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# State of the Nation: An Update on Funding for Social Care

Jules Constantinou, Gen Re

# Do not recommendations:

- Introduction of consistent **national assessment** criteria
- Better **information** and **advice** to be made available
- A major campaign promoting **awareness** of the system
- A cap of £35,000 total **contribution** from the **individual** (25K to 50K) – cost of £1.7bn



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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*



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# Parties involved



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# Pensions

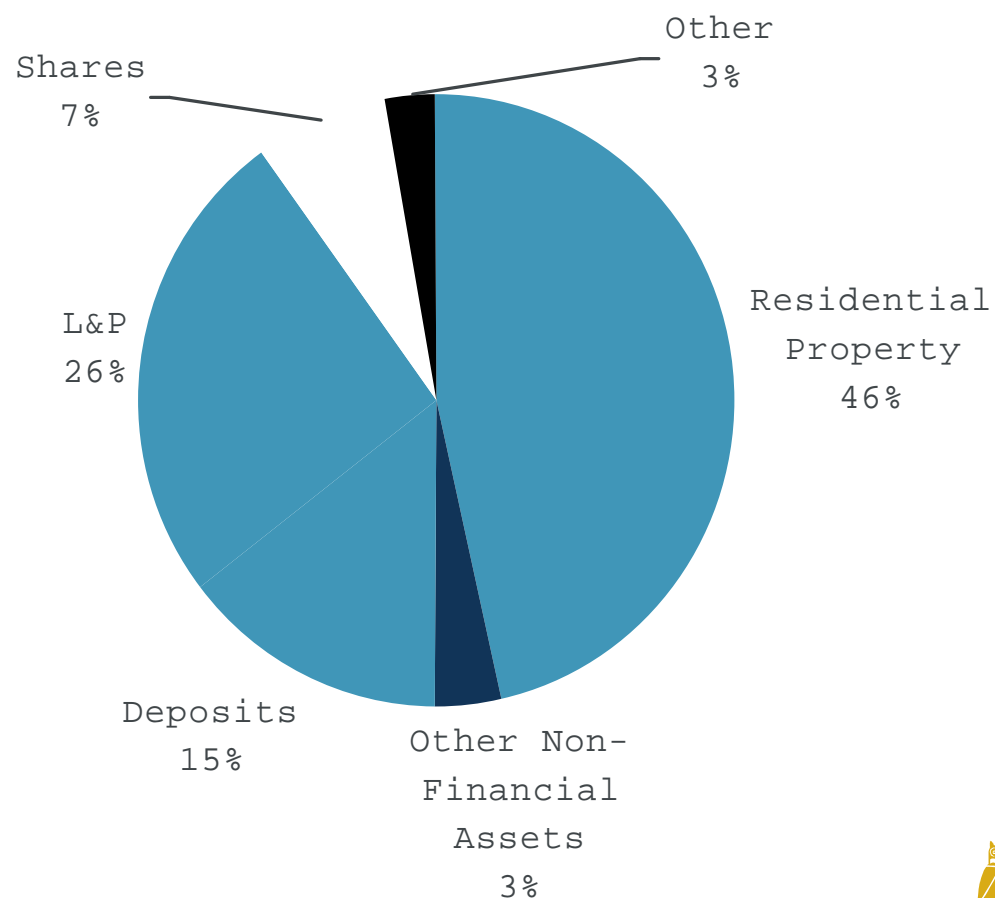
“save more to fund for your later life needs”



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# Housing Wealth and Equity Release

Individual Wealth  
2011: £8.6 trillion



Source: ONS "Blue Book", 2011



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# Pensions: Existing products

- Immediate needs annuities
- Deferred needs annuities



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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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# Additions to existing products: pensions

- Capped drawdown: using a table for life expectancy that allows for disability
- Flexible drawdown: lower limit to be dropped to £12,000
- Change annuity value protection option: access tax free on care
- Ring fence part of the pension pot in decumulation phase



# Additions to existing products: other

- Whole of life: paying on earlier of death or requiring care
- Joint life / intergenerational
- Life insurance paying off UDPS debt
- Whole of life critical illness



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# Return of products

- Whole of life income protection with definition change at retirement: [distribution issues]
- Disability linked annuity: [taxation issues]
  - People seek to maximise immediate income and discount future needs. This is unsurprising given that the median post-tax free cash pension pot is £20,000 and the mean is £33,400
  - Only 7% of retirees take up index-linked annuities, which reduce initial retirement income in a similar way to a disability-linked annuity. This is despite the significant risks to peoples' living standards arising from even moderate levels of future inflation.



