group participant, Leeds

> *You shouldn't have to give up work and then say, right, I'm giving up life. That was the thing that frightened me the most. I didn't want to give up the luxuries and advantages I had when I was working.*

Male focus group participant, Leeds

The interaction between good health and financial wellbeing

As discussed above, people value (or expect to value) both good health and financial wellbeing in their retirement. But which of these is ultimately more important to them?

Our survey and previous surveys show that the public themselves tend to value health above finances. In the words of one of the people we spoke to, 'If you haven't got your health, no matter how much money you got it doesn't matter. You can't buy it' (female focus group participant, Leeds). While both poor health and financial security were recognised as limiting, poor health was considered the most limiting of the two – it was argued that an individual who is seriously ill cannot do anything, yet people who struggle to make ends meet financially can still enjoy time with family and friends and other pleasures.

However, some recognised the interrelationship between the two, not just related to the physical and mental impact of poverty, but also how being able to afford to use private medical treatment rather than rely on the NHS could enable people to be 'seen quicker and get better results' (female focus group participant, London). Therefore, while the public generally believe that health is more important than financial wellbeing in retirement, in reality there is a complex relationship between the two, making it unhelpful to prioritise the achievement of one over the other.

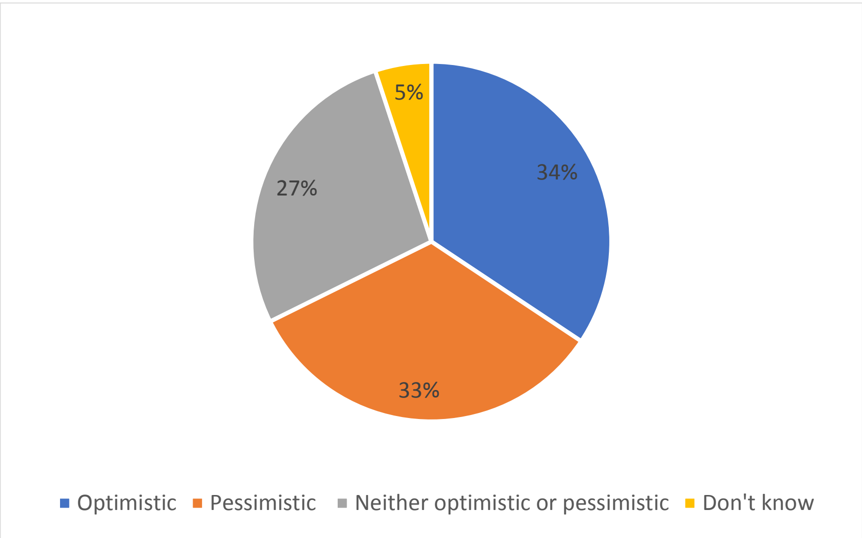
3 CURRENT LEVELS OF PUBLIC PREPARATION AND CONFIDENCE IN SECURING A GOOD RETIREMENT

This chapter explores the current state of play in relation to financial wellbeing in retirement. It begins by looking at the extent to which the public feel confident that their income will afford them a good standard of living in retirement. Then it considers the evidence on how far people are actually preparing for retirement, including their possible care costs, to see whether the public's optimism or pessimism is justified.

The public are divided

Our survey shows that the public are split on the question of whether they feel they will be financially secure in retirement, with a third feeling optimistic and a third feeling pessimistic. A further third are neither optimistic or pessimistic, or don't know (figure 6). These findings resonate with recent research by Scottish Widows, which found that 43 per cent of Britons are uncertain about their long term finances and 47 per cent uncertain about retirement.[18]

Figure 6 The extent to which survey respondents feel optimistic or pessimistic about being financially secure in retirement

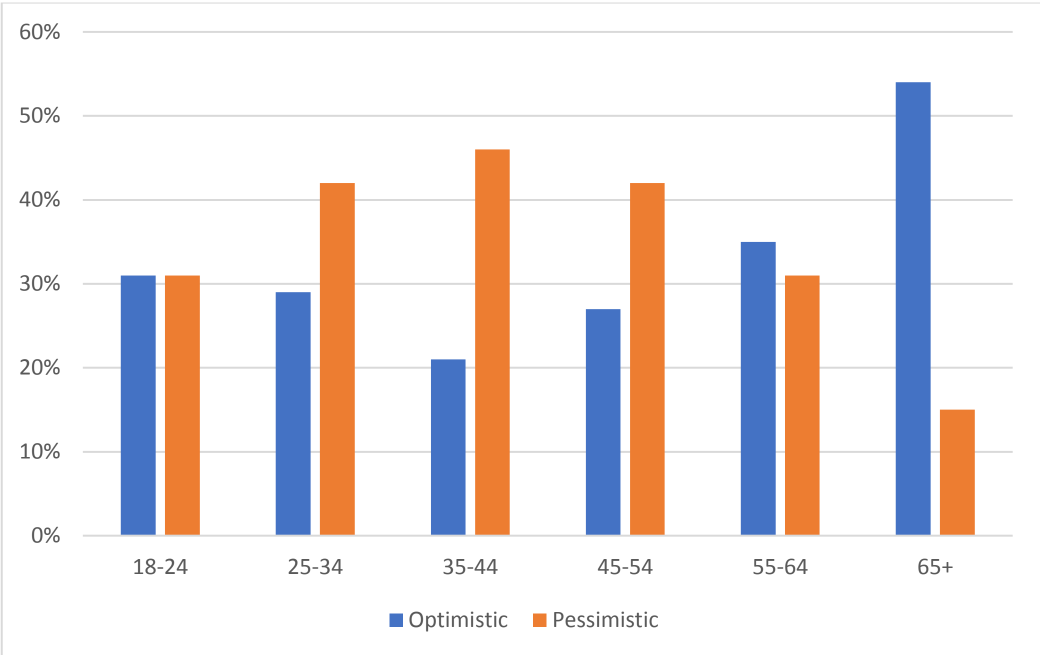


[18] Scottish Widows, *Retirement Report 2016*, 2016, http://reference.scottishwidows.co.uk/docs/46273-2016.pdf (accessed 7 Nov 2017).

Younger adults tend to be pessimistic and older adults tend to be optimistic

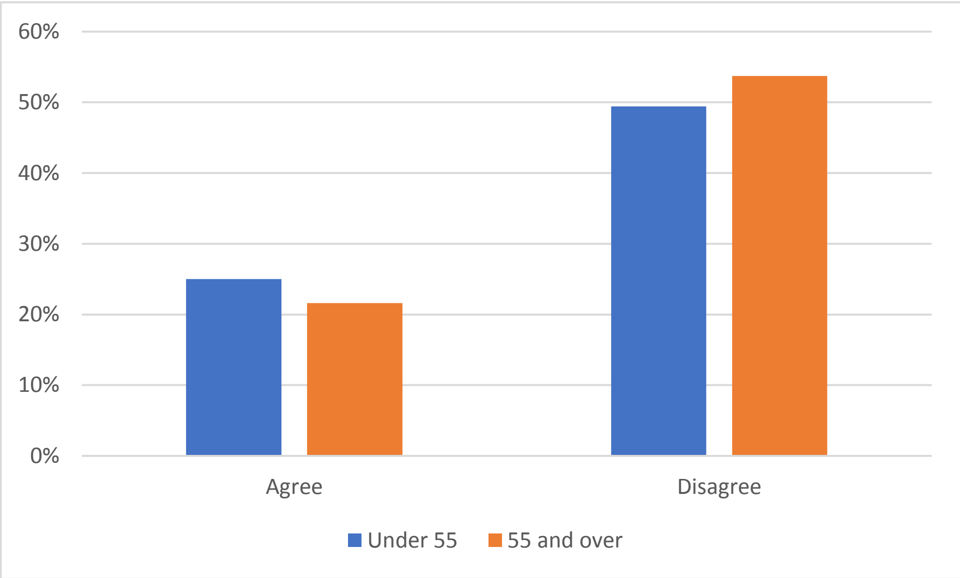
Although the public as a whole are divided, there are clear differences in confidence between different age groups. Those aged 25 to 54 are much more likely to be pessimistic about their prospects for financial security in retirement. This view changes among those aged 55 and over, when people become more likely to feel optimistic. Confidence is even greater for people aged 65 or over, who are significantly more likely to feel optimistic than pessimistic (figure 7).

Figure 7 The extent to which survey respondents feel optimistic or pessimistic about being financially secure in retirement, by age group



It is understandable that the over 55s feel optimistic about their financial prospects for retirement. As discussed in chapter 1, pensioners are enjoying higher average incomes and better standard living standards than they have for decades. This cohort are also those who benefit the most from the Right to Buy and property boom, which has resulted in the over 65s owning £1.23 trillion in unmortgaged housing assets. Equally, it might seem understandable that younger adults are less optimistic, as the state is beginning to row back on the support it will offer to future generations of older people (eg by increasing the pension age). But the fact that today's younger adults are likely to receive less support from the state when they reach retirement than current pensioners enjoy does not entirely explain their pessimism. Over half of people think the state currently provides inadequate support to older people, including 49 per cent of adults under 55 (figure 8).

Figure 8 The proportion of survey respondents who agreed with the statement 'Generally speaking, the state provides enough support to older people in retirement', by whether under or over age 55



So what explains the pessimism of the under 55s about the likelihood of achieving financial security in retirement? One factor is that adults today arguably face greater financial insecurity throughout their working lives than previous generations did, which may influence how they feel about their prospects in retirement. Student debt, unaffordable housing and now the impact of Brexit are just some of the factors making young people fear for their financial futures.[19] Furthermore, middle aged people are feeling the strain of the challenges faced by their children, which require them to support their children for longer into adulthood:

[19] I Wybron, S Vibert and J Smith, Next Generation UK, Demos, 2017, https://www.demos.co.uk/project/next-generation-uk/ (accessed 7 Nov 2017).

We made a conscience decision to try and keep their student debt as low as we could… It takes them so much longer to get on their feet, and I think it impacts on the next generation.

Female focus group participant, Leeds

Another likely factor at play concerns the process of adjustment that people experience when they retire. The majority of our focus group participants who had already retired spoke of having 'tightened their belt' after they retired and realised that their previous lifestyle was no longer sustainable:

You have to look at what you've got coming in and you think, 'That bottle of wine costs a £10 – maybe I should just leave that and go for the one that costs £5.'

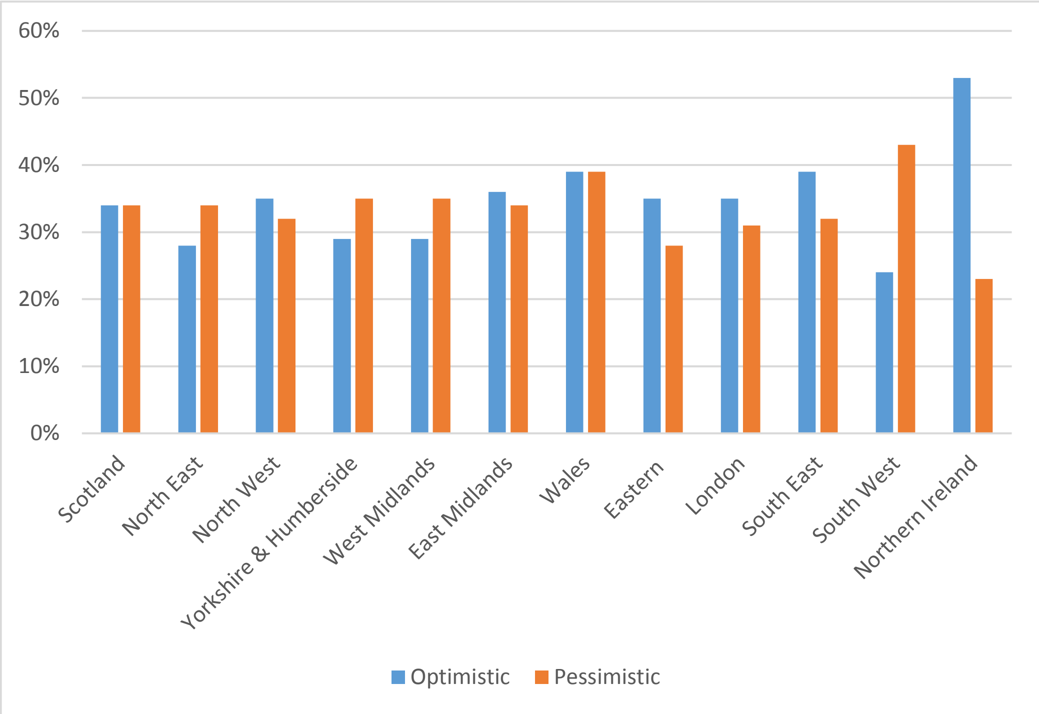
Female focus group participant, Leeds

People in their 30s, 40s and 50s may be less optimistic about their financial security in retirement as they assume that their consumption will remain the same, whereas in reality it will likely decrease.

