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How Pensions could be used to fund Long Term Care?

IFoA Pensions & LTC Working Party
Products Research Group

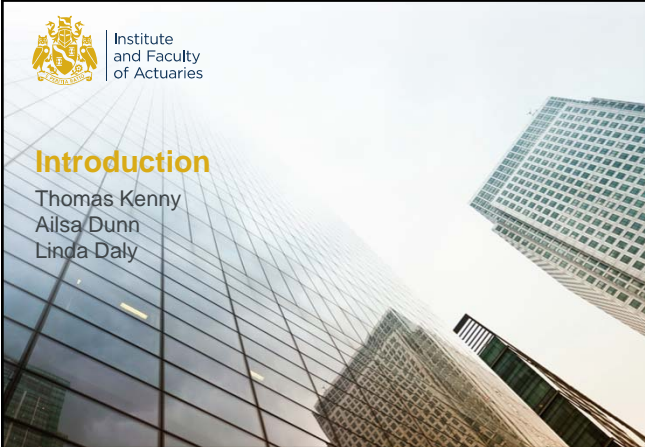




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Introduction

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Agenda

- Background to social care in the UK
- What impact will the care cap have?
- 'Freedom & Choice' in Pensions
- 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.

Regional variation in level of provision (eligibility criteria) and costs
- across jurisdictions
- within some jurisdictions

Northern Ireland:

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

England:
Care Act 2015 proposals relate to England.

- New Charge Cap
- New deferred payment system.

Wales:

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



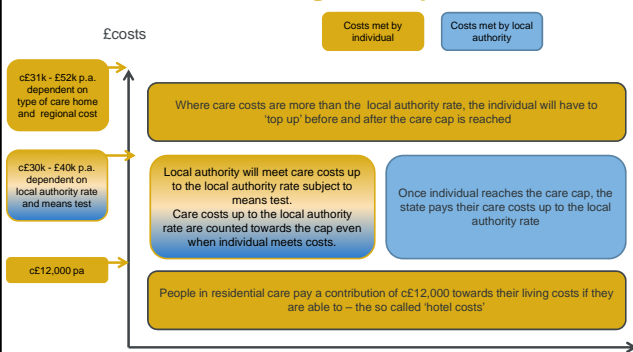
Main Care Act Reforms:

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		

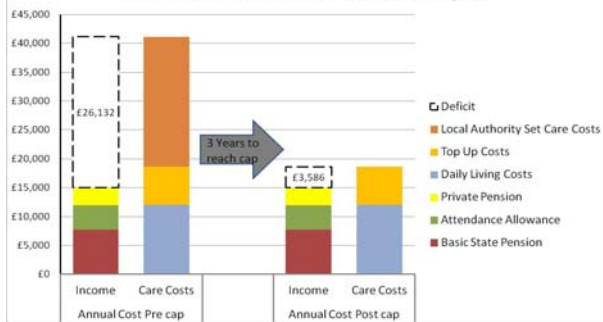
Care Act 2014 - Funding from April 2016



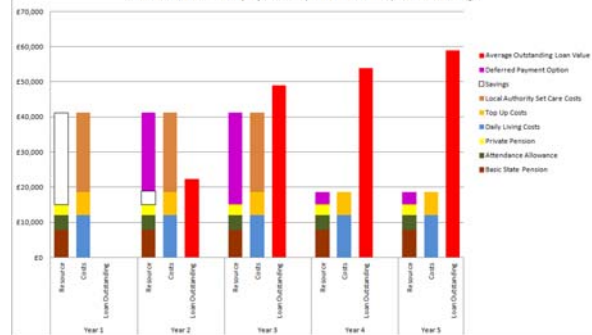
Example

- Mary enters a care home costing £41,142 p.a. comprising of:
 1. £12,000 daily living costs
 2. £22,546 local authority set care costs
 3. £6,586 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

Annual Net Cost of Care for Single Individual living in South West with a House Value of £200,000



Year 1-5 Progression Care Costs for Single Individual living in South West under the deferred payment option with £30,000 of savings.



Care Act 2014 – Extended means test

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



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?

