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Funding long term care needs

IFoA Pensions & LTC Working Party
Products Research Group





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Introduction

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Agenda

- Background to social care in the UK
 - Case study
 - Impact of means testing
 - What impact will the care cap have?
 - Potential products that could meet consumer needs
 - Questions & Answers
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Background to social care in the UK

Social Care for over 65s across the UK

- Operated by local authorities
 - State support is means tested and funded by local authorities
 - Individuals have to meet some/all of care costs
 - Issues exist:
 - Complexity of the system means widespread misunderstanding about split of costs
 - Misconception that the social care system is an extension of the NHS
 - Some people face catastrophic care costs before state support will kick in
-



....but complicated regional variations

Scotland:

- Free personal care for over 65s and free nursing care for all (at local authority rates).
- National deferred payment system.

Northern Ireland:

- Means tested benefits – lower limit is £14,250 and upper limit is £23,250

Wales:

- Means tested benefits at single 'capital limit' of £24k
- Greater integration of health and social care system

Regional variation in level of provision (eligibility criteria) and costs

- across jurisdictions
- within some jurisdictions

England:

Care Act 2014 proposals relate to England.

- New Charge Cap
- New deferred payment system.



Main Care Act Reforms:

1. Care Cap of £72,000

.....not all costs are included in the cap







2. Means-test support increased

3. Universal Deferred Payment Scheme

.....no one should have to sell their home

4. New Appeals Mechanism

Means Tested Benefits:

	Care Setting		
	Care Home		Other
Upper Limits	£118,000 (where a property dis-regard does not apply)	£27,000 (where a property dis-regard applies)	£27,000
Between Upper and Lower Limits	 Tariff Income 	 Tariff Income 	 Tariff Income 
Lower Limits	£17,000		

Care Act 2014 - Funding from April 2016

£costs

Costs met by
individual

Costs met by local
authority

c£31k - £52k p.a.
dependent on
type of care home
and regional cost

Where care costs are more than the local authority rate, the individual will have to 'top up' before and after the care cap is reached

c£30k - £40k p.a.
dependent on
local authority rate
and means test

Local authority will meet care costs up to the local authority rate subject to means test.

Care costs up to the local authority rate are counted towards the cap even when individual meets costs.

Once individual reaches the care cap, the state pays their care costs up to the local authority rate

c£12,000 pa

People in residential care pay a contribution of c£12,000 towards their living costs if they are able to – the so called 'hotel costs'

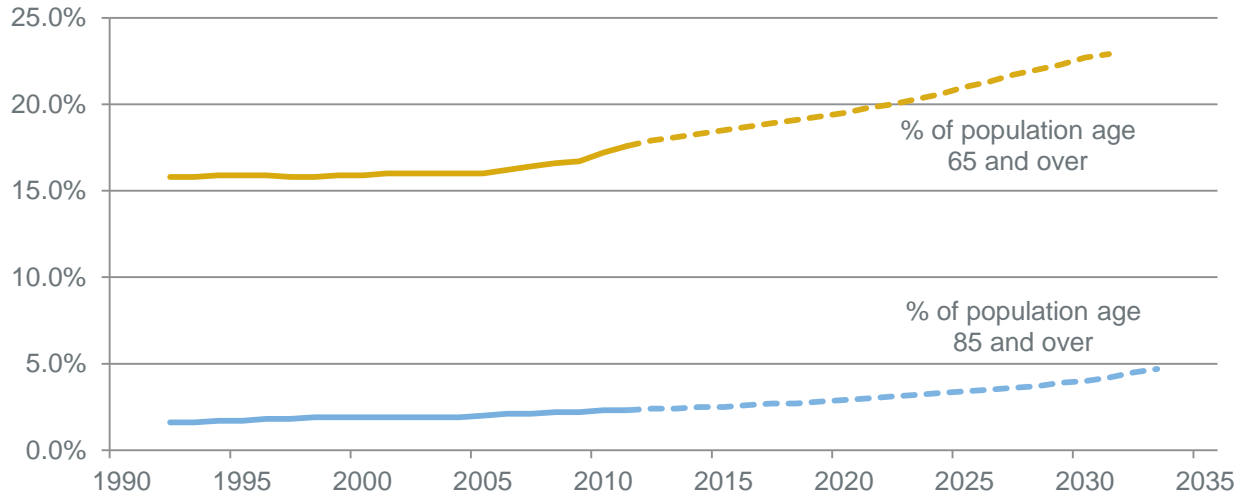


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How are consumer needs in retirement changing?



