

Balloon debate - is there a role for insured LTC?

1 October 2002
Scarman House, The University of Warwick, Coventry

Balloon debate - characteristics

- Less formal than traditional debate
- Interactive - audience can contribute during presentation
- Chatham House rules:
 - informed opinion
 - freed from having to follow the company party line
- Outcome/goal:
 - some real insights
 - not restricted by convention or industry norms
- Have fun as well!!!

Balloon debate - success

- Interest from audience in having a real debate about the issue
- Audience realizing they have some part to play in resolving the issue
- A good chairman who sees "fair play"

Balloon debate - format

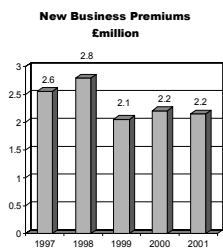
- Introduction - Sue
- Debate - each speaker:
 - introduction - 10 minutes*
 - open debate - 15 minutes
- Vote & close - Sue

* if audience does not agree with the speaker he is "thrown out of the balloon" & the debate continues with those remaining. Those "thrown out" can heckle from the side!

Balloon debate - speakers

- For the motion - Malcolm Thraves, AXA Sun Life plc
- Against the motion - Peter Barnett, Britannic Retirement Solutions
- For the "middle ground" - Martin Werth, Munich Reinsurance Company

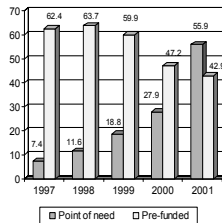
Long-term care: pre-funded regular premium business



- Sales peaked in 1996 with 3,500 sales worth £2.9 million
- Since 1998 policy numbers have been close to 2000 each year
- Average premium has been £1000 or more per policy since 1999

Long-term care: single premium business

**New Business Premiums
£million**



- From 2000, the ABI split pre-funded data between LTC bonds and LTC insurances
 - 78% of premiums from Bonds in 2000
 - 63% of premiums from Bonds in 2001
- Total single premium sales peaked in 1996 with 4,600 policies (only 100 point of need cases)
- Premiums and case size peaked in 2001
 - driven primarily by point of need sales (1300 cases worth £56 million)

The Actuarial Profession

making financial sense of the future

Speaker for the motion - Malcolm Thraves, AXA Sun Life plc

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Living longer
can
seriously damage
your wealth



Some Facts

- 43% of those aged 65+ have a long standing condition which limits their daily activities.

Source : General Household Survey 1998

- 475,000 in residential care.

*Source : Laing & Buisson,
Care of Elderly People Market Survey, 2001*

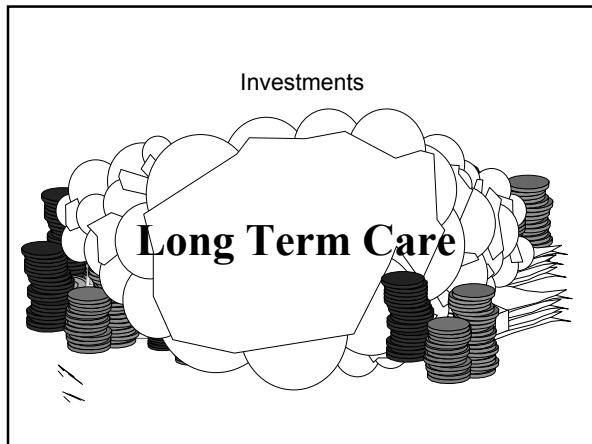
- 1 in 4 of population will require some form of care in later life

Investments



Investments





The cost of care
Nursing Homes:

The average cost of a private
Nursing Home in the U.K. is
£393 per week.

*Source : Laing & Buisson, Care of Elderly
People Market Survey, 2001*

....but can cost considerably
more.

The cost of care
Nursing at home:

from £9.30 - £14.39 per hour

A typical rate is £11.43 per hour, so
4 hours a day = £16,687 per annum.

Source: British Nursing Association Nov.1999

Who provides?

- The State
- Your Family
- You

The Health and Social Care Act 2001

- Nursing Care in a Nursing Home provided free - **from October 2001**

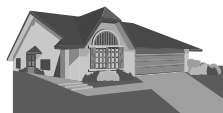
The National Assistance Act 1948

- Person's home not included in the means test for the first three months after admission to a care home - **from April 2001**
- The means test threshold increased from £16,000 to £18,500 - **from April 2001**
(raised to £19,000 April 2002)

Who provides ?

