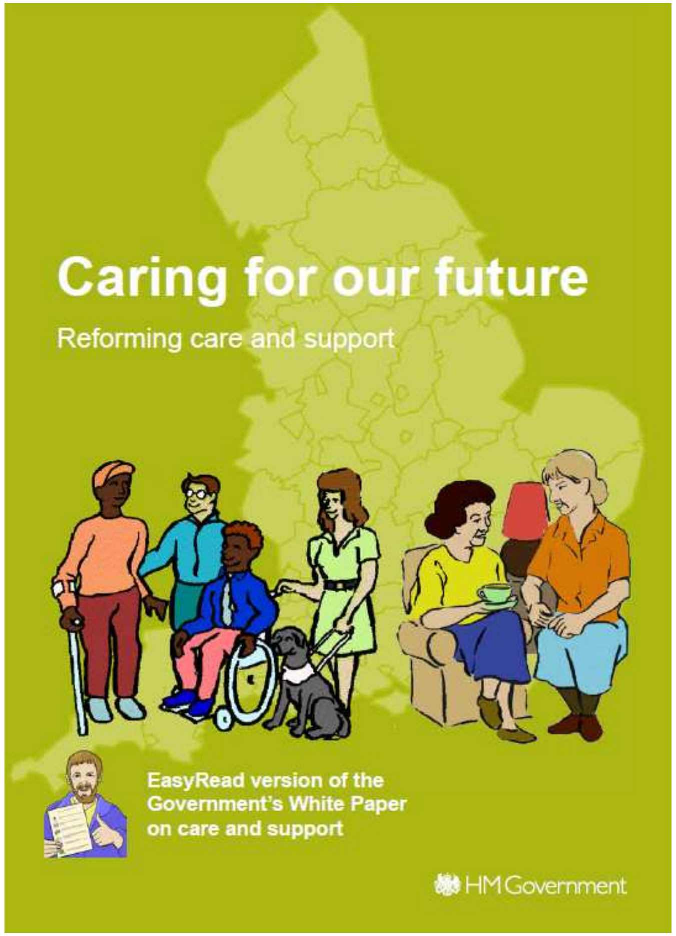
How will anyone pay for their social care?

Sarah Harriss, Head of Paying for Social Care, DH
Jules Constantinou, Gen Re

12/11/2013

If adult care and support in England is going to respond to challenges it must help people to stay well and independent



- Promote people's **wellbeing**
- Enable people to **prevent and postpone** the need for care and support
- Put **people in control** of their lives so they can pursue opportunities to realise their potential

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The Care Bill is built around people

- People's **well-being** will be at the heart of every decision
- **Carers** rights on the same footing as the people they care for
- Freedom and flexibility to encourage innovation and **integration**
- **Preventing and delaying needs** for care and support
- **Personal budgets** giving people greater control over their care
- **Information and advice** about the care and support system
- **Promoting the diversity and quality of the local care market**, shaping care and support around what people want
- New guarantees to ensure **continuity of care**

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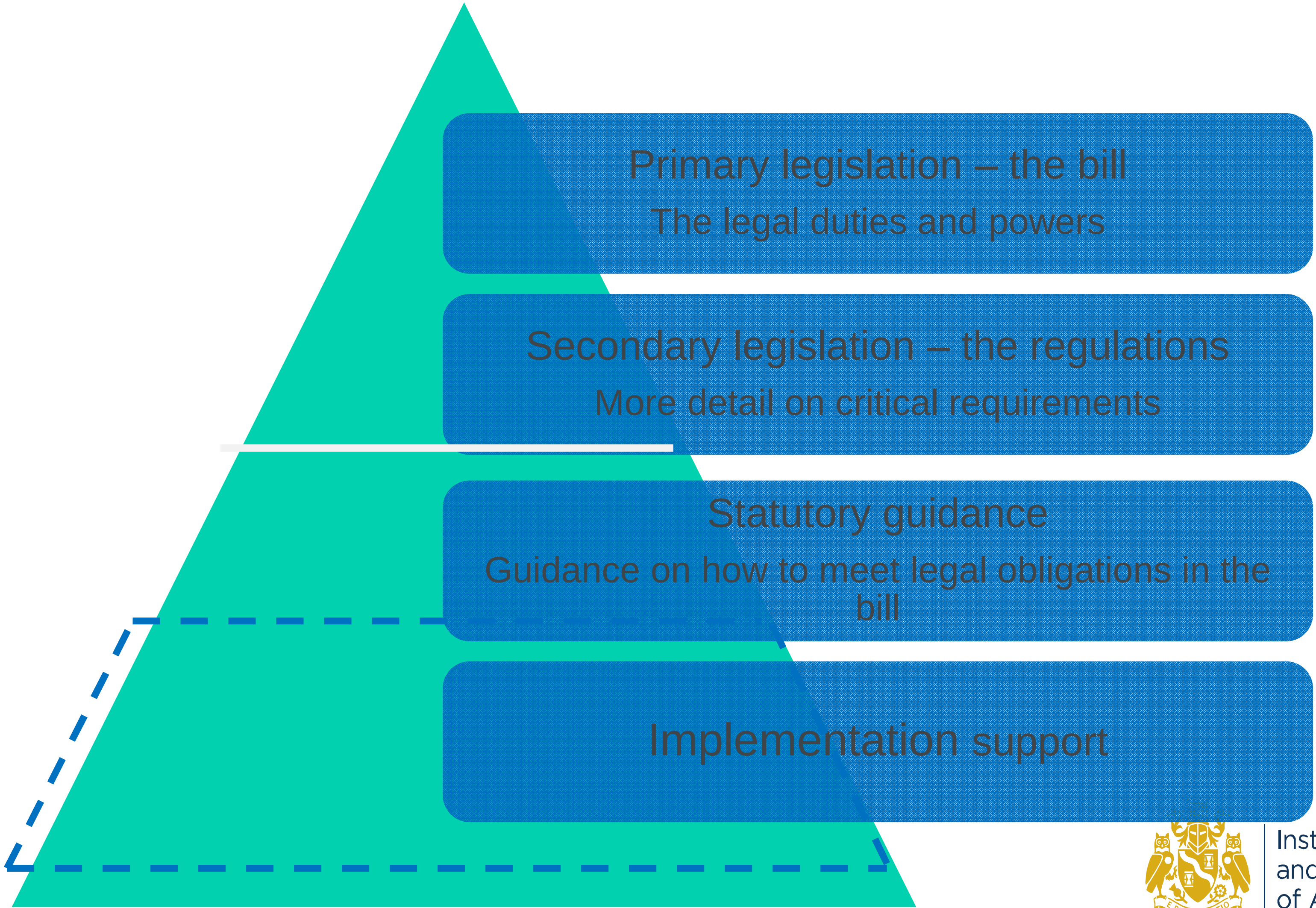
The vision for transforming care and support will have profound implications for LA systems, processes and people