Caring for an ageing population



- UK number aged 65+ is expected to increase by **more than 50%** in the next 20 years
- Aged 85+ expected to **more than double** in the same period

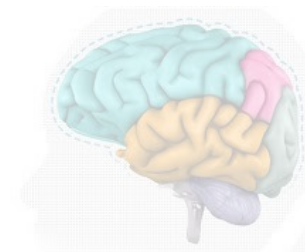
- Wide variations in life expectancies and probability of needing care between **males and females**



- Variation by **geographical region** in life expectancy and morbidity



- Incidences of **dementia** (moderate or severe cognitive impairment) are rising



Paying for long term care

- **Retirement income-wealth split**
 - Benefit income serves as main source of income for pensioners as a whole, but only a small number rely solely on State benefits
 - Property is a significant component of wealth for current retirees
 - Changing landscape for retirees
 - **Is there an easy time to save?**
 - Difficulty in encouraging pre-funding given significant variation in timing and need for care
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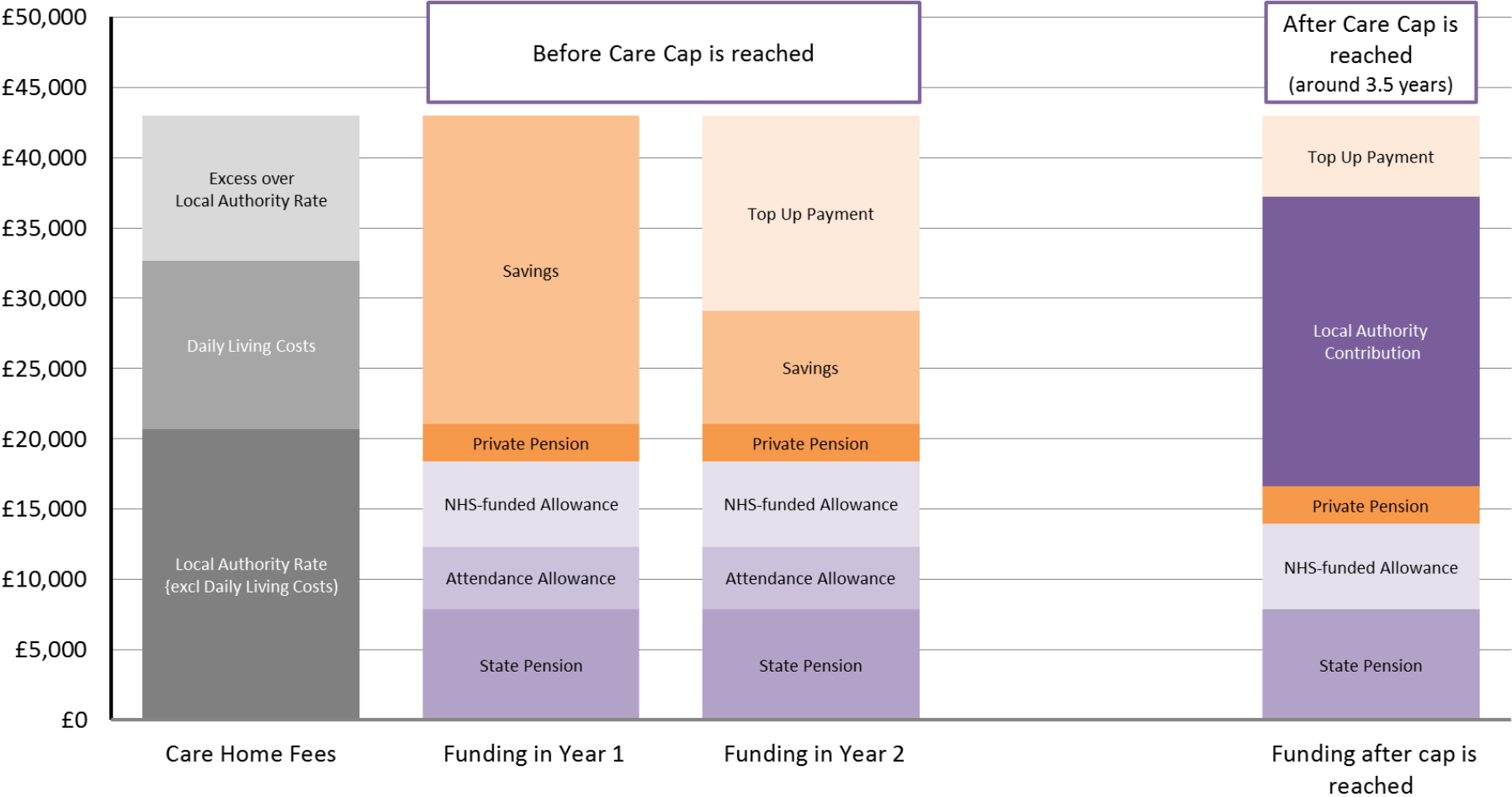
Case Study



