



# **National Care Fund Working Groups Report**

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### **About the Author**

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## About this Report

In February 2008, the ILC-UK published *A National Care Fund for Long-term Care*. This report set out a proposal for funding older people's long-term care based around a social insurance fund for the retirement stage, into which individuals would make contributions as a lump-sum, through regular instalments or as a charge on their estate.

In July 2008, the ILC-UK published *National Care Fund: Supplementary Paper 1* which addressed and developed some of the comments and critiques that the ILC-UK had received in response to the *National Care Fund* model.

This report develops the *National Care Fund* model further by focusing on two distinct issues. First, the nature of the user journey in relation to the *National Care Fund*. Second, potential governance arrangements of the proposed *National Care Fund*. This report draws upon the discussions of two working groups that were convened to explore these topics. These working groups comprised:

Andy Harrop	Age Concern
Stephen Burke	Counsel & Care
Lawrence Churchill	Pension Protection Fund
David Hague	DWP
Kevin Hughes	DWP
Sarah Kelly	DWP
James Lloyd	ILC-UK
Melanie Pitt	HM Treasury
Rachel Race	Department of Health
Alexandra Norrish	Department of Health
Shrupti Shah	Deloitte
Philip Spiers	NHFA Care Fees Advice
Mary Pattison	Pensions, Disability and Carers Service, DWP

The report also draws upon subsequent discussions by the author with various stakeholders.

## Acknowledgements

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The content of this report draws on comments and contributions from members of the two working groups listed above, and from subsequent discussion with various stakeholders. The author would like to sincerely thank these individuals for so generously giving their time and effort. All responsibility for the content of this report lies with the author alone, and should not be attributed to the above individuals.

## Part 1: The *National Care Fund*

This introductory chapter describes the *National Care Fund* model that is the subject of this report.

In February 2008, the ILC-UK published *A National Care Fund for Long-term Care*. This discussion paper explored the ongoing UK policy challenge of how to fund older people's long-term care. The report analysed and critiqued a number of existing models, and proposed a new model, based around a new interpretation of a traditional social insurance fund, which was given the name: *National Care Fund*.

The key features of the *National Care Fund* model were:

- An independent social insurance fund for long-term care, organised by the state but at arms-length from government.
- The risk-pool for long-term care would be limited to retirees over the State Pension Age (SPA), i.e. both contributions and entitlements would occur in the accumulation phase.
- Contributions to the *National Care Fund* would be designed so as to give individuals maximum flexibility in when and how to pay, including in the form of a lump-sum upon reaching the SPA, through regular instalments from retirement income, or through a charge levied on people's estates, i.e. after-death.
- The precise benefits to be payable by a *National Care Fund* were left open to discussion and refinement, and could be specified in multiple ways depending, in particular, on what level contributions were fixed at. Benefits could pay all, or a significant proportion of, a person's long-term care costs regardless of their level of need. Alternatively, benefits could vary according to level of need related to the standard measure used in social care assessments: Activities of Daily Living (ADL). Finally, benefits payable by a *National Care Fund* could be specified according to accumulated care need or costs, for example, limited to the first 12 months of care needs, or payable only after care has been required for 12 months.
- In order to ensure high rates of participation, the *National Care Fund* would apply the principle of auto-enrolment: automatic enrolment with the option to withdraw retained. In order to overcome the many behavioural barriers to self-insurance for long-term care, such as the tendency for individuals to underestimate the risk of needing care, or engage in temporal discounting in relation to an event that might occur far in the future.
- Individuals with negligible assets, and therefore no wealth to insure against the costs of long-term care, would continue to have their care paid for, as now, entirely by the state.

As this description implies, a number of choices around specific features of the *National Care Fund* model were left open and unspecified in recognition that they required further exploration, and related to wider choices, for example, around how much the state would meet the costs of individuals' long-term care. Indeed, as a complex model, there is no single definitive version of the *National Care Fund* model and multiple variations and iterations can, and have been, conceived.<sup>1</sup>

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<sup>1</sup> For examples, see Lloyd J (2008) *Funding Long-term Care: The Building Blocks of Reform*, ILC-UK, London.