Probability of individuals 'reaching' the cap

Considered care costs paid by individuals and Local Authorities over a 10-year horizon

- before care cap reached
- after care cap reached
- allowing for
 - inflation
 - regional care home costs
 - 'metered costs' i.e. excluding care costs beyond LA set rates and 'hotel' costs
- model depends on:
 - age, gender
 - type of care home and rates, regional local authority set care costs
 - state benefits received
 - survival rates used

Data and assumptions

- care costs based on Laing & Buisson (2013)
 - average care home costs (with and without nursing)
 - Local Authority set care costs
 - rates in 2012/13 → inflated to 2016/17
- other assumptions
 - all amounts inflated by 3.5% per annum
 - as cap increases, the percentage of the cap achieved remains constant
 - individuals choose to continue to make top-up payments even after cap is reached

Survival rates for care home residents

- survival rates based on
 - PSSRU/BUPA Report on Length of Stay in Nursing Homes in England
- survey had a mean entry age of 85
- survival rates dependent on gender, age and type of care home
- looking to update the survival rates using the multi-state model described in Rickayzen and Walsh (2002)
 - revised assumptions regarding morbidity, recovery and mortality
 - being worked on by Cass Business School

Model extended to include

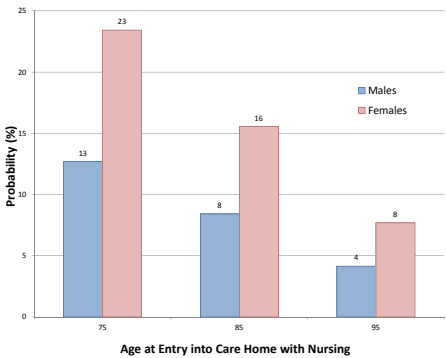
- Means Test, allowing for individual's
 - Assets (assuming property ownership)
 - Income including State Pension
- Benefit income
 - Attendance Allowance
 - NHS Funding
 - Personal Expense Allowance
- Assumption that the means-test is re-assessed each year based on updated asset and income values

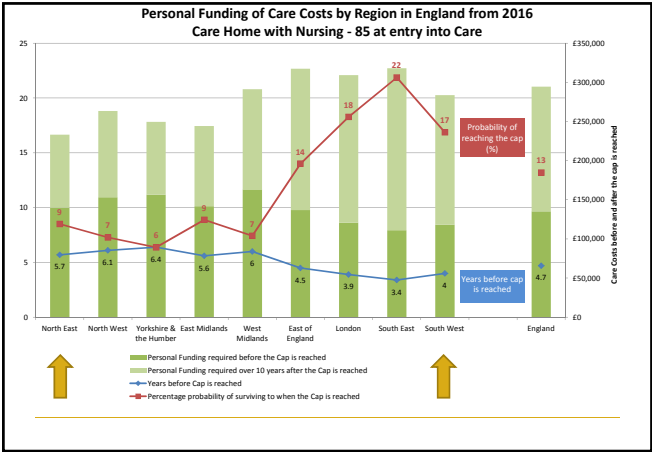
Probability of reaching the Care Cap after 2016
(for single owner occupiers over State Pension Age)

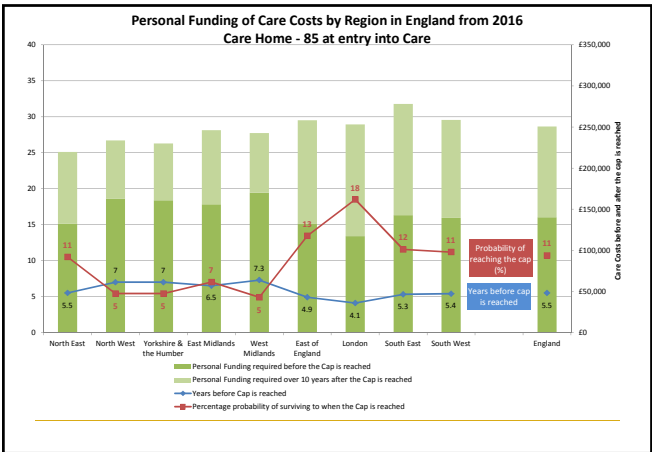
Version 1.17: 16/04/2014

Gender	F
Type of Care Home	Nursing
Age at entry to Care Home	85
Care Home Region	East Midlands
Assets at entry to Care Home	£150,000
Income at entry to Care Home	£12,000
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 & Sex







What are the 'Expected' Personal Costs?