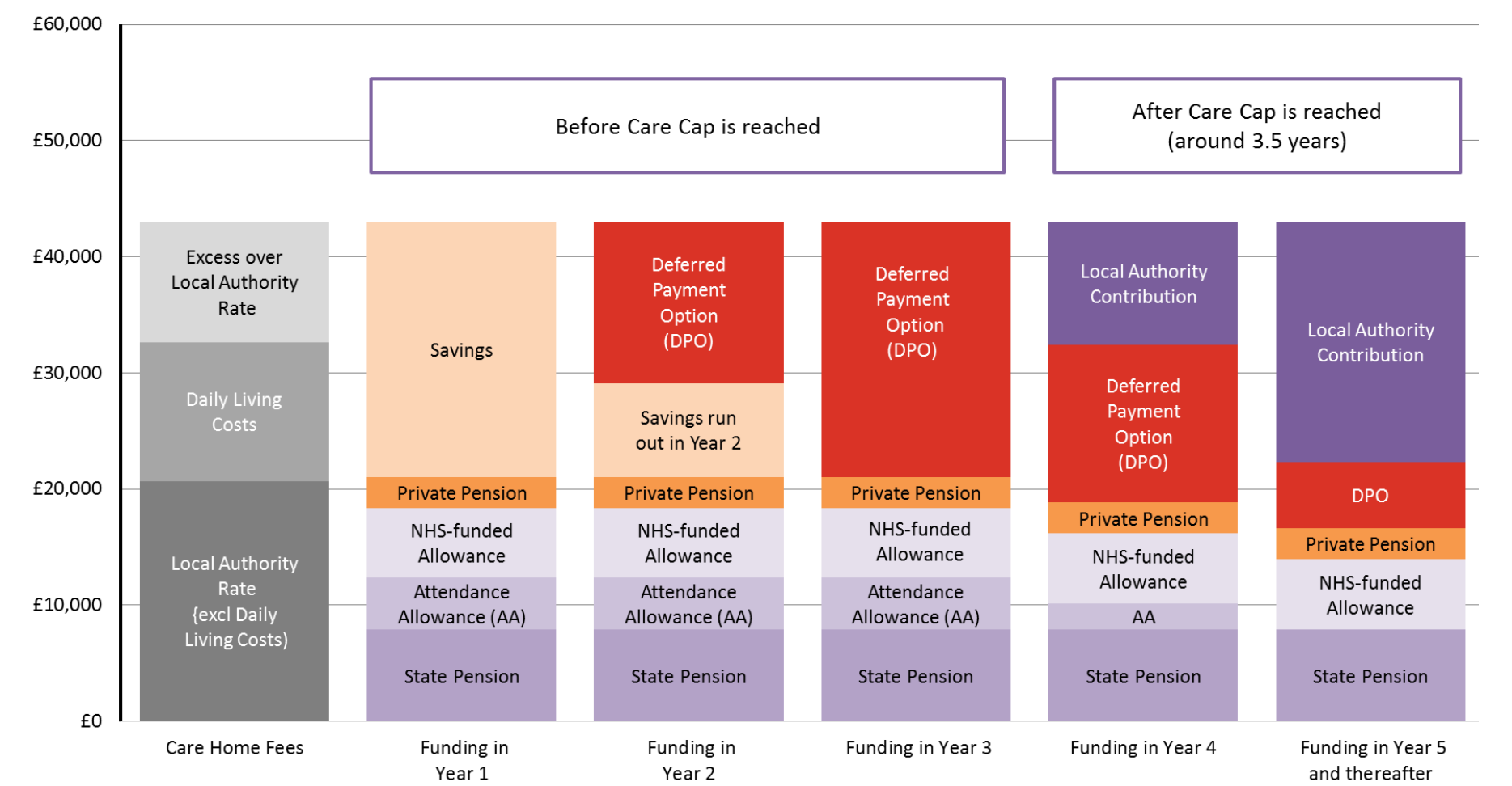
Example

- Mary enters a care home costing £42,985 p.a. comprising of:
 1. £12,000 daily living costs
 2. £20,649 local authority set care costs
 3. £10,335 additional top up costs
 - Mary has an income of £15,000 p.a. (State Pension ,Private Pension and Attendance Allowance)
 - Mary owns her own home valued at £200,000 and has £30,000 in savings
-