## Part 2: The User Journey

*This chapter explores how 'users' would experience a National Care Fund: the 'user journey'.*

What would the experience that users of the *National Care Fund* be like? What would be the ideal characteristics of the user journey? What would a *National Care Fund* look like from the perspective of users? What kinds of interaction would users have with a *National Care Fund*?

The user journey for a *National Care Fund* (NCF) can be divided into five stages:

- Stage 1: Pre-enrolment, i.e. the stage before enrolment occurs.
- Stage 2: Enrolment, i.e. the point of enrolment into the Fund.
- Stage 3: Entitlement, i.e. the point at which an individual enrolled in the Fund develops care needs that entitle them to funding.
- Stage 4: Ongoing care needs, i.e. the ongoing period of care needs, when needs may increase or decrease, or other changes may occur.
- Stage 5: End of entitlement.

The user journey can be conceived as a set of *outcomes* within each stage of the journey, which the user would ideally experience. Following the approach used by the working group convened to explore this topic, these outcomes are captured by the use of first-person statements. Having identified these outcomes, the *processes* needed to achieve them are then described.

### Stage 1: Pre-enrolment

Prior to being enrolled into an NCF, what would be the outcomes that users would ideally experience? What are the processes that would achieve these outcomes?

#### *User outcomes*

Prior to enrolment, users would be aged under the SPA, currently 65. Some would be in full or part-time employment; others would have retired through choice or ill-health while a third-group will have caring responsibilities. Users at this stage are therefore a diverse group engaged in a range of daily occupations, and also representing a wide diversity of social backgrounds, cognitive and physical ability.

At this stage of the user journey, the NCF has no direct contact with individuals. Rather, this is a preparatory stage, in which the NCF, and related organisations, would attempt to prepare users for the rest of the process. The ideal user outcomes can be described in statements that a user might make, relating to *knowledge* of the NCF and *attitudes* to it:

- %o understand the benefits of being in the *National Care Fund*, for example, that I won't be a burden on my children.+
- %o understand what will happen if I don't join the *National Care Fund*.+
- %o understand what is covered by the *National Care Fund*.+
- %o understand the choice and alternatives, and feel ready to make a decision.+
- %o know where to go to for advice and information.+
- %o understand the different possible payment mechanisms.+
- %o know what the next stage will be.+

## Processes

In this pre-enrolment stage, the outcomes for the user would be largely achieved through communication and information. Determining the right messages and the right vehicle and environment to present them would be the key task for the NCF.

The principal public agencies with the potential to communicate with users in this stage include: the *National Care Fund* itself, employers, the Department for Work and Pensions, the NHS, HM Revenue and Customs, personal and occupational pension providers.

Particular challenges in communicating with users include: ignorance of the risk of needing care; underestimation of the risk of needing care and an assumption that all care will be paid for by the state. In particular, it is important to recognise the emotional context of communicating with individuals about the risk of needing long-term care.

In addition to general opportunities to communicate with users through the use of targeted media such as TV and newspapers, specific communication opportunities exist to engage different groups of potential users, such as GP surgeries, public transport, and independent financial advisers.

Communication directed at users in the pre-enrolment stage can be divided between:

- An ongoing general public awareness campaign directed at both users, their families and the wider population:
  - Providing general facts about the NCF.
  - Positioning the brand of the NCF as distinct from the Government and the NHS.
  - Relaying the positive role of the NCF in people's lives, both as a funder of care and as providing the opportunity to insure against care costs.
- More targeted information promotion at those approaching retirement:
  - Information on the specific benefits of participation in the NCF, the costs of the premium and different mechanisms to contribute the premium.
  - Information on where to get advice on choices relating to the NCF.
  - This could be achieved by incorporating information on the NCF in other retirement stage processes; for example, the Department for Work and Pensions individual pension forecast that is sent to every individual, as well as through linking information to contact with the health system, such as age-related pre-retirement health-checks.

