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## A balanced view of long-term care

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### Primer – Old age in the UK

1 in 3  
babies born  
today will  
reach 100

More than  
2m dementia  
sufferers  
expected in  
2050

There are  
more people  
older than 60  
than younger  
than 18

Healthy life  
expectancy  
in UK lower  
than for EU  
nations

69% of  
people older  
than 85 have  
disability /  
long-term  
illness

~ 30% of  
people use  
funded  
social care  
in last year  
of life

1 in 5 people  
today will  
reach 100

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Age UK, Later Life in United Kingdom, October 2015

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## Agenda

- LTC needs in the UK
- LTC solutions in the UK
- LTC solutions in other markets
- Lessons learnt from other markets

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\* The ratio of pensioners to working population

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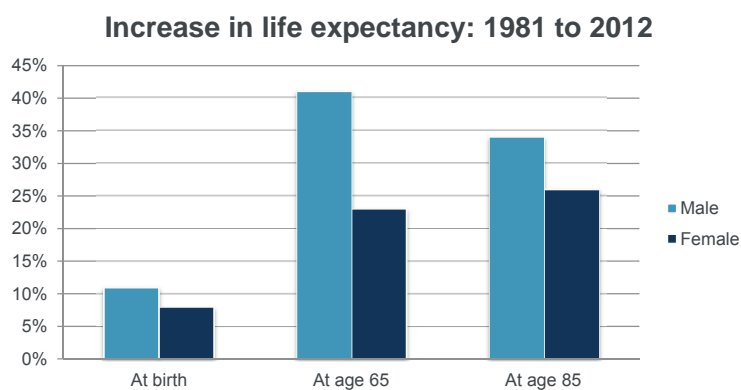


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## Long term care needs in the UK

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## Ageing population in UK (1/4)



Life expectancies have increased materially, especially at age 65

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ONS, National Life Tables, United Kingdom, 2011-2013

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## Ageing population in UK (2/4)

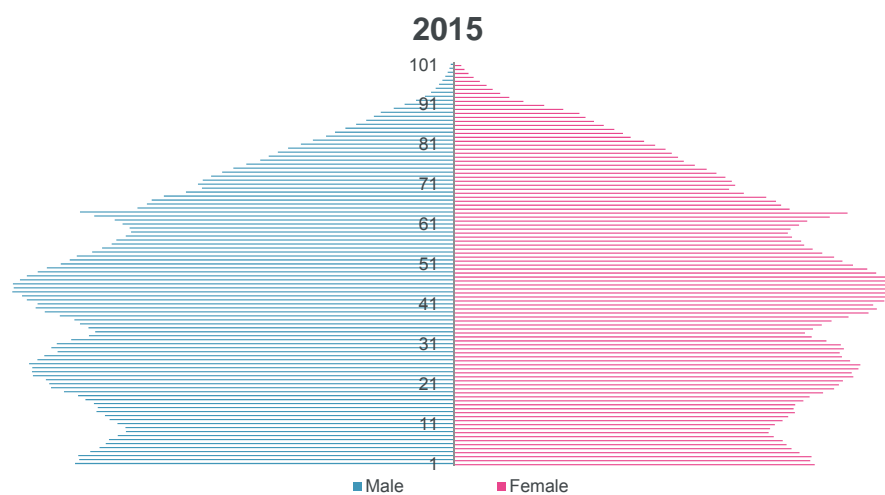
Gender	Current age	Life expectancy post retirement (age 65)	Life expectancy in old age (age 80)
Male	45	27	15
	55	26	14
	60	25	13
Female	45	28	15
	55	27	14
	60	26	14

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CMI 2014 Mortality Projections Model, assuming 2% (M) and 1.5% (F) long-term trend

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## Ageing population in UK (3/4)

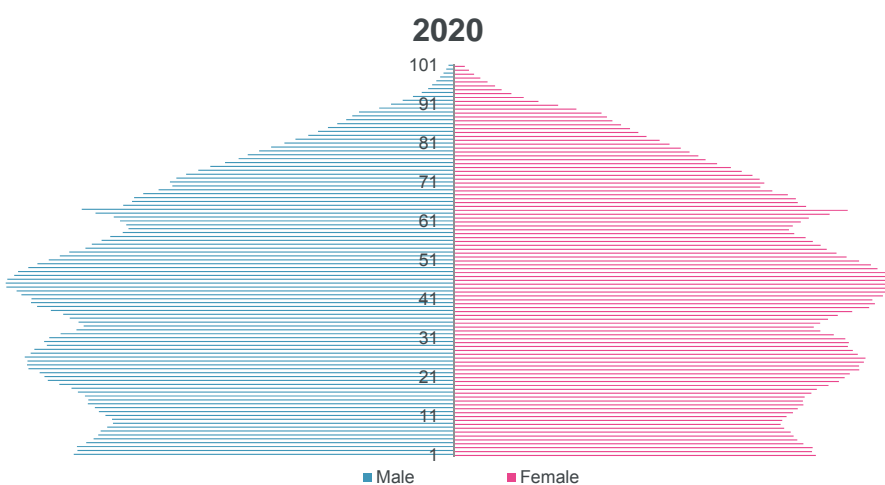


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ONS, Summary: UK Population Projected to Reach 70 million by Mid-2027