Regional variations

The proportion of people who are optimistic and pessimistic about their financial wellbeing in retirement are largely consistent across regions, barring two notable exceptions: people in Northern Ireland typically have above-average confidence that they will be financially secure in retirement, while confidence levels in the South West are below average (figure 9).

Figure 9 The extent to which survey respondents feel optimistic or pessimistic about being financially secure in retirement, by region



As we have seen, Northern Ireland was the only region to rank financial wellbeing as their third rather than second most important priority in retirement. This suggests that people in Northern Ireland might be content with slightly greater levels of financial insecurity than in other regions, which would explain why they are more optimistic than other regions about their financial security in retirement. However, the same reasoning does not hold for people in the South West, where the proportion of people identifying financial wellbeing as a priority was virtually identical to the nationwide average, but where confidence levels about this are particularly low.

What the evidence suggests about current levels of financial preparation for later life

Preparation for the general costs of retirement

Retirement is expensive, although just how expensive it is varies by individual. The National Employment Savings Trust looked at a number of factors to identify the point at which people begin to feel comfortable and financially secure, including pensioners' ability to afford everyday household bills as well as their sense of satisfaction with life, and concluded that £15,000 per year is sufficient.[20] But studies have shown that members of the public themselves think they will need more than £24,000 per year in retirement,[21]and respondents to a survey by Which? who said they enjoyed a comfortable retirement reported average expenditure of £26,000 per year.[22]

Regardless of the exact level of income needed, it is undoubtedly the case that many people are not preparing adequately for their retirement. Research by Scottish Widows suggests that just 56 per cent of people who ought to be saving (those aged 30 or over, who are not retired and are earning at least £10,000 per year) are doing so – a figure which has only slightly improved in recent years. The same research shows that a quarter of the country's savers check the balance of their personal pension pots less than once a year and only 5 per cent look at their future financial affairs every quarter.[23]

People who are not preparing financially for the general costs of retirement give a variety of reasons for this. Some lack motivation. Some like spending it while they have it – many people we spoke to said that they worked hard for their money and wanted to enjoy it while they could, and deal with the consequences later. One person observed:

> *Most run out of time before they run out of money so in a way time is the most precious thing.*

Male focus group participant, London

Others did not seem to be making an active choice, but were instead simply relying on things falling into place later in life when they needed them to:

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[20] H Thomas, '£15,000 a year needed for retirement', Saga, 22 May 2014, https://www.saga.co.uk/magazine/money/retirement/planning/15000-pounds-a-year-needed-for-retirement (accessed 7 Nov 2017).
[21] Scottish Widows, *Retirement Report 2016*.
[22] P Davies, 'How much will you need to retire?', Which, 2017, www.which.co.uk/money/pensions-and-retirement/starting-to-plan-your-retirement/guides/how-much-will-you-need-to-retire (accessed 7 Nov 2017).
[23] Scottish Widows, *Retirement Report 2016*.

> *I just feel like we'll be ok. We'll live within our means, still try and do nice things… just play it by ear really, see how it goes.*

Female focus group participant, London

However, some people are simply unable to save for retirement, even if they would like to. These include people on low incomes. For example, one focus group participant told us that he was on a zero hours contract, and although he always got paid, saving was 'impossible' (male focus group participant, London). We also heard from many people who were taking significant financial responsibility for their adult children, thus limiting (if not removing altogether) their ability to prepare for retirement:

> *My lad's at home and he's saving for a house, deposits, and we're not charging him any money, so I'm now paying for him to live at home.*

Male focus group participant, Leeds

We should be wary of such reasoning, however – considerable research has been undertaken regarding financial capability and savings behaviour, which shows that when people state they 'cannot afford' to save, they more often than not mean they prioritise other spending over and above putting money away in savings.[24]

Finally, many people lack the knowledge and understanding needed to plan their retirement. Our focus groups revealed that there is a great deal of confusion about the basics of retirement planning, including the products available to people to help prepare for retirement. This confusion is compounded by the fact that people can find policy change difficult to keep up with, leading them to 'switch off' from retirement planning. And some feel that any preparations they make could be scuppered by a change of government, so saving for retirement is a potential cost without reward:

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[24] MAS, *Savings Evidence Review*, Money Advice Service, 2017, www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1706-savings-evidence-review.pdf (accessed 7 Nov 2017).

The one issue I've got with pensions and state benefits is that they're changing every other year. You know there's no consistency so you can't plan in advance.

Male focus group participant, Birmingham

Recent government policy may have exacerbated the problem, particularly auto-enrolment into pension schemes. In some ways auto-enrolment has been highly successful – one study found that 40 per cent of people who had started saving into a pension had been prompted to do so by auto-enrolment, and average savings among those working in small companies have increased from 9.3 per cent to 11.4 per cent of income.[25] However, people who are auto-enrolled into a pension scheme may be given the impression that their contribution will be enough to ensure that they will be financially secure in retirement, and therefore make them less likely to take responsibility for planning for later life themselves. Auto-enrolment only provides for a basic income, with default investment and annuity options. The result is that the return may not be adequate to meet people's expectations in retirement, but at the same time may breed complacency among those of working age.

Preparation for the general costs of retirement

Given the public's lack of preparation for the general costs of retirement, it is unsurprising that people are even less prepared for the possibility of needing to pay for care.

Many of us will come into contact with social care services during our lives, yet public awareness of it is strikingly low. In our focus groups, a small number of participants were completely unaware of there being any distinction between health and social care. Research by the Personal Social Services Research Unit in 2009 found that people misjudge significantly how likely they are to need social care: of those who reach age 65, males have a 68 per cent chance and females an 85 per cent chance of needing care before they die, yet around half of the public thought the probability was that under 40 per cent would need domiciliary care, and under 40 per cent would need residential care.[26]

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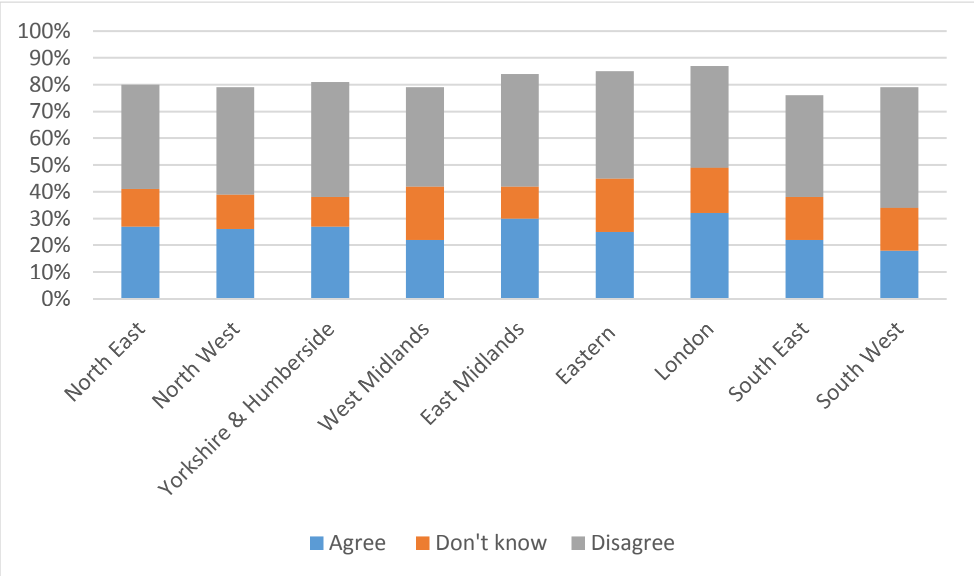
[25] Scottish Widows, *Retirement Report 2016*.

[26] J Forder and J-L Fernandez, 'Analysing the costs and benefits of social care funding arrangements in England: technical report', Personal Social Services Research Unit, 2009, http://eprints.lse.ac.uk/24977/1/Analysing_the_costs_and_benefits_of_social_care_funding_arrangements_in_England.pdf (accessed 7 Nov 2017).

Previous Demos research in 2014 explored how these beliefs are partly the result of an optimism bias, which causes people systematically to underestimate the chances of unwelcome things happening to them.[27] Subsequent research shows that little has changed in the intervening eight years since the PSSRU published their findings. Indeed, only one person in our focus groups with the general public mentioned care as a possible cost in later life without prompting; even then, the female participant in question spoke of the cost of household help, rather than the cost of paying for care per se. We discuss this further below.

A further area of poor public understanding is the cost of social care, and the division of responsibility between individual and state. As discussed in chapter 1, social care in England is needs and means tested, and nearly everyone has to make a contribution to the cost, if not meet the entire cost themselves. The effect on the finances of those who need care can be devastating – people are frequently forced to use up a lifetime's worth of savings, or sell their home (when people move to a care home). And yet in our survey of the public, we found that 1 in 4 people in England believe that if they need care in the future, they will care services free of charge, and a further 16 per cent did not know whether they would or not (figure 10).

Figure 10 The number of respondents who agreed with the statement 'If I need to use care and support services in the future, these will be free', by regions in England



[27] L Mayhew and D O'Leary, *Unlocking the Potential*, 2014, https://www.demos.co.uk/files/Unlocking_potential_-_web.pdf?1393180449 (accessed 7 Nov 2017).

While these results indicate that there is still poor awareness of social care costs, they demonstrate that there has been some improvement in recent years – albeit from a low base. Ipsos MORI asked similar question for the Department for Health on four occasions between December 2008 and December 2009, with an average of 43 per cent of people agreeing that their care would be free.[28] Furthermore, the same question was asked of Londoners in 2013 and a staggering 58 per cent believed that they would receive any care they needed free of charge,[29] compared with 32 per cent of Londoners in our survey.

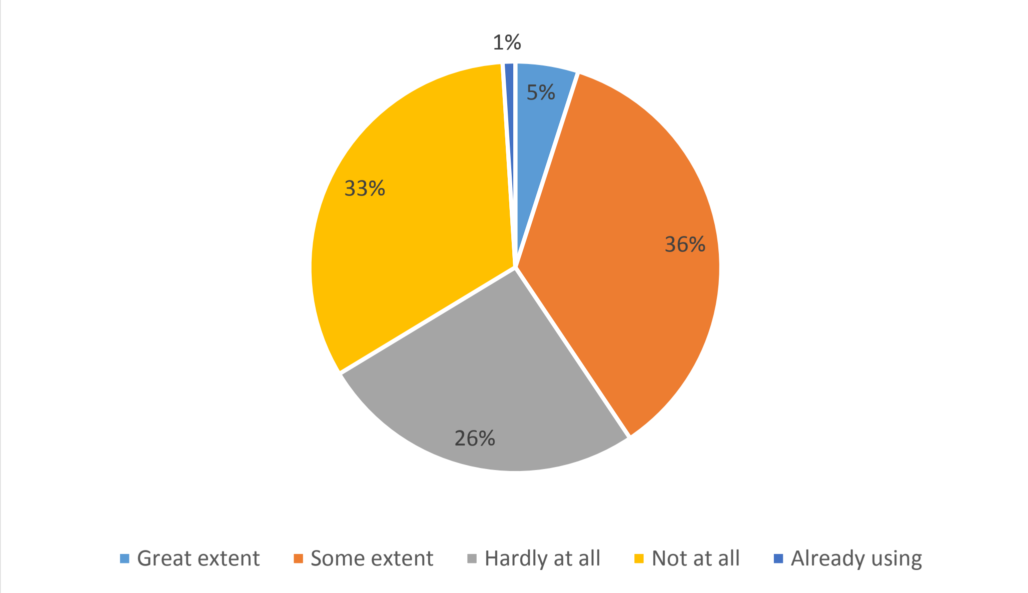
Nevertheless, our findings show that there is still more work to be done to improve awareness of the individual's responsibility to pay their care costs. The public reaction to the Conservative party manifesto's proposed changes to social care during the 2017 general election campaign clearly demonstrated the level of common misunderstanding about social care. The level of outrage generated by these plans, and the U-turn that quickly followed, suggest that a significant section of the population are not only unaware of the current state of social care funding, but under the clear impression that social care is currently free of charge to individuals receiving it.

