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Funding Long-Term Care – Anticipating Needs and Improving Access to Insurance Products in the UK

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22 November 2018



Agenda

Background

- The Dilnot Commission and the 2014 Care Act
- The burden of long-term care: drivers of demand and ability to pay

'Prerequisites' for long-term care product development in the UK

- The five "-ations"

Long-term care product experience

- Overseas long-term care products
- Past experience in the UK

Innovating long-term care products in the UK

- Potential product structures
- Potential approaches to managing long-term care risks

Conclusions



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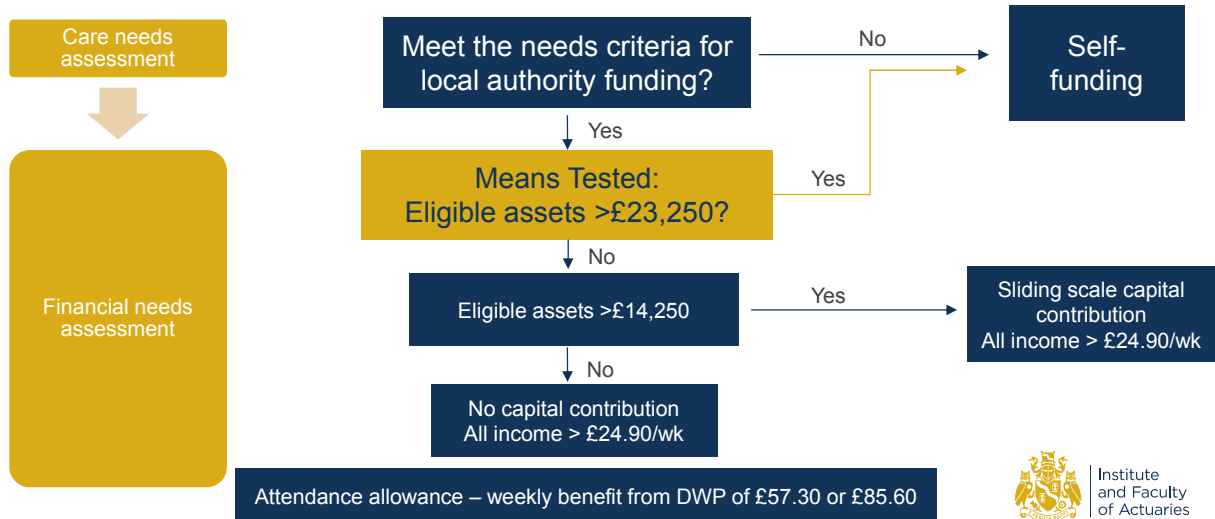


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Background

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What are the costs of long-term care and who pays?



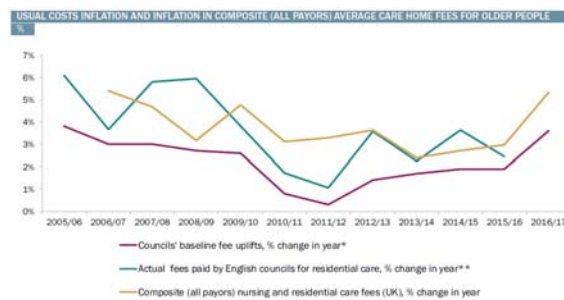
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Cost of care

The cost of care varies by care setting:

- Domiciliary care can range from £4k to £36k a year
- Residential care - £32k a year
- Nursing care - £38k a year
- Private payer subsidy – costs £10k to £14k more a year if self funding vs state funding for same level and quality of care
- Care fee inflation increased in recent years as a result of introduction of National Living Wage



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The Dilnot Commission

Key recommendations:

- The means-test threshold should be raised to £100k
- The total capital contribution should be capped at £35k.
- Annual living costs should be capped at £7k-£10k.



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The 2014 Care Act

Sets out financial assessment rules and provides for a cap on costs (other than daily living costs).