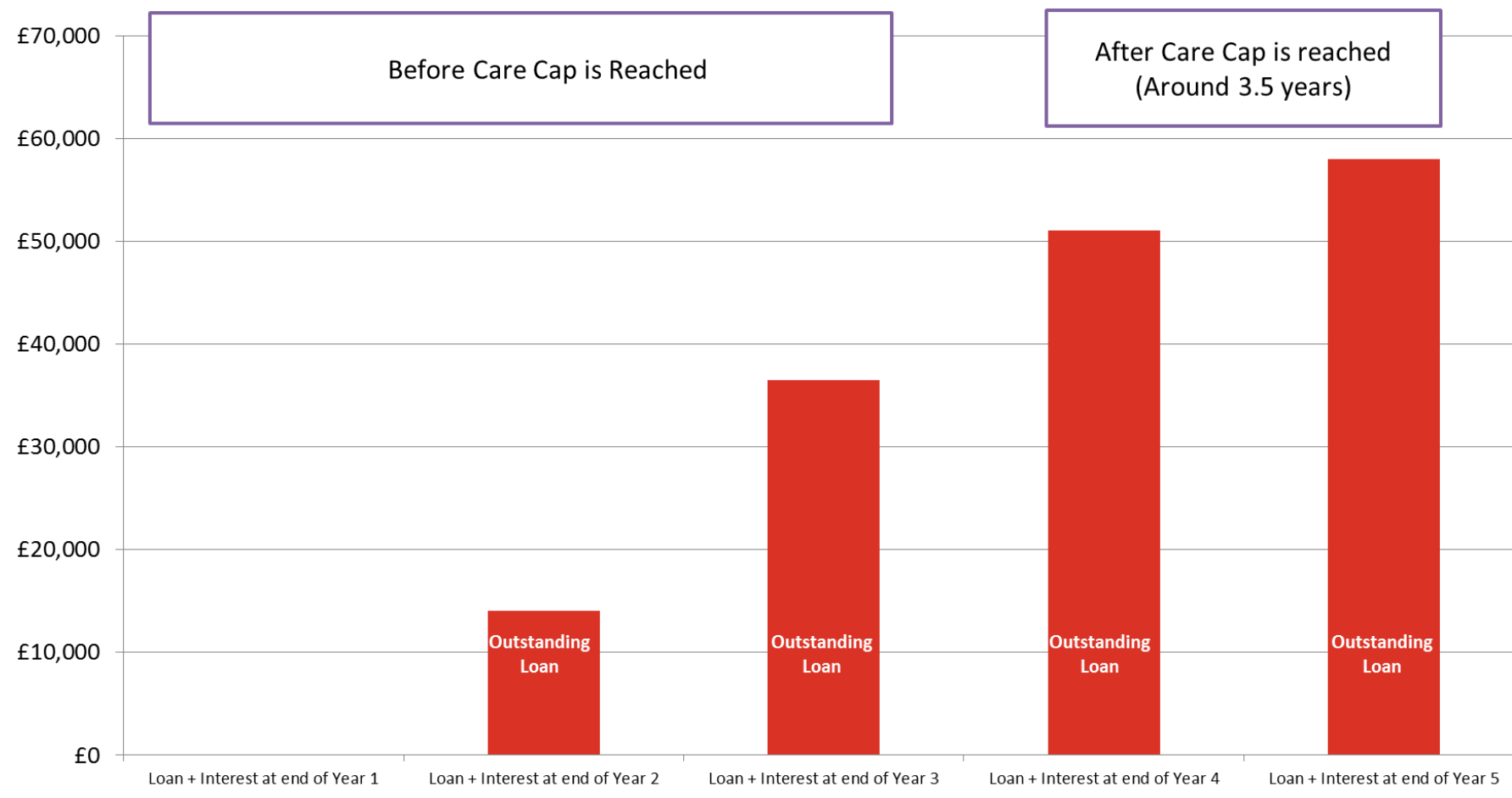
Progression of care costs for a single person owning a house valued at £200,000 and with savings of £30,000



Progression of care costs for a single person owning a house valued at £200,000 and with savings of £30,000 using the Deferred Payment Option



Progression of Deferred Payment Loan for a single person owning a house valued at £200,000 and with savings of £30,000