Unsurprisingly, poor awareness of the costs of social care is coupled with poor preparation for these costs. We asked respondents to our survey how far they were already preparing for the possible care costs they might need to meet in the future. Just 41 per cent of people in England report taking steps to prepare for this, and only 5 per cent were preparing for it to a great extent (figure 11).

[28] Ipsos MORI, *Public Perceptions of the NHS,* 2011, http://webarchive.nationalarchives.gov.uk/20120503142426/www.dh.gov.uk/en/Publicationsandstatistics/PublishedSurvey/ListOfSurveySince1990/Generalsurveys/DH_4129933 (accessed 7 Nov 2017).

[29] Ipsos MORI, *London Councils Poll*, Oct 2013, https://www.ipsos.com/sites/default/files/2017-04/13-077264-01_London_Councils_weighted_tabs_social_care_FINAL_PUBLIC.pdf (accessed 7 Nov 2017).

Figure 11 The extent to which survey respondents are already preparing financially to pay for the care and support services they might need when they are older



Despite these results being disappointing, there is some reason to be hopeful. As public awareness of the costs of social care has slightly increased, there has been some improvement in recent years in the proportion of people stating they are preparing to have to pay for care – albeit from a very low base. An identical survey question in Ipsos MORI's tracker survey for the Department for Health found that the proportion of people preparing to pay for care remained steady at 27–28 per cent from December 2011 to December 2014.[30]

The same barriers that prevent people from preparing financially for the general costs of retirement also prevent them from preparing for the specific cost of care. People on low incomes struggle to meet their current daily living expenses, let alone save for retirement or care. Others who are in a position to save often want to prioritise saving for things they know they will definitely need, unlike care, or use their disposable income to help their children get ahead in life.

However, there are some additional barriers that prevent people from preparing to fund their social care. As outlined above, poor public awareness of needing care in later life, and its associated costs, is itself a barrier – clearly someone cannot prepare for a potential cost if they do not know it exists, or how much it amounts to. When we asked our focus

[30] Ipsos MORI, *Perceptions of the NHS and Social Care Tracker Survey: Winter 2013 wave*, 2014, https://www.ipsos.com/sites/default/files/migrations/en-uk/files/Assets/Docs/sri-health-nhstracker-report-winter2013.pdf (accessed 7 Nov 2017).

group participants what the major costs of retirement would be, only one mentioned possible care costs without any prompting:

> *If you can't do cleaning for some reason then someone to come, and care workers.*
>
> Female focus group participant, London

Furthermore, our conversations about care demonstrate that even the thought of needing it in the future makes some people feel uncomfortable. Some participants said that they were reluctant to think about the possibility of needing to move into a care home. This emotional resistance to consider the subject makes it highly unlikely that people are going to feel able to prepare practically for needing social care and the implications of frailty, poor health and mortality that goes with it.

Summary

In the last two chapters we have seen that a 'good retirement' can mean quite different things to different people, but most people's definitions include two crucial ingredients: good health and financial wellbeing. Without these, other things that people value in retirement – such as pursuing hobbies, enjoying time with friends and family and travel – simply become unattainable. While public attitudes swing towards the view that health is ultimately the most important of these, there is growing recognition of the important relationship between good health and financial security.

The government has done much to secure both the health and financial wellbeing of older people – ring-fencing NHS spending, creating auto-enrolment and the triple lock are just some of the policies to have tackled ill health and poverty in later life. The current social care policy is therefore somewhat incongruous. In its current form, it has a significant impact on both the health and financial wellbeing of older people – as most older people pay for their care in part or in full. The shortcomings of the current system result in many older people receiving inadequate care or place unacceptable pressure on their relatives.

Although there has been some improvement in recent years, large sections of the population are still not preparing adequately for the general costs of retirement, and even less so for the potential costs of care. This is driven by various factors, including the inclination to prioritise more immediate goals, an inability to save when earning a low income, a lack of understanding of how one can save, and – particularly in the case of care costs – a simple lack of awareness of the resources that will be needed.

Lack of preparation for retirement is not new, but as a result of the shifting external environment it will present much bigger problems than it has in the past. People are now living longer, but not necessarily more healthily, post-retirement – while the government seems less prepared to offer the levels of support in retirement that it once did.

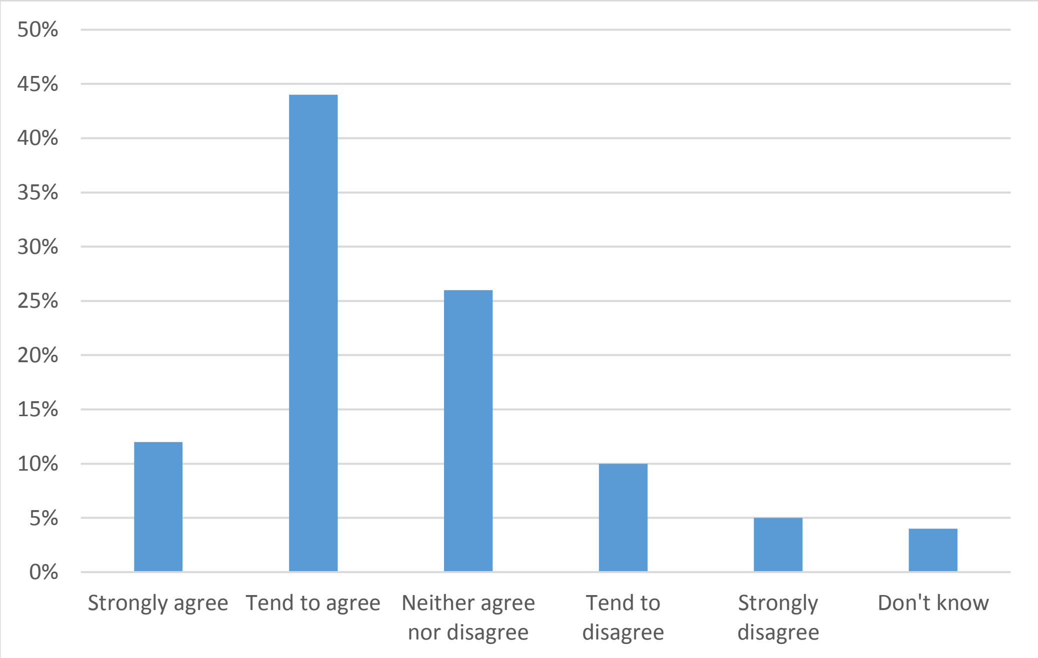
4 PUBLIC ATTITUDES TOWARDS THE ROLE OF THE STATE AND THE INDIVIDUAL IN SECURING FINANCIAL WELLBEING IN RETIREMENT

This chapter explores where the public themselves consider the responsibility for financial wellbeing in retirement to lie – with the individual or with the state. We consider the general costs of retirement and the specific cost of paying for care in turn.

Responsibility for the general costs of retirement

There is clear public acceptance of the idea that individuals should take responsibility for their own financial wellbeing in later life. More than half (57 per cent) of the public agree that it is their responsibility to save for retirement, including 1 in 10 who strongly agree. Just 14 per cent disagree that it is their responsibility to save for retirement, with only 5 per cent disagreeing strongly (figure 12).

Figure 12 The extent to which survey respondents agree with the statement 'It should be my responsibility to save so that I can pay towards the costs I will face in my retirement'



Answers given to this question displayed very little variation by demographics. Regardless of age, gender, social grade, region and employment sector, people are much more likely to agree than disagree that the individual has a responsibility to prepare financially for retirement. Nevertheless, there were some small differences. For example, people aged 35–44 and people from social grades D and E were less likely to agree with the statement than other groups – although not to disagree. This may be a reflection of people in these groups feeling that their budgets are already squeezed without saving for retirement, whether because they are raising a family or for other reasons. Regionally the Welsh stand out for being particularly inclined to agree that individuals should take responsibility to save to pay for potential care costs in later life, while those in Northern Ireland were more likely to disagree with the statement (although the proportion of people agreeing was average). The highest levels of support for individual responsibility were found among those aged 65 and over.

Our findings are consistent with this year's British Social Attitudes (BSA) survey, which found that just 52 per cent of people now believe that the government has a responsibility for providing a decent standard of living for the old – a proportion which has decreased from 69 per cent in 1996 and 58 per cent in 2006.[31] Furthermore, 2017 is the first year since the economic downturn in which more people want greater tax and spending than want it to stay the same, and yet just 55 per cent of people are in favour of spending more government money on pensions – a reduction of 14 per cent since 2006. Perhaps most strikingly, only 60 per cent now say that pensions are among their two top priorities for more government spending, less than have done so in any BSA survey since the series began in 1983.[32] This may be a result of the sustained improvements in pensions and protection of older people's benefits that have occurred in recent years.

Our focus group members had mixed views, in general arguing that both the individual and the state have a responsibility to ensure that people are financially secure in retirement, but that the role of the individual is greater. Many participants were critical of those who spent all of their salary without saving throughout their working life, with the expectation that they will simply be cared for by the state in their later life:

[31] 'Role of government: what do we want government to do?', British Social Attitudes 34, 2017, www.bsa.natcen.ac.uk/media/39145/bsa34_role-of-govt_final.pdf (accessed 7 Nov 2017)
[32] Ibid.

I think you can't afford to go out and spend every penny and not think about your future and come to pension age and say to the government oh give me a hand out now.

Female focus group participant, Birmingham

There was even greater criticism reserved for those who do not work:

If you haven't worked all your life, then just expect to have it on a platter, then I think that's a little bit unfair.

Female focus group participant, London

Respondents to our survey and focus group members suggest that most people believe that the state's role should be limited to providing a safety net of support for the most vulnerable only. Most participants in our focus groups recognised that despite their best efforts, some people might not be able to save enough to give them a decent standard of living in retirement, and the state has a responsibility to step in on these occasions and help meet the costs:

Wherever possible people should always take responsibility for their own wellbeing, but some people genuinely can't do it. No one should ever fall through the net. There has to be a safety net to catch everyone, no one should be struggling.

Male focus group participant, Birmingham

You can live for decades more after you retire. It's difficult to accumulate enough money to pay for everything you're going to need for all those years.

Male focus group participant, London

However, there was clear support for means testing benefits, which are currently provided to all pensioners regardless of income, such as winter fuel payments and free bus passes – further evidence that the public's view that state support in retirement should be limited:

> *Everything should be means tested... not everyone wants a bus pass because they've got a chauffeur. Not everyone needs a winter fuel allowance because they live in Australia and they've got a house over here.*

Male, London

Furthermore, some people we spoke to felt that even a safety net should not be provided to everyone who needs it. Participants in our focus groups were divided on this issue, but some felt that state support should only be given to people who had worked – or made sensible financial decisions and saved – where possible. Others felt that people should be free to spend whatever they wanted during their working lives and still be able to access a safety net of support in retirement, provided they had paid their tax:

> *You decided to go on holiday all the time and spend money on that then fair play, that's your choice, but you're still paying into the government so why don't they back you.*

Female focus group participant, Birmingham

Importantly, while people in our focus groups suggest that the state's role should be limited to providing a safety net (with or without conditions attached), many also feel that the government is failing in this regard:

We can send £500 million to India on the space programme but we can't feed next door's 85-year-old.

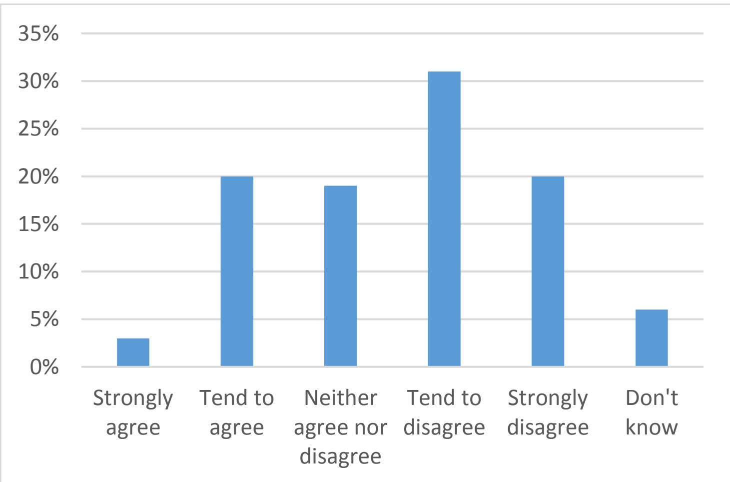
Male, London

It is kind of disheartening when you're listening on the news continually about elderly people that can't turn on their heating and are freezing to death, and then all of a sudden something happens somewhere and the government are going to put 20 odd million [pounds] towards it.