Key requirements	Timing
Duties on prevention and wellbeing	From April 2015
Duties on information and advice (including advice on paying for care)	
Duty on market shaping	
National minimum threshold for eligibility	
Assessments (including carers' assessments)	
Personal budgets and care and support plans	
New charging framework	
Safeguarding	
Universal deferred payment agreements	
Extended means test	From April 2016
Capped charging system	
Care accounts	

The new legal framework will have three layers, of which the Care Bill is just one part



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Care and support funding reform:
How we are helping people pay for their care and support

12/11/2013

What are the key drivers for reform?

- The Dilnot Commission found that the current adult social care funding system in England is not fit for purpose.

- Care costs are unpredictable – around one in eight people face care costs over £72,000 whilst one in five have no care costs.

- There is no safety net to protect people them from losing almost everything - individuals with assets of £150,000 face paying up to £120,000 pounds towards their care and support.

- The number of over 85s is set to double by 2030, and cases of dementia expected to rise at a similar rate.

- People are particularly affected if they need residential care. Currently, every year around 30,000 – 40,000 people with limited income or savings may need to sell their homes to pay for care.

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Government accepted the Dilnot principles for future funding of care and support, and subject to the passage of legislation will reform how care is paid for

A cap will be introduced on the costs that people have to pay to meet their eligible needs (from April 2016).

The cap will be set at £72,000 in April 2016 for people of state pension age and over and lower for working age adults and free care for people who turn 18 with eligible needs.

Financial support will be provided to more people to help them with their care costs (from April 2016).

This will help people with their care home costs if they have up to £118,000 in assets (including their home). Where the value of someone's home is not counted, we intend to provide financial support with care costs to people who have up to £27,000.

A standard contribution to living costs of around £12,000 a year will be set (from April 2016)

People in care homes will remain responsible for their living costs when they reach the cap if they can afford to pay them. This will not count towards the cap.

A new framework for charging

Both domiciliary and residential care charging will be subject to regulations. We are consulting on the principles to underpin these regulations.

Our care reforms will mean people have more opportunity to financially plan and the costs they face will no longer be unlimited

A universal deferred payment scheme (from April 2015)

People should not have to sell their home in their lifetime to pay for their residential care costs. Local Authorities will be under a duty to offer deferred payment agreements to people who meet the eligibility criteria.

Developing information and advice (from April 2015)

An information and advice strategy, including new local authority duties, will support people to financially plan. Local authorities will be under a duty to provide care and support information, including how to access independent financial advice where it is needed.

Working with financial services organisations

People should have a range of options to help them pay for their care costs. We are working with financial services organisations to help create conditions to allow new financial products to develop.

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What does this mean for people?

- Local authorities help everyone, not just those with higher levels of need.
- Assessments help people understand their needs, strengths and aspirations and care options. They determine what counts towards the cap.
- Costs paid, or that would be paid, by the local authority are transparent and count towards the cap.
- People in care homes will make a contribution towards their daily living costs which does not count towards the cap.
- People will be able to defer the cost of their care home up to the value of their property.
- People will have more choice and control over how their needs are met with care accounts, personal budgets and greater portability.
- Once a person has reached the cap, costs to meet their eligible needs are paid for by the council.

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What does this mean for Mr A?

Mr A, aged 70, develops dementia and moves into a care home.

His assets are over £118,000, so he does not qualify for local authority support.

He Has

Assets	Income
£300,000	£390pw (from his pension and AA)

In addition to his pension, he receives attendance allowance (AA)* at the higher rate of around £90 per week.

The local authority calculates his needs can be met in a local care home which costs £650 per week. However he chooses to pay an additional £150 per week to move into a different care home of his choice.

He contributes

Care Costs (which count towards the cap)	*Daily Living Costs*	***Top Up***
£420 per week	£230	£150

He reaches the cap after 3 years and 4 months, after which:

The local authority pays £420 per week to meet his needs. He remains responsible for his daily living costs and his £150 top-up.

Local authority contributes	*He contributes*	
Care Costs (which count towards the cap)	*Daily Living Costs*	***Top Up***
£420 per week	£230	£150

Mr A remains in the care home for one more year, after which his remaining assets are around £210,000.

*Attendance Allowance (AA) is a non means tested benefit for severely disabled people aged 65 or over who need help with personal care

What happens next?

The Bill builds on almost five years of engagement – we want to keep that going:

- **Funding reform** consultation closed on 25 October, response expected in the new year.