## Stage 2: Enrolment

As a social insurance fund, the task of enrolling individuals into the NCF is complicated by the fact that participation is voluntary, occurs in the retirement-stage (so cannot use the workplace as a vehicle for organising enrolment), and the fact that participation is necessarily non-universal; those with no assets to protect will not participate in the NCF.

At this point in the user journey, the NCF must therefore:

- Determine that someone is reaching the State Pension Age of 65.
- Confirm that someone has a level of wealth such that they would have to pay the premium associated with the NCF.
- Enrol these individuals into the NCF.

As described in Chapter 1, a key aspect of the NCF model is auto-enrolment which could be applied to maximise rates of participation. The purpose of auto-enrolment is to overcome behavioural barriers to becoming insured, such as inertia and underestimation of the risk of needing care. This is achieved by changing the default choice for individuals from opt-in to opt-out, i.e. action is required to *not* participate.

In the context of an insurance scheme such as the NCF, the option to withdraw would have to be limited to a defined period, such as the first 12 months following enrolment, in order to prevent the potential problem of post-payment that would otherwise occur, i.e. individuals deciding to insure/not insure only when it is clear whether or not they would require care.

Two types of auto-enrolment are possible:

- ~~Hard~~ auto-enrolment, in which individuals are enrolled without ever having given any indication of whether they wish to participate.
- ~~Soft~~ auto-enrolment, which is effectively ~~mandated choice~~ individuals are compelled to make a choice about whether to participate, with a default choice geared toward participation.

What would hard-auto enrolment look like in the context of the NCF? Individuals would be informed that they are being enrolled in the NCF and are legally liable to pay the cost of the premium, unless they opt-out in the first 12 months by, for example, completing a form and sending it to the NCF. A default payment option involving no action by the individual would also be required and this would most likely have to be a charge on someone's estate.

In relation to hard auto-enrolment, a key challenge would be the legality of this option. Under European Union law, it is illegal for private sector financial services companies to automatically enrol individuals into products. However, a number of EU countries deploy social insurance funds to finance their health systems, which see individuals mandatorily enrolled into various publicly and privately organised social insurance funds that are entirely distinct from the government. This suggests that were hard auto-enrolment to be deployed for an NCF, the legal status of the Fund would have to be carefully positioned so as not to breach EU laws that prevent private sector companies from applying auto-enrolment.

The second, ~~soft~~ type of auto-enrolment is mandated choice, and this could take several forms in the context of the NCF model. For example, all individuals at 65 could be required to complete and return a form in which individuals must tick a box to indicate they do not wish to participate in the NCF. To ensure that all individuals are incentivised to complete this form, it could be linked to other aspects of reaching the SPA. For example, completing and returning the form could be a requirement of receiving the State Pension or other retirement entitlements, such as Pension Credit.

Given uncertainties remaining around the legal status of ~~hard~~ auto-enrolment, for the purposes of this report, the ~~soft~~ auto-enrolment option is explored and applied to the user journey that is developed here.

### *User outcomes*

The ideal experience of the user at the enrolment stage of the user journey for the NCF can be captured by these statements:

- ~~The~~ National Care Fund has written to me.+
- ~~The~~ National Care Fund says I am liable for the full premium if I want to be in the Fund.+
- ~~I~~ have decided to join the National Care Fund.+
- ~~I~~ have decided to pay monthly instalments.+
- ~~I~~ know that any unpaid proportion of my premium will be recovered from my estate.+
- ~~I~~ have filled out the form and sent it off.+
- ~~I~~ am a member of the National Care Fund.+

These statements capture the journey of the user from being contacted by the NCF to being a member of the Fund. However, in the context of mandated choice, this user journey may have to vary depending on the process used to apply mandated choice.

## Processes

*Identifying users* - The first challenge for the NCF in relation to enrolment is to identify which individuals are reaching the SPA and when. As a statutory institution, the NCF could obtain this data from the Pension Service, which is part of the Department for Work and Pensions and has the appropriate data, which is used to pay the State Pension.