Female focus group participant, Birmingham

This may explain why in this year's BSA survey, less than half the respondents felt that the government was successful in providing a decent standard of living for the old – yet, as previously discussed, fewer people than ever say they want to see more financial support being made available to pensioners. This suggests there is a shift in opinion towards the view that individuals should take responsibility for their wellbeing in later life, or more support for a means-tested system whereby the state should give more support for the poorest, not all, pensioners. Our polling echoed the BSA's survey finding that the government was failing to support pensioners adequately was echoed in our own polling, which found that only 1 in 4 people felt that the government provided enough support in retirement (figure 13).

Figure 13 The extent to which survey respondents agree with the statement 'Generally speaking, the state provides enough support to older people in retirement'



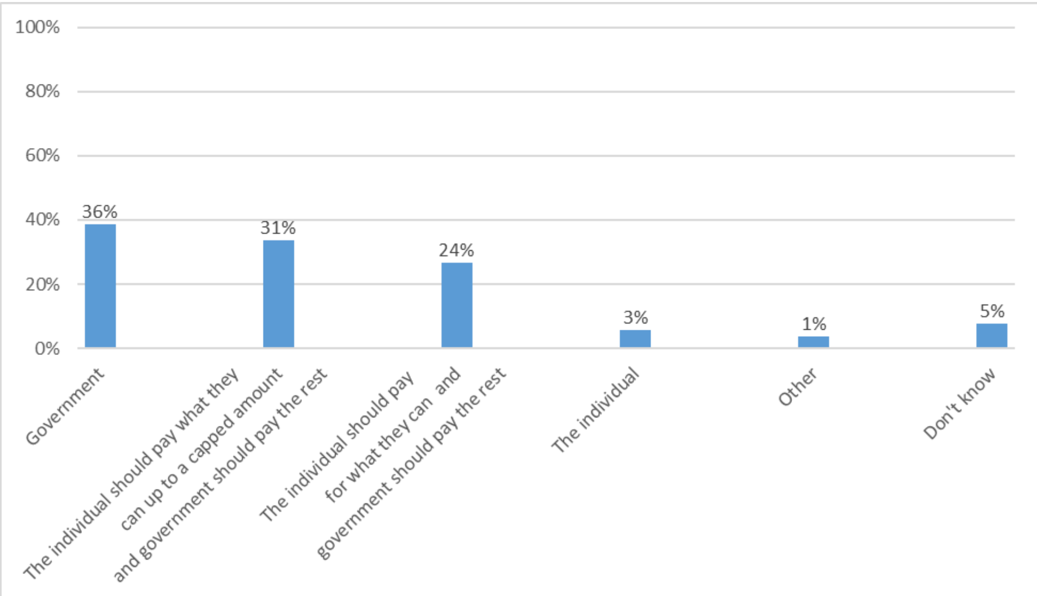
Responsibility for the cost of care

As explained above, social care costs are a major factor affecting the health and financial wellbeing of older people and, for those who need it, perhaps the single largest cost in later life. At the time of writing (autumn 2017), this policy area is in flux, so exploring what the public feel about the state's role in this area is particularly timely.

The majority think individuals have responsibility for paying for care

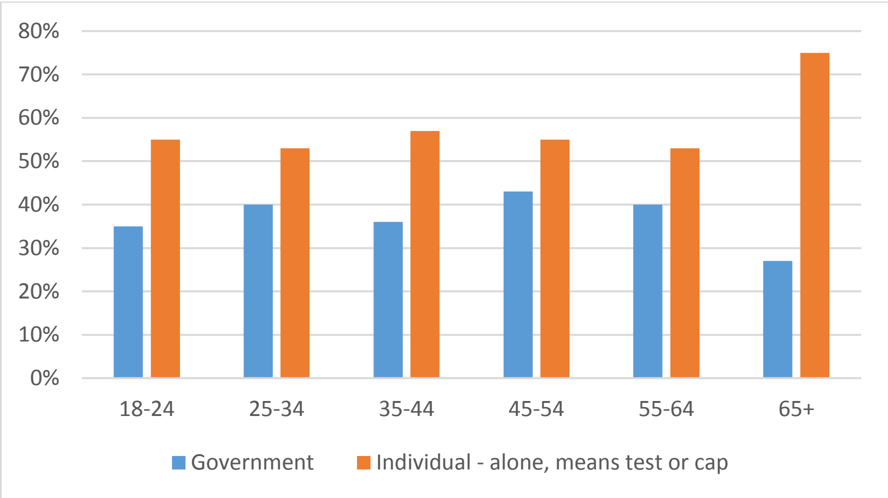
Our findings show that although the picture is complex, the public have a fairly consistent attitude' to who should pay the general costs of retirement and the specific costs of care. More than 50 per cent of the public believe that the individual has greater responsibility than the government in meeting the costs of their care. Only around a third of people believe the government should meet all the costs of care. Nearly 6 in 10 people believe the individual should pay towards the cost of care, with most of this group supporting a means-tested system of support (24 per cent) or a cap (31 per cent); only 3 per cent believe the individual should always cover all the costs (figure 14).

Figure 14 Responses of survey respondents to the question 'Who do you think should pay for care and support services for older people?'



As with retirement in general, the public's basic view on whether care is an individual or state responsibility varies little according to age. Interestingly, those who are least likely to say that government should pay are the over 65s, even though this is the group that would benefit immediately from state-funded care (figure 15).

Figure 15 Whether survey respondents think the government or the individual should pay for care and support services for older people, by age group



Our focus groups provided further evidence of there being public support for the individual (or their family) taking responsibility for care costs, although the issue was more hotly debated than who was responsible for the general costs of retirement.

There was no clear consensus or preference in our focus groups for a means-tested system or a capped system. Indeed, it took a significant amount of time during each group to explain the difference between the two policies, and they still caused confusion even after that, which in itself provides further evidence of the challenge the government faces in improving public understanding and planning for care.

Individual responsibility

Some people who were supportive of individual responsibility in this sphere strongly believed that it is the role of the individual's family to provide or pay for care: 'if you haven't got your health your family will fall in and help you' (female focus group participant, Birmingham). For some, this was a matter of children paying back their elderly parents for everything they had done for them throughout their lives. Others disagreed that the onus should be on a person's family, arguing that family carers are exploited and used to 'prop up government' (male focus group participant, Leeds).

It should be noted, however, that even those who objected to the state taking primary responsibility for the cost of care nevertheless argued that the state has an important role in regulating the care market. There was a fair deal of suspicion of for-profit care providers, with common concerns being that they were overcharging for their services or that the quality of care given was poor:

> *There is a government responsibility because [care homes] are [an] absolute gold mine... They make a fortune out of people who really just don't have a choice.*
>
> Male focus group participant, Leeds

Among those accepting that primary responsibility for care should lie with individuals, a means-tested system was often appealing. One participant observed,

> *It's very logical that the person who has the money, he has to pay, and those who cannot afford it shouldn't have to pay for it.*
>
> Male focus group participant, London

However, the question of what should be included in the calculations used to determine whether or not someone qualifies for state support was contentious. For example, many people held the view that property should not be included as part of a means-tested system (with or without a cap):

> *I think there should be a cap but I think property should be kept out of that cap, I think it should just stand to savings, and then the house, sort of, left.*

Female focus group participant, Leeds

On the other hand, others felt property should be included as part of the means test, pointing out that people who cannot afford to get on the property ladder should not be forced to subsidise people who are already on it:

> *I don't see why people who are in their 20s or 30s necessarily should be paying... for other people's care when they have assets.*

Male focus group participant, London

State responsibility

Those who felt the state, rather than individual, should take responsibility for care often argued that the state has a moral obligation to do so:

> *The government has [a] moral responsibility to ensure that everyone can live their life in dignity and with self-respect.*

Male focus group participant, Birmingham.

However, as when discussing the general costs of retirement, some felt that state responsibility for care was justified on the basis of the financial contributions an individual makes to the state through tax and national insurance during their working lives. Others argued that level of support received from the state should depend on how much someone had paid in:

The state should pay for it, but on the basis that if you worked all your life and paid your tax and national insurance then you automatically qualify.

Male focus group participant, Leeds

You should expect there to be some relative return to the money you've paid in through your work life, that's what I think.

Male focus group participant, Leeds

Several participants suggested a system according to which people receive a specific amount to spend on a basic level of care, which they can top up if they like to receive a higher quality service:

I think there should be a pot for everybody, everybody should be entitled to this figure... whether that could be a £100/£200 a week or whatever.

Male focus group participant, Birmingham

Public acceptance of individuals' responsibility for care appears to be growing over time

Looking at the longer term view, and retirement costs more generally, our findings suggest that there has been an increase in the number of people who believe that the individual has a key role to play in meeting the costs of care in later life. In 2012 the BSA survey asked respondents who they thought should pay for social care, giving the same options as offered in our question – the government, the individual, the individual but means tested, the individual with a cap, or don't know. The public were nearly split down the middle, with 48 per cent supporting government funded care and 50 per cent supporting individual funded care (with or without a means test and/or cap).[33] These results remained unchanged when a virtually identical question was asked in 2015.[34] However, when we asked the same question in our polling, we found 36 per cent of people supported government funded care and 58 per cent supporting individual funded care (with or without a means test and/or cap).

We should be cautious of drawing conclusions on the basis of this evidence alone, as the dataset is limited to three surveys and the fact that there are slight differences between the survey questions.[35] However, further survey evidence also suggests that the public increasingly see care as an individual rather than a state responsibility. On nine occasions between 2008 and 2014, Ipsos MORI's tracker survey for the Department of Health asked respondents whether they considered it their responsibility to save so that they could pay towards the cost of their care when they were older. The results show that between December 2012 and December 2014 the proportion of people disagreeing that they have a responsibility to save for care decreased while the proportion agreeing remained steady.

It is more difficult to discern any trends concerning the public's preference for a cap versus a means test. Our survey data and the data from the BSA survey of 2017 show that the public preferred a cap in 2012 and 2017, but preferred a means test in 2015. These dates have some significance. In 2012, the Dilnot report had just been released and the concept of a care cap (set at £35,000) was launched. In 2015, the Conservative government announced it would implement the cap, but set it at £72,000, a much less generous figure than what Dilnot had proposed. In 2017, there was furore regarding the government possibly dropping the cap altogether and leaving indefinite costs to the individual. However, it is questionable whether public opinion would be so responsive to relatively obscure policy debates.

Summary

[33] Y Tian, 'Who should pay for social care services?', blog, The King's Fund, 13 Jan 2014, https://www.kingsfund.org.uk/blog/2014/01/who-should-pay-social-care-services (accessed 7 Nov 2017).

[34] R Humphries, 'How does the public think we should fund social care?', blog, The King's Fund, 25 Feb 2016, https://www.kingsfund.org.uk/blog/2016/02/public-fund-social-care (accessed 7 Nov 2017).

[35] First, the 2012 and 2015 survey questions asked respondents who they thought should pay for social care rather than care for older people. Second, the 'cap' option given in 2015 set the cap amount as £72,000, rather than leaving it unspecified as in the 2012 and 2017 questions.

This chapter has shown that most of the public believe that the primary responsibility for ensuring financial security in retirement lies with the individual rather than state – in relation to both the general costs of retirement, as well as the specific costs of care. Furthermore, it appears that public support for individual responsibility is growing over time. The fact that there is public appetite for the idea that people should take control of their own financial wellbeing in retirement is encouraging as there are clear political signs that the government may scale back the financial support it offers pensioners or, in the case of care, maintain a system whereby most older people cover their own costs.