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Impact of means testing

Care Act 2014 – Extended means test

- Operation of the means test
- Increases to capital limits
- Tariff income

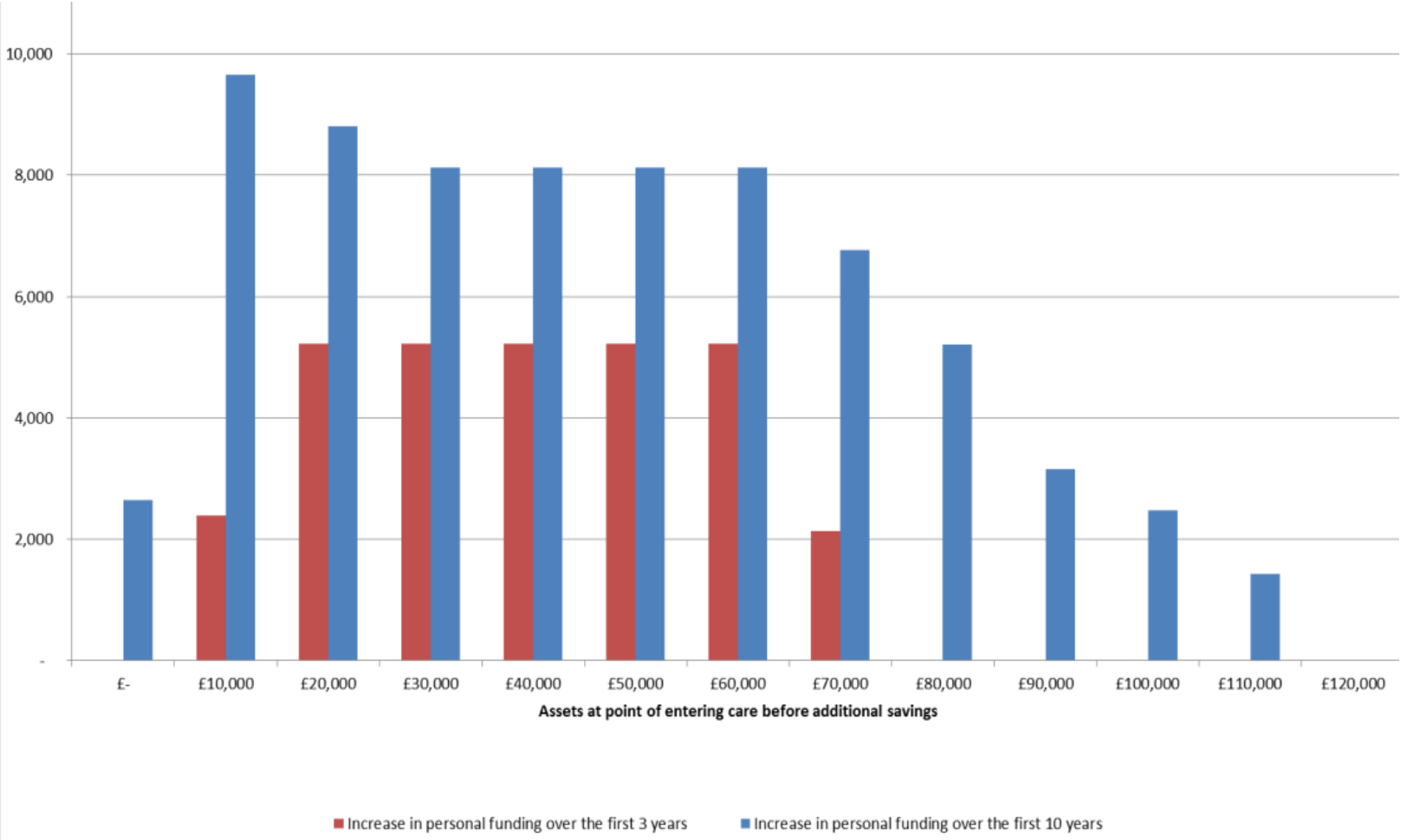


Figure 3: Maximum asset depletion over course of long care journey showing the impact of extended means test support

