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Paying for Ageing: Decision time for households and the state

James Lloyd

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Executive Summary

Paying for ageing is one of the biggest challenges facing society.

For many households at retirement, paying for ageing means confronting an inadequate retirement income, illiquid wealth, a 'protection gap' relating to risks such as inflation and care needs, as well as exposure to political risk: uncertainty around the future shape and level of state support for retirees as population ageing applies pressure to the public finances.

For the state, paying for ageing presents a fiscal challenge. The Office for Budget Responsibility projects that total non-interest public spending in the UK will rise steadily from 35.6% of GDP at the end of the medium-term forecast in 2016-17 to 40.8% of GDP by 2061-62. From 2016-17 onwards the principal drivers of this increase will be spending on health, state pensions and long-term care costs, due mainly to population ageing.

However, the challenges facing households and the Exchequer are highly interdependent. Policy decisions around state support to pensioners will determine the scope and nature of the decumulation challenge confronting older households and the adequacy of their retirement income.

Conversely, the decumulation choices and actions of older households will determine the size of the fiscal challenge facing policymakers as the population ages.

In this context, policymakers need a coordinated strategy across both age-related public spending and the policy framework for households making decumulation decisions. Such a strategy needs to set a clear delineation of responsibilities between households and the state for the costs of ageing.

Developing a strategy for paying for ageing requires clarity regarding what outcomes are actually being sought. Thirteen relevant objectives can be identified for policymakers:

- Prevention of poverty among retirees
- Fiscal sustainability
- Meeting expectations of standards of living and well-being in retirement
- Optimal size of the state as a proportion of GDP
- Efficiency in public spending
- Optimal allocation of risk between individuals, the state and the private sector
- Fairness in protecting individuals from risk
- Fairness within generations in how public spending is allocated
- Fairness between generations
- Fairness in rewarding responsible behaviour
- Appropriate incentives for households
- Choice
- Political resilience

What are the options for the state in paying for ageing? These include:

- **Cutting other areas of public spending;**

- **Reducing demand for age-related areas of public spending**, for example, through boosting private pension incomes, boosting rates of home-ownership, strategies to prevent or reduce demand for health and care services, and measures to boost even further informal caring by families;
- **Cutting age-related spending**, for example, cutting entitlements, restricting eligibility for entitlements (such as raising age thresholds), tightening means testing rules toward property wealth, rationing by wealth via increased means testing of public support, rationing by need, or introducing co-payments for currently free services to ration demand or raise revenue;
- **Improving productivity in public services;**
- **Raising taxation**, which could be increased taxation across the board, increased taxation of older people's wealth, or their income.

What are the options for households in paying for ageing as they confront inadequate pension incomes, illiquid wealth and a protection gap? Choices include:

- **Optimising annuitisation decisions**, for example, to obtain greater protection from inflation;
- **Decumulating housing wealth**, whether via downsizing, equity release schemes, or 'deferred payment schemes' found in England's local authority care system;
- **Private insurance**, such as health insurance, pre-funded or point-of-need care insurance.

Since the challenges for households and the state in paying for ageing are interdependent, what 'joint strategies' are possible? These include:

- **Labelling transfers from the state** in order to influence individual behaviour;
- **Single-tier State Pension** to incentivize both pension saving and the decumulation of property wealth among low-income retirees;
- **Compulsory private pension** saving to boost participation, and the pension wealth of those at retirement;
- **Default/compulsory annuitisation choices** to improve the protection and income those retiring obtain;
- **Targeted retrenchment in age-related public spending** with the aim of private spending or private insurance filling the gap;
- **State underwriting of tail-risks for the insurance industry** to allocate risk more optimally and reduce costs for insurers and customers;
- **State-sponsored insurance schemes** that offer a middle-way between taxation and purely private insurance;

- **Incentivised decumulation of housing wealth**, such as taxation of under-occupied properties, tax-relief and subsidies to move home;
- **Compulsory decumulation of housing wealth**, for example, taxes or charges on people's estates hypothecated to specific entitlements to state support.

Although how the state and households pay for ageing are interdependent, there are no easy solutions. Nevertheless, ten recommendations to policymakers can be made:

- Policymakers should not present population ageing as 'unaffordable';
- All public spending on older people needs a joined-up, cross-departmental 'holistic review';
- Fiscal policymaking must not be allowed to crowd out sensible policies on ageing;
- An Office for Evidence on Prevention should be created as a commissioner, laboratory and proponent of preventative strategies across all age-related public spending;
- Be honest and prepare retirees for seeing their housing wealth used to fund old age;
- Decide how older people's housing wealth will be best deployed in paying for ageing;
- Focus on effective joint strategies – partnerships – between households and the state in paying for ageing;
- Engage the financial services industry to deliver more 'social contracts' that pool risk among different groups;
- Explore how innovative public-private partnerships could allocate key risks to the capital markets;
- Make long-term decisions now: fixing a strategy for paying for ageing can no longer be deferred and older households deserve clarity.

1. Introduction

The challenges facing older households and policymakers in paying for ageing are closely linked – indeed, interdependent...

Paying for ageing is one of the biggest challenges facing society.

For households, it means trying to fund their complex, unpredictable income needs in old age, with the resources they have at retirement. Many confront inadequate retirement incomes measured in terms of both the consumption their income will enable and the protection it provides against potential adverse events, such as spikes in the cost of living or the burden of paying for long-term care. Those households reaching or passing pension age confront complex decumulation decisions that will materially affect their wellbeing and quality of life in old age.

For the state, an ageing population poses a fiscal challenge, with public expenditure on age-related public spending set to grow. Just to maintain support and entitlements for older people at the same level, the resources directed at age-related public spending in the UK – especially the NHS, the State Pension and social care – will have to grow.

Paying for Ageing: The interdependence of the state and individuals

The challenges facing older households and policymakers are closely linked – indeed, highly interdependent. Policy decisions around the level and shape of state support to pensioners over the coming decades will determine the scope and nature of the decumulation challenge confronting older households, and the adequacy of their retirement income.

Conversely, the decumulation decisions, choices and actions of older households will determine the size of the fiscal challenge facing policymakers in the context of population ageing.

In this context, policymakers need a coordinated strategy across both age-related public spending and the policy framework for households making decumulation decisions. Such a strategy needs to set a clear delineation of responsibilities – a partnership - between households and the state for the costs of ageing. It must also take account of how the risks associated with retirement income needs – such as inflation risk, interest-rate risk and longevity risk – are best allocated between the state, households and the financial services industry.

Paying for Ageing: Decision time for households and the state

This discussion paper provides a comprehensive map of the options for the state and for households in paying for ageing.

In particular, it explores what a joint strategy for paying for ageing between households and the state needs to do, and what it should look like.

The next chapter explores the retirement income shortfalls confronting older households and the fiscal challenge to the Exchequer posed by population ageing.

The third chapter explores what outcomes policymakers are seeking: not just fiscal sustainability and pensioner well-being, but other important outcomes such as intergenerational fairness and efficiency.

Chapter 4 identifies the options for policymakers in responding to the fiscal challenge posed by population ageing, such as cutting entitlement and support, raising taxes to cover the cost of the ageing society 'bill', or reducing demand for services through preventative interventions.

The fifth chapter looks at the retirement income needs confronting older households, and the decumulation options available.

This report provides a comprehensive map of the options for households and the state in paying for ageing...

Chapter 6 explores and evaluates joint strategies for paying for ageing that cut across households and the state.

Chapter 7 concludes with key recommendations for policymakers.

Key points:

- The ageing of society poses challenges to both individuals and the state;
- However, these challenges are highly interdependent. Policy decisions around state support to pensioners will determine the scope and nature of the decumulation challenge confronting older households, and the adequacy of their retirement income. Conversely, the decumulation decisions, choices and actions of older households will determine the size of the fiscal challenge facing policymakers in the context of population ageing.

2. The outlook for households and the state

Just to 'stand still', the cost of public expenditure on the older cohort will have to grow...

Both the Exchequer and households confront challenges in paying for ageing.

This chapter explores each in turn.

Paying for an Ageing Society: The long-term fiscal outlook

The UK's Office for Budget Responsibility (OBR) produces annual reports of the long-term sustainability of public spending, i.e. the difference between what the state spends and what it raises in taxes. In its 2012 Fiscal Sustainability Report, it set out the implications of population ageing for the public finances using the following assumptions:[1]

- State Pension Age (SPA) equalised at 65 by November 2018, with Pension Credit and Winter Fuel Payment qualifying ages rising in line;
- SPA reaches 66 by October 2020, and rises further to 67 between 2026 and 2028, and 68 between 2044 and 2046; qualifying ages for Pension Credit, winter fuel payments, Disability Living Allowance and Attendance Allowance rise in line;
- Basic State Pension uprated using the 'triple guarantee' mechanism (rising by the maximum of earnings, prices or 2.5 per cent a year);
- State Second Pension uprated in line with CPI in payment.

Using these assumptions and demographic projections, the OBR projects that total non-interest public spending will rise from 35.6% of GDP at the end of the medium-term forecast in 2016-17 to 40.8% of GDP by 2061-62. This is an increase of 5.2% of GDP – equivalent to £80 billion in today's terms. As the following below from the OBR shows, from 2016-17 onwards the main drivers of the increase in non-interest spending are health, state pensions and long-term care costs, due mainly to the ageing population:

The table above shows the funding gap that will open up in public spending in coming decades owing to population ageing. Just to 'stand still' and maintain expenditure on the older population at equivalent 'per head' levels as today, by 2061-62 public spending will have to increase by £80 billion each year, in today's terms.

Evaluating the Baseline: Is current public spending on older people adequate?