*Means-testing users* - The second challenge for the NCF is to identify which individuals have wealth above the threshold level, such that they are liable to pay the premium themselves. As described above, individuals with negligible wealth to protect from the cost of long-term care would no incentive to participate in the NCF, so would in effect have their contributions paid for by the state.

The NCF would therefore need to undertake some form of basic means-test of individuals turning 65. One option would be a compulsory direct means-test for everyone reaching the SPA. However, this would be extremely administratively challenging and deeply unpopular. In addition, given the means-test for the NCF incorporates property wealth, and this forms the largest part of people's assets in retirement, it is information on property ownership and value that is vital.

Given that property is included as a form of wealth in the assessment of means in relation to an NCF, the critical challenge would be for the NCF to ascertain whether individuals own a home and the value of their home. Around 80% of individuals currently reaching the SPA own their own home. The Land Registry has data on home ownership, and integrated with the names and addresses of individuals aged over 65 held by the Department for Work and Pensions, using Land Registry data would enable the NCF to undertake a basic property-wealth means-test for all individuals aged over 65.

However, rather than undertake means-tests to identify who would be liable for the premium of the NCF and auto-enrol these individuals, the NCF could instead use existing means-tested data to identify poorer individuals who would be excluded from having to pay the premium. The remaining individuals could be assumed to be eligible for the full premium of the NCF, and if these individuals wished to appeal against this judgement, they could request a full means-test.

The advantage of this approach is that various statutory organisations already gather some means-assessment data on this lower-income group. In relation to poorer older households, at present the Department for Work and Pensions uses a means-test for all individuals aged 65 and over, who are entitled to a range of means-tested retirement income benefits in addition to the State Pension. For example, Pension Credit is awarded on the basis of means-test of income and assets. Assets incorporated in the means-test are liquid assets such as savings and investments, but not property. The means-test assumes a person has £1 a week as income for every £500 or part of £500 over £6,000 of a person's assets. The DWP therefore has data on lower-income and wealth individuals in retirement who apply for Pension Credit, although importantly, take-up of Pension Credit is much less than 100%. Nevertheless, where individuals apply for Pension Credit at 65, particularly as individuals transition from working-age income benefits, NCF could use such data to identify those who would not be liable for paying the premium to join the NCF.

In addition, it is possible that data used to distribute Housing Benefit to individuals aged 64, could be used to ascertain property ownership. Housing Benefit is payable to individuals who rent, and therefore do not own a property, and who have income and liquid wealth below certain thresholds. By definition, individuals who receive housing benefit are not property-owners, and would not therefore have sufficient wealth to be liable for the premium of the NCF.

*Auto-enrolment* - Possessing data on which individuals are reaching 65, and of this group, who is not entitled to means-tested benefits, the Fund would be able to contact individuals turning 65 about enrolment into the NCF.

As outlined above, the NCF could apply ~~hard~~ or ~~soft~~ forms of auto-enrolment. Assuming ~~soft~~ auto-enrolment were applied, individuals would be mandated to make a choice about whether or not to join the NCF.

This could be achieved in a number of ways. For example, those retiring could be sent a form which must be completed and returned in order to receive the State Pension. This form could include a question asking individuals to tick a box if they did *not* wish to be enrolled into the NCF. Information on the NCF could be included in the form, together with details of how to obtain more information on the Fund and the choice to join, although it can be anticipated that most individuals at this stage would be aware of the NCF.

Individuals who did not wish to participate in the NCF would complete and return the form accordingly. The NCF could subsequently contact such individuals by telephone or post, to offer more information about the NCF and offer individuals the option to change their choice.

For individuals who did wish to enrol, the next issue would be how individuals would pay into the fund. In addition to specifying whether they wished to participate, individuals could be asked in the same form how they wished to pay their premium: in lump-sum, through regular instalments or as a charge on their estate. Alternatively, this choice could be made at a later stage once the NCF had been notified of which individuals wished to participate.