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## Ageing population in UK (3/4)

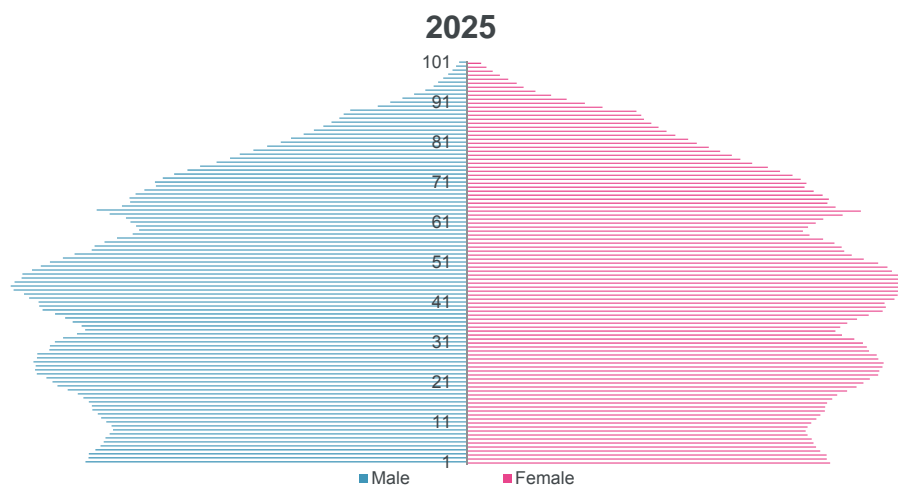


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## Ageing population in UK (3/4)

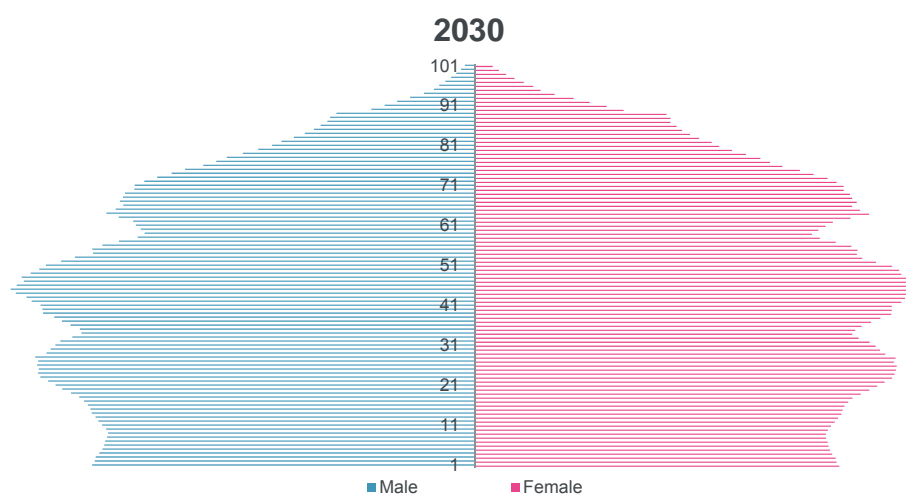


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ONS, Summary: UK Population Projected to Reach 70 million by Mid-2027

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## Ageing population in UK (3/4)

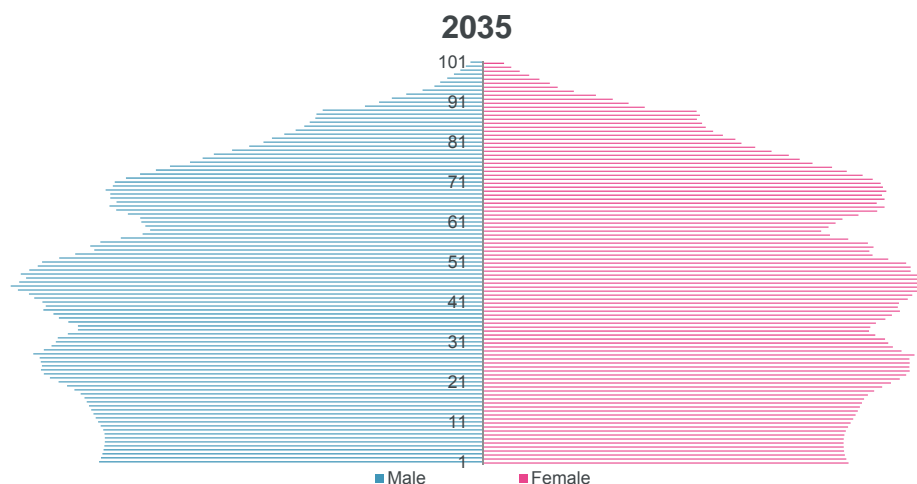


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ONS, Summary: UK Population Projected to Reach 70 million by Mid-2027