- **The Bill itself** we want to keep talking to stakeholders as the Bill passes through Parliament, to make sure we understand views and take every opportunity to improve the legislation. Follow progress at http://services.parliament.uk/bills/2013-14/care.html

- **Secondary legislation/Statutory guidance** the Bill provides for around 20-30 sets of regulations, and will require a new bank of statutory guidance. We will be working through stakeholders in a series of advisory groups to develop and consult on regulations and guidance:

    - May 2014 – publish draft regulations and guidance for consultation
    - October 2014 – publish final regulations and guidance
    - April 2015 – new legal framework comes into effect

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Working with the financial services industry: what opportunities are offered by the reforms?

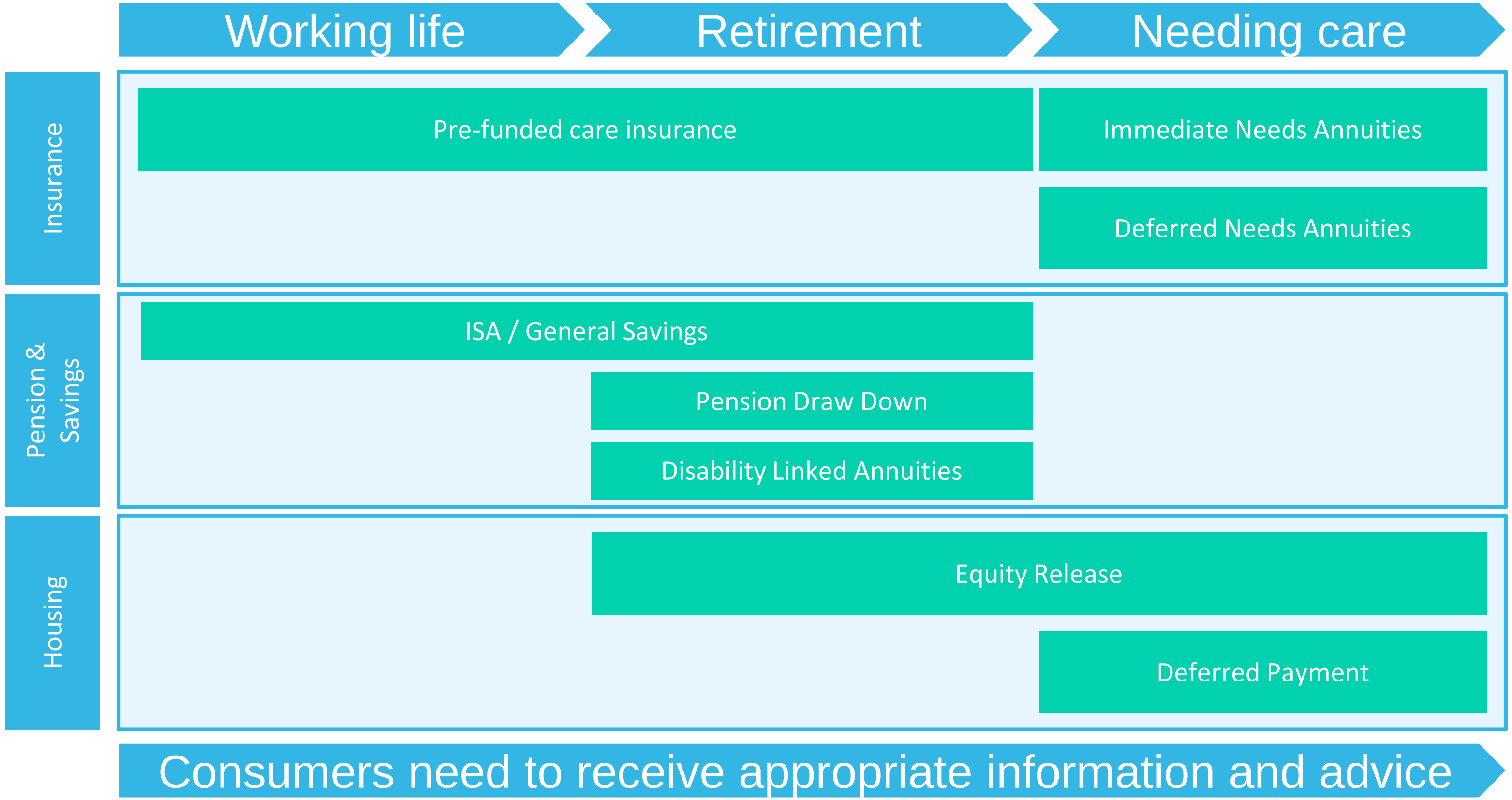
- The cap on care costs provides more clarity about what individuals may have to contribute towards their care allowing them to better plan and prepare.

- Our engagement suggested the reforms create the space for a larger and more diverse market of financial products than we have now.

- DH commissioned an industry led review which sought to answer the following questions:
  - What products could be developed and / or marketed to help people pay for their care costs?

  - How do we create the right environment for these financial products?

We think a range of solutions could develop for people at different stages of their life, including people with different levels of wealth



What more should be done to create the right environment for financial products to flourish and what financial services options will be important in helping different groups pay for their care?

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The Department of Health wants to continue to work with the financial services industry to support people plan for their long term care and support

- What solutions will be important and how can Government help them develop?
- How can financial advice help people make the right decisions?
- Interaction and referrals between local authorities and financial advice?
- What can be done to raise general awareness of the need to financially plan for care costs?
- How do we support people to think about later life at retirement?