A further design choice would be involved here around whether a default payment choice should exist. Having specified that they wished to participate in the NCF, should individuals then simply be invited to specify how they wished to pay, and if they did not specify, have a payment choice imposed upon them? The most appropriate payment choice would likely be an estate charge, as this does not require any material change in someone's income or wealth when they are alive.

If individuals did in fact wish to pay their premiums in lump-sum or regular instalment, this could be enabled through Direct Debt or individuals simply posting cheques to the NCF. If individuals were to pay their premium through an estate charge, whether as a default option or out of choice, the NCF would then have to place a ~~floating charge~~ on a person's assets, which would be triggered, for example, if someone participating in the Fund attempted to transfer their home to a relative.

*Post-enrolment*. Following enrolment, what should characterise the relationship between the NCF and users not requiring care, and not therefore drawing upon the funds of the NCF? This relationship could be conceived in a number of ways. There would be potential benefits to regular contact between the Fund and users, in order to:

- Remind users why they have chosen to participate in the Fund and of the benefits of participation, such that users do not experience regret over choosing to participate, or attempt to de-enrol.
- Keep users informed of how to claim upon the NCF when their care needs arise, i.e. prepare users for care needs occurring.
- More generally, utilise the relationship between users and the NCF, for example, exploiting the NCF as a public health vehicle.

These benefits could be achieved through regular reiteration of the benefits of membership to users, regular information on how individuals and their families can contact the NCF, and the promotion of healthy ageing through the NCF. This could be achieved in different ways. For example, users could be sent a biannual magazine/newsletter, together with a statement of how much they had paid in to the Fund for individuals who were deferring payment of part or all of their premium.

Potentially, other types of promotions could be attached to membership of the NCF, more typically associated with consumer companies. For example, discounted gym membership, vouchers for goods or services, and competitions/lotteries could all be made available through the NCF in order to make membership of the Fund an *active* relationship.

### Stage 3: Entitlement

This stage in the user journey occurs when the user experiences care needs that entitle them to funding from the NCF. The point at which individuals become eligible for funding from the NCF would depend on how the premiums and benefits of an NCF were set. Severity of social care needs are typically measured according to how many Activities of Daily Living (ADLs) a person is unable to carry out. Eligibility for NCF funding could be set at one ADL, two ADLs, etc.

The ideal experience of the user at this stage of the user journey for the NCF can be captured by these statements:

#### *User outcomes*

- I have care needs.
- I am receiving funding for my care from the National Care Fund.
- I am receiving care.

However, achieving these outcomes for the user will require a complex set of processes and actions to be undertaken by the NCF.

#### *Processes*

*Assessment* . When a user experienced care needs, these needs would have to be assessed as making the person eligible for funding from the NCF. An assessment would have to be undertaken by a suitably qualified individual perceived as independent and credible. This could be a GP or other health professional, a local authority employee or a new type of professional whose sole job was to undertake assessments of care needs.

An assessment could be requested by the person needing care, a relative, an unpaid carer, a GP or other health professional. Since many people receive low-levels of care informally from family and friends, one clear risk is that as a person's needs slowly escalate, there may be a lack of a natural trigger for an assessment to be undertaken. For example, a carer may go on providing care as someone's needs advance, despite the person having reached the threshold of ADLs to be entitled to funding from the NCF. Alternatively, a carer or other family members may be unaware that a person is enrolled in the NCF. These scenarios suggest a clear need for third-parties, such as a GP, to informally assess that someone appears to have sufficient need to receive their entitlement to funding, and on this basis, notify the NCF.

In line with current efforts in the health system to engender single assessments, social care needs assessments undertaken for the NCF could have multiple functions, in that they could also be used to assess the type of care needs someone had and therefore the most appropriate services for them to receive. In addition, assessments could be standardised so as to be useful to other agencies. In particular, besides the NCF, both local authorities and private sector insurers would continue to require assessments of individuals needing care, and in fact, a care user could conceivably receive funding from all three sources, so a standardised form of assessment and criteria would be necessary.