Key **omissions** from this Act are:

- The lack of a specific amount for the cap on capital contributions over an individual's lifetime (The provision allows a minister to specify this in the future)
- The lack of a deadline for the introduction of this cap on contributions (or any rules regarding revaluation of this cap in the future)
- The lack of any cap on or guidelines regarding daily living costs

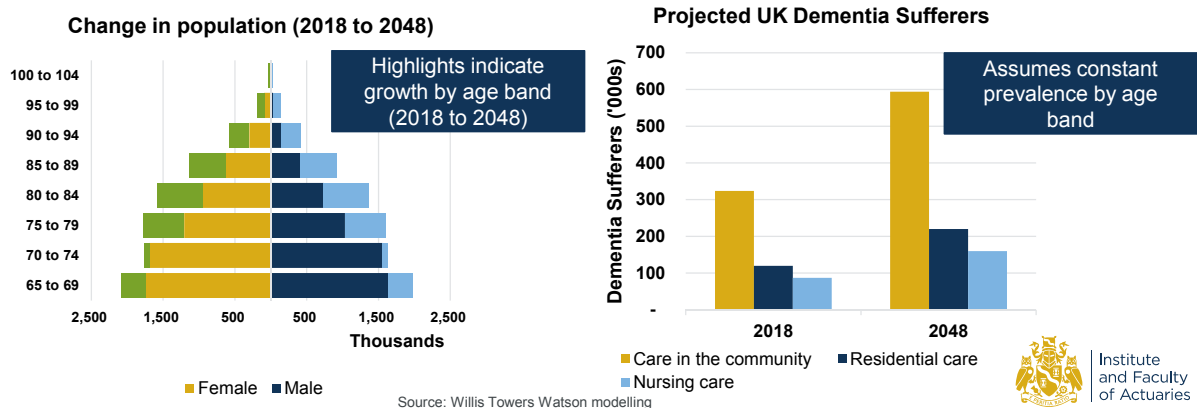


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Aggregate demand for long-term care in the UK

Demographic changes and prevalence of cognitive impairment at high ages is driving increased demand for long-term care.



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Ability to pay for long-term care

Changes in wealth in retirement will mean reduced ability to pay for long-term care:

- Decreasing house ownership and retirement income (e.g. no windfall from rapid growth in property values, fewer DB pensions)
- Increasing levels of personal debt (including non-mortgage credit)
- Smaller pension pots at retirement and tendency to spend, not save (esp. post pension freedoms?)
- Requirement for care starts later in life (more assets consumed already) and may last longer
- Increase in cost of long-term care outstripping earnings inflation?



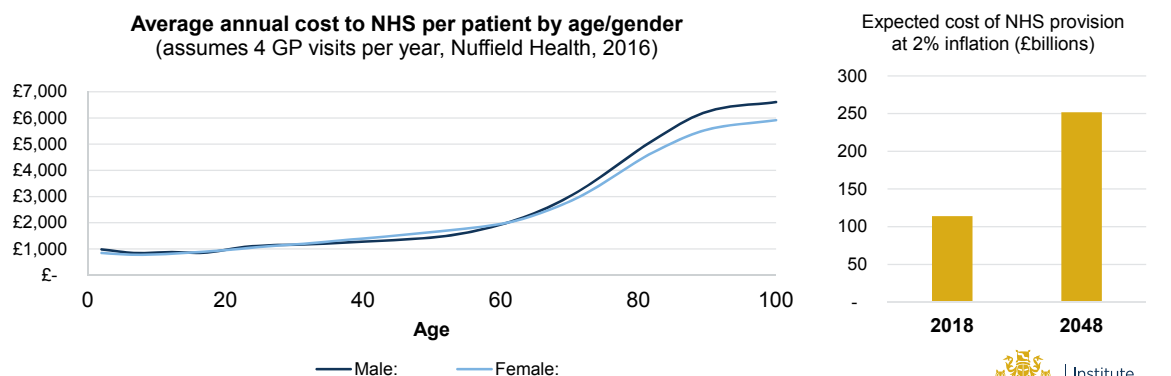
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Constraints on state ability to pay (1)

Cost of providing healthcare and pensions to increase dramatically – squeeze on other public services