Personal costs for 85 year old entering Care Home with Nursing				
Region	75% survival	50% survival	25% survival	'Expected costs'
North East	£14,500	£33,000	£80,500	£54,000
South East	£24,000	£51,000	£100,500	£73,000
England	£20,000	£44,000	£96,000	£65,500

Getting the message across

Interactive maps now available on website

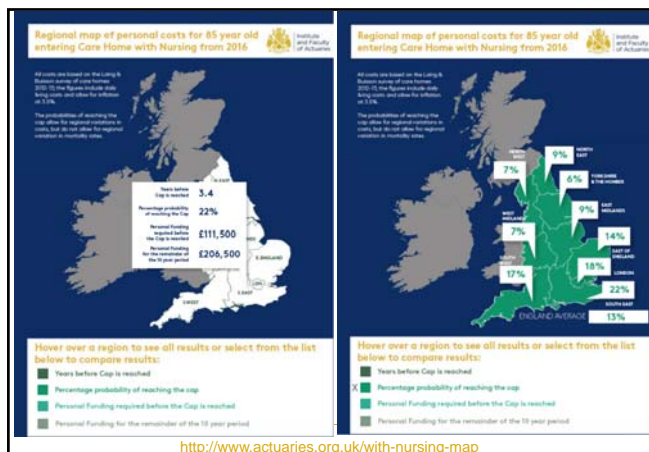
<http://www.actuaries.org.uk/with-nursing-map>

See webpage on right.

Version for care home without nursing on link:

<http://www.actuaries.org.uk/without-nursing-map>

25



<http://www.actuaries.org.uk/with-nursing-map>



'Freedom & Choice' in Pensions - April 2015



Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want.
No caps. No drawdown limits.
Let me be clear. No one will have to buy an annuity.

These reforms will increase the attractiveness of saving for retirement, and will allow people to shape their finances in retirement as they see fit, not as the Government tells them.

'Freedom & Choice' in Pensions - April 2015

More flexibility to access DC pensions pots from age 55:

1. Cash Withdrawals* - 25% tax free
2. Flexi-Access Drawdown - 25% PCLS
 - no income, 100% income*, regular income*, ad-hoc income*
 - timing to suit individuals' needs
 - annuity purchase (lifetime and temporary annuities*)
3. Lifetime annuity (enhanced annuities & more flexible annuities)

* payments trigger reduction in Annual Allowance to £10k

Changes to the advice process



- Pension guidance
 - For anyone retiring from a DC pension scheme
 - Government website to **guide** people through their options
www.pensionwise.gov.uk
 - Requirement on pension providers to signpost
 - Provided by TPAS (online) and Citizens Advice Bureau (face-to-face)
 - May cover potential long term care needs
- Care Act information and advice requirements
 - need to facilitate access to independent financial information and advice



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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
- **Why use a pensions framework?**
 - An established framework
 - Speed of introduction
 - Flexibility
 - Common asset
 - Employer engagement

Overview of products considered

Product	UK Market size (2012)	Relevance in world of 'choice and freedom'
Protection Insurance	New product	<ul style="list-style-type: none"> This product is not currently marketed in the UK. However, there are over 30,000 policies in-force in the UK A number of providers have recently launched as whole of life with accelerated long term care option
Income Drawdown	c£50bn, £1.2bn sales in 2012 (ex Self Invested Personal Pensions)	<ul style="list-style-type: none"> Market will increase significantly following pensions freedoms Expected to increase to c£135bn in next 10 years*
Ring-fenced pension pot (Pension Care Fund)	New product	<ul style="list-style-type: none"> Concept now largely redundant given increased flexibilities
Disability-linked annuity	New product	<ul style="list-style-type: none"> Restrictions on annuity step-ups lifted, opening up a potential market
Immediate and deferred needs annuities	£0.2bn	<ul style="list-style-type: none"> Market likely to continue to meet the needs of some consumers
Variable annuities	£1.4bn sales in 2012**	<ul style="list-style-type: none"> Restrictions on annuity step-ups lifted, opening up a potential market

* Spence Johnson, retirement income market intelligence, January 2014

** Towers Watson research

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
- ☒ Premiums can be large unless sold as a rider benefit, and may lead to insufficient demand
- ☒ 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
- ☒ 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
- ☒ 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
- ☒ 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
- ☒ 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
- ☒ 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?

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>
