There is an alternative to tax-funded care

If the state were to offer insurance to individuals, it could solve the crisis at a small fraction of the cost

PETER LILLEY

The only sustainable way to finance ever-rising costs of health and social care is a growing economy. A tax rise – currently being considered by the PM – would give a one-off increase in revenue but depress future growth. The political costs are worse. Breaking a manifesto pledge would make future pledges worthless. Remember George Bush's fate after reneging on "watch my lips, no more taxes".

Raising National Insurance which falls on workers and businesses but not pensioners is unfair. A limit on social care costs, which offers owners of Belgravia mansions ten times as much protection as Red Wall homeowners, is hardly "levelling up".

The PM is driven to this because he has been told there is no other way of fulfilling his promise "to protect you (or your parents or grandparents) from the fear of having to sell your home to pay for the costs of care".

Yet there is a solution to the problem of catastrophic costs of social care in old age which does not use up funds needed by the existing care system. It is insurance. Voluntary insurance – not taxation dressed up as "social insurance".

Voluntary insurance against the risk of having to sell your home to pay for social care in old age was one of the first solutions to be considered. But it was immediately dropped because private insurance firms categorically refuse to provide such policies.

They won't do so for two reasons. First, because of uncertainties about future government policy and possible medical advances prolonging frail longevity. Second, because people won't pay for such policies during their working lives on top of saving for pensions and repaying their mortgages.

But there is an alternative to private insurance, which has been ignored. It is for the state to offer such insurance. And the alternative to asking people to contribute during their working lives is enabling them to pay for such insurance, after they retire, by taking a modest charge on their homes. The state would then be reimbursed when they die and/or sell their homes.

The Dilnot Commission on Fairer Care Funding in 2011 calculated that the average cost for such a premium would be comparatively modest – £16,000 in today's money. The arithmetic is simple: only one in four people ever need to go into residential or nursing homes; the average length of stay is 30 months; and the cost of social care is around £25,000 a year (plus about £10,000 for accommodation, food and basic living costs which are normally paid out of the state pension, benefits or other income, not covered by insurance).

Under my proposal, the premium payable by any individual would be proportionate to the value of their home (net of mortgage). People would be given the chance to take out a policy within a couple of years after reaching state pension age. They would not have to pay any cash since the premium would be a charge on their home. The premiums would be set by actuaries to meet the average costs.

Any cost to the taxpayer is likely to be small and to arise only in circumstances (like an unforeseen increase in frail life expectancy) when the state would in any case be forced to pick up the tab. It would be absurd to reject this option just because it involves a state-backed company if the alternative is the taxpayer paying for all social care.

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Non-homeowners with low incomes and assets below £23,000 have always been entitled to free social care and could not contribute significantly. Few, if any, deliberately avoided becoming home-owners to get free social care in old age. Any incentive to sell up ahead of needing care would be reduced if the option of insuring was available.

I was dismayed to discover before the summer recess that this option had not been put to ministers. Officials concluded a decade ago that private insurance was not an option. Never having considered publicly provided insurance, they have worked on tax-funded proposals ever since, and were reluctant to go back to the drawing board. However, it is far from clear that the proposed tax hike will get through Parliament. So, however late in the day, they had better start work on the insurance option.

Lord Lilley is a former secretary of state for social security and author of 'Solving the Social Care Dilemma – A Responsible Solution' for Civitas