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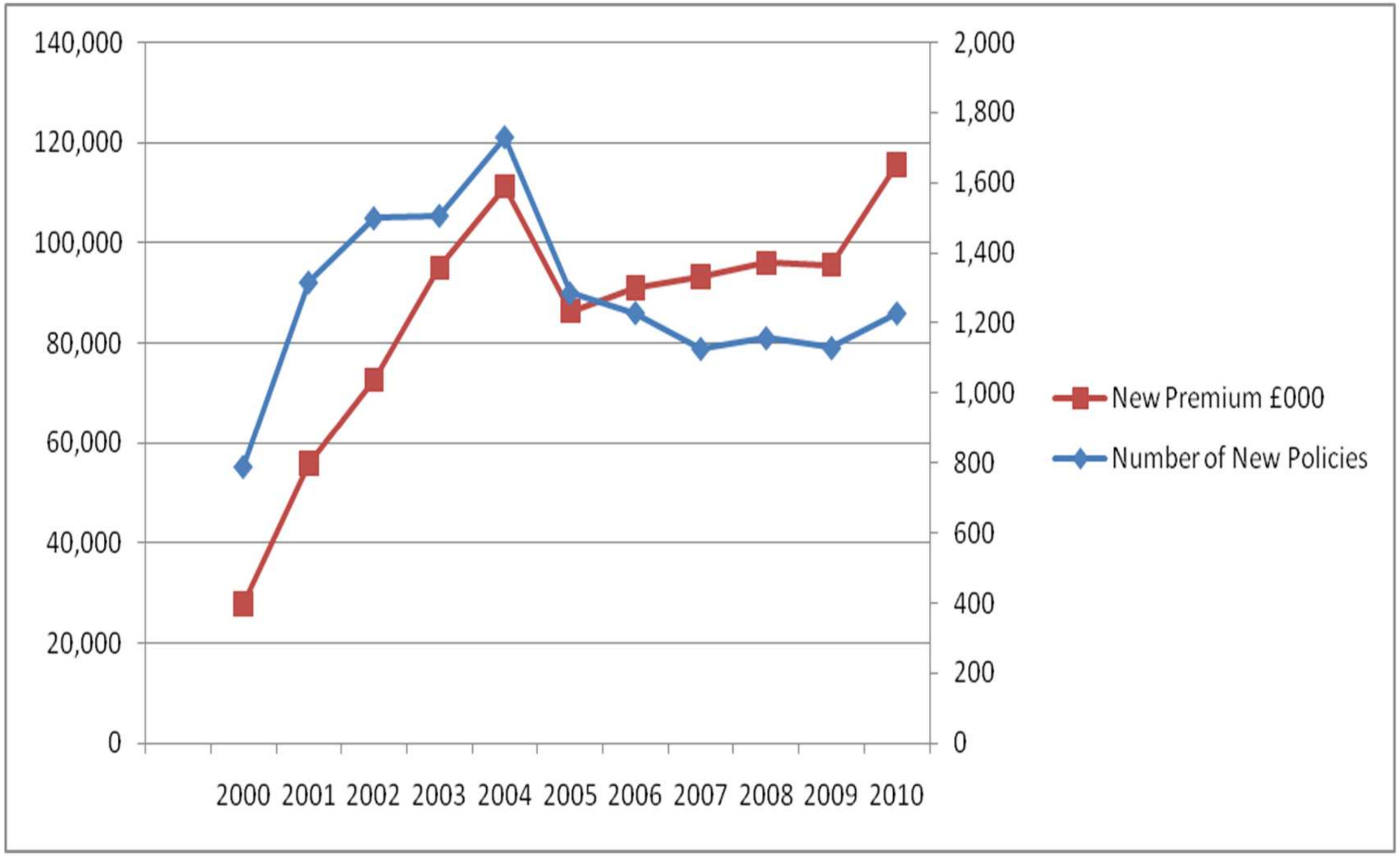
Products...

“expects the financial services industry to work creatively to **amend existing products and develop new products** that support people in making choices about how to plan for their care costs.”

Jeremy Hunt, Secretary of State for Health, 11/02/2013

ABI New Business (2010)



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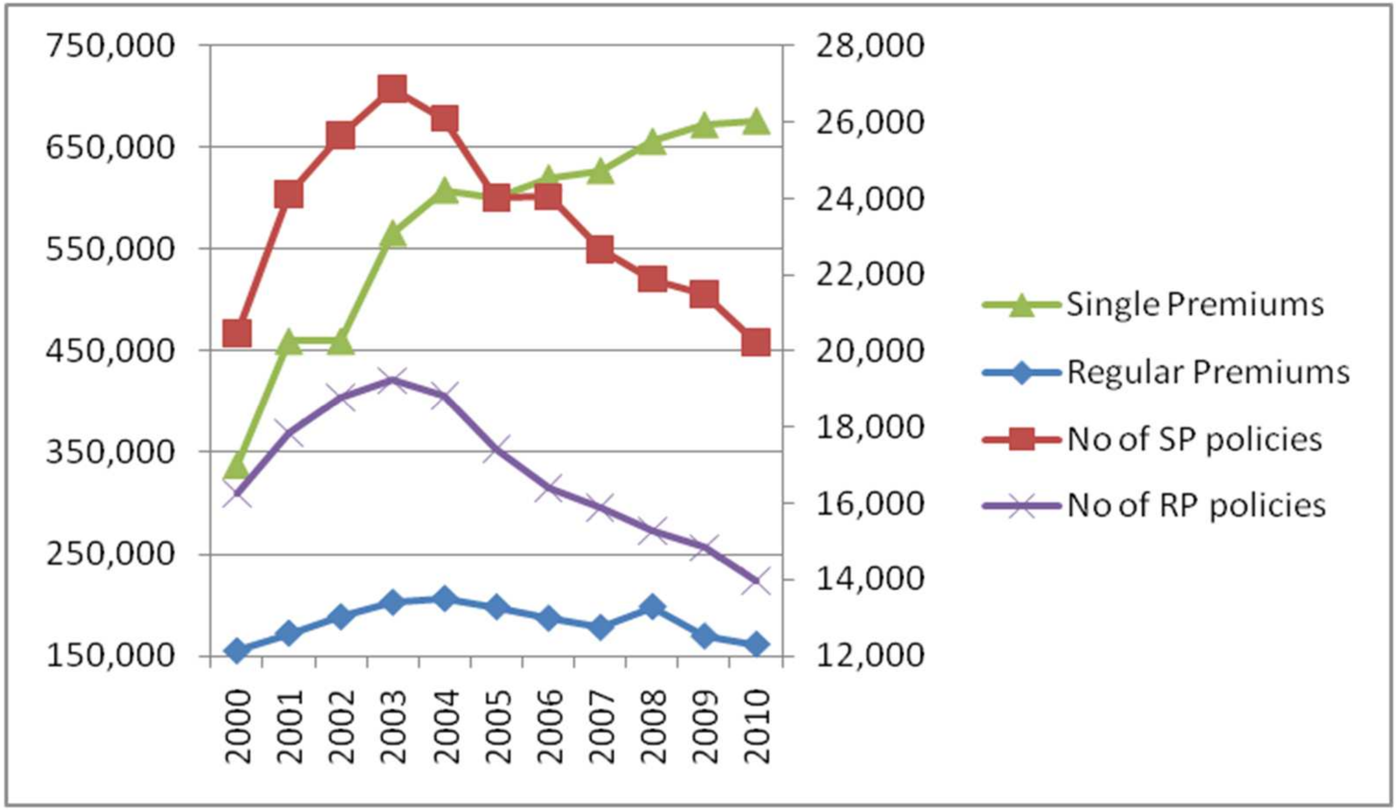
ABI In-Force (12/2010)