It is important to evaluate the baseline spending assumptions used by the OBR, in particular, to take account of the fact that many stakeholders argue that certain items of current age-related public spending are already inadequate, and as such, public policy starts from a 'deficit position' in relation to age-related spending. For example, the government recognises that the State Pension is inadequate to live on, and for this reason, those with no other income sources are entitled to claim means tested Pension Credit.

More pressingly, public spending on the social care system in England is widely perceived to be insufficient, resulting in unmet need, a systemic reliance on excessive volumes of informal care provision by families, poor outcomes and downward pressures on quality of services.

More generally, there are several significant age-related policy challenges that merit urgent policy responses, and which would likely require additional spending. For example, at around 27,000 each year, the number of preventable excess 'winter deaths' among pensioners is extremely high.[2]

Non-interest spending projections

Source: Office for Budget Responsibility (2012) *Fiscal Sustainability Report*, Table 3.6: Non-interest spending projections

	% of GDP							
	Estimate	FSR Projection						
	2011-12	2016-17	2021-22	2031-32	2041-42	2051-52	2060-61	2061-62
Health	8.1	6.8	7.1	7.7	8.3	8.7	9.0	9.1
Long-term care	1.3	1.1	1.2	1.5	1.7	1.9	2.0	2.0
Education	5.7	4.5	4.6	4.6	4.4	4.4	4.5	4.5
State Pension	5.7	5.6	5.3	6.1	7.0	7.3	8.2	8.3
Pensioner benefits	1.2	1.1	1.1	1.1	1.3	1.2	1.2	1.2
Public service pensions	2.1	2.2	2.0	1.7	1.5	1.3	1.3	1.3
Total age-related spending	**24.1**	**21.3**	**21.3**	**22.8**	**24.2**	**24.9**	**26.2**	**26.3**
Other social benefits	6.3	5.1	5.3	5.2	5.1	5.2	5.2	5.2
Other spending	12.2	9.2	9.2	9.2	9.2	9.3	9.3	9.3
Primary spending	**42.6**	**35.6**	**35.8**	**37.2**	**38.5**	**39.4**	**40.7**	**40.8**

Paying for Ageing: The outlook for pensioners

According to ONS estimates, there were 10.3 million people aged over 65 in the UK in mid-2010. Life expectancy among pensioners is increasing. Between 2004–06 and 2008–10, life expectancy at age 65 in the UK increased from 17.0 to 18.0 years for men and from 19.8 to 20.6 years for women.

However, significant variations in life expectancy exist across the country. Life expectancy for males in Kensington and Chelsea was 85.1 years in 2008–10, but in Glasgow, male life expectancy was 71.6 years.[3]

Households fund their retirement expenditure needs through a mixture of public and private resources. These can be summarized as follows:

- State Pension and Pension Credit

The Basic State Pension was set at £107.45 per week for 2012-13 for single people, with an extra £64.40 per week for qualifying partners. According to the Department for Work and Pensions (DWP), there were 12.6 million people in the UK receiving the Basic State Pension in 2010-11, but this is projected to rise to 18.8 million by 2060-61.

The value of the State Pension increases each year in line with the 'triple guarantee', i.e. by the highest of earnings growth, CPI inflation or 2.5%.

However, the government recognizes that the Basic State Pension is inadequate to live on, and individuals with limited private pension income or savings may therefore be entitled to receive Pension Credit. Someone aged over 65 can claim Pension Credit if their income (including pension or savings) is either below £189 a week for a single person, or below £277 per week for couples.

The first £10,000 of a person's savings are fully disregarded in the means test for Pension Credit. For savings above this amount, every £500 of savings is treated as equivalent to £1 per week of income. In 2009-10, there were around 2.62 million older households receiving Pension Credit, with official estimates of around 1.3 million older households who would be entitled, but do not claim.[4]

- Universal pensioner benefits

Winter Fuel Payments are worth £200 to those over 60 and £300 to those over 80. Individuals over-60 are also entitled to free bus travel, and those over 75 are entitled to free TV licenses, worth £144.

Attendance Allowance is a universal, non-means tested cash payment paid by the DWP to those in retirement with a qualifying disability. It is paid at £51.85 per week at a lower rate and £77.45 at a higher rate. According to the DWP, in August 2011 there were 1.6 million people receiving Attendance Allowance, of whom 33% were male and 67% female.

- NHS

The UK operates a comprehensive, universal national health service that is free at the point of use. However, the NHS nevertheless operates within budget-limits, and various forms of implicit and explicit rationing can be identified, such as the use of waiting lists by hospitals.

Households fund their retirement expenditure needs through a mixture of public and private sources...

- Public support for social care costs

Taking account of public support for care costs, the median lifetime expected cost of care and support for all 65 years olds (men and women), for those with qualifying levels of need in the context of carer-sighted needs assessments used by local authorities, is £21,400.[5]

However, although disability benefits are universal, only individuals in England with qualifying levels of need and less than £14,250 of 'assessable wealth' are entitled to have all of their assessed care costs met by their council. Those with assessable wealth between £14,250 and £23,250 are charged for services at a subsidized rate, and those with more than £23,250 of assessable wealth are not entitled to any council support.

According to the Department of Health (DH),[6] in England there are 532,000 local-authority supported older people receiving home care (compared to 325,000 older people privately paying for home care), and 170,000 local authority funded older people in residential care (compared to 125,000 older people funding this privately).

In Scotland, individuals are not means tested for support with their personal care costs. Different arrangements apply in Wales and Northern Ireland.

- Pension wealth

Among those aged around 55-64 in 2010, around 30% had defined benefit pension savings with a median value of around £149,700. Among the 33% of those in this age-group that had defined contribution pension saving, the median amount was £25,000. Overall, around 52% of those in the 55-64 age group had pension savings of some description and the median value was £77,200.[7]

- Private pension income

Including the value of the Basic State Pension and means tested Pension Credit, the mean weekly income of individuals aged over the SPA in England in 2008-09 was £305, and the median weekly income was £228.[8]

Among all those aged 65 and over, around 15.1% were basic rate taxpayers and 8.4% were higher rate taxpayers.[9]

In fact, analysis of the incomes of people over the SPA in England for 2007-08 found that income from the state (benefits and the State Pension) was the largest single source of income (on average) for those in the bottom two-thirds of the income distribution.[10]

Analysis of data for 2010 of those aged between 50 and the SPA found that 41% individuals were in families that, in retirement, would either replace less than 67 per cent of their current net family income or fall below the Pension Credit Guarantee level using pension income alone.[11]

The protection against risks provided by pension income is highly variable across the population. In relation to annuity purchases, many annuitants do not obtain protection from inflation, nor dual-life cover, as the following table for 2009 shows:

Standard Annuities	**Number**
Single Life – Male	161,930
Single Life – Female	86,651
Joint Life	155,145
Guaranteed	179,770
Level only	315,121
Escalating – fixed amount only	70,305
Escalating – Retail Price indexation only	10,857

Among couples over the State Pension Age, median net property wealth is around £200,000...

Escalating – limited price indexation only	4,961
Hybrid Annuities	2,481
TOTAL	**403,725**

Source: ABI

- Financial wealth

Among single people over the SPA – many of whom are single after the death of a partner[12] - median financial wealth was around £8,700 in 2010. Among couples both of whom are over the SPA, median financial wealth was around £29,800 in 2010.[13]

- Physical wealth

Among single people over the SPA, median physical wealth was around £25,000 in 2010. Among couples both of whom are over the SPA, median physical wealth was around £40,500 in 2010.[14]

- Property wealth

The rate of owner-occupation for single people over the SPA is around 63.4%, and median net property wealth in 2010 was £160,000. Among couples both of whom are over the SPA, the rate of owner-occupation is 85.8% and median net property wealth is £200,000.[15]

Conclusion: What is the outlook for individuals and the state?

For the state, the outlook for paying for ageing is highly challenging. The ageing of society poses a significant fiscal challenge. Achieving fiscal sustainability in this context is likely to require major changes across taxation and public services. These are explored in subsequent chapters.

For individuals, paying for ageing means dealing with a number of problems identifiable in this review of the outlook for older people:

- Inadequate retirement income – reliance on means tested income support in retirement is substantial – around one third of pensioners in England are entitled to means tested income support;
- Illiquidity – much of the wealth of older households is tied up in illiquid housing.

In addition to adequacy and illiquidity, many retirees are over-exposed to risk:

- Protection gap – many retirees – even those with private pension income - are highly exposed to the risks of needing paid care, the effects of inflation on retirement income, etc.;
- Political risk – retirees confront uncertainty regarding what government policy will be over the course of their retirement in the face of age-related fiscal pressures: for example, what will happen to investment and spending on the NHS, or the tax treatment of income and wealth?

Key points:

- What is the outlook for individuals and the state? The OBR projects that total non-interest public spending will rise from 35.6% of GDP at the end of the medium-term forecast in 2016-17 to 40.8% of GDP by 2061-62. This is an increase of 5.2% of GDP – equivalent to £80 billion in today's terms. From 2016-17 onwards the main drivers of the increase in non-interest spending are health, state pensions and long-term care costs, due mainly to the ageing population;
- For retirees, many confront inadequate retirement incomes, illiquidity, a protection gap and high exposure to political risk, i.e. uncertainty around the future shape and generosity of state provision.

3. What outcomes are we trying to achieve?

To develop an effective strategy for paying for ageing, policymakers need clarity regarding what outcomes they are actually trying to achieve...

Paying for ageing requires a coordinated strategy across households and the state.

Developing such a strategy requires clarity about what outcomes are actually being sought, i.e. what is it that public policy is trying to achieve?