- 70,000 people forced to sell their homes in a typical year to pay for care.
(190 homes per day)
- £6.1 billion lost in inheritances (Average house value £87,000)

Source :
The Liberal Democrats 2001



Who provides ?

- ~~The State~~
- Your Family
- You

Who provides - family

1 adult in 11 is an informal carer for someone aged 65 or over.

Source : Informal Carers Report 1998

But

- 42% of those living in households whose head is 65+ have no relatives living in the area.

Source: Housing in England 1998/9

Who provides ?

- ~~The State~~
- ~~Your Family~~
- You

Who provides - you

- Income ?
- Capital/savings ?
- ???????

For how long will I be disabled?

- Nursing Home
- Immediate needs plans
- At home
- What cause of disability?

What are your choices ?

- Hope for the best
- Rely on the State
- Live with your Family
- Rely on your Partner
or sell your home...
and have to move into a Care Home

Long Term Care Insurance

- A range of policies
- Tailored to your needs
- Premiums
 - Regular
 - Single
 - Investment based


Insurance Solution

- Afford the quality of care you want
- Maintain independence
- Protect your estate
- Peace of mind


Investments



Living longer
need not
seriously damage
your wealth




Buy insurance!

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Speaker against the motion - Peter Barnett, Brittanica Retirement Solutions

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The 2002 Healthcare Conference

SURVIVING OR THRIVING

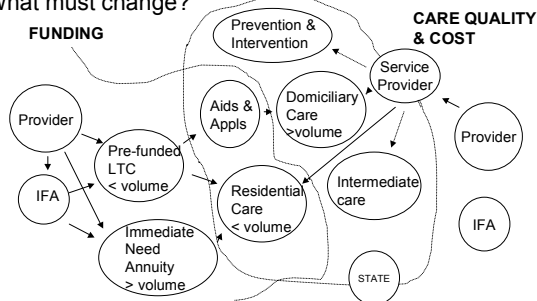
Is there a role for Insured LTC?

Is 'Surviving' good enough ?

We could, should and can do better!

The Insurance LTC Funding Model

Only 32,000 LTCI policies sold in 10 years –
What must change?



Q How do these products complement the State proposition?

Pre-Funded LTCl - Pull or Push?

Why haven't IFAs sold more of these products?
(Premiums around £50m in 2001)

– It's a hard sell because of:

- Affordability - Other more essential spending needs always emerge. i.e. marriage, children, divorce, unemployment + "I'm paying twice" - So it is low down the consumer priority list
- Confidence - LTCl is usually a top-up to complement self funding and people think that pensions will be sufficient for lifestyle and protection plus there is wide public mistrust of the F.S. Industry

Pre-Funded LTCl - Pull or Push?

Why haven't IFAs sold more of these products?

– It's a hard sell because of:

- Clarity - How does the product complement state provision? There is low consumer awareness regarding State benefits and future intentions 'The state will always provide' - so there is a disinclination to act
- Planning - The public are not interested in thinking about unpleasant subjects like care in old age and would rather wait until it happens: 'it won't happen to me and if it does there are immediate need products'

Pre-Funded LTCI - Pull or Push?

The same 4 barriers, affordability, clarity, confidence and Planning, apply to CIC, and PMI yet people buy those products up to and beyond retirement age – so must be able to afford them.

At a similar age would they also purchase LTC policies at similar premiums, despite the remaining barriers, if they better understood the product value, role and context?