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Some market numbers

- New policies in 2010: **1,228**
- New policies in 1998: **7,000**
- In force end 2010: **34,000**
- In force at its peak: **46,000**
- Claims in payment: **£100m** per annum
- Only **3** providers of LTC products currently

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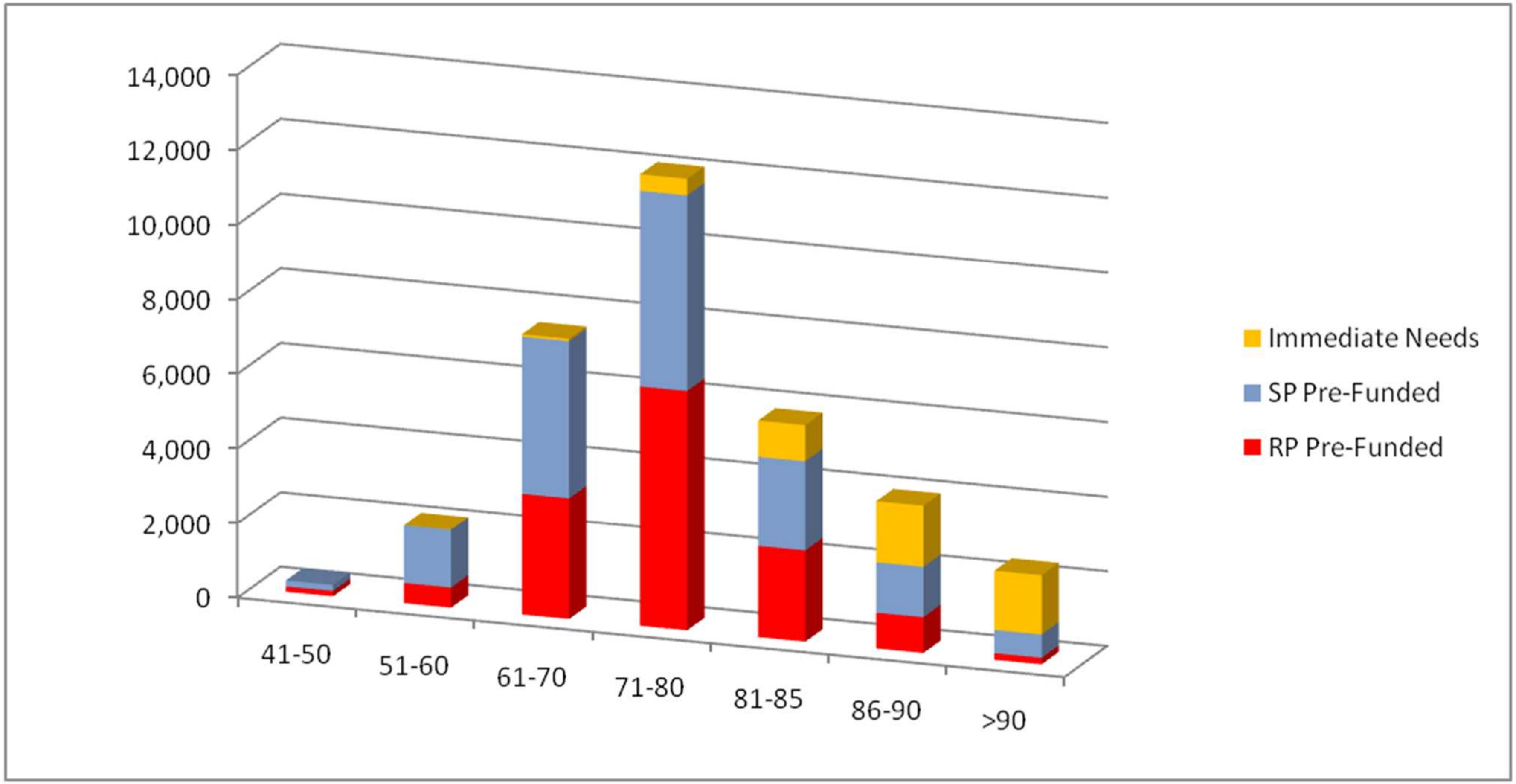
In force (12/2010) by age group



Source: ABI Statistics

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Three working parties.....