Clarifying outcomes sought is also important in evaluating different policy options, especially when potential strategies are effective in achieving some outcomes but undermine the achievement of others.

This chapter identifies 13 sets of outcomes for policymakers to consider:

- Prevention of poverty among retirees
- Fiscal sustainability
- Meeting expectations of standards of living and well-being in retirement
- Optimal size of the state as a proportion of GDP
- Efficiency in public expenditure
- Optimal allocation of risk between individuals, state and private sector
- Fairness in protecting individuals from risk
- Fairness within generations in how public resources are allocated
- Fairness between generations
- Fairness in rewarding responsible behavior
- Appropriate incentives for households
- Choice
- Political resilience

The rest of this chapter explores each of these outcomes in more detail.

3.1 Prevention of poverty among retirees

The first objective of any strategy focused on paying for ageing must be a minimum level of income and support among all retirees such as to prevent poverty among the older cohort. This is the level of income required to achieve the minimum socially acceptable outcomes associated with health, wellbeing and quality of life in old age. The level of this income depends not just on trends in income and earnings across the population, but on other factors, such as:

- Variable income needs of individuals at different stages of retirement taking account, for example, of the extra costs associated with living with a disability;
- Trends in inflation for important areas of expenditure for elderly people, such as fuel.

3.2 Fiscal sustainability

The second objective is fiscal sustainability: for public expenditure to broadly match revenues from taxation. As set out above, the OBR projects that total public spending in the UK will rise to 40.8% of GDP by 2061-62 – equivalent to £80 billion in today's terms – largely because of population ageing. Unless matched by a commensurate structural increase in taxation revenues, this would result in a structural deficit in the public finances that would not be sustainable in the medium to long-term.

3.3 Meeting expectations of standards of living and well-being in retirement

Many individuals have saved for their retirement. It is therefore important to help individuals secure an income in retirement that meets reasonable expectations, based on their earnings and standard of living during working-life, and the amount that they have set aside to provide a pension income.

3.4 Optimal size of the state as a proportion of GDP

The OBR projects that non-interest public spending will have to rise by 5.2% by 2061 to 40.8% of GDP to maintain existing levels of entitlement and support to individuals. By international or historical standards, Paying for ageing involves decisions around how different types of risks confronting individuals and the state are dealt with...

public spending of 40.8% of GDP is not particularly high. Nevertheless, ensuring that the size of the state as a proportion of GDP is appropriate and does not act as an unnecessary drag on growth remains a significant objective for policymakers.

3.5 Efficiency in public expenditure

In the context of demographic pressures on public spending, it is important that public sector resources are used as efficiently as possible, for example, in the delivery of public sector services.

Efficiency also means preventing unnecessary and avoidable age-related public expenditure. For example, rather than spending public money on expensive hospital stays by older people, public investment in 'prevention strategies' may reduce or eliminate the need for hospital stays altogether.

3.6 Optimal allocation of risk between individuals, state and private sector

Paying for an ageing society involves decisions around how different types of risks – or uncertainties - confronting individuals and the state are dealt with. These risks include:

- Longevity risk – the risk of people living longer than expected;
- Morbidity risk – the risk of people needing health or care;
- Interest rate risk – the risk that interest rate changes undermine retirement income;
- Inflation risk – the risk that inflation rate changes – for example, fuel cost inflation - undermines the adequacy of retirement income and the value of older people's assets;
- Investment risk – the risk that changes in returns on different asset classes – equity, property, sovereign bonds – undermine retirement incomes.

Each risk manifests differently for the state and individuals. For example, longevity risk at the population level means uncertainty for the state regarding how long people will live for on average and what the cost of public spending items – such as the State Pension - will be in future. For individuals, longevity risk means not knowing how long they will live for and what their total retirement income needs will therefore be, i.e. the risk of running out of money.

Some of these risks pose considerable actuarial challenges to the insurance industry. In these cases, private insurance is not offered, or where insurance policies are available, they are prohibitively expensive to households because of the uncertainty involved for insurance companies. When insurance companies cannot offer protection, either the state must provide such protection to the population, or else households will be left uninsured.

A strategy for paying for an ageing society therefore needs to consider how these risks are optimally allocated between the state, individuals and private insurance. In part, this is about which risks private insurance can offer protection against and those risks for which it cannot. It is also about what resources households posses to insure themselves against these risks, the costs of protection against different risks – reflecting the ability of the state and private sector to handle these risks - and whether households 'pay' for protection via private insurance or via the state (taxation).

A key objective for a strategy for paying for ageing must therefore be the optimal allocation of risk between the state, the individual and the private sector.

3.7 Fairness in protecting individuals from risk

Just as it is important that the different risks associated with population ageing are optimally distributed across

A strategy for paying for ageing should seek to treat individuals in the same cohort fairly and equitably...

households, the state and private sector, it is also important that as far as possible, individuals in retirement should have the opportunity for protection from risk through risk-pooling.

For those in retirement, risks confronted include ill-health (morbidity risk), the erosion of the value of their wealth through inflation (inflation risk), and running out of money before they die (longevity risk). A key objective of any strategy for paying for ageing should be to ensure that individuals have the opportunity to be protected from these risks as much as possible.

3.8 Fairness within generations in how public resources are allocated

A strategy for paying for ageing should seek to treat individuals in the same cohort fairly and equitably. For example, means testing public spending on older people is often felt to be unfair among those who have saved and are excluded from support. Inevitably, means testing of retirees by the state cannot distinguish between the so-called ‘deserving’ and ‘undeserving’ poor.

Opportunities to be protected from risk should also be allocated as equitably and proportionately as possible; for example, in terms of the proportion of people’s wealth that is protected from care costs.

3.9 Fairness between generations

It is important that a strategy for paying for ageing is fair between different generations.

In general terms, intergenerational fairness in fiscal policymaking requires tax and spending decisions - the revenue raised through taxation and public spending on different age groups – to be apportioned fairly across the generations.

The ‘intergenerational contract’ at the core of the UK’s ‘pay-as-you-go’ welfare state has traditionally seen the incidence of taxation focused on the earnings and wealth generation of the working-age cohort, while public expenditure has been dominated by spending on older people, such as the NHS and State Pension.

However, as previously explored by the current author,[16] significant disparities in wealth between younger and older cohorts resulting from above-trend growth in property prices – and the transfer of wealth from younger to older generations this involves – arguably necessitates a refinement of this intergenerational contract and a review of how taxation and public spending are apportioned.

Population ageing complicates questions of intergenerational fairness further: to what extent should the extra costs to the Exchequer created by the ‘baby-boom’ cohort be borne by younger cohorts or by the baby-boomer cohort itself? Put another way: should the cohort that is creating additional age-related pressures on public spending be required to contribute additionally to meet these costs? If so, how?

Such questions are often expressed in terms of what sort of deficit in the public finances it is acceptable for one cohort to pass on to the next.

3.10 Fairness in rewarding responsibility

It is important to ensure that as far as possible, individuals are rewarded – not penalised - for responsible behaviour.

For example, one potential response to demographic pressures on public spending is to means test entitlement to state support and welfare transfers, such as the State Pension. However, this has the effect of penalising those who have behaved responsibly and saved for retirement.

A strategy for paying for ageing must possess ‘political resilience’ if households are to have clarity and peace of mind…

Another example is rewarding prevention: if individuals engage in activities that reduce the demands they place on the state – such as moving into specialist retirement housing that delays the onset of care needs - it would be desirable if such responsible behaviour is rewarded appropriately.

3.11 Appropriate incentives for households

A strategy for paying for ageing must ensure appropriate incentives across the population, particularly younger age groups, and guard against these incentives being undermined.

For example, means testing public spending on older people incentivise ‘gaming’, whether through ‘hiding assets’ or over-spending. Means testing also reduces the incentives for younger cohorts to save for their own retirement. Given that pressures on public finances from societal ageing and increasing longevity will stretch out to 2060, ensuring that younger cohorts are incentivised as far as possible to save for retirement is clearly important.

In addition, policies to encourage older people to use housing equity to fund retirement may have the unintended effect of incentivising young people to put their savings into housing rather than other retirement savings vehicles, such as pensions.

3.12 Choice

Paying for an ageing society may involve policies that cut across private decision-making. However, where older households want choice, it is important that public policy seeks to bestow choice.

Nevertheless, enabling choice can be costly in policy terms and for individuals themselves, so it is important that the value of choice is weighed against other policy objectives. For example, greater choice in health and care services can drive up unit-costs, thereby reducing affordability in the context of demographic pressures on public spending. Alternatively, giving individuals the choice to insure themselves can be expensive for the state if the failure of individuals to buy insurance results in higher costs, for example, falling back on means tested benefits because annuity income has failed to keep pace with inflation.

3.13 Political resilience

A strategy for paying for ageing must comprise policies that are politically resilient - i.e. policies that are likely to survive several elections and changes of government – and which will therefore provide the older population with peace of mind and the ability to plan ahead. A strategy for paying for ageing therefore needs to be capable of cross-party political support, and more widely, to reflect centrist political positions. In short, policymakers need to adopt positions that minimise the ‘political risk’ confronting individuals.

Key points:

- Developing a strategy for paying for ageing that reaches across households and the state requires clarity regarding what outcomes are actually being sought.
- 13 sets of outcomes can be identified for policymakers to consider: prevention of poverty among retirees; fiscal sustainability; meeting expectations of standards of living and well-being in retirement; optimal size of the state; efficiency; optimal allocation of risk between individuals, state and private sector; fairness - protecting individuals from risk; fairness - within generations; fairness – between generations; fairness – rewarding responsibility; appropriate incentive framework; choices; and, political resilience.

4. What are the options for the state?

The state has five broad options for responding to the cost of an ageing population ...