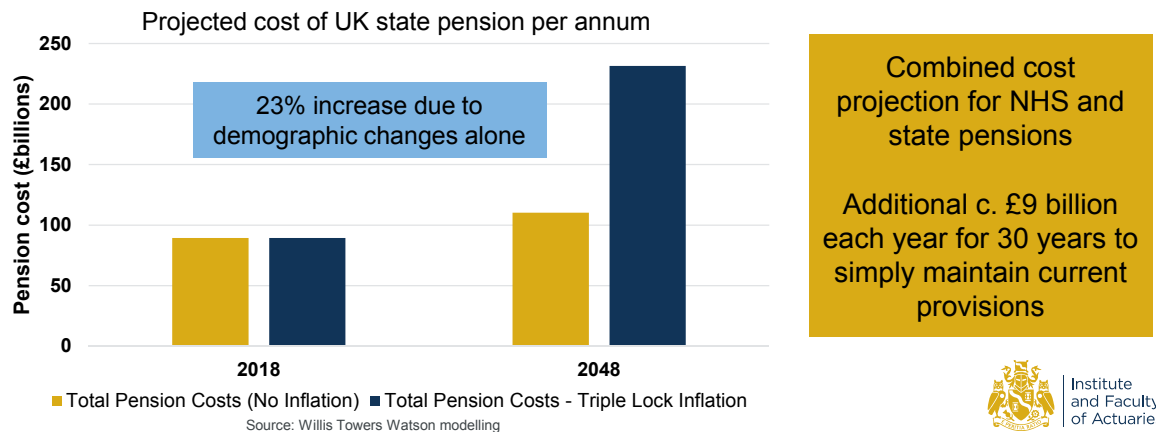
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Constraints on state ability to pay (2)

Cost of providing healthcare and pensions to increase dramatically – squeeze on other public services

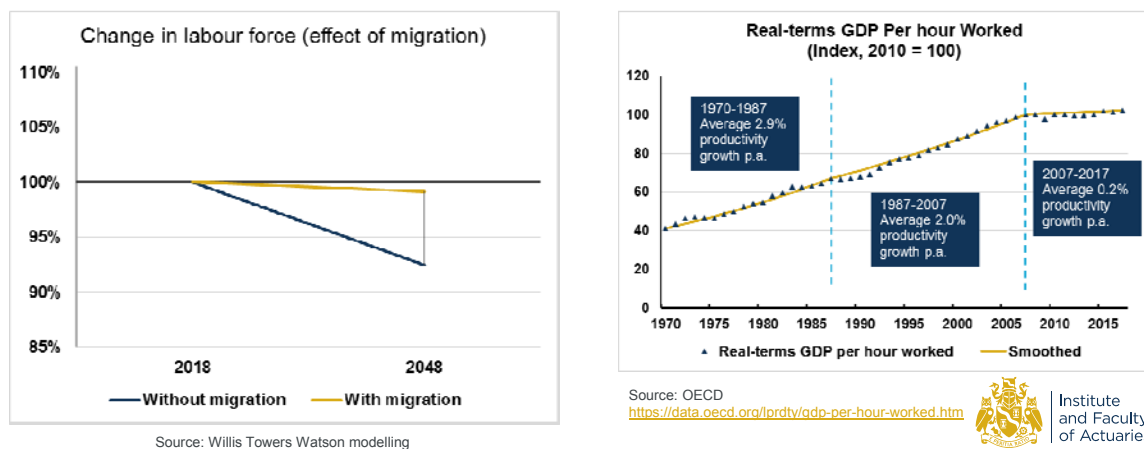


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Constraints on state ability to pay (3)

GDP growth / tax revenues challenged by shrinking labour force and stagnant productivity per worker.



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So what ...?

Key conclusions from these projections are:

- Costs of care likely to increase – more elderly people with increasingly complex needs
- Public purse likely to be squeezed – not clear that social care will be funded to the same level
- Disposable income / savings may decrease (e.g. if taxes are raised to fund public services)
- It's likely that demand for protection from care costs will increase



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'Prerequisites' for long-term care product development in the UK

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Legislation

Need for clarity on what the state funded social care regime will be going forwards

- products can be designed to meet consumer needs that remain
- greater certainty of level of demand from consumers
- consumers will also have greater clarity of their needs

Government policy is confusing and that is causing problems...



Source: Care Report 2017, Just



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Standardisation

The Care Act 2014 introduced a national eligibility standard. The person will have eligible needs if they meet all of the following:

- they have care and support needs as a result of a physical or a mental condition
- because of those needs, they cannot achieve **two or more** of the outcomes specified
- as a result, there is a significant impact on their wellbeing
- Outcomes include common activities of daily living:
 - Managing and maintaining nutrition
 - Maintaining personal hygiene,
 - Managing toilet needs,
 - Being appropriately clothed,
 - Maintaining a habitable home environment,
 - Being able to make use of the adult's home safely...