Incentive to save

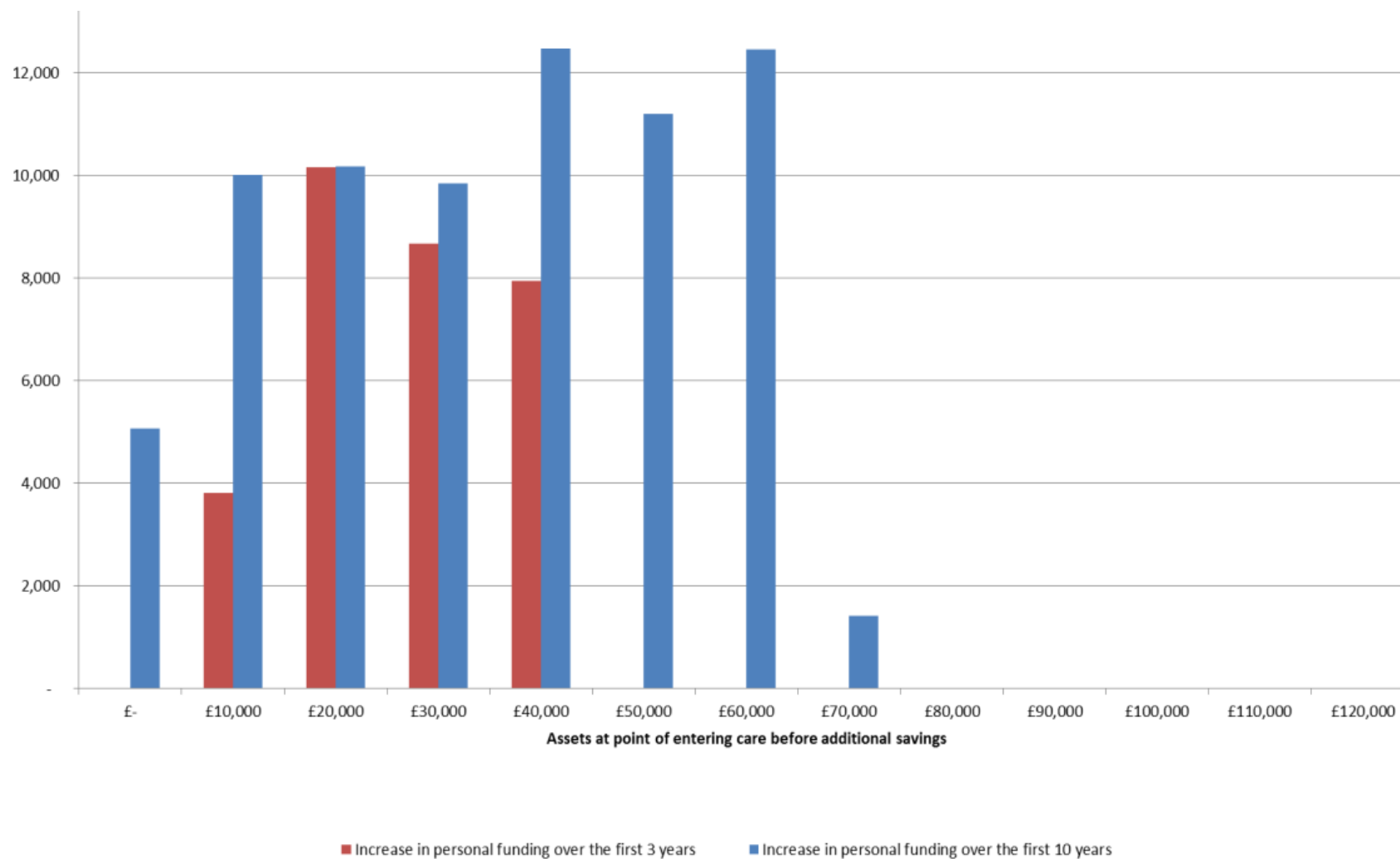
- Individuals primarily want to save for retirement so they can influence the type or quality of care they receive
 - One of the aims of the Dilnot commission was to “support everyone in making their personal contribution”
 - Means testing thresholds as set out in the Care Act 2014 may act as a barrier to saving
 - For individuals with assets up to £110k there is a much reduced incentive to save - any additional money put aside leads to an increase in the amount that the individual has to contribute to their care costs with no change in the cost or quality of care received.
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Increase in personal costs from saving an additional £10k towards care costs



Increase in personal costs from saving an additional £10k towards care costs

Current means test limits





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What impact will the care cap have?

What impact will the care cap have?

- Government are introducing care cap from April 2016
 - Others have considered the likely period before reaching the care cap, but
 - What is the probability that an individual survives to reach the cap?
 - What are the individual's likely costs before reaching the cap?
 - What are the individual's likely costs after reaching the cap?
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Probability of reaching the Care Cap after 2016

(for single owner occupiers over State Pension Age)

