Premium bond plan for tackling looming elderly care crisis

Savers could buy £1 bonds for chance to win cash prizes in monthly draws

A premium bond-style savings plan could help solve Britain's elderly care funding crisis, academics say.

Individuals as young as 18 could save for care in old age by buying £1 bonds sold on the internet and in post offices and corner shops.

The bonds, offering a fixed rate of interest, would put owners in line to win monthly tax-free cash prizes in draws worth more than £600 million a year.

The savings would only be released on passing a simple assessment for social care or if the owner passed away, when they would transfer to the individual's estate. The trigger for entitlement would be set lower than that used by local authorities.

The proposal is outlined by academics at Cass Business School, part of City University London, in a newly-published paper titled, *'Personal Care Savings Bonds: A new way of saving towards social care in later life'*.

It is estimated that the UK population aged over 75 will double from five million to 10 million by 2040, placing increasing strain on both personal and state finances required to fund care in old age.

"An ageing population ushers in a completely new era, requiring society to find radical solutions to the problem of funding social care," said co-author, Professor Les Mayhew.

"Personal Care Savings Bonds (PCSB) are a long–term solution to funding elderly care in which responsibility is shared by the individual and the state.

"PCSBs make it easier for individuals to save for their future social care needs in a way that builds up over decades and offers them a personal stake.

"They can be bought by people from all economic backgrounds, including those who would not ordinarily save for their care or have the resources to pay for it. Consumers could include spontaneous purchasers as well as regular savers.

"Although PCSBs, like insurance, pay out on the triggering of care needs, they have the attraction of producing substantial prize money that is tax free. Unlike insurance premiums, unused bonds pass into a person's estate."

If 12.6 million people purchased PCSBs – half the number who currently buy premium bonds – the fund would reach £70 billion within a few decades. This assumes 20% of investors would trigger care before they died. However, even if 50% triggered care the size of the fund on maturity would be only round £1bn less.

The authors calculate that someone buying just £100 of bonds every year from the age of 18 - based on 1% in prize money and 2% in interest – would build up a fund worth £11,000 by the age of 75, and £18,000 at 95.

Professor Mayhew, said: “Hardly anyone is interested in putting savings aside for their future care needs and there are no commercial financial products available to help pay for care costs.

“With new pension flexibilities announced this year allowing people to spend down their pension pots as they wish, there is a good chance that people will run out of money by the time care is needed.

“The call from Government to develop long term care insurance products has also been very disappointing. If they were to be developed they would be expensive and suit only a few people.

“It is clear that funds generated by PCSBs would be insufficient to pay the full cost of residential care but they would be a significant contribution in the case of domiciliary care and reduce other financial pressures on individuals and families at their time of greatest need.”

Government funding for social care will come under even greater pressure in future years. To ensure PCSBs bring new money into the care system the authors propose that the funds would not count towards the social care mean test which is based on a person’s income and assets.

Baroness Sally Greengross, Chief Executive of the International Longevity Centre UK, said: "We are pleased to have supported this excellent idea since its inception. As well as making saving more fun, we think PCSBs are practical and worthwhile. They will help to fill the growing gap in care funding - which will struggle for decades to come unless new money is found."

‘Personal Care Savings Bonds: A new way of saving towards social care in later life’, by Professors Les Mayhew and David Smith of Cass Business School.

Link to paper: http://www.palgrave-journals.com/gpp/journal/v39/n4/full/gpp201430a.html
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