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Education

- There is a requirement under the Care Act for local authorities to ensure people can “*get the information and advice they need to make good decisions about care and support*”.
- However, 20% of people surveyed by Just believe the Care cap is already in place and 58% didn't know.
- It is clear that without a well informed general public there is very little chance of them making financial plans that allow for the cost of care appropriately.



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Taxation

- To encourage private provision for long term care costs through savings or insurance there needs to be some form of tax incentives
- The current means tested system means that for every £1 saved towards care costs it can lead to an 80p reduction in benefits*
- Better private planning for potential care needs in retirement means
 - ➔ less burden on the state later, potentially offsetting any lost tax revenues from incentives offered earlier

*Kenny et al (2017), *The Future of Social Care Funding – Who Pays?* (BAJ)



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Innovation

- Need to find innovative solutions to:
 - Overcome the lack of clarity in regulations / future certainty around costs of care provision
 - Prevent long-term care from being a “point-of-need” consideration.
 - Spread the burden across multiple providers.
- Need to engage in reducing the risk, not just indemnifying it.
- Need to work with the LTC sector to provide cost-effective care and gain offsetting care profits if LTC claims are high.
- Need to overcome the stigma of poor product performance in the past.



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Long-term care product experience

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Past-experience of LTC products launched in the UK

The last UK provider (Just) of pre-funded long-term care insurance withdrew from the market in 2010 citing a lack of demand.

The paper 'Gone for Good? Pre-funded insurance for long-term care' (The Strategic Society Centre) notes the following key issues:

Uncertainty around care needs and mental discounting of the risk of requiring care

Uncertainty around future state provision and assets versus means test thresholds

The cost of protection and relative value of protection against other risks

Distrust of insurers and shortage of qualified IFAs

Belief that you can get around means testing by off-loading your assets prior to requiring long-term care.



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Overseas long-term care products (1)

USA/Canada: "Long-term care insurance" (which can actually mean a range of things)

- Typically RP policies: sum assured can be drawn on when triggers related to ADLs are met:
- May cover:

Home adaptations to support independent living

Home-based care or assisted living arrangements

Day-care services outside of the home

Nursing home residence

- Common features:

Multiple claims allowed (if triggered) up to aggregate value of sum assured

'Guaranteed renewable'
If premiums are paid and benefits not exhausted, policy cannot be terminated by the insurer.

Indexation of premiums over the policy lifetime.

Option to make the policy paid-up with a consequent reduction in the maximum benefits payable.

Can also exist as a rider – accelerating (on an indemnity basis) a proportion of life assurance product benefits in the event of a long-term care trigger



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Overseas long-term care products (2)

USA: Nursing home “Doubler”

- Annuities with an additional benefit triggered upon needing institutional (or possibly at-home) care:

The benefit doubles on meeting the specified trigger, typically for a limited period, e.g. 5 years.

Initial annuity payment slightly lower for the same premium.

The maximum payment period may affect a small proportion of policy holders.

- Typical triggers

- Impairment of ability to perform a specified number of ADLs.
- Diagnosis of a severe cognitive impairment (where ADL performance impairment would be expected).



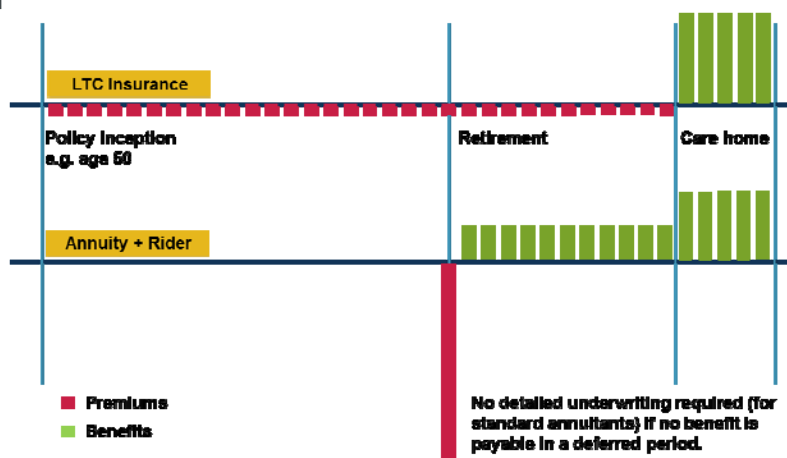
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Summary of common structures seen

[Not to scale]



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Existing / recently-launched products in the UK



JUST.