*Funding* . As an insurance fund, the NCF would insure individuals but not provide or purchase care directly for them. After processing a claim for funding, the funding that an individual is entitled to would need to be channelled into a mechanism that would result in care being purchased and provided. The direct funding and delivery of care services in the UK has evolved significantly in recent years. Funding for purchasing care may be allocated directly by individuals using *Individual Budgets*. Alternatively, where individuals did not wish, or were incapable, of purchasing and organising their own package of care, formally nominated individuals . *brokers* . may perform this task for them. Precisely how the NCF would direct funding to users via these mechanisms would depend on how policy in this area continues to evolve.

*Care needs arising from a crisis* . The above sections have described how funding and assessment could occur. However, since many care needs arise quickly following a crisis, it is worth specifying how these processes would operate under tight time conditions. For example, if an individual was to be discharged from hospital following an accident in 36 hours and would need care from this point, how would this care be funded? Assuming that even the most efficient processing of claims by an NCF did not enable a response in this short period, this suggests a role for some other agency, such as a local authority, to organise and fund transitional care arrangements, with the NCF reimbursing the local authority for the cost of this care at a later stage.

*Contested Assessments* . Even in the context of independent and qualified individuals undertaking assessments of care needs, it is possible that some individuals and their families may contest the outcomes of these assessments. This suggests a mechanism to review assessment, and provide new assessments would be needed, with possible recourse to an appointed ombudsman.

*Entitlement to funding while resident abroad* . The administrative processes involved in the user journey would become substantially more complex for individuals living abroad who require care. In particular, undertaking a needs evaluation to assess entitlement may require the NCF and UK government to work with other countries to provide foreign health professionals materials that would enable them to carry out a needs assessment using criteria recognised by the NCF. In addition, it is worth noting that users living abroad entitled to funding from the NCF would have to bear exchange-rate risks, and the fact the unit cost of care may be substantially higher in another country.

#### **Stage 4: Ongoing Care Needs**

In this stage of the user journey, an individual requiring care receives funding from the NCF, but experiences a change in circumstances. A person may receive care for many years, even several decades, and during such a period, various changes in circumstances may occur. Possible changes could include:

##### *User outcomes*

- My care needs have increased/decreased.+
- I wish to use a different care provider.+
- My care has increased in price.+
- I am moving house/moving in with my family.+
- My carer can no longer provide help.+

##### *Processes*

*Changing care needs* . Individuals rarely experience static care needs over the medium to long-term; care needs may increase and decrease. When individuals experiences an increase in care needs, the individual, their family member, GP, etc. would be able to request a new assessment, if it was believed that a person would not be entitled to a greater level of funding from the NCF.

If an individual experiences a reduction in their care needs such that their needs are no longer commensurate with their funding, individuals may not recognise this fact or choose not to alert the NCF. This suggests some mechanism would be required to periodically review a person's care needs and the funding they are receiving. This could be undertaken at fixed points, e.g. every six months. Alternatively, it could be undertaken by GPs or other health professionals whenever they have contact with a user, although it would be important not to discourage individuals from having contact with their GP for fear of losing their entitlement.

*Changing care provider* . An individual in receipt of funding from the NCF may wish to obtain care from another provider. In the context of someone receiving care using an Individual

Budgets or care broker, this would not be problematic as it would not affect the funding stream from the NCF, and in fact, would conceivably not involve NCF directly.

*Rising unit costs of care* . In this situation, someone receiving care using funding from the NCF is faced with an increase in the cost of care from the full range of potential providers they could use. Would the NCF then increase the level of funding?

The model of the NCF is cash-based: an individual receives a cash-payment which varies according to a pre-determined scale of care needs. As such, if an individual receiving care confronts an increase in their unit costs of care, i.e. because a provider has increased the price rather than because the person has developed higher levels of care, then the next step would be for the individual or their care broker to review their care package and who provided it. Assuming that the local market for care services was operating efficiently and effectively, an individual should be able to purchase care at a reasonable price. If not, this implies a local market failure, which would be the responsibility of the local authority or another national statutory agency to resolve.

