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The Dilnot Report: What it means for the pensions industry

Professional Pensions | 04 Jul 2011 | 13:02

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The Dilnot Commission on [Funding](#) of Care and Support – led by economist Andrew Dilnot – has released its recommendations on the future sustainability of care funding for the elderly.

The [key recommendations](#) from the commission include capping a person's lifetime contributions towards their social care at £35,000 and an increase in the means-tested threshold from £23,250 to £100,000.

Further Reading

- [Dilnot commission: the key recommendations](#)

Here we take a look at how Dilnot's recommendations tie in to the pensions [industry](#).

1) Recommendation: Government should clarify current pension taxation rules on disability-linked annuities.

There is a scarcity of pre-funded insurance products offered by [financial services](#) providers.

Dilnot said his reforms could increase the attractiveness of disability-linked annuities being used to offset social care costs. He urged the government to act on their tax treatment to stimulate demand for these products.

Dilnot said: "Clarifying the tax treatment of disability-linked annuities could further encourage activity in this space and we recommend that the government makes a clear statement that disability-linked annuities are permissible under current pension taxation rules."

Disability-linked annuities are reduced flat-rate annuities which double or treble in income at the point of developing a care need.

MetLife also said easing capped drawdown rules could be a solution for funding long-term care.

MetLife UK managing director Dominic Grinstead said: "The issue of funding long-term care requires new solutions and this proposal could provide considerable help to people with reasonable-sized pension savings.

"The OECD estimates the UK will have to find an extra £50bn a year to fund care and that clearly cannot come from the government alone. Accessing pension funds will free considerable amounts which can be used to tackle a major issue while allowing people to keep their homes."

2) Recommendation: Government should incorporate an awareness campaign on the cost of care into pension industry campaigns trying to get more people to save into pensions.

Dilnot recommended the government embark on a new awareness campaign to educate people about care costs and the

new funding system and noted there were wider barriers to saving which need to be tackled.

Dilnot said: "We know that the government and financial services industry are already trying to get more people to save into pensions.

"In the future, we urge the government to consider encouraging saving for social care as part of this wider agenda to encourage savings for retirement. It may be that some of the same levers and incentives can be used to change behaviour."

The report said information should be "trustworthy" and offer "signposts" for people to get further advice. It also recommended more use of local government resources to educate people about saving for retirement.

3) Recommendation: Up rate the cap on the same basis as the basic state pension.

Dilnot said the cap at which a person's lifetime contributions count towards their social care should be between £25,000 and £50,000, with £35,000 being the most "appropriate and fair figure".

However, he said the cap should be tied to increases in the basic state pension and the state pension age.

Dilnot said: "If the government decides to ask an independent body to review the state retirement age, it might also ask the same body to review the level of the social care cap.

"Both of these measures would help build public confidence and reduce uncertainty.

"We think that this would not only help the financial services sector design and price products, but also help individuals and families in their financial planning."

The Department for Work and Pensions recently closed its consultation on reforming the basic state pension and potentially linking the state retirement age to longevity.

Dilnot said his recommendations should be put in place by 2013.

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