- Consumers and the Marketplace
- Pensions and Insurance
- Housing and Finance

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Parties involved

SOLLA
Society of Later Life Advisers

bba

EQUITY RELEASE COUNCIL
Incorporating SHIP Standards

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Bupa

Pensions

"save more to fund for your later life needs"

- Pensions (disability linked annuities)
- Drawdown flexibility (NEW)
- Immediate Needs Annuities
- Joint life products
- Intergenerational products
- Whole of life LTC combo

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Some adviser research

- L&G conducted some research on DLAs with advisers based on a paper by Ben Rickhaysen (2007)

On the face of it, it would seem a good option but in reality would many people opt for it?

I see the advantages, but most opt for max income. I think interest will be high, but business volumes low.

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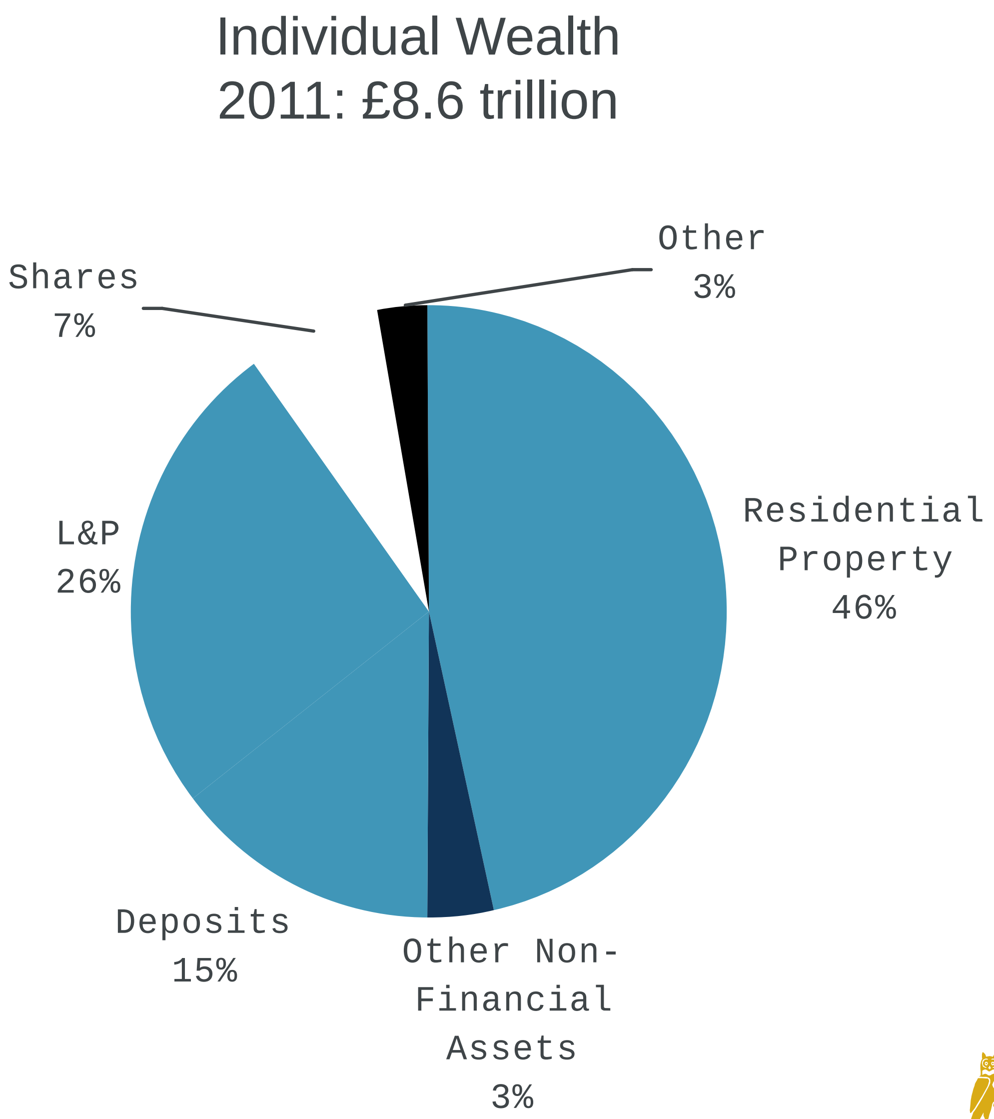
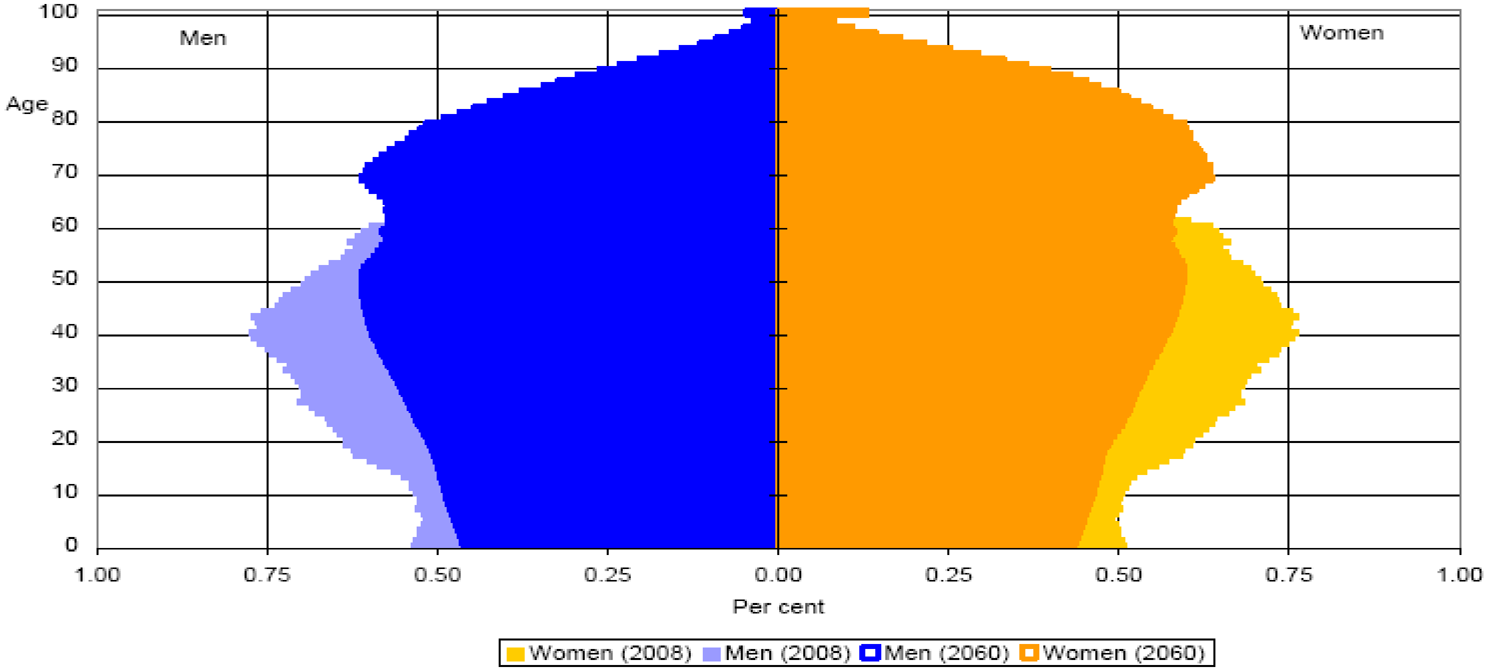
Housing Wealth and Equity Release