However, the unit cost of care from all providers across an area may increase; over time, it can be expected that both unit care costs and the value of entitlements from the NCF would increase at least in line with inflation. If unit care costs increase above inflation, the governance mechanisms of the NCF would have to be invoked to either reduce levels of entitlement or increase premiums.

*Change of accommodation* . If an individual moves home, their entitlement to care funding would be retained in a new location, i.e. the entitlement would be fully portable.

*Reduced availability of unpaid care* . The impact of changes in the availability of unpaid care on the user journey would depend on how the benefits of an NCF were designed. These benefits could be carer-blind, unaffected by the availability of unpaid care, or alternatively, could be carer-sighted, i.e. reduced if unpaid care was available. However, the benefits would most likely have to be carer-blind, since benefits that varied according to the availability of unpaid care would disincentivise all unpaid care in relation to anyone participating in the NCF. Assuming an NCF was carer-blind in its assessments and funding of care, changes in the availability of unpaid-care would have no material effect on the level of funding.

## **Stage 5: End of Entitlement**

This stage represents the final stage of the user journey in relation to the NCF when the user is no longer entitled to funding, and can result from three scenarios: a user's care needs declining to a point at which they are no longer entitled to funding from the NCF; a user transferring into a hospital and therefore no longer receiving social care; or, a user's death.

### *User outcomes*

- My care needs have decreased.
- I am receiving medical care that prevents the receipt of social care.
- User's death.

### *Processes*

*Improvement in condition* . If a user's condition improved, such that they no longer required care, or had care needs below the threshold of funding by an NCF, this change in condition could be recorded through the same mechanisms outlined above applying when a user's care needs decrease, e.g. following a routine assessment of need, the NCF can be notified and funding of care cease.

*Hospital care* . If a user was in a situation that precluded receipt of social care, for example, an extended hospital stay, the NCF would need to be informed that care funding was no

longer required. This could be undertaken by health professional/administrators responsible for a user, by a care provider or family members.

*Death* . Following the death of someone in receipt of care funding from the NCF, the NCF would need to be notified of the death. This could be the responsibility of a healthcare professional, such as the doctor who signs the users death certificate.

In addition, any outstanding unpaid proportion of a persons NCF premium would have to be paid recovered from a users estate. Conceivably, this could amount to the full premium, plus interest earned, if a person had deferred the entire cost on to their estate. To ensure such amounts are paid, the NCF would have to work with the existing probate system, administered by HM Revenue & Customs.

## Part 2: Governance

*The preceding chapter explored the National Care Fund model from the perspective of the user. This chapter considers what sort of governance arrangements would be appropriate to oversee the operation and administration of an NCF, and draws upon the discussions of a working group that was convened to focus on this issue.*

### *Core functions*

The first step to considering what governance framework would exist in relation to an NCF is to identify its core functions.

As discussed in the previous chapter, claims validation in relation to an NCF, i.e. assessment of care needs, would have to be carried out by independent evaluators, in order that assessment data could be shared with local authorities and private sector insurers. Therefore, excluding this function, the core functions of an NCF would mirror the core functions of any insurance scheme:

- 1) Premium collection; receipt and administration of premiums, whether as monthly instalments, lump-sum payment or charges on estates.
- 2) Actuarial risk-pooling; specifically the risk of needing care and the longevity risk associated with care needs.
- 3) Asset-management; investing and managing any ongoing surplus of incomes and assets over liabilities.
- 4) Benefit delivery; transferring cash payments to users, whether to their Individual Budget or care-broker.

### *Delivery of core functions*

Each of the core functions of the NCF could be carried out by the NCF itself as a statutory agency, or outsourced to the private sector. Outsourcing of the core functions could take different forms. One company could carry out all of the core functions, different companies could carry out each function, or multiple companies could carry out each function.

The principal reasons for outsourcing core functions of the NCF to the private sector would include:

- Accessing capacity in the private sector for delivering core functions.
- Accessing expertise that exists in the private sector, for example, asset management.
- Cost-savings that could be achieved where the private sector has lower marginal costs than the public sector in the delivery of a particular function.
- Efficiency savings that could be achieved through competition among potential private sector providers.

