



# **The Actuarial Profession**

making financial sense of the future

consultation response

**HM Government**

## **The case for change – Why England needs a new care and support system**

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Dear Sir/Madam

### **The case for Change – why England needs a new care and support system**

Thank you for providing the Actuarial Profession with the opportunity to comment on this consultation. Our substantive comments are attached to this letter.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us as per details below.

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Yours faithfully

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## **Introduction to The Actuarial Profession**

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. They also advise individuals, and advise on social and public interest issues.

Members of the Profession have a statutory role in the supervision of pension funds and life insurance companies. They also have a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of the Profession in society.

### **Response to Consultation on "The case for change – Why England needs a new care and support system"**

The Actuarial Profession welcomes the opportunity to contribute to the consultation on "The case for change – Why England needs a new care and support system".

The consultation paper published in May 2008 invites comments on three main questions for discussion. This response considers each of these three areas separately.

In the paper there is detailed consideration of both the delivery of care and the financial provision for care. We have concentrated our comments on the financial aspects which are more in keeping with our professional roles although we have also commented on the delivery of care where it is also relevant to the financial provision.

We have the following comments on the specific questions raised in page 10 of the Consultation paper.

#### **1. What more do we need to do to make our vision of independence, choice and control a reality?**

The joint aims of choice and control require the availability of information and advice at the appropriate time together with a range of available services. Adequate funding also needs to be available when necessary and this will vary significantly from individual to individual as, mentioned in the paper, "independence means different things to different people".

Without a clear understanding of where to seek information and advice the ability of individuals to feel in control is limited. While the current organisations offering such services all perform valuable roles in delivering these items there would seem to be advantages in consolidating some of this effort to

avoid individuals having to seek access to a wide range of organisations in order to understand the services available to them.

In order to provide the funding at the appropriate times there needs to be flexibility in funding methods as fixed budgets will not always enable the individuals to obtain the services that they need at the time that they need them. A flexible approach to the delivery of services needs a flexible approach to funding whether at the individual level, the local level or national level. This is clear from the figures stated in the foreward to the paper that “About a third of all men and half of all women will, upon reaching age 65, need long term care and support at some point as they age.” If the percentages differ from these illustrative figures by only a few percentage points the impact on the total cost of benefit can be substantial.

The emphasis on prevention and early intervention also requires the access to information and advice to be available significantly before individuals believe that they may require care. There needs to be a certain amount of additional education on the potential impact of preventative methods on future care requirements at ages significantly lower than the ages at which care is usually required.

## **2.What should the balance of responsibility be between the family, the individual and the Government?**

The potential costs of care for an individual can vary considerably depending on the level of care that the individual needs. The costs may be zero if no care is ever required, through relatively minor amounts if only a few services are ever utilised, to substantial sums if full nursing care is required in a care home facility over a lengthy period.

The uncertainty in the potential cost of care for each individual means that some form of transfer arrangement is necessary to redistribute some or all of the costs between individuals in certain situations.

Such transfers can be achieved through national or local funding through the taxation system or by means of insurance or pension arrangements.

In addition the variability in the total costs at a local level and national level may vary from year to year and the transfer in costs from this situation is harder to accommodate where fixed budgets apply. However these inter-year transfers can also be achieved by utilising insurance or pensions solutions drawing down different levels of benefit depending on the needs in any year.

Certain transfer of costs can only occur through Government funding such as in the cases of severe disablement in early life where there has been insufficient opportunity to acquire resources to fund the necessary services. Consequently a level of Government underpin in certain circumstances would seem to be a necessary part of any system.

Certain high income earners will accumulate sufficient assets to ensure that they can meet the costs of any services that they may potentially need and are willing to take the risk that they may need costly services that have a depleting effect on their assets but still give them the choices that they wish to make. If insurance or pension funding methods are considered as part of the

overall funding of care then there is the question of whether those above a certain level of income should be able to opt out of such schemes.

**3. Should the system be the same for everybody or should we consider varying the ways we allocate government funding according to certain principles?**

- **Should there be one system for everyone or different systems depending on the type of need for care and support that somebody has?**

As mentioned above the care requirements differ considerably from individual to individual both at a given time and from year to year. Certain individuals will need very specific services, for example the young severely disabled and these services may well be delivered by specifically targeted organisations such as charitable organisations. It is unlikely that one simple system, no matter how flexible, will meet all the disparate care needs across all individuals.

- **Which is more important to us: local flexibility or national consistency?**

While local flexibility may create variability in the provision of services between different locations that may not be disadvantageous if it delivers services more appropriate to the demographic make-up of the locality. However it does require even more flexibility in funding methods as the aggregate cost of services may vary considerably from locality to locality. If the costs do vary significantly then any redistribution in funding through national funding or insurance or pension arrangements may be seen to be inequitable.

- **What should the balance be between targeting government resources at those who are at least able to pay and having a system that supports those who plan and save?**

As mentioned in the paper there will always be the need to provide support through government resources to those who suffer severe disability early in life and who have insufficient income throughout life to build up personal resources to assist with the costs of prevention and subsequent care costs.

For those whose income exceeds a certain level there could be insurance or pensions solutions that enable individuals to build up, in either an insurance fund or pension fund, assets to enable the cost of services to be met partly through this means and partly through any minimum level of government funds available to the individual. By making such arrangements compulsory the need for a non-selective insurance pool would be achieved and the redistribution effect achieved through the insurance or pension funds. If such arrangements are not compulsory then the potential for adverse selection could reduce the efficiency of such structures.

Utilising pension funds to permit payments for some of the costs of care from the individual's fund would need some changes to pensions legislation although this would not be the case with insurance based products. The question of whether insurance based solutions should receive similar tax treatment to pensions would need to be considered.

While insurance and pension solutions can deal with the variability of costs of care across individuals and across different years we would suggest that there should be detailed dialogue with the Insurance Industry and the Actuarial

Profession as such products, when written as long term investment products, do not traditionally provide for variable benefits although of course this is common in short term general insurance products. By way of comparison the private medical insurance companies currently provide over £2.5Bn per annum in claims costs in present day terms to meet the costs of medical treatment from the premiums that they collect from their policyholders. It could be that the £6Bn funding gap, in 20 years time, mentioned on page 14 of the paper should be able to be substantially closed through insurance and pensions solutions.

As mentioned earlier for those with sufficiently high incomes it may be considered appropriate to enable them to opt out of any insurance or pensions solution if they wish to take the risk of utilising their assets to provide for their care needs. However, this might require some moral hazard provisions to prevent those who opt out subsequently relying on the state.

We have looked at the generality of the questions posed in the Consultation Paper and considered the potential for a mixture of public and private funding for future care needs. We have not outlined the detailed way in which such a system might work but we would welcome the opportunity to explore these ideas in more detail should you wish to do so following your analysis of the results of the Consultation process.