



Institute  
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of Actuaries

## Incentivising Care Funding – A Social Imperative

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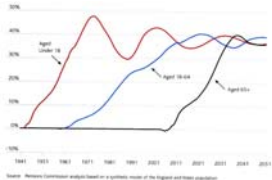
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### Demographics demand action Now!

- Huge rise in numbers age 85+ ahead
- Pensions Crisis becomes Care Crisis
- No money set aside at national, local or individual level



Source: Pensions Commission analysis based on a synthetic model of the largest and fastest growing population



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### Next Crisis In Our Aging Population

- Worse than pensions crisis
- With pensions we could delay start date, albeit belatedly
- With care, once needed, it can't wait
- Most assume NHS will pay, but it won't
- Care spending being cut from already inadequate levels
  - No spending on prevention/early intervention
  - Self-payers subsidising local authority underspend
- NHS 'safety net' to run out of resources



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### Health & Care – artificial distinction

- Health need: taxpayer pays all, NHS unlimited funding
- Social care need: taxpayer pays none, council means-test funding
- Unfair and unsustainable – all are health issues
  - Cancer vs. dementia
- Heading for more severe rationing as councils struggle
- Need integration of health and care




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### Care – Two Stages

- Short term: Address inadequate current funding
- High costs coming soon from catastrophic events, serious illness
- Insurance as well as savings – ultimately state picks up
- Need money to pay for what's required before it's too late
- Long-term: Set up new system to help people prepare for future
- Early intervention can prevent much more expensive costs later
- Planning to pay for future long-term care – savings + insurance?




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### Failure to plan for Social Care

- Crisis due to good news – as life expectancy and health improve
- BUT – care funding falling as demand rising
- Welfare State/NI didn't cover care costs of an ageing population
  - Beveridge covers pensions, unemployment and illness, not care
- Inadequate planning for demographic realities – it's already very late
- Must bring social care into 21st Century




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### Dilnot to the rescue... no!

- Raising means-test to >£100,000 good, but £12,000p.a. hotel costs
- £72,000 cap isn't a cap - spend c.£150,000 before any help
- Only starts once needs substantial – no early intervention
- Only get minimum council standard, if want more must pay
- Where can money come from? Deferred payment plans limited
- Insurers say cap too high to make insurance viable



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### Main Failings of Current System

- Unpredictable, unfair, unmet need
- Inadequate funding forcing falling standards
- 15 minute visits and minimum wages
- Insufficient information or advice – people don't plan ahead
- Strain on NHS 'safety net' will keep growing
- Must urgently get funding at national and individual levels



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### How can we improve funding?

- There is no single solution
- Savings-based solutions – may need incentives for care saving
  - Care ISAs
  - Pension withdrawals tax free if used for care
  - Family Care Saving Plans
  - Workplace Savings or Insurance Plans – auto-enrolment?
  - Care Annuities/Equity release
- Insurance-based solutions - not yet viable?



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### Incentivising care saving

- New tax incentives would signal publicly the need to prepare
- No money set aside but decent society can't deny care to its elderly
- Families don't know they need money for care
- This is vital for younger generations too
- But we must prepare properly – savings / insurance




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### Care ISA

- New ISA allowance to encourage care saving
- Allow people to transfer existing ISA to become a Care ISA
- If money stays locked in can pass on IHT free on death if unused
- Care fund for next generation
- Perhaps £10,000 pa, up to £50,000 per person total contribution?
- Can fund care needs before state would help – could pay for others?




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### Using pensions to fund care

- New pension reforms encourage more money into pensions
- No more forced annuitisation (once annuitised, fund is gone)
- No more 55% tax on death, encourages money to stay in pensions
- If money is left till later life it can help with care needs
- Further incentive – withdrawal tax free if used for care




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### Family care saving plans

- Consider introducing saving plans for families or affinity groups
- New customer unit for the savings industry?
- Pensions may be needed by everyone, care is perhaps 1 in 3 or 1 in 4
- But don't know which one, so join together to save can cost less
- Within any couple – at least a 50/50 chance of needing care?
- Catastrophe insurance in case probability higher than expected?




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### Workplace saving plans

- Older workers may need time off for elder care
- A savings or insurance plan can pay when or if need arises
- Employers could help with saving for care, some express interest
- Use for homecare or telecare? Eldercare vouchers?
- Similar principle to pensions – auto-enrolment, tax relief?
- e.g. auto-enrolment contribution/auto-escalation for care




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### Insurance?

- Care cap too high for insurance up to the cap
- Insurers might insure catastrophe but not unlimited payout
- Could help with prevention – e.g. house insurer demands locks, smoke alarm, burglar alarm
- Could national insurance be adapted?
- Labour's 'death tax' was worth pursuing further!




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### Annuities/Equity Release

- Currently the only real options – only at point of need
- Not for preparing in advance though
- May help some but not a broad solution
- Downsizing home for homecare is better done in advance
- Need to build more suitable housing – alternative pension assets?




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### Government Must help More

- Information, education and advice for people and families
- Tax incentives for care saving
- Insurance – both national and individual may be needed
- Hypothecate National Insurance?
- Tax on estates?
- Extend the Welfare State to cover care in later life



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### Changing the Terms of the Debate

- Social care is not just about old people
- It's about families and loved ones
- A family member may need care, if not ourselves
- More integration of health and care budgets for older citizens
- Incentives for care services to save money to NHS
- Incentives for GPs to save money on future care



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### Integrating NHS and Social Care

- Good social care could save older lives better than doctors
- Expedite out of hospital into homecare
- Better for individuals to stay at home longer if they can
  - independence, choice, personalisation, familiarity
- Prescribing domiciliary care can save NHS money
- Support for family carers + telehealth and telecare



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### Conclusions

- Ageing population should be great news but...
- We haven't prepared – next crisis after pensions already starting
- Big challenges – NHS can't cope and care cap isn't a solution
- Need to fund care in advance, not at point of need
  - Care savings incentives, insurance, prevention?
- Integrate care into NHS + maybe future national insurance reform
- A new 21st Century Beveridge – it's a social imperative



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**Questions**

**Comments**

Let's discuss...

The views expressed in this presentation are solely those of Dr. Ros Altmann and do not constitute any investment advice.



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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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