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## Ageing population in UK (3/4)



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ONS, Summary: UK Population Projected to Reach 70 million by Mid-2027

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## Ageing population in UK (4/4)

- The old age dependency ratio\* will increase from 28% to 39% over the next 20 years
- If the average pension age increases by five years over the next 20 years, the dependency ratio will remain stable
- However, the dependency ratio for lives older than 80 will increase from 13% to 18%

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\* The ratio of pensioners to working population

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## Need for long-term care

Those of working age today will have a high need for LTC

- They are expected to spend ~30 years in retirement
- Around 40% of this time is expected to be spent in ill health
- A quarter of those older than 65 in 2035 will need long-term care

The level of social and public support will likely be lower

- The fertility rate has reduced to less than two over the last five decades
- The number of people age 45-64 living alone has increased by 50% in last two decades
- The increase in dependency ratio will put pressure on statutory support

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## Long term care solutions in the UK

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## Benefits offered by the state (1/3)

- Wales:
  - Cost of care at home is capped at £60 per week
  - Care home or nursing home costs are fully paid by the individual
  - Assistance on both if assets are below £24,000
- Northern Ireland:
  - Cost of care at home is free for those over 75 (remainder at discretion of the Trust)
  - Care home or nursing home costs are fully paid by the individual
  - Assistance on both if assets are below £23,500

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## Benefits offered by the state (1/3)

- Scotland:
  - Cost of nursing care at home is free for all with eligible needs
  - Cost of personal care is free for those over 65
  - If a person is in care or nursing home, they will get £169 towards personal care and £77 towards their nursing care
  - Further help on home and residential care if assets below £26,000
- England (current funding)
  - Means test - £23,250 (assets and savings)
  - NHS Continuing Care funding
  - Attendance Allowance

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## Benefits offered by the state (1/3)

- England (post Dilnot recommendations):
  - Care Act 2014
  - Universal Deferred Payment Scheme - April 2015
  - Phase 2 (delayed to 2020)
    - Cap of £72,000
    - Means testing threshold:
      - £118,00 (with property)
      - £27,000 (without property)

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## History of the introduction of a care cap

Date	Activity
July 2011	Dilnot Commission reports back
July 2012	Government backs the principles of Dilnot's recommendations
February 2013	Government announces introduction of care cost cap of £75,000 in April 2017, with a higher means-test threshold of £123,00 and £12,000 limit on hotel costs
March 2013	Budget announcement that cap will be brought forward to 2016 at £72,000
May 2013	Care Bill introduced covering all of the above
April 2015	Deferred payment scheme introduced, allowing individuals to borrow money from the local authority to pay for care, to be recouped on the sale of their home after they die
May 2015	Conservatives win majority Government and Alistair Burt replaces Norman Lamb as Care and Support Minister
July 2015	Alistair Burt announces delay in care cap and means test changes until 2020

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Source: The Actuary October 2015, "Mind the Cap", Hamish Wilson

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## Insurance solutions in the UK market (1/2)

- Previous products:
  - Pre-funded LTC
  - Immediate and deferred needs annuities (only current product)
  - Disability-linked annuities
- Other potential products:
  - Pension related:
    - Income drawdown
    - Pension care fund
    - Variable annuity

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## Insurance solutions in the UK market (1/2)

- Non-pension related:
  - Care ISA
  - Accelerated whole of life
- Housing equity:
  - Equity release
- Domiciliary care

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## Long term care solutions in other markets

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### Singapore – public solutions



- Government provides means-tested subsidies for care needs
- To supplement this, a public-private insurance scheme called Eldersshield was launched in 2002
- Government provides the framework, but the risk is managed and administered by a syndicate of private insurers
- Cover is not compulsory, but everyone with a Medisave account is auto-enrolled

Claim definition	Unable to perform 3/6 ADL's 90 day elimination period
Eligibility criteria	All citizens and permanent residents over age 40 No medical underwriting if join on auto-enrolment
Benefit structure	Fixed amount paid for 72 months in cash
Funding	Premiums paid by all belonging to the scheme (to age 55)

