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Personal Care Savings Bonds - A New Way of Saving Towards Social Care in Later Life

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An ageing population ushers in a completely new era requiring society to find new solutions to the funding social care and looking after older people. This is not a problem that will go away soon and there are no quick fixes. If there were they would have already been in place since the problem has been apparent for decades. In the UK it is estimated that the population aged 75+ will double from 5m to 10m by 2040. Financial buildings blocks are needed to pay for social care that will be sustained for decades and provide extra security.

In this paper we propose a new savings product which we call Personal Care Savings Bonds (PCBS). They are designed to encourage saving for social care by providing extra money at the time of greatest financial need. PCSBs can be bought by anybody but are primarily designed to provide extra financial support to older people who have only a basic pension and modest savings. PCSBs are likely to be attractive to a range of people throughout their adult lives because they not only attract interest but also pay prizes.

Each bond have a nominal value assumed to be £1 and is entered into a monthly prize draw; prize winners are individual bond holders who can elect to receive the money or re-invest it in more bonds thus increasing their personal fund. Bonds values, both the prize element and accumulated value, will be tax free. Theoretically the bonds would be purchased out of taxed income, unlike personal pensions. Bonds would be purchasable over the internet, local shops or post offices. Cash could only be withdrawn from deposits on being assessed as needing social care or on death. This means that chance of winning a prize would increase with age as their fund accumulates and would be at a maximum value at the point of needing care or death. For those who die before triggering a social care assessment, the value of the accumulated fund would transfer to a person's estate to be inherited by persons or others of the deceased person's choice.

The paper sets out the arguments for such a product, who it is primarily aimed at, how it would fit with current reforms under way, and financial estimates of the contribution it could make. The performance of the product is assessed over a 70 year period at which point the fund is expected to reach its steady state value of around £70bn. This compares with a similar UK savings product know as Premium Bonds for which the fund is currently valued at £43bn. A key difference between the products is that Premium Bonds do not pay interest, only prizes, and the bonds are cashable at any time. The comparison with Premium Bonds is important because it is a mature and popular savings vehicle which has been in existence for nearly 60 years. A model is presented which shows how the fund builds up over time and the rate of draw down. Examples are provided of prize odds and payouts worth up to £1m for individual prize winners backed up by thousands of smaller prizes each month.