Source: ONS "Blue Book", 2011

Size of opportunity



Source: Eurostat, EUROPOP2008 convergence scenario

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Demographic trends

“The number aged 65+ will increase from to 9.8m in 2009 to 12.4m in 2020 and the number aged 80+ from 2.8m in 2009 to 3.6m in 2020”

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Market Potential

Current market:

53,000 self funders

7,000 seek financial advice

1,228 INAs

Paper by Forder (PSSRU: September 2011) estimates that 40% of self funders can afford and would benefit from an INA.

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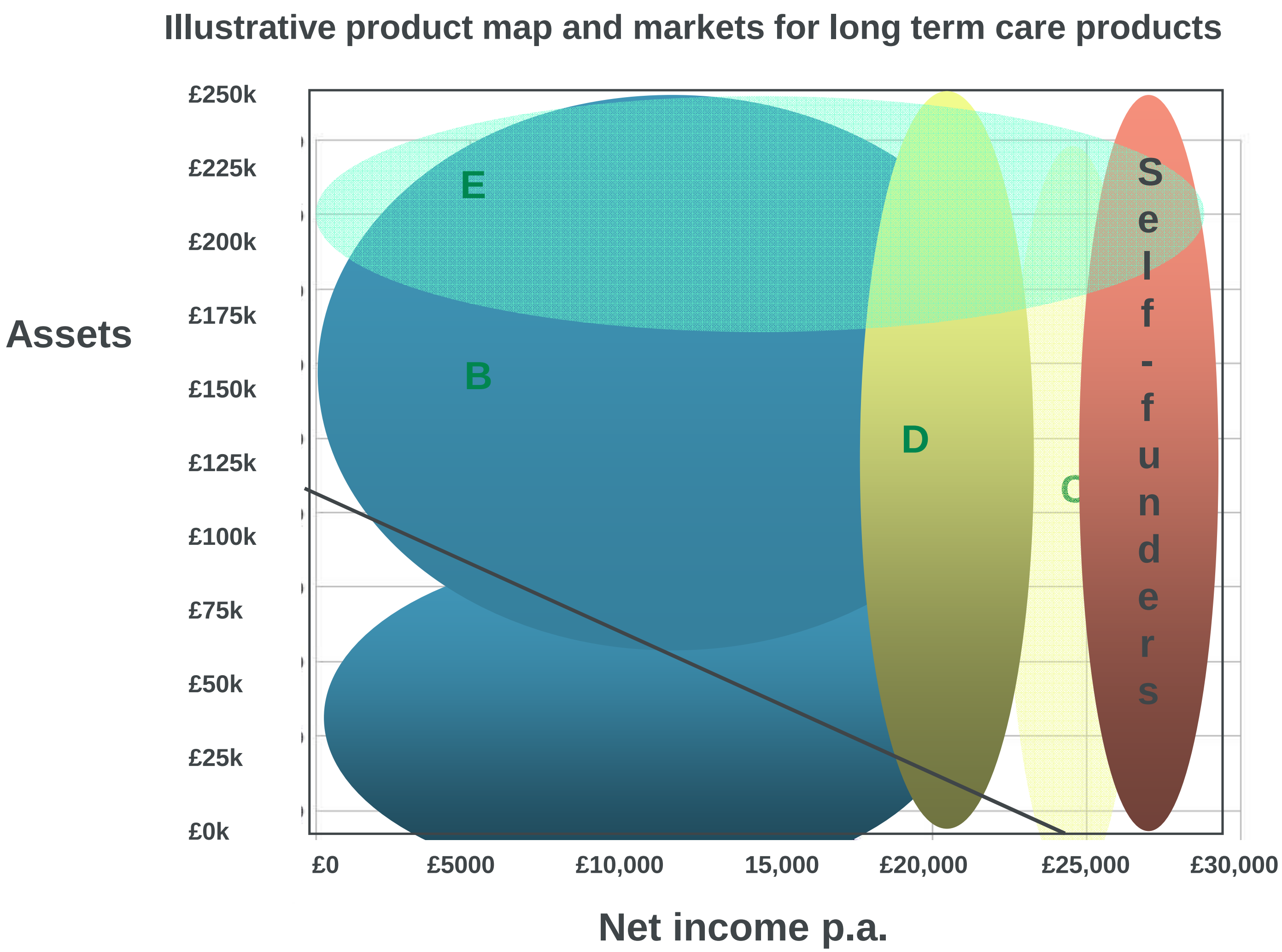
Possible Product Map



Key:

A Personal Care Savings Bonds

B Equity Release

C Disability Linked Annuities

D Insurance products

E Immediate Needs Annuities

The black solid diagonal line shows the indicative boundary for means-tested state support for residential care.

