



## **Royal Commission on Long term Care for the Elderly**

### **Continuing Care Conference Submission No 4:**

### **Compulsion and Long-term Care Provision**

#### **Summary of Position**

- The Continuing Care Conference (CCC) favours some element of compulsory long-term care insurance or compulsory contribution to a pension which also includes provision for long-term care.

#### **Background and Introduction**

CCC submitted evidence to the Government's Pensions Review, which we understand has been made available to the Royal Commission. We reiterate the following broad principles expressed in our evidence:

- CCC believes that thinking on long-term care should be integrated into thinking about provision for retirement.
- CCC does not recommend any one financial vehicle or approach to long-term care provision; however we believe that:
  - people should be given options to plan to meet the costs of care;
  - the wider policy framework should be such that innovative, affordable, cost-effective solutions may continue to be developed, and
  - individuals should be given every encouragement to make provision for their care.

CCC's approach to the issue of compulsion is best understood within the context of these broad principles.

## The Case for Compulsion

A policy of improving the adequacy of pensions, coupled with awareness of the need to plan for retirement and the provision of the long-term care option in a pension will, of course, have an impact upon the development of any framework for the funding and provision of long-term care. Long-term care policy cannot ignore developments in pension provision. Whatever way the framework for long-term care is developed, there is likely to be a transitional period of possibly 20-40 years before any scheme comes to fruition.

It is well understood that the pooling of risk forms the basis of insurance; the largest possible pool will spread that risk most economically. Nevertheless, we are still faced with the problem that many people are reluctant to make provision for long-term care in the hope that they will not be among the 1 in 5 who will need expensive residential care. Incentives, therefore, may not be enough to change individual behaviour to the benefit of both the individual and the wider society.

- CCC is in favour of some element of compulsory long-term care insurance or compulsory contribution to a pension which also includes provision for long-term care.
- It is likely that such provisions would need to be phased-in over a period of years.
- CCC advocates that the framework for a compulsory scheme should be set by government and should operate nationally but that the fund should be administered within the private sector, at arms length from government.
- CCC is in favour of encouraging individuals to make voluntary provision in addition to any compulsory insurance or pension contribution.

Compulsion in pensions is not new. Indeed, as the Green Paper on Welfare Reform (*New Ambitions for our Country: a new contract for welfare*, March 1998) recognises, nearly everyone in work is compelled to have a second-tier pension. Compulsory provision for the long-term care element of provision in retirement would be small, at around 10-15% of the costs of a reasonable second-tier pension.

CCC believes that some element of compulsion is not incompatible with the broad – and overriding - principles of encouraging flexibility and providing incentives for individuals to plan for care.

## **Wider Issues and Implications**

It is important to distinguish between the implications for individuals of a compulsory pension scheme to fund long-term care and compulsory long-term care insurance. A compulsory pension would be a fund built up by an individual for their personal use - one use may be to buy insurance for long-term care.

The tax treatment of either option needs careful consideration within the wider context of government tax and benefits policy. These two options are treated differently for tax purposes.

- CCC recommends that long-term care insurance benefits are treated consistently with lump commutations of pension, ie that they are not taxed.

Policy for retirement provision must necessarily reflect changing work and income patterns, with the level of contribution set accordingly. Furthermore, the public will only accept the principle of compulsion if they have confidence that:

- there is the political consensus for governments to be committed, over time, to any scheme adopted;
- their contributions will maintain their value;
- they are not merely ‘being forced to pay another tax’;
- they will be able to obtain the care that they need, and
- the rules, especially tax rules, will not change to their disadvantage.

The question of a safety net for those who cannot make contributions must also be addressed. This is particularly important if the basis of long-term care provision moves from means-testing, as at present, to individuals being able to access an entitlement that had been built up by virtue of prior contributions.

The needs of the older generation that believed that it had already built that entitlement should be taken into account in the design of any phasing-in arrangements.

**CCC**  
**May 1998**