Immediate need products

Why is Immediate Need selling better ?
(£100 m premiums in 2001)

- It's a 'Buy' rather than a 'Sell' – the subject is already in care so it is only a question of sourcing the funds to pay for it
- The 'Client' is the family of patient – the ones with the problem!
- Fewer assessment issues – readily apparent ADL failure
- Good quality accommodation is rare and expensive and the poor quality of state provision very obvious

It is therefore a distress purchase often made under severe time constraints

Sources and Application of Funds for Nursing Care (£ p.w. for female aged 80, domiciled in South West England. With £110 p.w. 'free' nursing care)

Nursing Care	£Costs	Sources of funds	£Costs
Nursing (G)	110	State Pension	72
Nursing (I)	50	Occ. Pension	50
Personal Care (I)	75	Immediate need annuity*	40
Hotel (I)	172	Savings**	15
		Equity Release***	120
Total	407		
-Free Nursing	110		
		* £25K single life @ RPI ** Isa's Peps + Commuted Pension ***Property = £33K	
Personal Cont.	297	Total	297#

A Pre-funded LTC income of £120 p.w. would come in v. handy

Current Attitudes to Retirement

The ability to fund for retirement is a serious concern for most, caused by:

- Increasingly inadequate state pensions
- Poor understanding from consumers of the scale of necessary provision.
- Ability and propensity to save & invest
- Past high charges & recent poor stock market returns
- An inability to predict how private plans will perform

This is exacerbated by key demographic and social factors such as delayed family formation and divorce, with the consequent costs of education and support stretching to an age when retirement would traditionally been contemplated.

Q. Are there are always higher priorities than funding LTC

Financial needs of the Older Person

- Pension fund income to maintain lifestyle
- Investment income and advice
- Income to pay for domestic bills and services; e.g. gardener
- Lump sum to pay off mortgage
- Lump sum to improve lifestyle. e.g. holiday, new car, etc
- Estate Management - The reduction of IHT liability
- Large lump sum to pay for medical expenses – e.g. Hip replacement
- Funds to pay for care in a domiciliary or residential setting when needed

Advice – Is LTC the Only Problem Faced?

Disclosable in a Fact-Find -

- Pensions Status?
- Investment Status?
- Health Status?
- LTC Risk?

Best Advice: - When, and only when, the first 3 are secure should any spare cash be spent on LTC!

Consumer needs on advice

- Risk profiling of the customer
 - In regard to money
 - In regard to health
- Asset allocation
 - During accumulation
 - During dis-investment
- Expenditure pattern
 - The extent to which non-basic items are essential
 - Likely future spending patterns
- Living v bequeathing
- Longevity protection
 - Best estimate life expectancy for state of health
 - The need for protection

Advice Context – Confusion and Inertia Around Retirement Decisions

Needs of Consumers

Busy complex lives
Distrust of financial services
New definitions of community
New attitudes to work
New attitudes to retirement
Lack of confidence
Information overload
Lack of awareness

Response from the financial services industry

Lack of differentiation
Jargon/confusing language
Uninteresting propositions
Complicated, inflexible products
Inaccessible to some segments
Very "poor press"
Yet -perception of improvement

Source Swiss Re Insurance report 2001

Investment and Financial planning- Product Opportunities in Retirement

Pension annuities including Impaired life annuities
Simple income generating savings vehicles - ISA's
Equity Portfolio Management
Private health funding PMI, CI?
Pre -Funded LTCI
Immediate need LTC products
Care & care services
Equity release
Inheritance tax planning
Role of Trusts

What is the priority and when?

The Extension of Current Health Products to the Elderly?

- Benevolent schemes e.g HSA
 - small cash sums – very useful for home care
- PMI:- Only 10% of those >65 have PMI*
 - Annual contract – small sum assured – acute only – expensive (Several years ago the Government withdrew premium tax relief on PMI for older people)
- IP:- Group schemes? (Impact of EU anti-ageing Directive)
 - Compensates for loss of salary – what is loss?
- CIC:- Rider on a mortgage – higher sum assured – higher for old?
 - good application – e.g blindness: but very common – Premium?
 - Anti-selection – unrevealed symptoms, possibly from poor P. care, that develop into impairing and disabling conditions.
 - Might work with ERM i.e diagnosis means short-lived annuity?

*Source: Watson Wyatt

Complementing the Public Sector – Where is the market?

Who	State Benefits	Responsibility
High Net Worth	Rarely	Self
Mass Affluent	Future*	Self + State
Mass Market	Sometimes	State + Self
Financially Excluded	Now	State

* Future deprivation of benefits

Q. What will be the future scope and scale of State benefits?

The Consumer View!

Trust
and
Confidence?



"Handover your money
- nice and slowly."