Version 1.17: 16/04/2014

Gender	F
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Type of Care Home	Nursing
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Age at entry to Care Home	85
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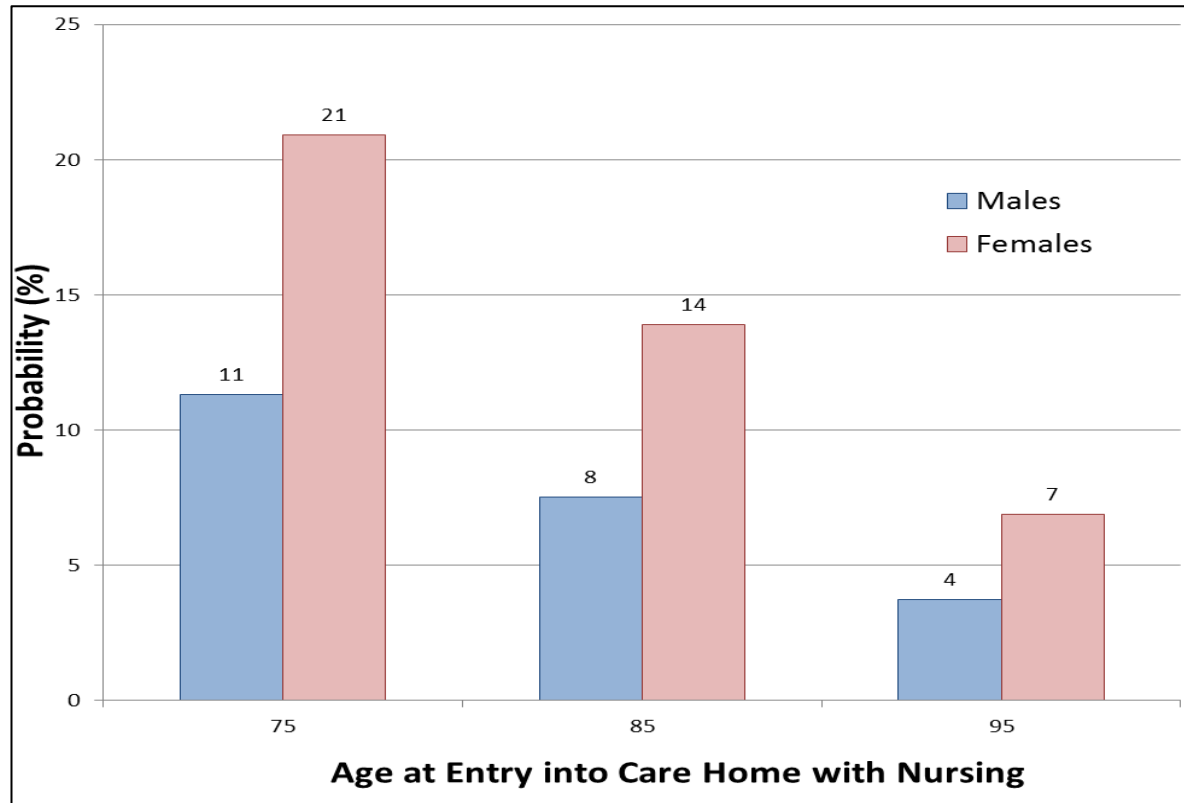
Care Home Region	East Midlands
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Assets at entry to Care Home	£150,000
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Income at entry to Care Home	£12,000
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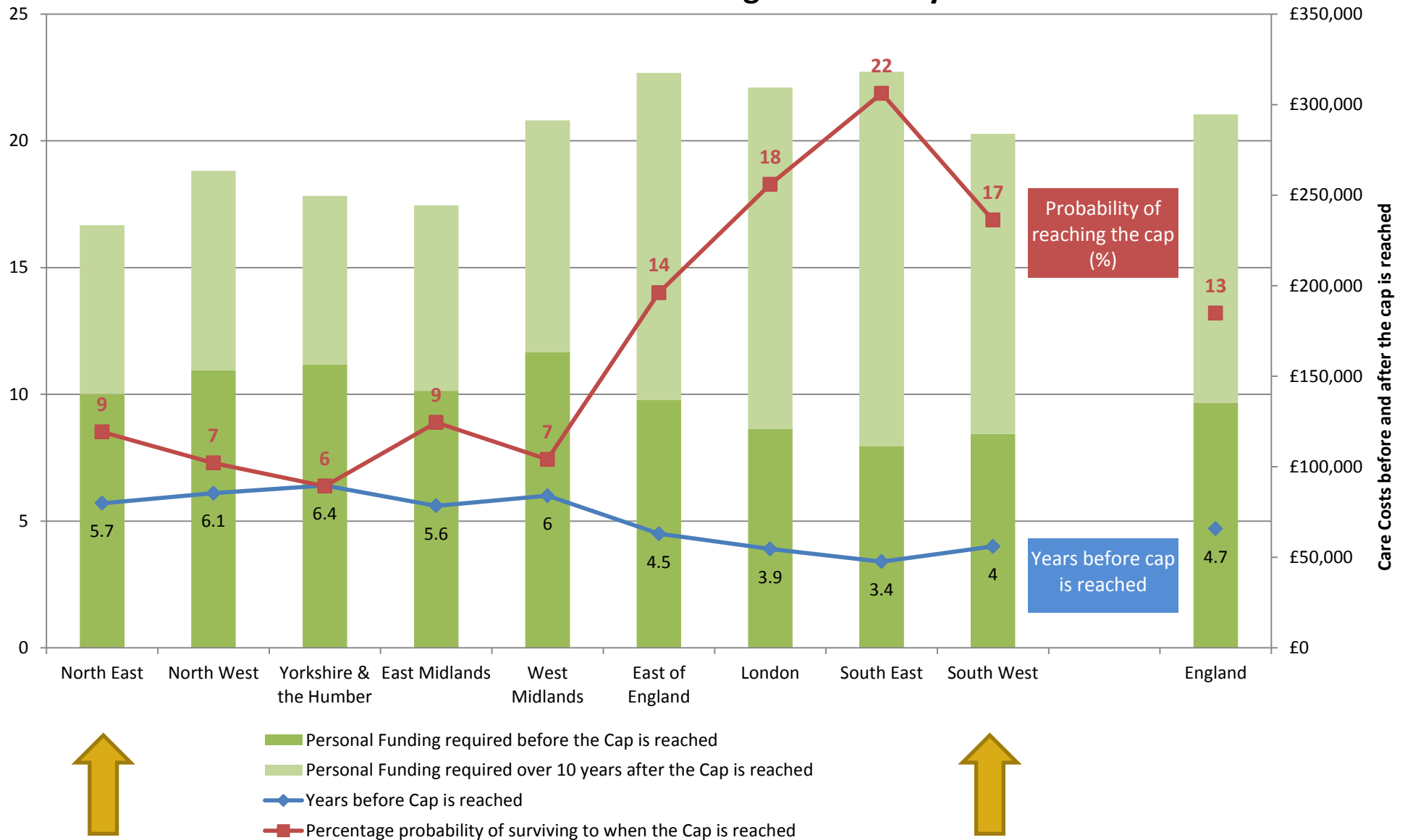
Results	
Years before Cap reached	5.6
Probability of surviving to when Cap reached	10%
Personal Funding required before Cap reached	£142,000
Personal Funding for remainder of 10 year horizon	£102,500

