

**The Actuarial Profession**  
making financial sense of the future

Health and Care Conference 2011  
Dr Patrick Nolan



**The dawn of a new era in politics?**

20 May 2010

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## Questions

- What reforms have there been in the areas of health and welfare?
- What impact have they had so far?
- What of the future?
- What opportunities are there for the insurance industry?

## Reforms

- The health productivity challenge and GP-led commissioning
- Reform to working age benefits and the Universal Credit
- Reform to the state pension system and National Employment Savings Trust (NEST)
- Review of the funding of long term care

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## Health productivity

- Health spending to increase to £114 billion by 2014. Lowest increase since early 1980s and demand will continue to grow
- NHS has to make £20 billion in savings by 2014 (David Nicholson). Funding pressures will hit acute sector hardest (requiring 15% to 20% productivity gains)
- The longer term picture is worse. Health spending rising from 7.4% of GDP in 2008 to 9.6 per cent in 2048 (HM Treasury)

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## GP-led commissioning

- Reforming administrative (commissioning) structures of NHS
- Service reconfiguration and staff (the front line)
- Competition and choice (and the role of Monitor)
- A 'high risk gamble.' Missed the real opportunity for change (reform service funding and have consumers encourage disruptive innovation)

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## Working aged benefits

- Incapacity Benefit recipients shifted onto Employment and Support Allowance. Living Allowance (DLA) replaced with Personal Independence Payment (regular reassessments). Review of sickness absence system
- Work programme contracts arranged across 18 regions, 40 contracts in total. 16 private sector and 2 voluntary sector organisations as prime contractors
- Cap housing benefits for private sector tenants and cap amount of benefits a household can receive
- New powers to tackle fraud and error

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## The Universal Credit

- An old idea that hasn't worked when tried overseas
- Relies on an undeveloped computer system
- Uncertainty over major benefits to be included and questions around transitional protection
- Taper rates will rise for some families and risks incentivising 'the sticky floor.' No evidence that a key part of the approach (increasing earnings' disregards) will work

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## Retirement age and benefits

- Default pension age scrapped
- Increase in state pension age brought forward to 66 by 2020. Women's state pension age brought in line with men's to 65 by 2018
- State pension indexed to earnings not price growth (with the 'triple lock')
- Poorly targeted pension gimmicks outside value for money agenda (e.g., Winter Fuel Allowance)

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## State pension and NEST

- Green paper proposing reform of the state pension (e.g., single-tier state pension) and a mechanism for increasing eligibility age. Cost neutral
- National Employment Savings Trust (NEST) from 2012. Employers required to automatically enrol eligible employees into a qualifying pension scheme
- Clawback of tax relief for pension contributions and Office for Tax Simplification

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## Funding long term care

- Estimates are that by 2026 there will be a £6 billion funding gap for long-term care
- Scotland has provided free and universally available long-term care since 2001. Audit Scotland questioned whether this is already unaffordable
- Broad consensus on mixed-economy model and that the current system performs poorly
- Interaction of funding long term care and funding health services – most countries take same approach to both

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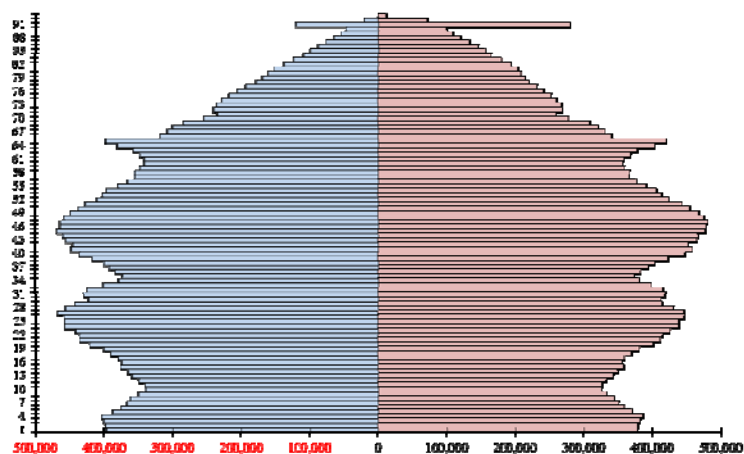
## The future

- OECD estimates that working age population will peak around 2015
- 920,000 more people over 65 by 2014

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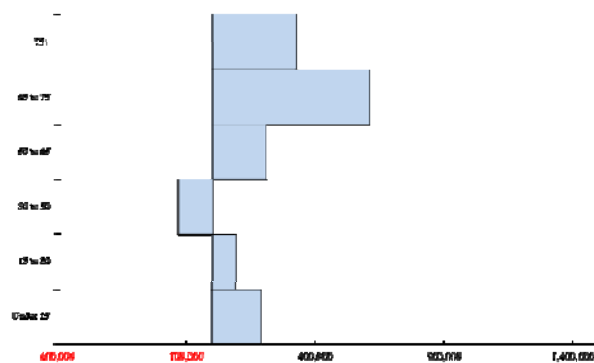
## Age Pyramid for 2011



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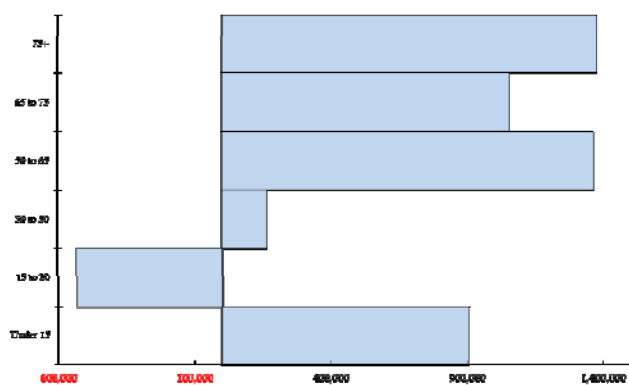
## Change in age groups 2011 to 2014



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## ... and by 2021



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## The future

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- The problem needs to be faced up to now (not in 2040 or 2050)
- Urgency matters as changes will create transitional losers. The longer we wait, the more losers there will be

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## The opportunities

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- Entitlements must be reduced – programmes that are currently unaffordable are only going to become more so
- For cohort closer to retirement age need to think about how to maximise the value of what they have
- For younger cohorts need to increase their savings levels
- Greater opportunities around take-up of defined contribution pension savings (and financial literacy)
- Greater opportunities for public-private partnerships in covering risk

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