Given the pressures that population ageing will impose on public spending, how should the state respond?

The OBR projects that total non-interest public spending in the UK will rise from 35.6 per cent of GDP in 2016-17 to 40.8 percent of GDP by 2061-62, an increase of 5.2 per cent of GDP, equivalent to £80 billion in today's terms. From 2016-17 onwards the drivers of the increase in non-interest public spending are health, state pensions and long-term care costs, due mainly to the ageing population. As noted in Chapter 2, many stakeholders would argue that age-related public spending is already inadequate – particularly in relation to social care and excess winter deaths – and as such, the UK starts from a 'deficit position' on age-related spending.

Paying for Ageing: How to achieve fiscal sustainability?

On the basis of the OBR's projections, in order to achieve fiscal sustainability in the context of population ageing, the government will have to implement one or more of several potential strategies:

- Cut other areas of public spending;
- Reduce demand for age-related areas of public spending;
- Cut age-related public spending;
- Improve productivity in public services;
- Raise taxation.

The rest of this chapter explores and evaluates these options in more detail.

The chapter does not consider the role of immigration as a potential strategy for addressing the costs of ageing to the Exchequer and a declining 'elderly support ratio'. Although immigration is often discussed in the context of how countries can respond to population ageing, and governments can introduce policies favourable to immigration, any such strategy is ultimately dependent on the choices and actions of citizens and governments entirely out of the control of domestic governments, so it would be both risky and unpredictable for domestic governments to rely on immigration.

Furthermore, this chapter does not attempt to attach figures to the options identified here. Such information would be beyond the scope of this paper, and reliable projections of relevant figures are only partially available.

4.1 Cut Other Areas of Public Spending

Summary:
- In order to maintain age-related spending in the context of growing demand, the government could simply cut spending in other, non-age related, areas.

Examples:
- Education
- Defence
- Transport

Pros:
- Outcomes – entitlements and support to older people maintained.

Cons:
- Acceptability – political resistance to public spending cuts;
- Intergenerational fairness – maintaining expenditure on age-related public spending by transferring resources from other areas would likely result in reduced entitlements and support to younger households, despite the considerable wealth inequality between the cohorts.

Boosting rates of home-ownership would reduce the number of pensioners reliant on Housing Benefit in retirement...

4.2 Reduce Demand for Age-related Areas of Public Spending

The government can reduce the cost of population ageing to the Exchequer by reducing demand for age-related public spending. This can be achieved in several ways.

4.2.1 Boost private pension incomes

Summary:
- Raising the average value of private pension incomes will reduce the number of individuals who qualify for means tested support from the state, thereby saving the state money.

Examples:
- Pension Credit – higher private pension incomes will reduce the number who rely on means tested Pension Guarantee Credit;
- Social care – boosting private pension income will reduce the number of individuals who qualify for means tested support for care costs from their council.

Pros:
- Feasibility – although raising pension participation and contribution rates is challenging for policymakers, it is not impossible. For example, employer contributions are known to be extremely effective in encouraging contributions to workplace pension saving schemes,[17] and ongoing reforms to workplace pension saving will see far more employees qualify for both a workplace pension and contributions from their employer.

Cons:
- Problems with means testing - boosting private pension income only reduces age-related public spending if such spending remains substantially means tested. However, means testing of older people is problematic in several ways. It is complex, bureaucratic, unpopular and leads to 'gaming'. It creates unfairness and inequity within the older cohort. It undermines incentives to save for retirement among the young. In addition, the principal means testing system used to allocate Pension Credit is broken and fails to reach around one-third of those entitled to extra support – around 1.3 million people.

4.2.2 Boosting rates of home-ownership

Summary:
- Most individuals renting during retirement rely on means tested Housing Benefit from the state to pay for their rental costs.[18] Boosting rates of home-ownership - especially among the young - will ensure that fewer individuals in retirement claim Housing Benefit to meet their housing costs.

Pros:
- Acceptability – home-ownership is popular, and the public is often supportive of the aim of increasing rates of owner-occupation.

Cons:
- Feasibility – multiple factors are causing downward pressure on rates of home-ownership, including: shortage of housing, mortgage costs, etc. These barriers to increasing rates of home-ownership across the population pose a major challenge to policymakers in their own right.

4.2.3 Strategies to prevent need

Summary:
- Public spending on illness and disability in the older population (health and social care) can be reduced through policies that prevent both the onset and deterioration of need.

The evidence base on prevention is still inadequate...

Examples:
The 'prevention agenda' is wide-ranging, and includes policies to address:

- Loneliness and social isolation – evidence suggests these can cause depression and ill-health;[19]
- Re-ablement – helping people adapt and regain their independence following a fall or other incident reduces need for care and support;
- Nutrition – ensuring good nutrition among the older population raises resilience and reduces ill-health;
- Home adaptations – people's homes can be adapted to help them live there for longer and to increase their ability to remain independent, for example, the construction of a downstairs bathroom, erecting handrails, etc.

Pros:

- Cost-effectiveness – for health and care services, prevention can be cheaper than treatment;

Cons:

- Barriers to investment – investing in prevention requires upfront investment costs that can increase short-term spending pressures;
- Problems measuring and capturing savings – savings secured via preventive interventions can often be difficult to measure, and 'slip away' from those organisations that invested in prevention - for example, away from local authorities to the NHS and to individuals themselves – thereby reducing incentives for public agencies to invest;
- Lack of evidence – the evidence base on the effectiveness of individual policies to prevent illness and disability in the older population is still at a relatively undeveloped stage, making policy design difficult;
- Acceptability – some types of preventative interventions – such as help with transport costs - may be viewed as the responsibility of individuals rather than the state, making it difficult to justify investment in prevention even when it is demonstrably cost-effective for the public purse.

4.2.4 Boost informal caring

Summary:

- The vast majority of care provision is unpaid, 'informal' care from families and friends at no cost to the state. Addressing barriers to informal caring may encourage more families to provide it, reducing demands on the state for support.

Examples:

- Flexible working – giving family carers the right to request flexible working from their employers means more carers can undertake paid work and caring responsibilities.

Pros:

- Savings – informal care reduces reliance on the social care system and public funding.

Cons:

- Over-reliance – many family carers currently suffer because of the volume of care they provide. As a result, campaigners argue that more needs to be done to support carers and relieve their burden, rather than aiming to increase society's reliance on informal care. As such, policy development arguably starts from a position of needing to reduce the prevalence and volume of informal care provision across society, rather than increase it;
- Cost – measures to help carers – especially balance work and caring – usually involves costs either for the state, employers or local authorities.

4.3 Cut Age-Related Spending

Faced with an increase in age-related public spending in coming decades, there are various ways in which age-related public spending can be cut.

To reduce expenditure, the government could raise even further age-thresholds to entitlements such as the State Pension...

4.3.1 Cut entitlements

Summary:
- Cut entitlements and support, and force older people in future to have to accept lower incomes and poorer outcomes across health and social care. In effect, the welfare, health and care systems would be left to cope as best they can with reduced resources. In practice, the NHS, councils and the Department for Work and Pensions would likely fall back on implicit and explicit rationing by need and means.

Examples:
- State Pension – the value of the State Pension could be cut, while maintaining the safety-net of Pension Credit.
- NHS – allow public spending on the NHS to fall behind age-related growth in demand, and leave it up to the NHS to do what it can with the resources it has and find ways to save money, for example, opting for low-cost less effective medical treatments.

Pros:
- Political resistance – by simply squeezing budgets across the board, politicians in central government would 'spread the pain' in terms of public opposition to cuts.

Cons:
- Older people's outcomes – cutting public spending on the State Pension, NHS and social care, will result in increased mortality and morbidity in the older generation;
- Unnecessary – given the wealth of the older generation, there are convincing options available to avoid simply cutting entitlement across the board.

4.3.2 Tighten thresholds of entitlement to public funding

Summary:
- Tighten rules on entitlement to state support and age-related spending in order to reduce eligibility and lower related expenditure.

Examples:
- Increase age-thresholds – raise even further the age at which individuals are entitled to receive the State Pension, Winter Fuel Payments, free bus passes, subsidised prescription charges.
- Cut means test thresholds – lower the £23,250 means test threshold in the social care system, or continue the current policy of not increasing thresholds in line with inflation.

Pros:
- Transparency – rather than hidden cuts, the public will be able to see how entitlements are being trimmed;

Cons:
- Acceptability – changing entitlement thresholds may be unpopular, particularly among those who 'just miss out';
- Effect on planning – given the necessity that individuals plan ahead and prepare for their income needs in retirement, it is undesirable for the government to repeatedly change entitlement thresholds on an ad hoc basis.

4.3.3 Tighten means testing rules toward property

Summary:
- Tighten rules on means testing by being less generous in how assets and income are assessed.

Means-tested benefits fail to reach around 1.3 million pensioners entitled to them...

Examples:
- Pension Credit – include the value of someone's home in determining eligibility for means tested Pension Credit;
- Social care – housing wealth could be included in council means tests for determining eligibility to support for home care, saving local authorities billions of pounds each year.[20]

Pros:
- Resources – rates of owner-occupation and average housing wealth in the older cohort are high already and will grow in future, so significant savings to public spending could result from withdrawing support from those with housing wealth;
- Intergenerational fairness – removes the current anomaly whereby Pension Credit and council-funded home care can be received by those owning very expensive houses.

Cons:
- Outcomes – unless 'property rich' individuals who lose entitlements find effective ways of using their housing wealth to make up the difference in state support, they may experience income poverty or 'unmet need'. As such, the state may itself have to provide such decumulation mechanisms in practice, such as 'deferred payment schemes'.