The Government Response - Plenty Of Paper

'ABI report £27billion savings gap'

FSA paper - Financing the future – Mind the gap – Spring 02
FSA CP121 - Financial advice - Spring 02
Sandler report - Financial Services - July 02
Pickering report - Pension Provision - July 02
FSA Factsheet --'Your Pension-Its Time To Choose'- Sep 02

Inland Revenue - Tax Rules - Due Autumn 02
Government Green Paper on Pensions - Due Autumn 02

Raising the Retirement Age

Rationale: -
In 1948 only 66% of people reached the aged of 65. Now
90% do so, and on average people live another eight years
Source PPI pensions report September 2002

Q. What will be the health implication on ability to work of raising the min. retirement age to 70 as called for by the IPPR & PPI?

Q. If State pension levels remain the same will people accept they have to have to work longer to get the same low benefits?

Q. What about people who don't work to Pension age now?

Q. Manual workers die on average 3 years earlier than non-manual so will they be disadvantaged by raising MSRA?

New Solutions?

Is raising the State Retirement Age' and tinkering with the Pension system too blunt an instrument to deal with these issues? Are they not better targeted by the 'New Deal' and Health Improvement Programmes and by greater consistency and flexibility – and by improved product offerings from us?

Insurance products that supported and complemented efforts to sustain and improve lifestyle and general health in old age and which also sought to resolve some of the above issues would be more relevant and valuable than simple LTC!

Future LTC products – as part of an Holistic Solution

Desirable service features:-

- Access to quality information and advice
- Transparent quality standards throughout product life
- Greater emphasis on service delivery not just eligibility for cash payments
- Adequate resources to deliver product promise

As the new distribution environment begins to take shape, if the product role and context were clarified then regulation (ABI code of practice) would help to establish better consumer trust & confidence.

Tomorrow's Consumer

The Consumer of the future will:

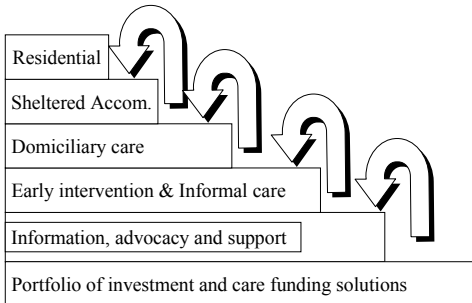
- be better informed and be more educated
- be short of time
- be more affluent
- be less deferential to authority
- want more control and choice
- See good health as an enabler for a good life style

Source Wanless report 2001 p16

Possible Care Product Streams

- Existing LTC products will be sold to a wider audience - I.Need
- Domiciliary care funding / early intervention products
- Supported Sheltered care
- Supplement 'free' Nursing care with private provision
- Paying for 'personal care' (Scotland?) and/or 'Hotel' costs
- Cover common health conditions in the elderly (CI) –Blindness?
- Cash Plans to support informal care - for transport, laundry bills.

Funding Health Care – the Hierarchy of Opportunity



Trade-offs to consider

- Living well and bequeathing
- Living adequately and bequeathing
- Matching expenditure needs
- Longevity is probably the biggest risk facing most older people

Q. Where does LTC fit in this hierarchy of needs?

Useful Activity on LTC - Now!

- Clarify context with other consumer priorities
- Debate on role & extent of Regulation
- Public education programme - role for incentivisation
- Clarify interaction with State Benefits
- IFA training & CPD – is advice the product?
- Partners – Service Provider - Not for profit organisations?
- Understand the impact of regional differences
- Encourage independence & choice

Will this be accompanied by Government action and clarity?

Summary –

Retirement messages -LTC in context !

Attitude & Timing

- Choice? - accumulation/decumulation?
- Spouse/ family

Lifestyle

- Investment

- Lump Sum – Proportion?
 - Cash or Income – PLA/ISA/Bond
- Drawdown ?

- Income

- Annuity – OMO /Enhanced/ILA?
- Spouse/ RPI/ Guarantees?

Health

- Health – self/spouse

Estate

- LTC – Self /spouse

- Heirs/ IHT

There is a strong
need for assistance
from an informed
adviser

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Speaker for the "middle ground" - Martin Werth, Munich
Reinsurance Co

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