Nevertheless, our findings show that the public believe that even if individuals accept responsibility for saving for retirement and meeting the major costs themselves, the state still has an important role to play. The state must provide a safety net so that pensioners who reach retirement without enough saved to secure them a decent standard of living do not fall into poverty. Furthermore, although the public accept that individuals should have primary responsibility for paying for the care they require, this is on the proviso that the government gives some financial support – whether through a means test or a cap on what individuals are expected to pay. Finally, in relation to both sets of costs, the state has a clear role to play in *enabling* people to take control of their financial futures – increasing understanding of how individuals need to prepare and enhancing the range of products and options open to them. In the next chapter we explore how the state can fulfil this enabling role.

5 HOW CAN THE STATE ENABLE INDIVIDUALS TO ACHIEVE FINANCIAL WELLBEING IN RETIREMENT?

In the previous chapters we have seen how the public consistently identify health and financial wellbeing as key to a good retirement. They are valued in and of themselves and as enablers for other important aspects of retirement (such as pursuing hobbies and having quality time with family). We have also identified a trend whereby the public believe individuals should take more responsibility for their wellbeing in retirement vis à vis the state, by looking at public attitude surveys over the past eight to ten years.

During this same period, successive governments have invested substantially in the NHS and state pensions, with the triple lock and auto-enrolment both improving the value and coverage of pensions. It seems incongruous, then, that the one area that touches on both older people's health and finances – social care – has remained a policy vacuum for many years. The social care system is chronically underfunded, and currently most older people pay for their own care – only funded by the state when their care needs are acute and they have exhausted almost all of their private savings (in many cases, including their property assets). And yet successive governments have failed to reform the care regime, or its funding structures. The most recent proposal to address this subject (by implementing a cap on individual spending on care costs, above which the state pays) has been downgraded from a firm government policy due for implementation in 2020 to a matter for consultation in a green paper – with the latest announcement suggesting that it could be scrapped altogether.

The current government's equivocation over care funding is part of a wider shift. The 2017 Conservative manifesto expressed an intention to means test the winter fuel payment, end the triple lock, and scrap the proposed cap on care costs, which David Cameron had pledged to implement in 2018/19. While none of these were eventually implemented, the fact they were mooted at all suggests that the current Conservative government is looking more closely at reducing levels of spending on older people.

With shifts in demography, public attitudes and government positioning afoot, now is an opportune time to establish the appropriate balance of responsibility for wellbeing in retirement between the state and the individual. We focus in this chapter on social care as this is both the most pertinent debate at the current time, with an imminent consultation on a funding model, but also because it is emblematic of the interaction between health and financial wellbeing in later life and an indicator of the wider relationship between older people and the state. Understanding how the two need to work together to ensure older people can afford to pay for their own care, with the state taking on the role of enabler and provider of a safety net, is a critical issue in securing a 'good retirement'.

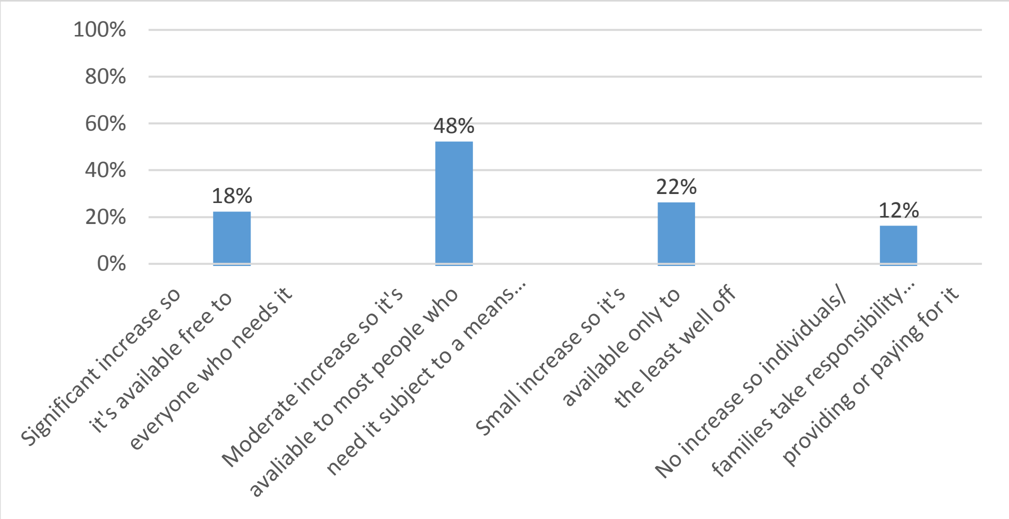
What are the options?

A considerable amount of work has been carried out over the years on the potential options for funding social care. These include wholly state-funded solutions (a tax-funded arrangement rendering social care free or almost free at the point of need). However, while just over half of the public say they would be willing to pay more income tax,[36] or council tax,[37] to boost funding for social care services, significantly fewer want a wholly state-funded (free at the point of need-type) system. In our polling, we asked whether respondents what sort of potential increase in taxes they would prefer to pay to meet the cost of care and support services for older people (figure 16):

- a significant increase so services are available free to everyone who needs it
- a moderate increase so services are available to most people who need it, subject to a means test
- a small increase so services are available only to the least well off
- no increase so individuals and families are responsible for providing or paying for it

[36] Future Care Capital, *Securing the Future: Planning health and care for every generation*, Sep 2017, https://futurecarecapital.org.uk/policy/securing-the-future/ (accessed 7 Nov 2017).
[37] J Taylor, 'Brits ready to pay more to fund social care', blog, Access Group, 9 May 2017, https://www.theaccessgroup.com/care-management-solutions/blogs/brits-ready-to-pay-more-to-fund-social-care/ (accessed 7 Nov 2017).

Figure 16 The tax increases survey respondents would prefer to pay to meet the cost of care and support services for older people



A mixed system – where the individual pays but the state provides a safety net, means testing or some other form of copayment – tends to be the preferred option of those asked in successive public opinion polls (including ours) and where most research and policy development has focused. This was also the reasoning behind Andrew Dilnot's 2011 report, which first mooted the 'care cap' as a care funding solution.[38] We now look at other solutions that have been considered over the years.

Care insurance (pre-funded)

A popular option is the idea of care insurance, where individuals pay premiums throughout their lives and then claim a lump sum if and when they need care later in life. There is no real market for this form of care insurance currently, and one of the benefits of the capped care model was, as Dilnot claimed, to create such a market. The hypothesis was that actuaries would be able both to calculate a person's risk of needing care in later life, and also have a pretty good idea about how much someone would be likely to pay. Without a cap, there would be no maximum spend – as Sarah Wollaston MP commented in response to the Conservative manifesto, indicating that the care cap would no longer be implemented: 'The dropping of the care cap sadly leaves social care uninsurable, leaving in place the miserable lottery of care costs.'[39]

[38] Dilnot, *Fairer Care Funding*.
[39] Quoted in H Stewart and J Elgot, 'Team May takes a hit to dampen "dementia tax" backlash', *Guardian*, 22 May 2017,

However, James Lloyd casts doubt that a cap would make care insurable, concluding in his 2014 paper:

> *The 'capped cost' care funding reforms… appear wholly unlikely to result in the creation of a pre-funded care insurance market. First, the reforms are of little consequence to the multiple, entrenched, demand- and supply-side barriers to pre-funded care insurance identified above. Second… individual 'liability' under the reforms is actuarially uninsurable: insurers will not be able to predict when people's 'care accounts' will start and when they will reach the… cap. This is because whereas a pre-funded care insurance claim is determined solely on the basis of disability, eligibility for local authority support is determined by disability and multiple uninsurable factors; the availability of informal care, as well as local and national political decisions regarding budgets allocated to social care and the needs eligibility threshold applied.*[40]

Immediate needs annuities

Immediate needs annuities are insurance products bought by individuals already in need of care. The individual pays a large upfront premium, in return for a guaranteed income for the rest of their lives (to spend on care). Only a very few of these currently exist in the UK, and they tend to appeal to wealthier older people. Again, the difficulty in establishing how much a person will need to spend on care over the remainder of their lives (even at the point at which they start needing care) makes this a challenging risk to insure. Some of the problems identified by James Lloyd which beset pre-funded insurance (eg uncertainty as to what constitutes a 'care cost' and policy instability in this area) also apply here. Nonetheless, pre-funded insurance does exist in the UK (see box 1). Some older people also combine this with equity release – releasing a portion of the equity of their house in order to purchase an immediate needs annuity premium.

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https://www.theguardian.com/politics/2017/may/22/team-may-takes-a-hit-to-dampen-dementia-tax-backlash (accessed 7 Nov 2017).

[40] J Lloyd, Options for Funding Care, Commission on the Future of Health and Social Care in England, The King's Fund, 2014, https://www.kingsfund.org.uk/sites/default/files/media/commission-background-paper-options-funding-care.pdf (accessed 10 Nov 2017).

Equity release

Equity release products enable those aged over 55 to mortgage a portion of their house in return for a lump sum, which can be drawn down gradually or as a one off. Interest on this mortgage accumulates and the loan plus interest is paid off when the home is sold. Older people can use this equity for care or other retirement costs. The main benefit of equity release is that it enables people to access the value of their home as liquid assets, without having to move (or downsize). Equity release is a relatively niche product, though more commonly used than care insurance products and, importantly, it is growing rapidly. According to the 2017 market report on equity release from the Equity Release Council, the market grew by 34 per cent between 2015 and 2016 – more than double the growth of 2014/15, with £1.24 billion of housing wealth released in the second half of 2016.[41] This made the equity release market the fasting growing mortgage segment in 2016. There are also variations on the general model, some tailored towards those with care needs (see below).

Deferred payment

The Conservative manifesto of 2017 suggested that the government's preferred option for individuals to fund their own care was through deferred payment schemes, which are currently offered by local authorities for those going into residential care, but not widely advertised or used. An individual can have their care paid for by the local authority, which then takes the total cost of the care they have received plus interest from the person's estate (usually the sale of a person's home) when they die. It has similarities to equity release, though the individual older person does not receive the money directly, nor do they have the freedom to spend it on anything they wish. Labour and Conservative governments have both proposed the extension of deferred payments, and each has suffered a backlash with the terms 'death tax' and 'dementia tax' used respectively.

Various other approaches to funding social care have been suggested, for example introducing social care savings bonds,[42] and state-sponsored versions of the first three outlined here. Social insurance, or state-underwritten equity release products, have also been mooted as

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[41] Equity Release Council, 'Equity release market report', 2017, www.equityreleasecouncil.com/document-library/equity-release-market-report-spring-2017/ermr-spring-2017-digital.pdf (accessed 7 Nov 2017).

[42] L Mayhew and D Smith, 'Personal care savings bonds: a new way of saving towards social care in later life', *Geneva Papers* 39, 2014, http://openaccess.city.ac.uk/13666/1/gpp201430a.pdf (accessed 10 Nov 2017).

way to encourage trust in and uptake of such products, as we explore below.

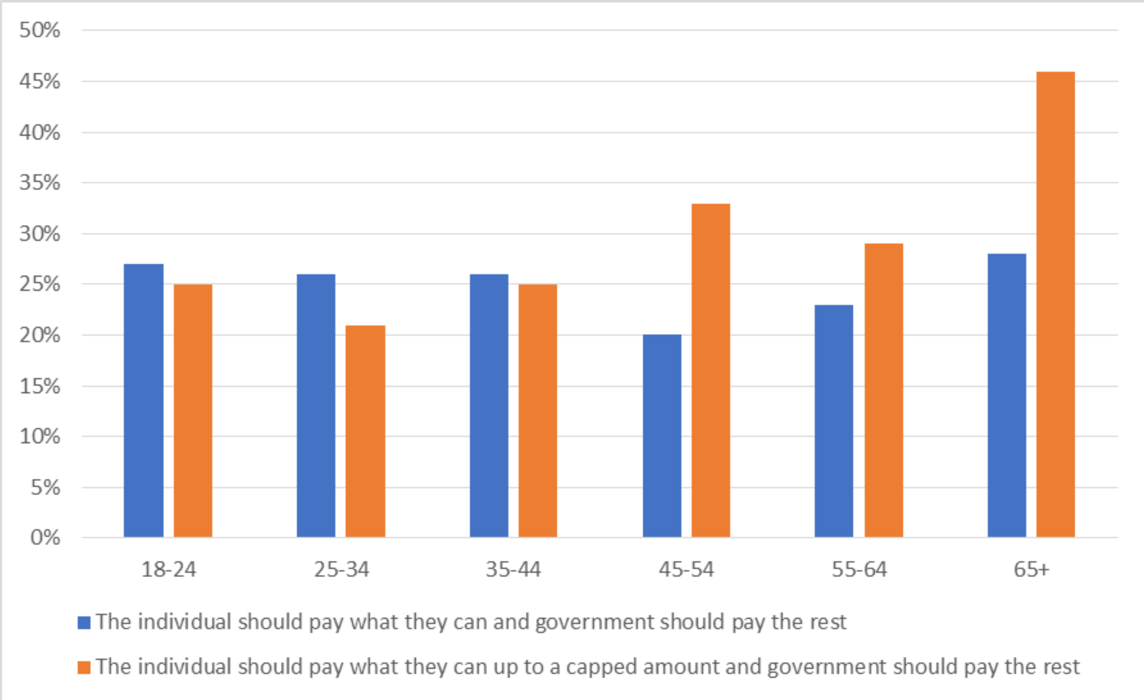
What do the public think?