If outsourcing were adopted for all of the functions, then the core of the NCF as an institution would effectively be a legal entity solely engaged in commissioning private sector services, as well as delivery of any other critical functions, such as overseeing ongoing communication with users.

The arguments for and against outsourcing vary for each core function. Premium collection and benefit delivery are essentially large administrative tasks, similar to many similar

functions already outsourced by the state to the private sector, such as the collection of the UK TV License Fee.

The case for outsourcing of the actuarial risk-pooling and asset management of an NCF is more complex, since any such decision would have to take account of the different regulatory frameworks that apply when private and public organisations undertake such activities. This point is developed below.

#### *Regulatory oversight for core functions*

Would an NCF require an independent regulator? Given that private sector financial organisations already have a regulator (FSA), it is unclear whether any financial company delivering core functions for an NCF would require a new or separate regulator.

If an NCF were a pure public organisation, it is also unclear that any new regulator would be required. For example, the Pension Protection Fund (PPF), which delivers some of the same core functions as an NCF, has no regulator, but is audited by the National Audit Office and reports directly to Parliament. This suggests that a purely public NCF could operate under a similar regulatory framework, in which:

- Parliament provided overall oversight of whether an NCF was meeting its objectives and public expectations;
- The National Audit Office evaluated distinct functions and operations of the NCF for efficiency and efficacy, reporting their findings to Parliament.

#### *Regulatory oversight of solvency and capital adequacy*

What regulatory framework would ensure the long-term solvency and capital adequacy of an NCF? This question depends on whether the risk-pooling and asset management functions of the NCF were outsourced to the private sector.

If risk-pooling and asset-management for the NCF were outsourced to the private sector, this would move the liabilities of the Fund off the public sector balance sheet . an advantage for the government . and the companies delivering these functions would be subject to private sector capital adequacy regulation through Solvency II rules. Since private sector financial organisations must maintain higher capital ratios, this would be more expensive, and this cost would ultimately have to be borne by users or the government.

In contrast, if these core functions of the NCF were undertaken by public organisations, solvency and capital adequacy would be the responsibility of the government, and in fact, as it is assumed the government would always ensure solvency, lower levels of capital could be held. However, in some cases, such as the Pension Protection Fund, statutory organisations are held off-balance sheet. Nevertheless, in relation to an NCF, the government would likely carry ultimate financial risk as it would not be feasible to let an NCF fail.

#### *Legal status*

The legal status of an NCF could take different forms, and would depend in large part on whether, and which, core functions were outsourced to the private sector. For example, an NCF could take the form of a:

- Public insurance company.
- Public corporation.
- Non-departmental public body.

*Regulating premiums and entitlement*

Both at its inception and on an ongoing basis, a mechanism would be required to set premiums and levels of entitlement in relation to an NCF.

This process would be important because it can be anticipated that over time, unit care costs may increase, and that projections of longevity and morbidity will change, ultimately changing the liabilities of the Fund. In response, the NCF would either have to:

- Change the cost of premiums.
- Change the level of entitlements, i.e. the cash received proportionate to a given level of care.
- Change the entitlement criteria, i.e. the level of need which entitles someone to care funding.

How premiums and entitlements were regulated on an ongoing basis would depend in large part on how consensus was achieved at the inception of the Fund. It may be that levels of premiums and entitlements would represent a political settlement that would have to be revisited periodically when necessary. Alternatively, this process may take place separately within the NCF itself. Or, an independent external regulator may be required to decide changes to premiums and entitlements, having reviewed the situation carefully and consulted the public. However, since such decisions are analagous to decisions on public spending and taxation, and given the politicised nature of entitlement to care funding, it is likely that elected politicians would wish to retain some degree of overall control to respond to public demands in relation to premium and entitlements. Indeed, it would likely be Parliament that would also have to address the implicit issue in setting premiums, given differing risk-profiles between men and women, of whether a single community-risk-rated premium would apply, and if so, how would the implicit subsidy to women be funded.





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