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# How pensions can help meet consumer needs under the new Social Care regime

An Overview

By the Products Research Group of the  
Pensions and Long Term Care Working Party

7 May 2014



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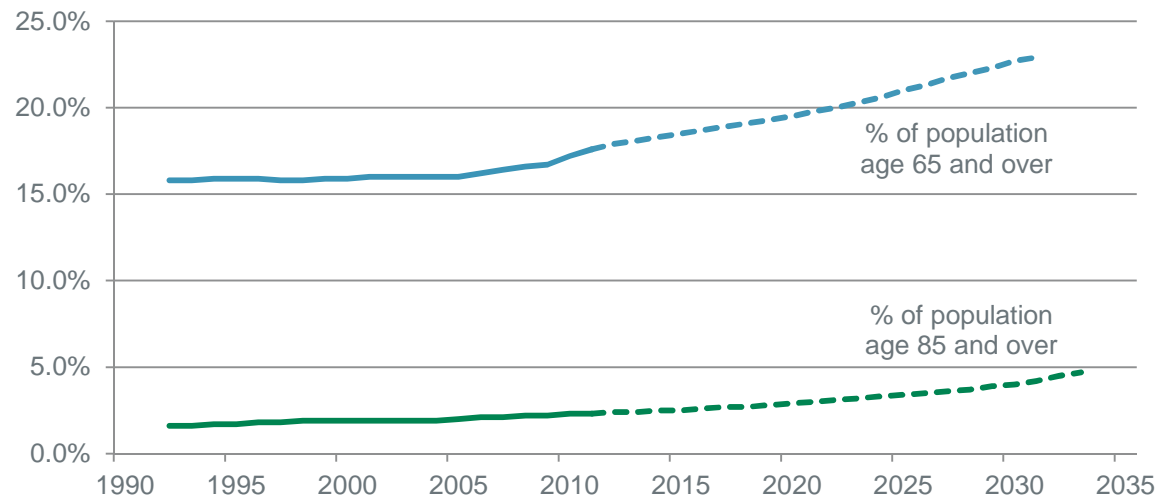
# Why pensions?

- An established framework
- Speed of introduction
- Flexibility
- Common asset
- Employer engagement



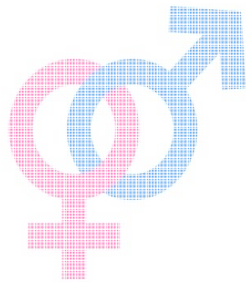
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# Caring for an ageing population



- 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



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# Overview of products considered