Views of different copayment systems

In our polling, we asked a series of questions on how respondents thought the state should contribute to care costs (the balance between the state and individual funding), and what they would do in order to pay for their contribution. As discussed in chapter 4 and illustrated in figure 14, while 36 per cent said the government ought to pay for care entirely, the majority (55 per cent) opted for some form of copayment option – either a capped care model, or an uncapped or means-tested model (where a person pays as much as they can afford, without a cap to limit this, while the state supports only the poorest.)

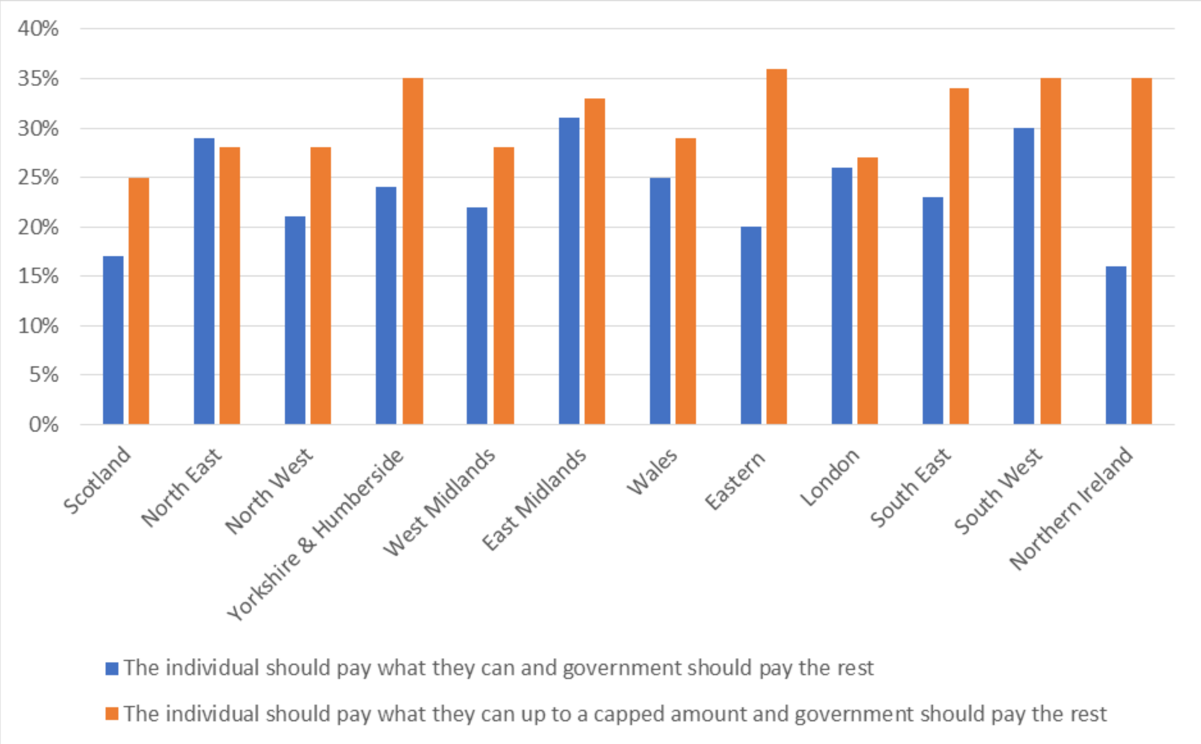
While support for an uncapped or means-tested option remained consistent across all age groups, support for a capped model increased with age – just 25 per cent of 18–24-year-olds but 46 per cent of over 65s think this is the best option (figure 17). This may well be because the older one gets, the more likely one is to know more about the costs of care – and therefore believe capping such high costs is desirable.

Figure 17 Respondents' views on whether the amount individuals should pay for their care and support when older should be capped, by age group



Regionally there is little variation in the proportion of people who back state-funded care, with the notable exception of Scotland where over half support it. This is likely to be because care in Scotland is free for everyone aged 65 and over who the local authority has assessed as needing it. Respondents in Northern Ireland are also slightly more likely than the average to believe that the state should pay for care. There was more regional variation in attitudes to means testing versus a cap (figure 18).

Figure 18 Respondents' views on whether the amount individuals should pay for their care and support when older should be capped, by region



Our focus group members had mixed views about whether they supported a capped or a means-tested system (though the consensus was that a person's housing assets should be excluded from any calculations). One suggested there should be a basic standard or top-up-type approach:

> *I think there should be a pot for everybody, everybody should be entitled to this figure... whether that could be a £100/£200 a week or whatever. Then it becomes the individual's choice about whether you want to go into a better care home and you pay the difference, but still those prices should be regulated.*

Male focus group participant, Birmingham

How individuals might pay for their share

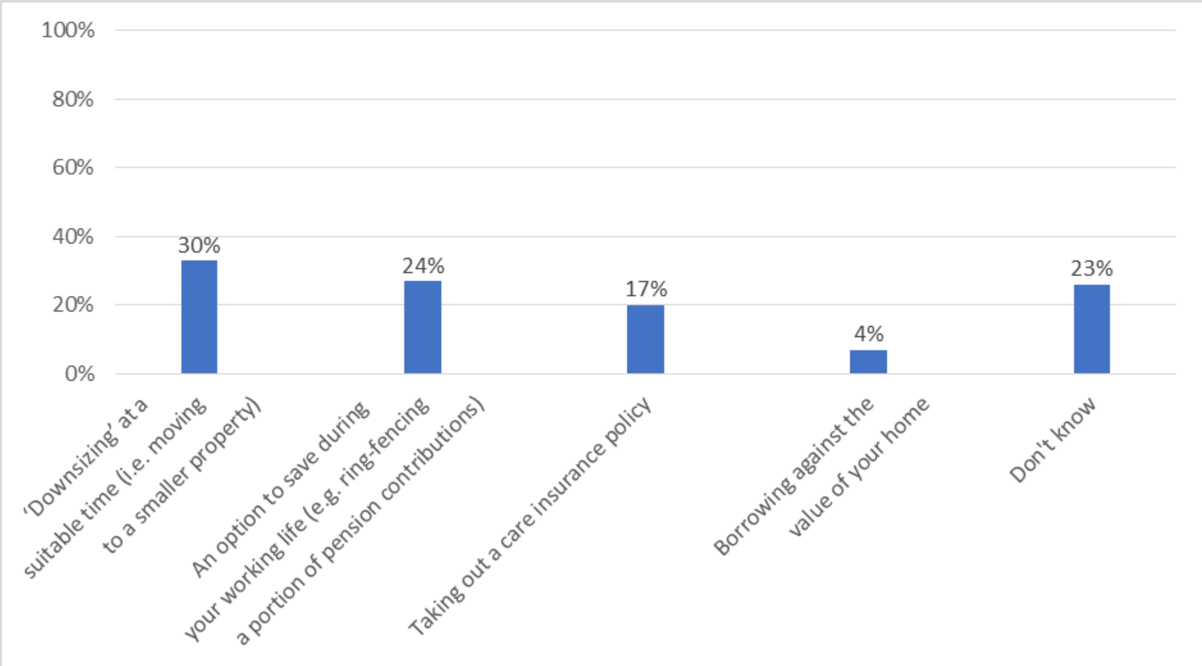
Our survey suggested that the most popular way of paying for care was through downsizing, followed by spending lifetime savings (eg through ring-fencing a portion of one's pension over one's lifetime) (figure 19). It is unsurprising that the most popular two options are essentially 'product-free': saving up during one's life, or using one's housing assets to pay for care. We found the same trend in all of our focus groups, where people naturally considered their house as their main source of income. These were typical comments:

> *We'll probably sell the house and get something smaller because by that time the kids would have moved out and we won't need a big house.*
>
> Male focus group participant, Leeds

> *I would downsize the property that I'm in now. I'd go half or quarter [size] in order to have that excess money to spend.*
>
> Female focus group participant, Birmingham

> *Maybe selling the house and maybe renting somewhere a bit cheaper and getting that money and giving that money to my son, sort of help him.*
>
> Female focus group participant, Leeds

Figure 19 The measures that most appeal to survey respondents in order to help them save or pay for the care and support services they might need when they are older



The main stumbling block of expecting people to pay for care through downsizing or by spending lifetime savings is that we know that in practice they do not readily do either of these things, for two main reasons.

First, although between a quarter and a third of older people say they would like to downsize in some way, very few do. Only around 1 per cent of older people live in specialist retirement developments.[43] There is also considerable public hostility to the prospect of being 'forced to sell your home' to pay for care. Several participants in our focus groups reported being unable to convince their elderly parents to downsize, while at the same time admitting 'they could never do it' themselves. The main reasons cited were older people being emotionally attached to their home, neighbours and community (with many assuming downsizing would mean 'moving away'); already living in small properties – one- or two-bed apartments – so downsizing would not even be viable (London focus group); and feeling that the purpose of downsizing was to free up assets to 'enjoy' oneself – not to pay for something as mundane as care:

[43] C Wood, *The Top of the Ladder*, Demos, 2013, https://www.demos.co.uk/files/TopoftheLadder-web.pdf?1378922386 (accessed 7 Nov 2017).

You downsize so that you can release some equity to do things that you want to do [not pay for care].

Male focus group participant, Leeds

For retirement that's fine but I wouldn't want to downsize to pay for care.

Female focus group participant, Leeds

Second, as we explained in chapter 3, most people are under-pensioned,[44] and very few save regularly from their incomes.[45] Though people in all of our focus groups referred to their pension as their main form of retirement saving, several admitted to having little or no pension cover and said either they could not afford to save or saw no point in saving:

I'm on a zero hours contract. I always get work, but saving money....

Male focus group participant, London

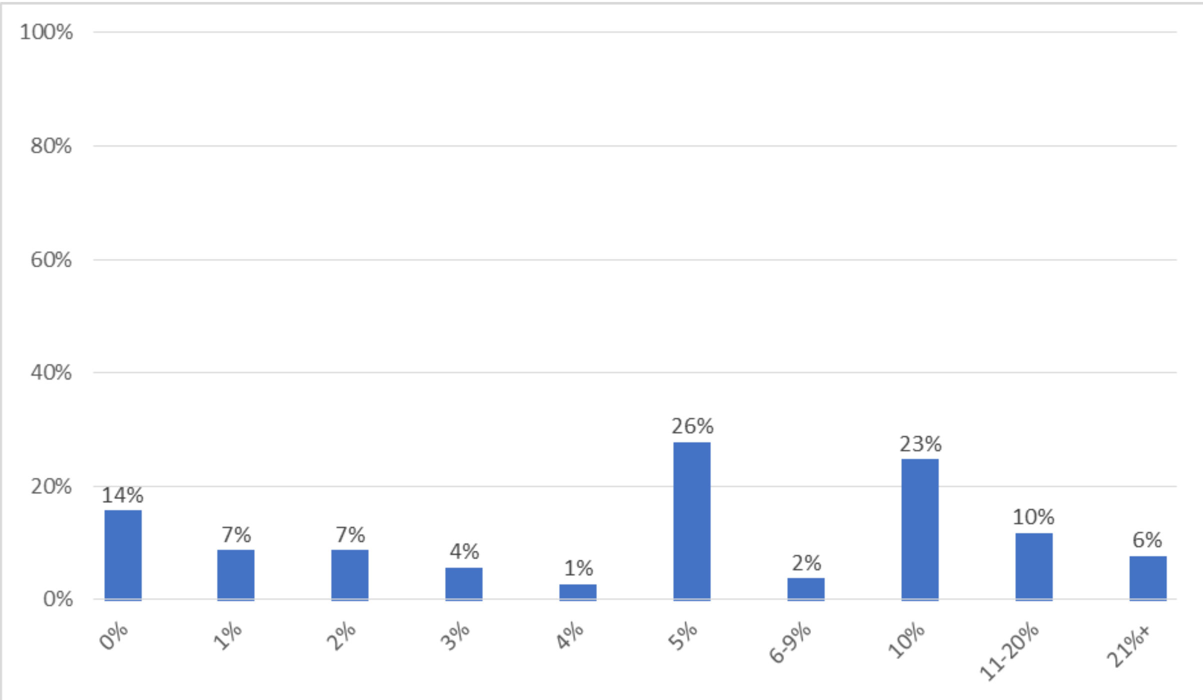
People don't save now because you get nothing back on it. You might as well put it under your floorboards and you'll earn more dust than it would interest.