- Care plan (launched 1995)
 - Immediate or deferred needs (up to 5 years) annuity
 - Lifetime level or indexed income paid tax free
 - Medically underwritten at point of need.
 - Capital protection up to 75%



Vitality

- Care rider on Whole of Life Assurance (launched 2014)
 - Accelerates part of the life cover after a needs-based assessment up to £250k.
 - Focus on degenerative illnesses, e.g. Alzheimer's, Dementia, Parkinson's; also covers against impact of strokes.



- Assisted living insurance (launched 2017)
 - Choose either £20k or £30k of fixed cover (not indemnified)
 - Pays an 'Assisted Living Allowance' up to £1,000 a month, needs-based assessment
 - Pays up to £10,000 as an 'Assisted Devices Allowance'
 - Pays up to £2,000 for respite care



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Existing / recently-launched products in the UK



- Buy to let lifetime mortgage
 - Can release between £10k and £750k
 - Borrower can use funds released to pay for residential care



- Regular drawdown
 - Can drawdown from £200 a month to supplement retirement income, which could be used to pay for domiciliary care costs



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Innovating long-term care products in the UK

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Thoughts on novel product structures

Flexibility needed:

- Legislative change
- Care Act 2014 caps
- Local authority contributions
- Means testing changes

Certainty needed:

- Level of protection provided
- What happens if means testing and caps change?

Marketability:

- Easily understandable
- Seen as good value for money
- Must be IFA-friendly

Cost and quality management:

- Trigger framework
- Investment choices
- Strategic partnerships in LTC industry.