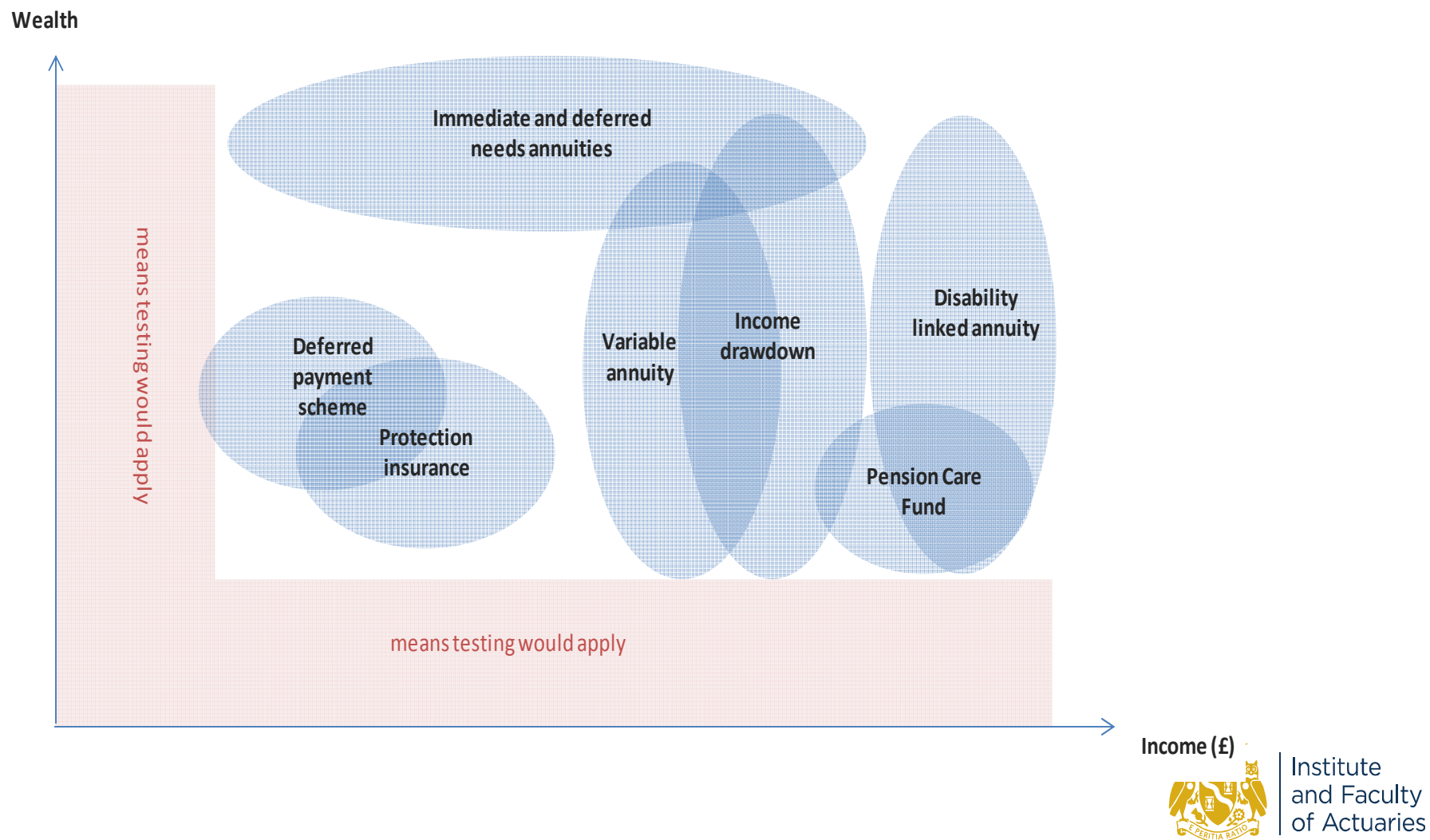
Product	UK Market size (2012)
Protection Insurance	New product*
Income Drawdown	£1.2bn (ex Self Invested Personal Pensions)
Ring-fenced pension pot (Pension Care Fund)	New product
Disability-linked annuity	New product
Immediate and deferred needs annuities	£0.2bn (as a Purchase Life Annuity (PLA))
Variable annuities	£1.4bn

*\*this product is not currently marketed in the UK. However, there are over 30,000 policies in-force in the UK*



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# Target consumer profile





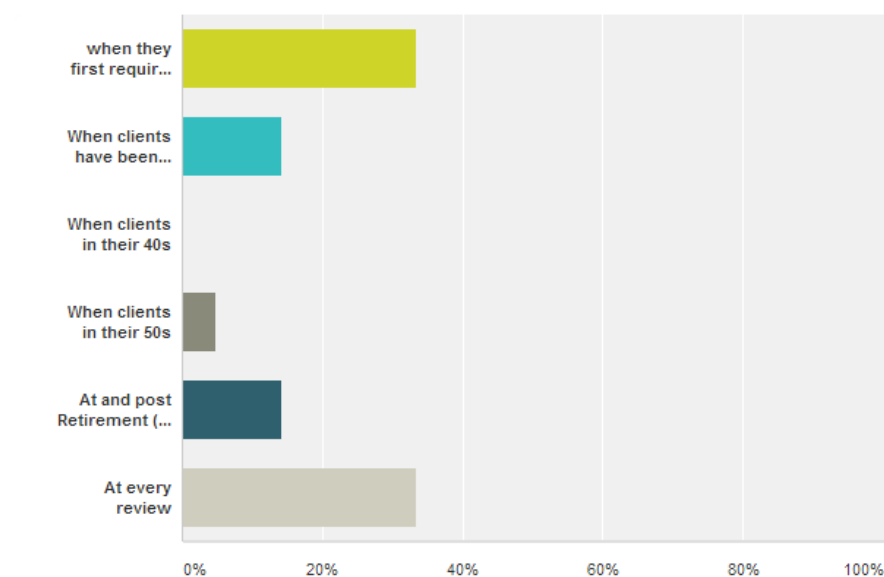


# Gen Re **SOLLA** Research



# Advising on Care funding

At what stage 'typically' do you discuss funding care social care costs with your clients?