Male focus group participant, Leeds

[44] D Silcock, S Popat and T Pike, *The Under-pensioned*, Pensions Policy Institute, 2016, www.pensionspolicyinstitute.org.uk/uploaded/documents/2016/20160301%20The%20Underpensioned%202016%20Report.pdf (accessed 7 Nov 2017).
[45] Ibid.

We asked survey respondents how much they would be willing to put aside as a percentage of their salary to save for their care costs. The most popular responses were 5 per cent and 10 per cent, followed by zero (figure 20). Interestingly, the age groups that were most unwilling to put aside any money to save for their care costs were those aged 55–64 and 65+, where more than 1 in 5 of respondents (21 per cent) did not want to save at all for care. This suggests, worryingly, that pre-retirees (who ought to be saving the most for care costs) are in fact the least willing to do so. To put these percentages in perspective, the average an employee currently puts into their pension is 1.8 per cent of their salary, with 2.9 per cent from their employer combining to make an average 4.7 per cent contribution.[46] The national average pension pot per person in the UK in 2017 is £50,000, giving people around £2,500 per year. Residential care costs, by comparison, are around £30,000 per year. Saving 5 per cent – or even 10 per cent – of one's salary is a grossly insufficient amount to save to cover potential care costs adequately, which for some can run into hundreds of thousands of pounds.

Figure 20 The proportion of annual salary survey respondents would be prepared to put aside for the care they might need in retirement



[46] D Blake, *We Need a National Narrative: Building a consensus around retirement income*, Independent Review of Retirement Income: summary, 2016, www.pensions-institute.org/IRRISummary.pdf (accessed 7 Nov 2017).

While using insurance and equity release were the two less popular methods of paying for care for survey respondents (behind downsizing and spending lifetime savings; figure 19), it is clear that people need to use exactly such financial products to make their natural inclination to use housing assets or save for care in some way affordable.

First, equity release (and deferred payment) options enable people to use their housing equity (as they would if they were to downsize) *without actually having to move*. This is in step with the public's current (somewhat contradictory) attitude towards housing wealth – at the same time their favoured source of income and something to which many are deeply and sentimentally attached.

Second, while saving for care costs from one's salary could be prohibitively expensive, as we explain above, there is only a 1 in 3.5 chance of needing care at all, and around a 1 in 10 chance of needing a six figure sum (if a protracted stay in residential care is necessary), so this is a classic insurable risk. Saving up a much smaller amount to pay a care insurance premium is a far more viable an option for the vast majority of earners. Even paying a much larger immediate needs annuity premium (perhaps using equity release to do so) is more viable than attempting to saving £10,000s from one's salary, on top of one's pension. Participants in our focus groups were more positive about the idea of paying insurance to cover care costs than using equity release (discussed below):

> *I kind of like that as an idea, if I've paid car insurance and house insurance, I actually quite like the idea.*

Male focus group participant, Birmingham

> *I hope not to use it, I hope I don't use my house insurance, I don't wanna be burgled, but I'm willing to pay that amount every month.*

Male focus group participant, Birmingham

> *I think a bit like Australia there should be an insurance system.*

Male focus group participant, London

I don't want some evil company running it through shareholders.

Female focus group participant, London

We also asked survey respondents their views on using equity release to pay for general retirement expenses: 26 per cent were prepared to consider this and 55 per cent were not (figure 21). Interestingly, the older a person became the less likely they were to consider it – so that only 22 per cent of 25–34-year-olds (the first time buyer bracket) said they would definitely not consider it compared with 44 per cent of the over 65s (figure 22). This could be a generational issue – that people become more attached to their homes, more averse to accumulating debt, and more likely to have paid off their mortgage (and therefore unwilling to take on another one) the older they are. But there could also be a cohort effect – with today's older people more attached to their homes, averse to debt and so on than today's younger people – who are more likely to get on to the housing ladder much later than their parents did, move more frequently, and retire with an outstanding mortgage. Perhaps when today's younger people age their views of equity release will be more positive.

Figure 21 The extent to which survey respondents would consider using equity release in the future in order to free up cash for other expenses during retirement

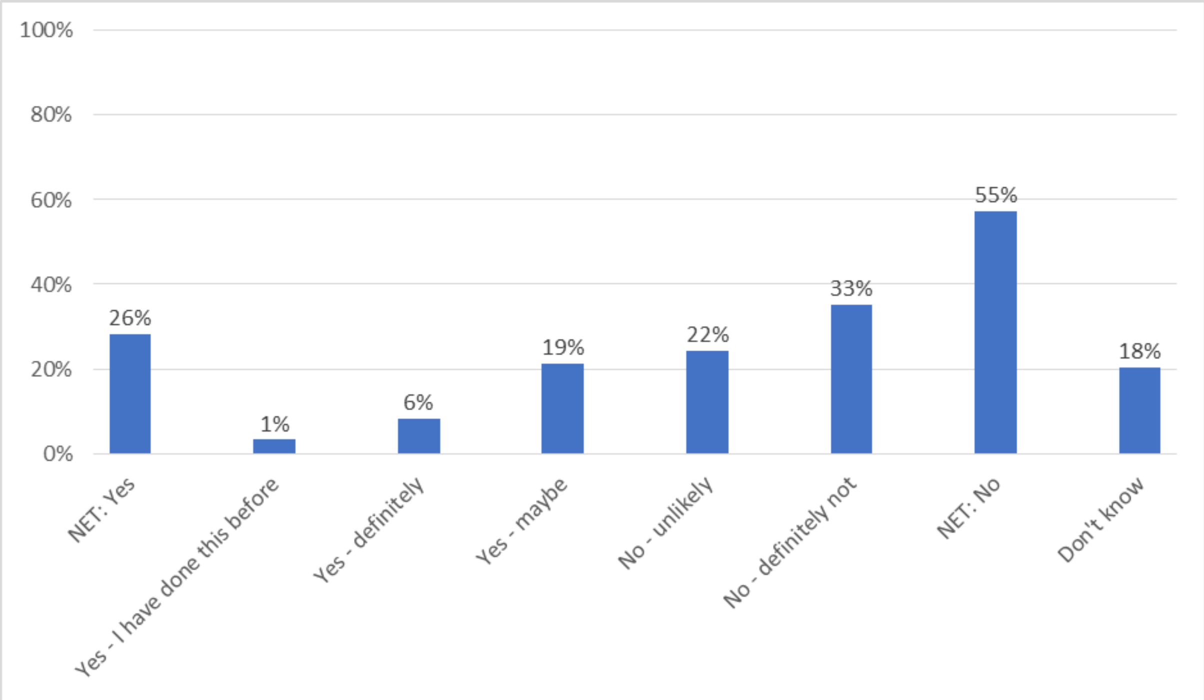
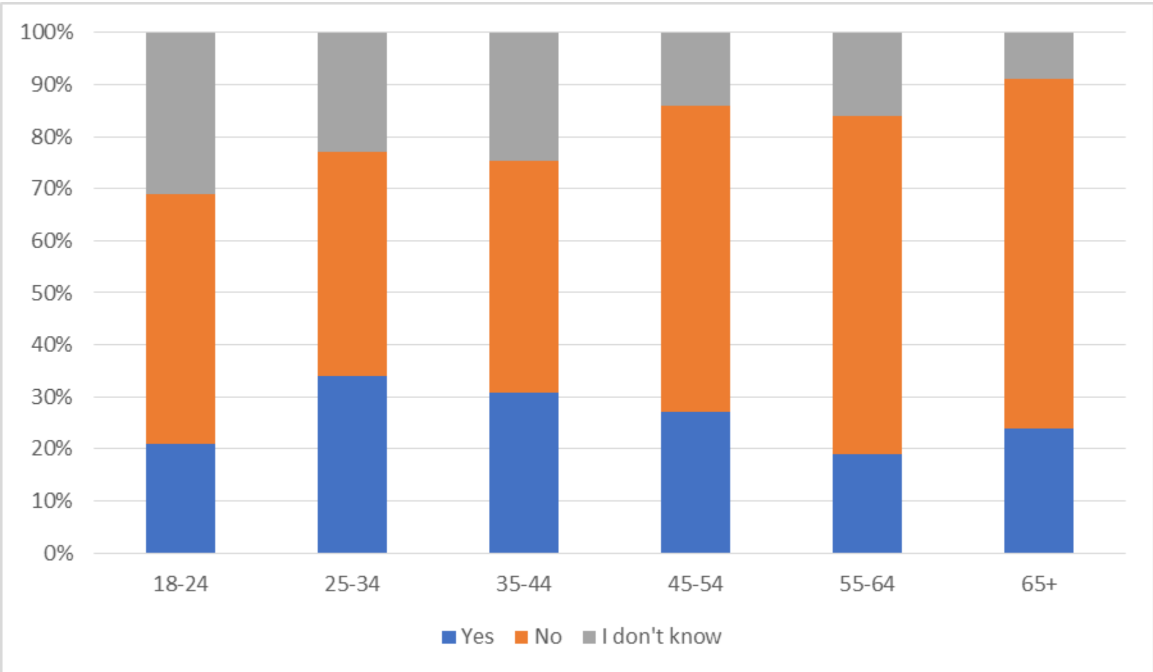


Figure 22 The proportion of survey respondents who would consider using equity release to pay for costs in retirement, by age group



We found there was widespread suspicion among focus group members about the concept of equity release, though two participants in Leeds had first or second hand experience of it and were far more positive than others about using it to pay for retirement costs. In our Birmingham group there was a distinct adverse reaction to the prospect:

> *It's a racket I think... a private company can come along and buy out your property, and then that money is removed from your estate, therefore they can benefit from it.*

Male focus group participant, Birmingham

> *It depends how it's done I guess. If you've already paid off your mortgage, then I guess it's not a bad thing.*

Male focus group participant, Leeds

> *Yes, it's great. We had good advice, very good advice from a guy.*

Female focus group participant who had used equity release, Leeds

> *We've got kids at home and if they stay at home until we get to 60 and then, because they can't get on the ladder, and then we've got debt, and we think to ourselves well we'll release some equity, when the kids have gone and we'll get back to like a zero sort of level and we'll be alright, get rid of the weight, the burden, the debt off your mind.*

Male focus group participant, Leeds

Negative views would need to be tackled in order to make equity release (or deferred payment, which is based on similar principles) a viable option for funding care for a larger number of older people.

What is the role for government?

Our polling and focus groups confirm what the wider research on this issue has found over several years – a large minority of the public still believe care in later life is free and very few have prepared financially for the costs they may have to face. Digging a little deeper, we find that the public support a tax increase to fund care, but overall do not want to see a wholly tax-funded care system, free at the point of need. Most opt for some partnership with government – a cap or means test of some sort to create a safety net for the poorest. When asked how they would pay for care, however, the majority resist the prospect of using financial products, opting instead for the vaguer concepts of 'downsizing' and 'saving up', which are either highly unlikely to meet the costs of care or simply unviable.

With this in mind, and in light of demographic and financial pressures, there seems to be one realistic solution for a government hoping to create a funding settlement for social care once and for all. This would be to create a copayment system and – just as importantly – develop a strategy that helps people contribute their portion of the costs.