4.3.4 Ration by Wealth: Increase the scope of means testing

Summary:
- In addition to existing means testing of social care (England) and Pension Credit, the scope of means testing could be extended across all areas of age-related public spending including the NHS and universal benefits.

Examples:
- NHS – withdraw different types of services, e.g. primary care, to those above a means test threshold;
- Universal benefits – the State Pension, Winter Fuel Payments, free bus passes and free TV licenses could all be restricted to those who fall below a means test threshold;
- Attendance Allowance – entitlement to claim Attendance Allowance could be means tested.

Pros:
- Targeting – in a resource-constrained situation, public spending on older people is targeted at those with greatest financial need.

Cons:
- Problems with means testing – means testing is complex, bureaucratic, unpopular and leads to 'gaming'. The principal means testing system currently operating for older people – Pension Credit – fails to reach one-third of its target group, i.e. 1.3 million people.
- Incentives – exacerbates existing disincentives to save for retirement that already result from current means testing of retirees;
- Inefficient – rationing by wealth can be inefficient if it results in higher costs to the state. For example, rationing support for social care can result in unmet need that ultimately results in preventable occupancy in expensive hospital beds by older people.

4.3.5 Ration by Need

Summary:
- Restrict state support for health and care to those with the highest needs. For example, remove entitlement to primary care and low-level help with social care needs.

Co-payments in health could ration demand and raise revenue, but penalise those unfortunate enough to need treatment...

Examples:
- Health – end universal entitlement to primary care;
- Social care – restrict entitlement to support to only those with the highest needs.

Pros:
- Targeting – the limited resources of the state are focused on those with the greatest need.

Cons:
- Acceptability – universal access to primary care is highly valued as a right by the public;
- Inefficient – reduced support for low-level need could result in higher needs and extra demand. For example, removing entitlement to universal primary care would likely result in failure to intervene when conditions are treatable, resulting in more expensive hospital stays and treatment when need has worsened.

4.3.6. Co-payments: Ration demand and raise revenue

Summary:
- Extend the scope of 'charging' - i.e. co-payments – further across health and social care among those above a means test threshold, in order to both ration demand and raise revenue;
- A 'cap' could be placed on the charges individuals pay either on a regularly (e.g. weekly) basis, or as an accumulated total.

Examples:
- NHS – introduce charges for seeing a GP, hospital consultant, etc.
- Social care – extend charges for care and support services to include even the lowest cost forms of support.

Pros:
- Ration demand – individuals would likely ration their demand for treatment if health services were no longer presented as a 'free good';
- Raise revenue – charging raises revenue for the Exchequer;
- Variability – the level of co-payments can be raised or lowered depending on changes in average incomes, and varied across the country.

Cons:
- Fairness – those unfortunate enough to experience health or care needs are penalised compared to those who don't;
- Inefficient – as currently observable in the social care system, charging for services can result in unmet need, deteriorations in people's conditions and higher costs for the state overall;
- Inefficient – raising revenue through charging is less efficient than simply raising equivalent revenue through taxation;
- Fairness – charging for health and care services penalizes those unfortunate enough to require such services;
- Problems with means testing – since services would have to remain free to those with negligible resources, means testing would be required with associated problems described above;
- Alternative options – other mechanisms for rationing demand for health and social care services may be more effective in rationing demand, such as 'triaging' to reduce wasteful use of health resources.

4.4 Improve Productivity in Public Services

Summary:
- Increased productivity in age-related public services, notably health and social care, will enable support to be maintained at equivalent levels, but at

Given the unprecedented property wealth of the older cohort, this wealth could be taxed to pay for the cost of an ageing population...

lower cost, thereby reducing public spending pressures.

Examples:
- Moving care into lower-cost settings – for examples, moving individuals out of hospitals to receive ongoing medical support in nursing or residential care;
- Integrated health and social care – various models of integrated care can reduce assessment costs.

Pros:
- Maintaining support – achieving just 'the same for less' will make it easier to maintain equivalent levels of support and entitlement to individuals as the population ages.

Cons:
- Implementation –strategies to raise productivity in age-related public services are frequently challenging to implement. For example, multiple organisational, cultural and other barriers have long proven a barrier in practice to securing savings from integrating health and social care delivery.

4.5 Raise Taxation

Simply maintaining age-related entitlements and support at equivalent levels to today will cost billions of pounds more in future. In response, there are various options open to policymakers for raising taxation to fill this gap.

4.5.1 Increase taxation across the board

Summary:
- To pay for the costs to public spending of an ageing population, the Treasury could increase taxation of all types.

Examples:
- Income tax
- VAT

Pros:
- Simplicity – raising taxes across the board to pay for an ageing population is simple, understandable and predictable for the public;
- Progressivity – the overall structure of taxation in the UK is progressive.

Cons:
- Affordability – the extra of costs age-related public spending will be 5.2% of GDP by 2061;
- Intergenerational fairness – the tax base in the UK is skewed toward those of working age. As such, simply increasing taxes across the board to pay for the older cohort may undermine intergenerational fairness, given the sizable housing wealth of the older generation.

4.5.2 Increase taxes on older people's wealth

Summary:
- Given the unprecedented property wealth of the older cohort, this wealth could be taxed to pay for the cost of an ageing population.

Examples:
- Inheritance tax – in 2009-10, only 14,629 estates were liable for inheritance tax, and there is considerable scope to increase its incidence;
- Capital gains tax on primary homes – this could be introduced for those over the State Pension Age or be payable on death from estates.

Pros:
- Increased productivity – extracting the value of older people's housing wealth through taxation will see this money put to more productive uses, increasing the productivity of the economy;
- Intergenerational fairness – taxing older people's housing wealth to pay for the costs to public

Taxing property wealth results in 'investment risk' for the Exchequer as property values go up and down...

spending of an ageing society is arguably fairer than increasing taxation on the young;
- Progressivity – taxes on older people's wealth can be constructed so as to be progressive, ensuring fairness within the older generation;
- Affordability – with median net housing wealth per home-owning retiree in excess of £100,000, older people are in a strong position to be able to make a contribution to the costs of an ageing society through taxation.

Cons:
- Acceptability – the public is highly resistant to taxes on property wealth. Even built around a 'something for something' offer to the older generation based on a clear, identifiable increase in entitlements, many older people may be skeptical that taxes on their wealth will be used by the Treasury to benefit them;
- Incentives – taxes on estates may encourage families to move their wealth around in order to reduce their liability, suggesting rates of taxation on housing wealth would have to be kept low, reducing the revenue derived;
- Investment risk – housing wealth can go up and down in value, creating risks to future tax revenues if the Exchequer is heavily reliant on taxation of this wealth. In particular, there is considerable uncertainty around how population ageing will affect the value of housing in the medium to long-term.

4.5.3 Increase taxes on older people's income

Summary:
- Taxes on the earned and non-earned income of those over the state pension age could be increased.

Examples:
- Income tax – these could be further brought into line with rates paid by those of working age;
- National Insurance Contributions for older workers –those over the State Pension Age do not currently pay NICS.

Pros:
- Progressivity – taxes on income in the UK are progressive.

Cons:
- Effect on wellbeing and outcomes – a key mechanism for helping older people to remain healthy and well, thereby reducing their future demand on health and care services, is to maximize their income and consumption;
- Incentives – increasing the taxation of income in retirement will reduce incentives for younger people to save for retirement, and for workers with inadequate pension saving to carry on working past State Pension Age;
- Revenue – only around 15% of older people pay basic rate income tax, and around 8% pay higher rate. As such, unless income tax thresholds were made very severe – potentially lower than working-age thresholds - the revenue raised is likely to be limited;
- Fairness - it is arguably very unfair to changes the 'rules of the game' when individuals are approaching or in retirement;
- Acceptability – changes to income tax thresholds can stoke considerable political opposition, as shown by changes in Budget 2012.

Key points:

- In order to achieve fiscal sustainability in the context of population ageing, the government will have to implement one or more of several potential strategies: cut other areas of public spending; reduce demand for age-related public spending; cut age-related public spending; improve productivity in public services; raise taxation.

5. What are the options for households?

Around one-third of those reaching retirement face a choice around annuitisation...

Households face difficult decisions about how to decumulate and fund retirement.

Previous chapters explored how retirees confront various issues relating to:

- Inadequate retirement income;
- Illiquidity;
- Protection gaps;
- Political risk.

This chapter reviews the options open to retirees and identifies several broad strategies:

- Optimise annuitisation decisions;
- Decumulate housing wealth;
- Private insurance.

5.1 Optimise Annuitisation Decisions

Summary:
- Around one third of those approaching retirement have defined-contribution pension saving, and therefore face choices regarding what type of annuity they buy. There is significant scope to improve the annuitisation decisions that retirees make, for example, in relation to protection from the effects of inflation on retirement income.

Examples:
- Inflation protection – some annuities pay incomes linked to changes in inflation, or increase by a pre-determined amount each year to counteract the effects of inflation;
- Shopping around – many annuitants do not 'shop around' for the best deal, including some with health conditions and a shorter life expectancy who may be able to obtain a significantly higher income;
- Dual-life annuities – many couples only buy single-life annuities, so that if the annuitant dies first, the partner is left without private income;
- Flexible drawdown – those with at least £20,000 of secure pension income – which is a very small percentage of the population – can opt for 'flexible drawdown' of their pension wealth, if their scheme permits it;
- Disability-linked annuities – although not widely available, annuities could guarantee individuals a higher income payable if they experience a defined level of disability, thereby helping with the costs of living with that disability.

Pros:
- Outcomes – whether in relation to getting a better deal or obtaining protection from retirement income risks, there is considerable scope to improve annuity purchases.