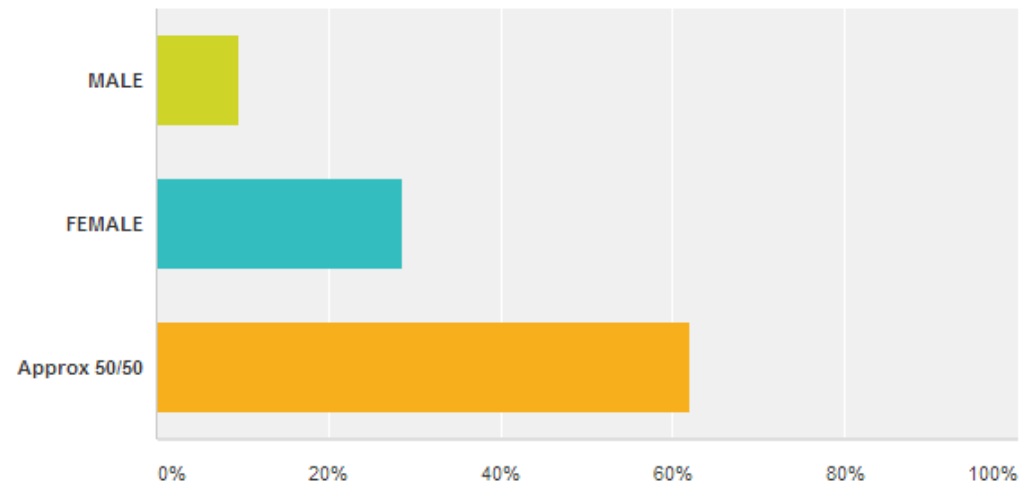
Answer Choices	Responses
when they first require social care?	33.33%
When clients have been through the experience of funding care with a relative	14.29%
When clients in their 40s	0%
When clients in their 50s	4.76%
At and post Retirement ( eg when they make a decision to annuitise their pension)?	14.29%
At every review	33.33%



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# Gender of Clients at Retirement

What gender are the majority of your at retirement clients?



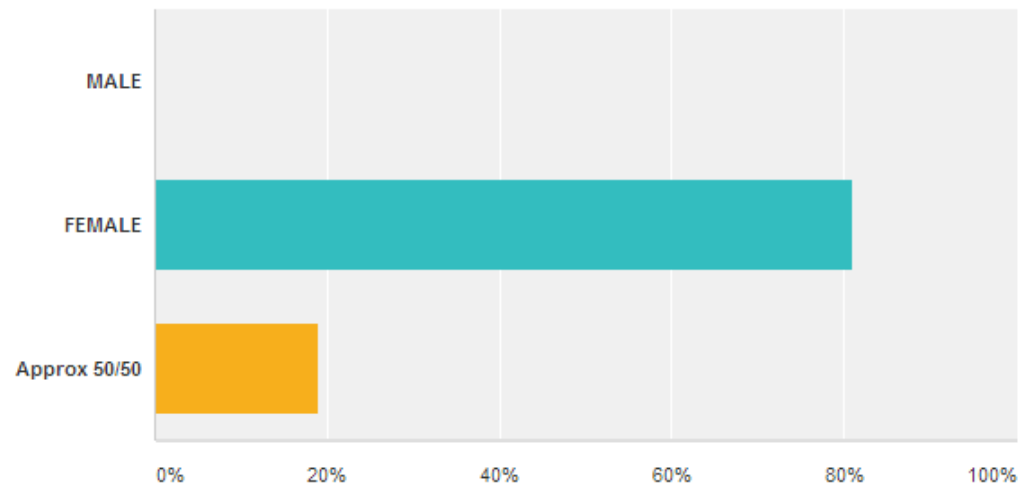
Answer Choices	Responses
MALE	9.52%
FEMALE	28.57%
Approx 50/50	61.90%



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# Gender of Clients needing Care Funding Advice

What gender are the majority of your clients needing care funding advice?



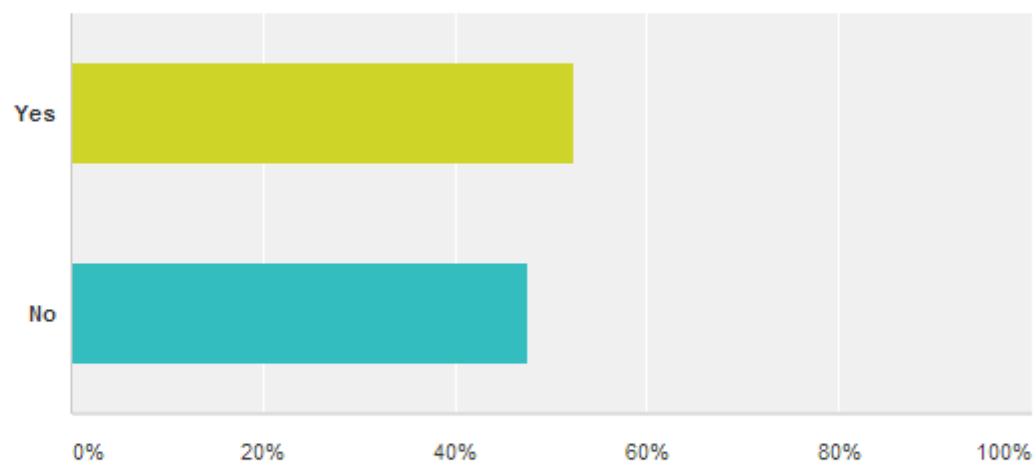
Answer Choices	Responses
MALE	0%
FEMALE	80.95%
Approx 50/50	19.05%



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## Pre-Funded Market

Did you ever recommend pre-funded LTC plans when they were available?