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## Singapore – private solutions



- Following Eldersshield reform of 2007, Eldersshield supplements are available to those who want higher benefits and/or longer pay-out periods
- The supplementary products operate independently of core cover
- Premiums are not guaranteed
- Products vary from simple extensions of Eldersshield to more comprehensive offerings, e.g.
  - Death benefit
  - Initial lump sum benefit
  - Rehabilitation, get well and dependent care benefits
- All products offer paid-up benefits and premium waivers

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## Japan – public solutions



- Government introduced social LTC insurance system in 2000
  - Integrate medical and LTC system
  - Reduce the number of hospitalised elderly
- Funded via contributions (45%), government subsidy (45%) and co-payments (10%)
- Criteria assessed to determine whether an individual qualifies for a benefit and the level of benefit are
  - ADL and IADL assistance
  - Rehabilitation needs
  - Medical assistance
- Benefits are paid directly to the care provider
- Government provides support structures in addition to monetary benefits

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## Japan – private solutions



- Wide variety of product variants offered by 25 insurers
- Lump sum and annuity (mostly limited term) products available
- Stand-alone or acceleration of death benefit
- Benefit triggers are either
  - Based on social LTC triggers
  - Company specific definitions (usually ADL with specific dementia trigger)
- Severity based products also offered
- Premiums are usually guaranteed

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## Germany – public solutions



- Government added LTC insurance to overall social insurance program in mid 1990's
- LTC insurance is compulsory
  - Members of the social health insurance scheme are covered automatically (contribution deducted from salary)
  - Those that are not members need to take out private insurance
- Government scheme pays for both home and institutional care
- Level of benefit depends on classification into three severity levels

Considerable need	Requires assistance with ADL's at least once a day
Severe need	Requires assistance with with ADL's at least three times a day
Extreme need	Requires continuous assistance

- Benefit payments are combination of cash and in-kind, with prescribed benefit ceilings

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## Germany – private solutions



- Voluntary insurance to supplement compulsory statutory cover
- Offered by both Life and Health insurers, but with distinct differences
  - Claim definition
  - Benefit structure
  - Premium guarantees
  - ➡ Premium rates differ materially
- Life insurers offer a wide range of product options

Stand-alone	Options	Riders
Lump-sum	Deferred annuity	Disability income
Annuity (point of need)	Disability income	Deferred and old age annuities

- Benefit triggers incorporate the statutory definition, ADL scale and dementia

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## US – funding mechanisms



- Public funding – primarily Medicaid
  - Public welfare programme for the poor – safety net; primary payer of LTC (circa 40%)
  - Jointly funded federal and state
  - Bias towards institutional care
  - Means tested – people with limited income
- Private funding:
  - Pre-funded LTC insurance (circa 10%)

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## US – funding sources



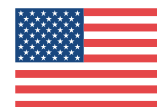
Funding source	%
Medicaid	39
Out of pocket	29
Medicare*	20
Private insurance	7
Other	5
Total	100

\*payroll tax; limited cover

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## US - partnerships



- Partnerships:
  - Early 90's (dollar for dollar and time based)
  - Federal LTCI programme (2002/3) – federal employees, service members and some families
  - CLASS Act voluntary scheme:
    - October 2011 determined to be “actuarially unworkable”
    - January 2013 – formally repealed; too few healthy young people were expected to sign-up; anti-selection risk

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## France



- Public funding - limited
- Private funding:
  - Since 2009 France private funding has increased to circa 15% (from 1% in 2007)
  - Wide media discussions have led to more public awareness of risks and funding gaps
  - “Solidarity Day”
  - Group insurance is large in France (circa 45% in 2009)
- Partnerships:
  - No partnership schemes

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## Lessons learnt from other markets

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## Lessons learnt (1/3)

- Japan:
  - Comprehensive support provided by the state not sustainable in an ageing society
- Singapore:
  - LTC insurance does not need to be complex
  - Does dependency on limited insurers introduce risk?
- Germany:
  - Insurance compulsion on opt-out of state scheme grows the insurance market

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## Lessons learned (2/3)

- USA:
  - Concluded that a voluntary scheme is “actuarially unworkable” due to anti-selection risk
  - The introduction of an asset protection insurance has worked in some states - could this reduce some of the costs of Dilnot?
- France:
  - Public awareness has raised insurance sales
  - Payment to individuals gives more empowerment and can be used to control future costs
- UK:
  - Uncertainty in provision deters the private insurance market

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## Lessons learnt (3/3)

- No matter the statutory model, costs have continued to spiral leading to either reduced benefits or increased funding
- Any statutory model should be sustainable and look at the demographic picture well in to the future
- A sustainable model will also encourage a private insurance market to grow

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## Questions



## Comments

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