Until recently, the most realistic form this copayment system looked set to take would have been a care cap (this being the most fully realised and concrete copayment system developed over the past few years). But the announcement in December 2017 that a cap would no longer be implemented in 2020 casts significant doubt over the future of the policy. Given the amount of resources expended to develop the care cap model it would seem sensible for the government to keep some variant of this as an option. Alternatively, it must put forward convincing suggestions of what a different copayment system could look like.

The strategy for helping people to meet their portion of the costs is an equally important part of the solution. Before this strategy can be put into practice the public's awareness must be raised. Transparency and brutal honesty about what the government will and will not pay for is the only way forward. Following the media's sensationalist reaction to the Conservative government's manifesto in summer 2017 – very much echoing the outcry over the 'death tax', which stymied Brown's Labour government's attempts at developing a copayment regime – it is understandable that politicians and policy makers of all political persuasions are squeamish about being honest with the public about what they have to pay towards their care in later life. But this is a fundamental part of the problem – the current approach seems to be to leave people uninformed and unprepared, and then face a nasty shock when they eventually need social care and support. This compounds a number of problems: poorer health outcomes and inefficient use of funds for individual older people (as a result of a 'distressed purchase') and greater costs falling to the state as older people burn through their savings or housing assets and fall back onto means-tested state support faster than they would have done if they had been better prepared to meet such costs.

The bottom line is that the state has not paid for most people's care for a long time, and will do so even less in the future. This message needs to be spelled out, regardless of the negative reception it may receive.

Then there must be a strategy which recognises that developing a care funding regime that puts the onus on individual older people to pay for their care does not in any way divest the government of responsibility. Given the current levels of awareness of care costs, and sheer ill-preparedness for all retirement costs (not least care costs), the government cannot in all good conscience develop a cap-system and leave the public to navigate the new regime unaided. Instead it must work hard to ensure that there is a variety of ways for older people to pay for their care and that they are well informed and prepared to do so. As one participant in our focus groups put it:

> *Ultimately it's the state's responsibility I think to ensure everyone either looks after themselves or is looked after*

Male focus group participant, Birmingham

As we have seen above, the public's natural inclination will be to contribute regularly (save up) or use their housing assets (downsize). But we have also explained why neither are viable strategies without the additional leverage of some form of financial product – and this is where the government can add value. By working with the financial services sector, the government can ensure there is a suite of appropriate, accessible and trusted financial products are available: for those who want to save up in some way (through prepayment insurance and/or immediate needs annuities) or to use their housing assets (through equity release or deferred payments).

A sliding scale

There are a number of ways the government could make the necessary products available. A hands-off approach would simply be to plough more investment into awareness raising and providing free financial advice about paying for care in later life – this would go hand in hand with a high-impact strategy to publicise the new capped-funding regime, once established. Financial health-checks linked to pensions withdrawals or a mandatory advice session before an individual can annuitise their pensions assets are possible approaches to boost take up of advice services (like that provided by First Stop or the Society of Later Life Advisers).

However, this may not be enough to ensure that the right range of products is available for older people to pay for their care – it relies on the hypothesis put forward by Andrew Dilnot but disputed by others that once a capped system is put in place, the greater certainty regarding how much people will pay for their care will kick-start a care insurance market and other related products. Furthermore, there is now doubt as to whether a cap will be introduced at all, and it may be less likely under an alternative system that the range of products needed will naturally emerge.

The government could, and should, do more. It needs to work with the finance sector to help develop a suite of products that fits well with a newly designed copayment system. Innovative products are already being developed in the UK, and there are some interesting examples from abroad, which could be developed further to create a seamless facilitator of a copayment care funding system, with better communication and joint working between the government and the financial services sector.

For example, if a capped system is eventually implemented then immediate needs annuities and prepayment insurance options need to be developed based on the capped amount an individual is likely to pay as an 'upper limit' of their liability. The payments that go to care providers from insurance companies could be one way of monitoring a person's care spending towards their 'cap' (a logistical matter often raised as problematic with a cap funding model). Insurance providers could regularly issue to customers a running total of how much they have spent towards their capped amount, rather like a pension statement.

Equity release products could be developed specifically with care funding in mind, with incentives (eg tax breaks) developed for people who use the equity they release to buy an immediate needs annuity or some other insurance product, or to spend on preventative measures (such as home adaptations – proven to reduce the risks of falls and the need for social care, or healthy living activities). Equity release products could allow monies to be paid directly to care providers tax free. Box 1 explains how a refurbishment lifetime mortgage works.

Box 1 An example of an emerging product: Legal & General's refurbishment lifetime mortgage

Lifetime mortgages are the main equity release product in the UK. They allow older people to borrow money secured against their home, and draw this down as a lump sum or in regular instalments. Interest is charged on what is borrowed, which can be repaid or added on to the total loan amount. When the mortgage holder dies or moves into residential care, the home is sold and the money from the sale used to pay off the loan. People often use these loans to adapt or refurbish their home, go travelling, or simply boost their day to day spending.

A variation being developed by Legal & General is to offer refurbishment lifetime mortgages to those whose houses are in a state of disrepair. The loan amount is based on the *future value* of the house once it has been refurbished. Legal & General then gets a quote for the building work using local charities and builders, and oversees all the works carried out using a portion of the loan amount. Homeowners with this sort of mortgage have essentially been given a lifetime mortgage for the purposes of upgrading their home, but have not had to manage the building work themselves. They can secure a larger loan than under a regular lifetime mortgage, as the loan amount is based on the future value of the home.

This sort of product could potentially work well with a capped care system – refurbishing one's home is often an effective way of preventing the need for residential care, and reduces the risks of falls and other causes of unplanned hospitalisation. The government could recognise and reward this behaviour by reducing the care cap (if some form of this model is eventually implemented) for those who use such preventative products, alongside those who use equity release to pay for care insurance.

There is a spectrum of measures the government could use to engage the public to prepare for later life care costs. They might introduce incentives such as tax breaks to encourage people to spend their equity release on care or preventative measures (such as home adaptation). Rather than simply working with financial service providers, to ensure insurance or equity release products complement a new copayment system (whether this is eventually a care cap of some sort, or an alternative), the government could go one step further and use products as levers to reduce the overall care bill (by providing incentives to encourage early intervention or healthy ageing etc) and/or use the cap itself, if eventually implemented, to encourage the take up of financial products. This second option could take the form of lowering the cap (essentially agreeing for the state to step in earlier and take over care costs) for those who take out insurance, use their equity release to adapt their home to an agreed standard to reduce their health risks, or perhaps even downsize into retirement property (proven to delay and/or reduce an individual's care needs). Varying the cap as a form of reward for responsible behaviour could be an effective way of encouraging people to prepare for care costs in later life and do what they can to reduce their risk of needing social care.

Finally, the government might also consider going one step further and underwriting or providing products itself. The deferred payment scheme, which seemed to be favoured in the Conservative 2017 manifesto, is an example of the state providing the infrastructure of a financial product (in this case through local authorities) to pay for care.

The government could seek to expand deferred payment as it currently operates, though this places the financial risk on local authorities and would need a considerable injection of upfront funding if deferred payment was to be a credible offer for a large number of older people. An alternative might be to develop a care-specific product with equity release providers – who would cover the costs of an individual's care (paying care providers directly, as an immediate needs annuity provider or council does under the deferred payment scheme) and recover the cost of that care from the estate once the house is sold. As equity release providers already operate on a similar model, they have the levels of capital reserves that councils typically do not in order to make this financially viable.

Traditional equity release products enable older people to draw down a fixed amount, while an equity release deferred payment hybrid would be a variable payment, up to the future care cap (if implemented). Depending on how high the cap is set, this could risk individuals going into negative equity (owing more on their house than its value when sold) – something current equity release providers guarantee against. If it were to develop such a model, the government would need to underwrite this negative equity risk or even perhaps partially underwrite the hybrid model – recognising the increased risk equity release providers are taking on by offering a product based on an uncertain draw-down amount. Box 2 gives examples of two government equity release partnerships.

Box 2 Examples of government equity release partnerships – the Australian Pension Loans Scheme and the US Home Equity Conversion Mortgage

The Australian Pension Loans Scheme (PLS) is an equity release product, backed by the government and administered through Centrelink. It allows Australians to borrow from the government against their housing equity – the loan is non-taxable, and paid to pensioners in fortnightly instalments. Payments are capped at the maximum rate of the state pension and pensioners who already get the maximum rate of pension are ineligible for the loan. The loan has a no negative equity guarantee. The Australian government currently charges 5.25 per cent compound interest on the outstanding loan balance, which is considerably lower than the 6.5–7.5 per cent offered by private providers. The loan can be repaid at any time and be transferred to another property if the property used as security is sold.

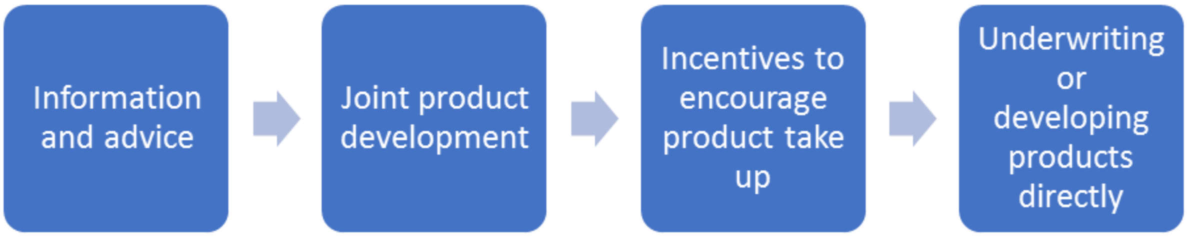
Although the PLS was introduced in 1985, take up has been very poor – in part due to very low awareness. It has been criticised for having narrow eligibility, in that it only allows those who are under-pensioned to borrow money up to the basic state pension amount, rather than those older people who wish to top up their pension further using housing assets. Successive calls to expand the scheme to make more older people eligible have thus far been ignored, as have calls in 2015 to modify the scheme so that wealthier Australians would pay for care through the use of home equity. Under this proposal, PLS would no longer be a voluntary boost to income, but instead a requirement through which care services would be paid for.

The Home Equity Conversion Mortgage (HECM) is a reverse mortgage product offered by the US federal government for those aged over 62. Costs are usually higher, and the amount an older person can draw down lower, than equivalent products on the private market, but the interest rates on the loan are lower. No negative equity guarantees are not standard in the US equity release market, but the US government usually absorbs any negative equity accumulated by HECM customers.

The Trump government felt the HECM was too costly to administer, however, and since October 2017 upfront mortgage insurance premiums have increased while the amount older people can draw down has been reduced.

Figure 23 shows the spectrum of state activity

Figure 23 The spectrum of state activity



6 CONCLUSION AND RECOMMENDATIONS

The public value health and financial wellbeing in retirement. The government has done much in recent years to support both of these, through ring-fencing NHS investment, creating pensions auto-enrolment and introducing the triple lock guarantee for pensions. And yet, while social care is the biggest factor to impact both health and financial wellbeing, successive governments have shied away from any bold policy solutions in this field. After the current government called into question the previous capped care financing policy, it now remains in a policy vacuum with a future green paper and consultation the only indications that a settlement may be on the horizon.

With this policy context, and the findings of our research in mind, we call for a braver stance on social care. An increasing number of older people have been paying for their care over the years, and now self-funders are in the majority. For too long the government has shied away from confronting the truth about social care funding, leaving the British population in a damaging state of ignorance and unpreparedness. The government needs to be far bolder in stating its future position on care funding by clarifying what people should expect to pay towards their care in later life, and providing credible advice and assistance for people to achieve this. We call on the government to:

- use the green paper and consultation response to develop a white paper that lays out a copayment care funding model; the public recognise they should take the lead in meeting their care costs, but want to see a safety net in place
- include in the white paper a series of measures to help working age and current older people prepare for paying for their portion of the cost, covering insurance and equity release options, with a strategy to work with the financial services sector to develop appropriate products that complement the copayment system, harnessing current innovations and underwriting or co-delivering products
- to accompany the white paper and subsequent legislation develop a comprehensive public awareness-raising programme, akin to the pensions auto-enrolment campaign, with a strong message about the limitations of the role of the state in social care funding and the ways in which individuals can prepare for these costs

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