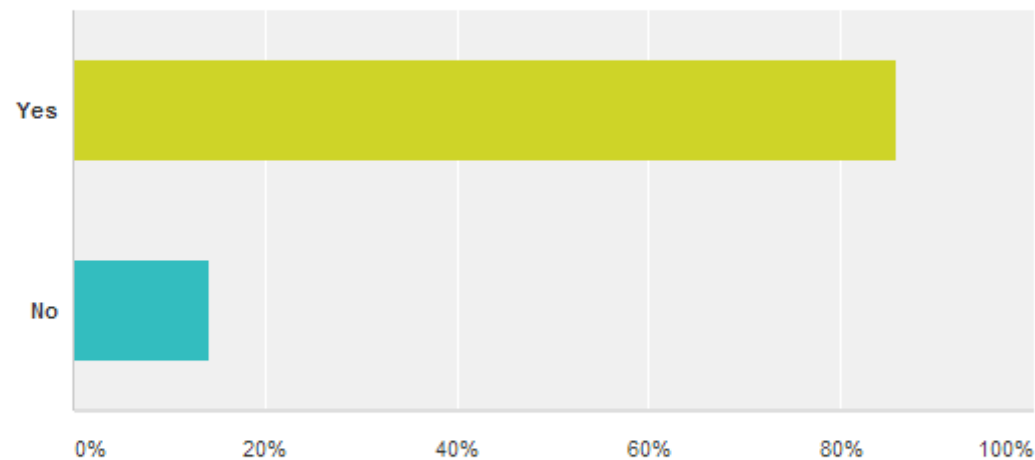
Answer Choices	Responses
Yes	52.38%
No	47.62%



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# Care Funding Recommendation

Do you regularly recommend Immediate need annuity plans?



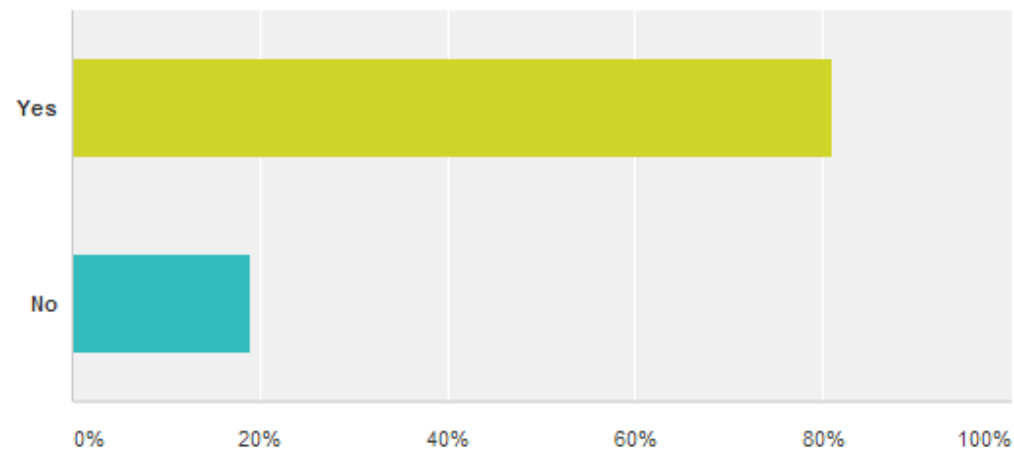
Answer Choices	Responses
Yes	85.71%
No	14.29%



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# Role of Equity Release in Care Funding

Do you think there is more potential for  
Equity Release type plans as a solution to  
Long Term care funding?



Answer Choices	Responses
Yes	80.95%
No	19.05%



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# What the Government has delivered

- **National eligibility** criteria and **portable assessments**
- Local authorities to have the obligation to provide individuals with **independent advice**
- A major campaign promoting **awareness** of the system
- A cap of £72,000 (**2016**) total **contribution** from the **individual** – cost £1bn by the end of next Parliament
- **Universal Deferred Payment Scheme (2015)**



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# Where are the products?



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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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