Source: Cass Business School/ILC-UK

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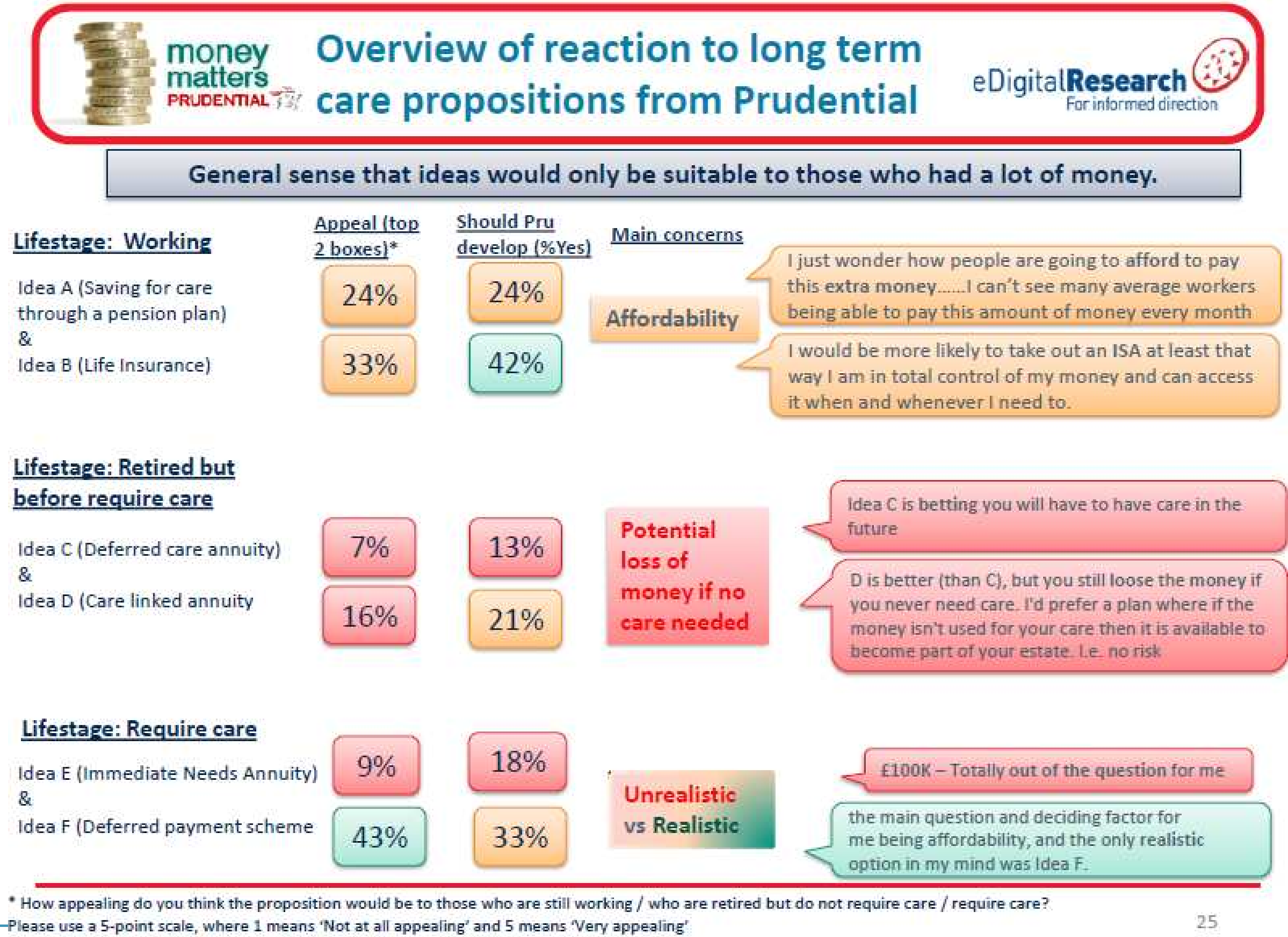
Some consumer research



What needs to happen?

- Changes in the tax treatment of DLAs
- Changes in the GAD limits to facilitate the use of pension funds in drawdown
- Changes to equity release (ER) rules
- Integration between ER and UDPS
- Changes to means testing rules to “reward” purchase of suitable insurance products
- PUBLIC AWARENESS that the State DOESN’T pay for social care
- ACCESS TO FINANCIAL ADVICE

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Some views from advisers

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Not sure	Total
People do not know about the option of financial advice	43%	37%	13%	7%	0%	0%	100
People cannot afford financial advice	1%	6%	35%	44%	12%	2%	100
People do not think they can afford financial advice	9%	58%	22%	10%	1%	0%	100
People do not trust the financial services industry	7c%	48%	32%	11%	2%	0%	100
People do not want professional advice	2%	4%	14%	59%	21%	0%	100
People feel that there is not enough time to take advice	2%	12%	25%	50%	9%	2%	100
There are not enough qualified advisers	5%	43%	25%	27%	0%	0%	100
People do not want to think about needing care	19%	63%	7%	9%	2%	0%	100

- Source: SOLLA

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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.

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