Not just a life insurance industry question: other options exist

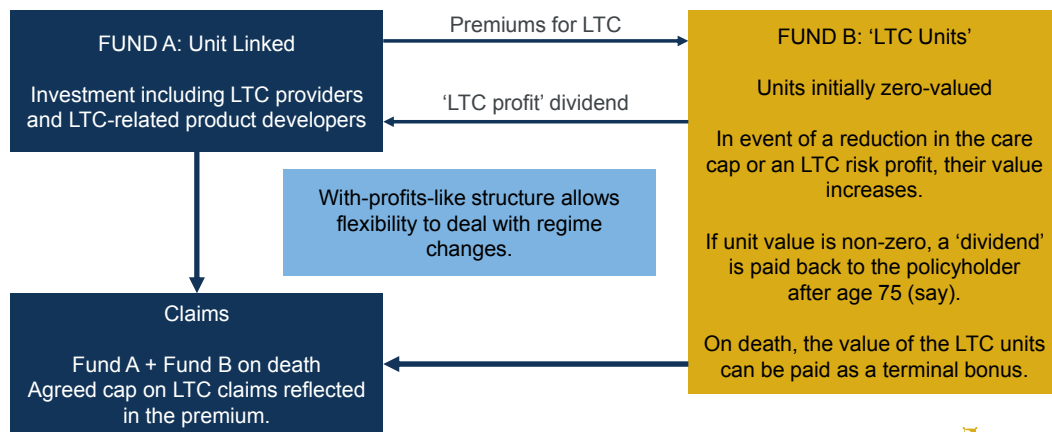


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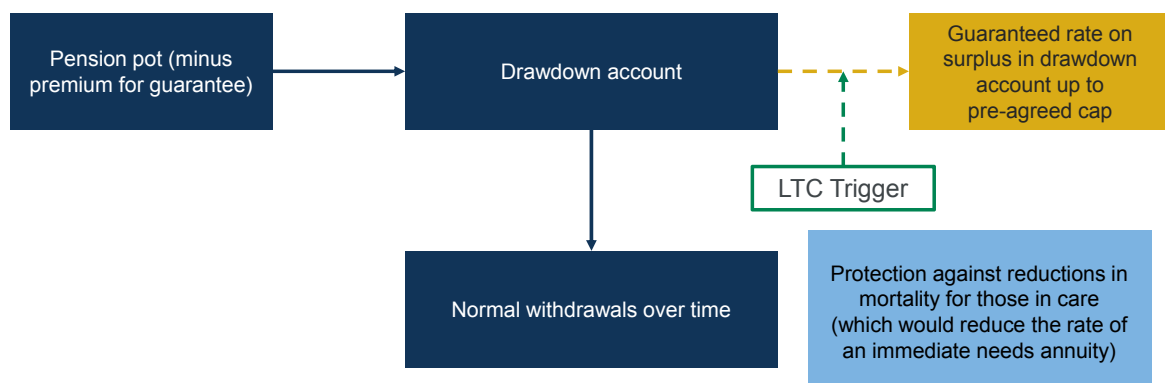
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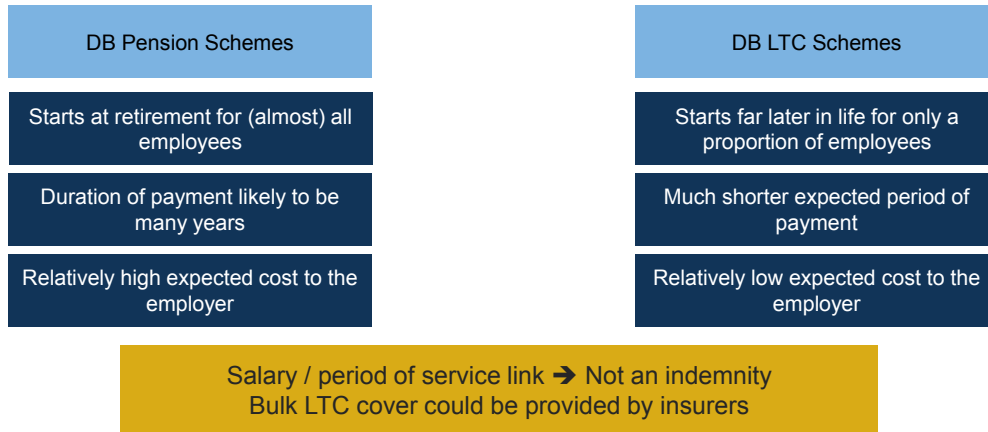
A with-profits-like LTC protection product



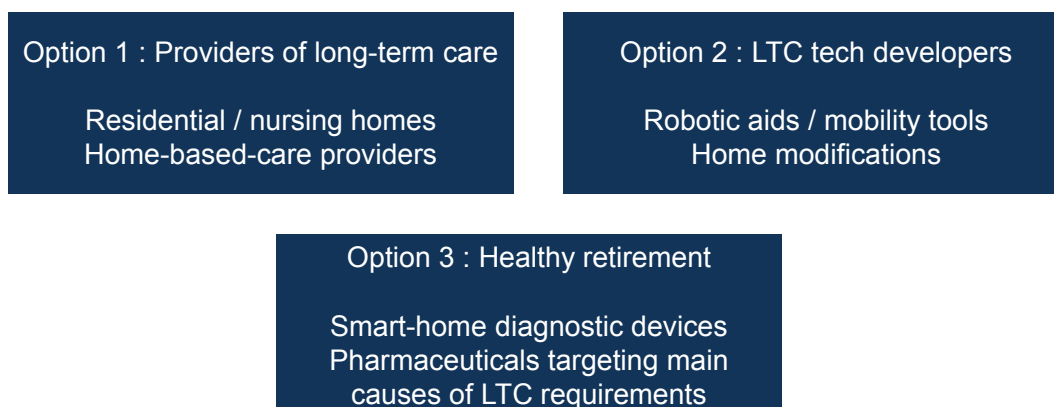
Guaranteed Care Fees Annuity Options



Defined benefit long-term care packages?



Managing the risks of providing long-term care cover - Strategic investments



Managing the risks of providing long-term care cover - Specified providers of care

Fixing costs in advance

Giving security to care-home providers

Restricting user choice?

Possible discounts on non-residential care?

What if the providers' facilities are already full?



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Conclusions

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Conclusions

- Demand for care is increasing at a time when public funding for care is being squeezed.
- The Care Act has left significant uncertainty around future individual liability for care costs.
- Public understanding of LTC costs is limited, so preparation for these costs is sparse.
- Nor is there (currently) a favourable tax environment to encourage saving for LTC costs.
- We need innovative products and cross-sector co-operation to provide insurance-based solutions and to better manage the risks arising from long-term care products.



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Questions

Comments

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