Cons:
- Small pension pots - the median amount of defined-contribution pension saving among those approaching retirement is £25,000, suggesting that the net effect of improved annuitisation decisions on incomes may be limited;
- Reduced income – annuities that offer protection from risk – inflation, morbidity – ultimately pay a lower income from the point of purchase than those annuities that do not, thereby dampening demand among consumers;
- Distribution of risk – given that the State Pension rises in line with inflation, this arguably provides a better way for retirees to receive protection from inflation-risk than their private pension income, where such income has to be paid for;
- Consumer preferences – most annuitants opt for the annuity with the highest immediate income – even if this means a couple obtaining a single-life annuity – suggesting significant consumer barriers to improving annuitisation decisions.

Even after downsizing to release capital, older people may be reluctant to spend this money given the uncertainty of how long they will live for...

5.2 Decumulate housing wealth

5.2.1 Downsizing

Summary:

- Many individuals arriving at retirement occupy family homes with three or more bedrooms that provide surplus space for their needs, and which have a high capital value. These households therefore have the option of moving home and 'downsizing', and releasing capital while still ensuring they have adequate living space.

Pros:

- Releasing wealth – with rates of owner-occupation at a historical high among those around retirement age, and after years of above-trend house price inflation, older households have significant volumes of wealth that could be released through downsizing and used to subsidize pension income;
- Housing stock – more downsizing by the older generation would release family homes for occupation by younger cohorts.

Cons:

- Investment risk – house prices can go down as well as up, so individuals that plan to fund their retirement through downsizing confront investment risk;
- Social networks and neighbourhood – people's homes are usually the nexus of their social relationships and position in the community. These can be undermined if people downsize to new locations, with negative effects on their health;
- Longevity risk – older people do not know how long they will live for, so even after releasing capital through downsizing, they may be reluctant to spend this money given the risk of running out of money before they die;
- Means testing – individuals who downsize their home, and release substantial sums of liquid capital may then exclude themselves from means tested support, notably Pension Credit and council-funded social care;
- Transaction costs – selling a home and buying a new one involves significant transaction costs;
- Suitability of housing stock – many individuals are prevented from downsizing by the non-availability of suitable housing stock, considered in terms of quality, cost, location, etc.

5.2.2 Equity release

Summary:

- Older people with significant housing wealth can borrow against the value of their home using 'equity release' products.

Examples:

- Lifetime mortgages - a loan secured against the value of someone's home, which is paid back with interest once the property is sold, for example, after death;
- Home reversion schemes – individuals sell part or all of the ownership of a property to a provider for a discounted amount in return for a lump-sum payment, but are allowed to go on living in the property.

Pros:

- Wealth – older households can use equity release to access some of their wealth in their home to fund consumption, without actually having to sell their home.

Cons:

- Longevity risk – as with downsizing, individuals may be nervous of actually spending the money they obtain through equity release in case they run out;
- Transaction and interest costs – households must pay some of the value of their home for the transaction and interest costs associated with equity release products, with the result that

The majority of older people are likely to feel they cannot afford private health insurance...

products can appear to consumers as poor value for money;
- Means testing – individuals who downsize their home, and release substantial sums of liquid capital may then exclude themselves from means tested support, notably Pension Credit and council-funded social care;
- Housing stock – equity release products may encourage households to carry on living in homes that are too big for their needs, thereby 'over-consuming' housing and causing shortages in the housing stock affecting younger cohorts;

5.2.3 Deferred payment schemes

Summary:
- An equity release scheme run by councils for those individuals in residential care who are excluded from means tested support on account of being too wealthy, but who do not wish to sell their home. Councils lend individuals the cost of their care home fees with the amounts reclaimed from the eventual sale of people's homes.

Examples:
- England – in July 2012, the government announced that it would introduce universal access to deferred payment schemes in England.[21]

Pros:
- Reassurance – prevents emotional distress among older people who go into residential care but are alarmed by the prospect of their home being sold;
- Security of provision – as a state-backed scheme, availability is not affected by factors that determine the availability and cost of equity release products, such as the functioning of international capital markets.

Cons:
- Longevity risk – individuals can ultimately spend many years living in residential care, so even with deferred payment schemes, end up losing a large share of their wealth to pay for residential care;
- Interest costs – although previously, deferred payment schemes had not charged individuals interest, measures in England to widen access to deferred payment schemes are taking place on the basis of charging individuals interest.

5.3 Private insurance

5.3.1 Health insurance

Summary:
- Older people can buy private health insurance, particularly if they are concerned that the treatment and support available from the NHS is inadequate or will be in future.

Examples:
- Multiple different types of private health insurance are available in the UK.

Pros:
- Choice – by obtaining private health insurance, individuals ensure that they have a choice if they are dissatisfied with the quality and availability of provision on the NHS;
- Costs to the state – individuals paying for their own healthcare costs privately reduce pressures on the NHS.

Cons:
- Affordability – median income among retirees is around £230 per week, and median liquid wealth is around £15,000. As such, the majority of older people are likely to feel they cannot afford private health insurance.
- Age and risk-rating – as individuals age, health insurance premiums increase to reflect their higher risk of ill-health, thereby reducing affordability.

Multiple demand barriers confront the pre-funded long-term care insurance market in the UK...

5.3.2 Pre-funded care insurance

Summary:
- Although pre-funded care insurance is not available to purchase in the UK, in some other countries, individuals purchase such insurance to obtain protection against the potential costs of long-term care.

Examples:
- Overseas - take-up is around 10% in the United States and 15% in France. Product design varies, but frequently includes features to manage the liability of providers, for example, limits on total pay-outs following a successful claim on a policy.

Pros:
- Protection – pre-funded care insurance enables individuals to obtain partial protection from the costs of care in the future.

Cons:
- Actuarial uncertainty and resulting product design – because of actuarial challenges in forecasting the incidence and duration of disability across the population, insurers that offer care insurance overseas typically have to limit the protection it affords, for example, by capping the value of pay-outs.
- Demand barriers – multiple, embedded demand side barriers confront the pre-funded care insurance market in the UK (excluding Scotland, which operates a policy of free personal care).[22]

5.3.3 Point-of-need care insurance (immediate needs annuities)

Summary:
- Individuals entering residential care can purchase ‘immediate needs annuities’, which pay out a regular income until death to cover the costs of care fees, in return for a large lump-sum premium at the point of sale.

Examples:
- There are estimated to be around 7,000 people in residential care in England using immediate needs annuities, among 120,000 ‘self-funders’.[23]

Pros:
- Longevity protection – individuals with immediate needs annuities are obtaining protection from longevity risk, i.e. the risk of living a long time in residential care and spending down all of their wealth on their care costs;

Cons:
- Cost – the up-front premiums paid for immediate needs annuities are usually very expensive, equivalent to cost of several years in residential care;
- Suitability – less than half of ‘self-funders’ in residential care have sufficient wealth for it be in their interest to purchase an immediate needs annuity.[24]

Conclusion

Confronting inadequate retirement income, illiquidity, a protection gap and political risk, those retiring do not have many private options open to them. Private insurance for health or care would likely appear unaffordable to median household. In relation to long-term care, there is no scope to insure themselves. Mechanisms to decumulate housing wealth can prove expensive, and doing so may disqualify them from means tested support.

Key points:

- To address income inadequacy and exposure to risk, retirees essentially have three options:

Less than half of ‘self-funders’ in residential care have sufficient wealth to purchase an immediate needs annuity...

optimize annuitisation decisions; decumulate housing wealth; and, private insurance;

- However, confronting inadequate retirement income, illiquidity, a protection gap and political risk, those retiring do not have many private options open to them. Private insurance for health or care would likely appear unaffordable to median household. In relation to long-term care, there is no scope to insure themselves. Mechanisms to decumulate their housing wealth can prove expensive, and doing so may disqualify them from means tested support.

6. Options for joint strategies between households and the state

Labelling financial transfers to older people – for example, Winter Fuel Payments – can be highly effective for influencing behaviour and consumption decisions...

Previous chapters have set out the challenges facing individuals and the state in paying for ageing.

For the state, an ageing society poses an acute fiscal challenge. For individuals, paying for ageing involves decisions around best to deal with inadequate retirement incomes, illiquidity, a 'protection gap' and political risk.

This chapter reviews joint strategies for paying for ageing: options that variously rely on actions and responses by the state, the financial services industry and households. The options reviewed include:

- Labelling transfers from the state
- Single-tier State Pension;
- Compulsory private pension saving;
- Default/compulsory annuitisation choices;
- Targeted retrenchment in age-related public spending;
- State underwriting tail-risks;
- State-sponsored insurance schemes;
- Incentivised decumulation of housing wealth;
- Compulsory decumulation of housing wealth.

6.1 Labelling transfers from the state

Summary:
- The private choices, behavior and 'consumption decisions' of individuals in retirement are a key determinant of whether individuals subsequently make demands on public services, such as health and social care. In this context, 'labelling' financial transfers to older people – for example, 'Winter Fuel Payments' - can be a highly effective mechanism for influencing behaviour and consumption decisions, and reducing subsequent 'downstream' costs.

Examples:
- Despite representing cash payments, research has found that Winter Fuel Payments do indeed get spent on fuel in a way that contradicts the predictions of economic theory.[25] In the context of the State Pension, there may be a compelling case for 'labelling' more transfers to older people in order to influence behaviour.

Pros:
- Labelling cash transfer to older people may be more effective at influencing behaviour, and therefore improve cost-effectiveness.

Cons:
- Labelling for particular purposes financial support that individuals treat as an entitlement may be regarded as patronising.