Approximate probability of reaching the *cap* by age and gender



Personal Funding of Care Costs by Region in England from 2016

Care Home with Nursing - 85 at entry into Care





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Potential products that could meet consumer needs

Paying for long term care

- **Challenges to establishing a LTC market**
 - Under-saving for and in retirement
 - Reliance on State benefits
 - Lack of consumer awareness that social care is not free
 - Difficulty in encouraging pre-funding given significant variation in timing and need for care
 - Changing landscape for retirees
-

Product options

Protection Insurance

- ✓ Could be sold as a rider benefit to whole of life
- ? Experience from the US shows this is a niche product, but could grow in popularity
- x Premiums can be large unless sold as a rider benefit, and may lead to insufficient demand
- x Difficulty in setting claims definition

Income Drawdown

- ✓ Flexibility of income and investment choice
- ✓ Income flexibility could meet the uncertain need and cost of care
- ✓ more widespread relevance following budget changes
- x Ongoing monitoring needed to ensure sufficient remaining funds

Pension Care Fund

- ✓ Uses existing legislative framework and will work for both pensioners and those still in accumulation phase
- x Concept now largely redundant given increased flexibilities

Disability-Linked Annuity

- ✓ Amount of pension that needs to be sacrificed is relatively low
- ✓ Natural hedge for insurers in terms of longevity and morbidity risks
- x Historical experience of index linked annuities shows people are unwilling to sacrifice initial pension

Enhanced immediate & deferred needs annuity

- ✓ Income can match needs accurately since purchased at point of need
- ✓ Can provide certainty over total cost of care
- x Large premiums are required and limited flexibility once the contract is purchased

Variable Annuity

- ✓ Flexibility of income and investment choice with additional guarantee from the minimum pension income
- ✓ Asset depletion risk is minimised
- x Reduction to pension and charges could both be unattractive

A changing market

- What does the future hold?
 - Accelerated whole of life, with accelerated benefits to pay for care
 - Flexible retirement products
 - Equity release variations
 - Personal care savings bonds
 - Tax relief on care home fees if paying from pension pot
 - Any other ideas?
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Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

The paper can be obtained from....

<http://www.actuaries.org.uk/research-and-resources/documents/how-pensions-can-meet-consumer-needs-under-new-social-care-regime-0>