6.2 Single-Tier State Pension

Summary:
- The value of the Basic State Pension is raised to match the level of Pension Credit, thereby raising the incomes of all those who would otherwise qualify for Pension Credit, which would be phased out.

Examples:
- In 2011, the Department for Work and Pensions consulted on introducing a Single-Tier State Pension.[26]
- To fund a more generous State Pension, certain universal pension benefits – notably Winter Fuel Payments – could be phased out.

Pros:
- Reduced means testing – the number of retirees experiencing means testing will be significantly reduced, although means testing would remain for Housing Benefit and social care;

A Single-Tier State Pension would improve incentives to downsize among low-income older households…

- Improved retirement saving incentives – by removing the primary pillar of means testing in retirement, incentives to save for retirement among the young would be substantially enhanced;
- Incentives to downsize and release equity – 'asset-rich, income-poor' retired homeowners who opted to decumulate housing wealth through downsizing or equity release would no longer be disincentivised to do so by the risk of loss of entitlement to Pension Credit.

Cons:
- Cost – raising the value of the State Pension will impose significant costs.

6.3 Compulsory private pension saving

Summary:
- Introduce compulsory saving into private pensions.

Examples:
- Beyond auto-enrolment - following the October 2012 first phase of auto-enrolment into workplace pension schemes with mandatory employer contributions, policymakers could eventually make contributions from employers and employees into workplace pensions compulsory;
- National pension funds – to ensure universal reach, the UK could transition to a funded – rather than 'pay-as-you-go' – state pension system, in which revenue from income tax was directly placed into national pension funds.

Pros:
- Retirement income – although auto-enrolment reforms are expected to increase rates of participation in pension saving, it may be that achieving adequate contribution levels in the long-term will only be achieved through compulsion.

Cons:
- Acceptability – individuals may equate compulsory private pension saving with taxation;
- Choice – undermines the choice and control of individuals to plan for their own retirement income needs;
- Feasibility – given wide variation in employment circumstances (informal working, short contracts, self-employment, etc.) implementing compulsory private pension saving may be difficult to achieve, except via the taxation system.

6.4 Default/compulsory annuitisation choices

Summary:
- Since individuals often make poor annuitisation choices – frequently failing to obtain protection from risks such as inflation - individuals should be 'defaulted' into certain types of annuity, or regulation should be revised to require individuals to purchase certain types of annuity.

Examples:
- Default – providers required to default individuals into annuities that offer greater income protection;
- Compulsion – all annuitants could be required to purchase annuities that provide income to any partner, provide protection from inflation, etc.;
- Variable thresholds – rules on default or compulsory annuitisation choices do not have to apply to all of defined-contribution pension pot, but could apply to the first £25,000, for example.

Pros:
- Protection gap – improved annuitisation choices among defined-contribution pension savers would reduce the number ultimately becoming reliant on means tested state support.

Cons:
- Choice – it could be considered unfair to change the 'rules of the game' in relation to existing

The state could undertake ‘targeted retrenchment’ in relation to specific areas of older people’s spending...

accrued pension saving, and would also undermine choice;

- Income - obtaining greater protection through annuity purchase lowers the immediate income that individuals receive, so such reforms may be resisted by consumers;
- Impact – given the average size of defined-contribution pension pots at retirement – the current median value is around £25,000 – the impact on the protection gap will be limited;
- Scope – only around one third of individuals are saving into a defined-contribution pension, although this is expected to increase in light of auto-enrolment reforms and the winding down of defined-benefit schemes;
- Incentives – reducing choice around how individuals annuitise their pension saving may reduce incentives to save.

6.5 Targeted Retrenchment in Age-Related Public Spending

Summary:

- Given the fiscal challenge posed by population ageing, the state undertakes ‘targeted retrenchment’ in relation to specific areas of public spending and services, where it believes privately purchased provision and insurance can fill the gap effectively.

Examples:

- Health – the NHS could cease to pay for certain types of services or operations, whether because they are low-cost, or because insurers would be able to offer insurance given predictable (actuarial) incidence in the population and predictable costs;
- Limited liability – the ‘capped cost’ model proposed by the Commission on Funding of Care and Support for the social care system involved placing a ‘cap’ on individual liability for care costs. Such a model could also be applied to accumulated healthcare costs, whether relating to all costs or particular conditions.

Pros:

- Public expenditure – retrenchment by the state in providing entitlements and services would reduce the size of the age-related fiscal challenge for the Exchequer;
- Outcomes among retirees – by retrenching the role of the state in targeted areas where private provision and/or insurance can fill the gap, the effect on the health and well-being outcomes of the older population can be minimized.

Cons:

- Affordability – given median financial wealth across the older population, many individuals may find insurance premiums unaffordable – particularly as they age - or prefer to engage in precautionary saving by retaining their financial assets in liquid form as insurance against a much wider range of potential adverse events. As such, any form of targeted retrenchment by the state would likely increase the protection gap confronting retirees;
- Take-up – among those able to afford private insurance, demand barriers – inertia, ignorance, etc. – may result in low take-up rates;
- Problems with defining liability – for individuals to buy insurance for liabilities that complement protection from the state, these liabilities need to be defined in a way that is coherent with actuarial calculations. However, this is highly problematic in both health and social care. For example, it would be actuarially impossible for insurers the predict when individuals would reach the £35,000 ‘cap’ on costs proposed by the Commission on Funding of Care and Support;
- Potential for cost-shifting – particularly given the incidence of ‘co-morbidities’ (having more than one illness), disputes may arise between whether the state, the individual or an insurance company is liable for meeting a particular cost, i.e. ‘cost-

The state could use state-sponsored insurance schemes in order to deploy participation mechanisms unavailable to the private sector...

shifting'. Such problems may become exacerbated over time with evolutions in conditions, treatments and related costs;
- Political risk – confronting a retirement of 20 years, individuals cannot be sure that a future government will not change the rules and make any insurance they have purchased redundant.

6.6 State Underwriting of Tail-Risks

Summary:
- The state offers protection to private insurance companies against 'tail-risk' scenarios associated with morbidity, longevity and inflation, thereby reducing actuarial uncertainties confronting insurers and enabling cheaper premiums/higher pay-outs for consumers and annuitants.

Examples:
- Longevity bonds – these would pay declining coupons linked to the survivorship of a cohort of the population - for example, 65-year-old males;[27]

Pros:
- Improved allocation of risk – since the state is better equipped to handle certain types of tail-risk, providing this support to private insurance enables complementary protection products to offer better value and availability to consumers.

Cons:
- Insurance take-up – relies on individuals purchasing defined contribution annuities or private insurance;
- Funding government liabilities – if 'tail-risk' scenarios occur, or simply to prepare for them, the state may have to divert resources from other areas of age-related spending, thereby reducing entitlements, support – and outcomes – for individuals.

6.7 State-sponsored insurance schemes

Summary:
- Between taxation and pure private insurance, the state can set up state-sponsored insurance schemes for particular types of retirement income need, run as entirely statutory entities or through public-private partnerships with the insurance industry.

Examples:
- Social care – in debate on long-term care funding reform in England, a National Care Fund was proposed by the current author as one option for enabling older home-owners who would be excluded from state support to use their housing wealth to protect themselves from the cost of social care.[28]

Pros:
- Participation mechanisms – the state can deploy participation mechanisms unavailable to the private sector, such as forms of soft-compulsion, in order to boost take-up;
- Risk allocation – the state can use a state-sponsored insurance scheme to transfer to the private sector those risks it is most equipped to handle;
- Acceptability – individuals in retirement may be more inclined to make a new and specific contribution to their retirement income costs if it is strictly ring-fenced from the Exchequer;
- Liquidity – state-sponsored insurance schemes may be able to make it easier for individuals to use their housing wealth – such as paying premiums in the form of a charge on estates – thereby effectively reducing household illiquidity.

Cons:
- Take-up – even applying soft-compulsion, voluntary state-sponsored insurance schemes may not be

able to achieve adequate participation rates for policymakers;
- Affordability – given that premiums for a voluntary state-sponsored insurance scheme would have to be flat-rate, they would have to be set at a sufficiently low level to enable affordability in a way that would reduce the cover provided.

6.8 Incentivised Decumulation of Housing Wealth

Summary:
- There are various measures that could be implemented to increase the incentives for individuals to decumulate housing wealth through downsizing and equity release.

Examples:
- Changes to means test rules – in order to ensure individuals are not disincentivised from downsizing or using equity release by means testing rules, all capital and income released in this way could be exempted from the scope of means tests for Pension Credit and social care. Such a change to rules could be applied with an age-threshold, e.g. 75;
- Income-tax relief – income resulting from downsizing or equity release – for example, if equity release products are used to purchase annuities – could be made exempt from income tax;
- Abolition of Stamp Duty for those over-75;
- Subsidies for downsizing – for example, vouchers redeemable against the transaction costs of moving, such as a surveyor's report;
- Taxation – taxes on housing wealth and land-value taxes would provide a financial incentive to downsize among retirees who no longer require significant space, i.e. they 'under-occupy'.

Pros:
- Retirement income – with significant property wealth, there is considerable scope for retirees to improve their retirement income through downsizing and equity release products.

Cons:
- Intergenerational fairness – given the considerable property wealth of the older cohort, it may be considered unfair for public expenditure to be used to incentivise individuals to consume this wealth;
- Costs - excluding wealth from means testing for Pension Credit and social care would do nothing to reduce the fiscal challenge facing policymakers;
- Pension saving incentives – making it easier and more attractive to fund retirement through equity release and downsizing will exacerbate existing incentives and behaviour that encourages young people to prioritise – often highly-leveraged - property ownership over contributing to a pension;
- Government policy on house prices – if the government is using incentives to ensure households decumulate their housing wealth to fund retirement, the government will be similarly incentivised to use its available policy levers to keep house prices inflated.

6.9 Compulsory Decumulation of Housing Wealth

Summary:
- Introduce taxes or charges on wealth among retirees hypothecated (linked) to specific spending promises and entitlements for individuals – in effect, 'compulsory decumulation' on the basis of a 'something for something' offer.

Examples:
- Social care – debate on care funding reform has extensively feature the proposal for a new inheritance tax threshold, with the revenue derived directed to the social care system;

New wealth taxes could be introduced and linked to specific entitlements to public support...

Pros:
- Fairness – new forms of entitlement for the older cohort are paid for by the older cohort themselves, in a way that is fair on younger generations.

Cons:
- Acceptability – public resistance to new wealth taxes may be strong, even if this involves hypothecation;
- Investment-risk – asset prices can fall as well as rise, so if taxes on wealth are linked explicitly to new or more generous entitlements for the older population, the Exchequer would be taking on significant investment-risk, and would have to make up the difference for any unexpected fall in revenue. This risk is compounded by the fact that the value of housing is determined by the availability of mortgage finance and the functioning of international capital markets – variables that are entirely exogenous for UK policymakers;
- Fairness – unlike inheritance tax, a flat-rate charge removes investment risk for the Exchequer, but de-linking the value of hypothecated payments from total household wealth is not progressive.

Key points:

- Potential joint strategies for paying for ageing exist, which variously rely on actions and responses by the state, the financial services industry and households.
- These options include: Single-tier State Pension; Compulsory private pension saving; Default/compulsory annuitisation choices; Targeted retrenchment in age-related public spending; State underwriting of tail-risks; State-sponsored insurance schemes; Incentivised decumulation of housing wealth; Compulsory decumulation of housing wealth.

7. Conclusion: Decision time for households and the state

Public spending on older people needs a cross-departmental 'holistic review'...

This report has reviewed the options for households and the state in paying for ageing.

The strategies used by households and the state to pay for ageing in coming decades will be highly interdependent. The state's response to the fiscal implications of an ageing population will determine the nature of the decumulation challenge facing households. Conversely, the actions and choices of individuals in retirement will determine the size and nature of the fiscal challenge facing policymakers.

Recognising such interdependence, this report has provided a comprehensive map of the options for the state and for households, and explored what coordinated strategies for paying for ageing – covering both households and the state – could look like. As the analysis in the previous chapter showed, there are no easy solutions.

Nevertheless, ten recommendations to policymakers can be made:

7.1 Policymakers should not present population ageing as unaffordable

Population ageing is sometimes presented as a problem, and in particular, as an insurmountable fiscal 'time bomb' that calls into question the foundations of social policy and the welfare state.

This view is wrong. First, increasing longevity is something to be celebrated and represents a remarkable human achievement.

Second, society - and more specifically, the state – can afford population ageing. According to OBR projects, when the effects of population ageing on the public finances have been fully absorbed by 2061, primary spending by the state as a proportion of GDP will still only account for 40.8% of GDP. This cannot be considered high in either historical or international terms.

In addition, as this report has shown, there are practical, achievable options for moderating the costs of population ageing on the public finances. On the one hand, this involves changes to the way public services are delivered. On the other, it involves scrutinising carefully the options for how households use their wealth to fund retirement.

7.2 Public spending on older people needs a 'holistic review'

Determining the shape and level of age-related public spending in future requires a 'holistic review' of this spending, i.e. a wide-ranging, cross-departmental joined-up review of all public spending on age-related items and evaluation of how effectively this money is spent given the outcomes that policymakers are trying to achieve. To be truly effective, such an evaluation will necessarily ignore issues such as which 'pots' of money go to which Whitehall departments, and what is allocated nationally or locally. It must also stretch across the full-range of age-related public spending from the State Pension right through to use of hospital beds by older people.

7.3 Fiscal policymaking must not be allowed to crowd out sensible policies on ageing

As age-related pressures on public spending grow, and following the catastrophic consequences for the public finances of the post-2008 financial crash, some debates around public spending on older people have been framed purely in fiscal policy terms, i.e. of transfers from the state to older people, and 'winners and losers'. The result, for example, has been louder demands for greater means testing of older people.

An Office for Evidence on Prevention could be a proponent of preventative interventions across all age-related spending...

However, such narrow policy debate is antithetical to the needs of developing effective, nuanced and intelligent policy to adapt to an ageing population.

For example, subsidised ‘free bus passes’ have been criticised in the context of fiscal debate. However, from the perspective of ageing policy, it is recognised that loneliness is a very common problems with negative effects on health outcomes, and potential costs to the NHS. Therefore, a proper evaluation of ‘free bus passes’ requires an assessment of their cost-effectiveness overall for public spending, rather than simply targeting them as ‘gift’ to older households.

7.4 An Office for Evidence on Prevention should be created as a commissioner, laboratory and proponent of preventative strategies across all age-related public spending

The success of UK public policy in adapting to population ageing will be determined by success in achieving the benefits of preventative interventions.

However, the evidence base on prevention is still inadequate to the job, and results are poorly communicated.

An independent Office for Evidence on Prevention could provide a centre for evidence and expertise, and be a proponent for those policies and interventions that are successful in realising the benefits of prevention.

7.5 Be honest and prepare retirees for seeing their housing wealth used to fund old age

Given population ageing, and the existence of millions of older home-owners who have benefited from an unprecedented, unearned and untaxed accumulation of property wealth, it is unthinkable that today’s older households will not have to use some of this wealth to address income shortfalls and protection gaps facing them in retirement. This could be through downsizing, equity release or new taxes on wealth.

However, insufficient effort has been made by politicians and media commentators to prepare retirees for deploying their housing wealth in this way.

The government must now take steps to reverse this situation.

7.6 Decide how older people’s housing wealth will be best deployed in paying for ageing

Policymakers must decide how older people’s housing wealth is best deployed in paying for ageing. In part this is about acceptability: what sort of call on their housing wealth will households accept? It is also about risk allocation: enabling older household to reduce the size of the protection gap they face, while at the same time, ensuring that households and wider public policy is not over-exposed to property-related investment-risk.

7.7 Focus on joint strategies – partnerships – between households and the state in paying for ageing

This report has examined the options for households and the state for paying for ageing in isolation. However, the interdependence of these choices, and the potential outcomes that can be secured via joint strategies explored in the previous chapter suggest that ‘partnership’ approaches in paying for ageing will be more effective. Coordination will enable improved decision-making by households and a more effective allocation of risk between the state, households and the financial services industry.

7.8 Engage the financial services industry to deliver more ‘social contracts’ that pool risk among different groups

Older households deserve clarity regarding the future shape of state support to them...

Although private pensions are frequently framed in terms of individual responsibility, the UK's private pension system is built around an explicit social contract: pension saving by individuals benefits from uniquely generous tax-relief in return for which, individuals are compelled to pool longevity-risk and secure an annuitized income in retirement. In this way, the financial services industry is actually explicitly responsible for delivering a 'social contract'.

As the population ages, the role of financial services in delivering these types of 'social contract' may have to grow, as policymakers attempt to address the protection gap for retirees, and extend protection from certain risks among different groups. For example, default or compulsory annuitisation choices could see policymakers attempt to reduce the size of the protection gap for older households through regulation that forces them to increase their level of protection.

Given long-term trends in longevity, it is also likely that a move to compulsory private pension saving will occur during the next 20 years. However, such compulsion would have to be accompanied by greater protection from risk for savers, for example, over-exposure to investment-risk.

7.9 Explore how innovative public-private partnerships could allocate key risks to the capital markets

As this report has explored, the private sector is better able to handle some risks than others. Achieving an optimal allocation of risk between individuals, the state and the private sector will be a key goal of policymakers in facing up to how to pay for ageing.

This is likely to require innovative forms of public-private partnerships that enable selected risks to be held by the private sector. State-sponsored insurance schemes delivered through public-private partnership are likely to have to feature. Another likely option will be the government doing more to underwrite-longevity-risk for the private sector, for example, in the form of 'longevity bonds'.

7.10 Make long-term decisions now: fixing a broad strategy for paying for ageing can no longer be deferred and older households deserve clarity

With the 'baby boomers' now retiring in increasingly large numbers, fixing a broad strategy for paying for ageing can no longer be deferred. There is a very limited window to reform public services such as health and care to prepare for an ageing population.

As the economy and growth stabilise following the post-2008 'great recession', there is also a limited window to review how older cohorts will use their wealth in paying for ageing, and in particular, to finalise an offer to them in how they will be expected to use their housing wealth. Older households also deserve clarity regarding the shape of state support will be in future and what is expected of them.

In short, it is now decision time for households and the state in paying for ageing.

Key points:

- Although how the state and households pay for ageing are interdependent, there are no easy solutions. Various recommendations to policymakers can be made:
- Policymakers should not present population ageing as 'unaffordable';
- Public spending on older people needs a cross-departmental 'holistic review';
- Fiscal policymaking must not crowd out sensible ageing policies;
- An Office for Evidence on Prevention should be created as a commissioner, laboratory and

It is now decision time for households and the state in paying for ageing...

proponent of preventative strategies across all age-related public spending;

- Be honest and prepare retirees for seeing their housing wealth used to fund old age;
- Decide how older people's housing wealth will be best deployed in paying for ageing;
- Focus on effective joint strategies – partnerships – between households and the state in paying for ageing;
- Engage the financial services industry to deliver more 'social contracts';
- Explore how innovative public-private partnerships could allocate key risks to the capital markets;
- Make long-term decisions now: fixing a strategy for paying for ageing can no longer be deferred and older households deserve clarity.

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