The Actuarial Profession
making financial sense of the future

Consultation Response
Commons Select Committee
Social Care Inquiry

26 October 11

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The practical and policy implications of the Government's plans for funding social care, and the recommendations made by the Dilnot Commission and the Law Commission

1. The Institute and Faculty of Actuaries welcomed the publication of The Dilnot Commission's recommendations into the funding of care and support, believing that their implementation could help individuals better prepare for retirement.

2. The Institute and Faculty of Actuaries looks to facilitate informed debate on relevant matters of public interest where our expertise can add value. The Dilnot Commission has recommended a cap on the amount people will have to personally contribute to their social care. In our view, the key here is clarity about what the State will contribute and what the individual is expected to contribute under a variety of personal circumstances (e.g. their income, their assets, the level and duration of care that they may need). If individuals are aware of what they will need to contribute then it could help them better prepare for their future. This greater certainty should also allow insurance companies to design more affordable and perhaps simpler products to help individuals with their financial planning for later life.

3. However, we suggest that it might be helpful to test the sustainability of the recommendations (e.g. the durability of the cap and the cost to tax payers) under a range of scenarios. Actuaries working in this area are likely to be engaged in further modelling/research in the coming months and years. For example they will be considering some of the following areas in light of the Dilnot Commission's recommendations.

- tax issues (e.g. tax treatment of disability-linked annuities)
- asset decumulation (e.g. in conjunction with the means test)
- care cost inflation and impact on projections
- conditions requiring care (e.g. dementia)
- mortality/morbidity risk (e.g. insurance risk and longevity risk)
- developing case studies, potentially using data from those in Local Authority care, looking at different scenarios and seeing how it changes under the current system and the proposed system under Dilnot
- international models especially with respect to non-compulsory schemes
- assessment of the needs and options available to potential cohorts requiring care, e.g. working age (45 to 64), in retirement (65 to 84), in care (85+).

4. As a Profession we have published papers relating to the use of pensions wealth or housing wealth to fund care, both of which issues were highlighted in Dilnot's recommendations. Set out below are some examples of such publications:

- "Analysis of disability-linked annuities" (Rickayzen, 2007)
- "A multi-state model of disability for the UK: implications for future need for long-term care for the elderly" (Rickayzen and Walsh, 2002)
- "The role of private finance in paying for long-term care" (Mayhew, Karlsson, Rickayzen, 2010)
- "Long-term care financing in 4 OECD countries: fiscal burden and distributive effects" (Karlson, Mayhew and Rickayzen, 2007)
- "Cost projections for long-term care in the United Kingdom" (Karlsson, Mayhew, Plub and Rickayzen, 2007)
- Equity release, e.g. "Pricing and capital in the equity release market", 2007.

5. We would be happy to share this material with the Committee if it wishes.

6. The Actuarial Profession is currently undertaking a Thought Leadership Research

Project on funding for long term care. The first phase of this is an in depth literature review of the international literature in the area of long-term care and the various means of funding it.

7. We would also encourage further research and the collection of meaningful data by Policy Makers in this area. We are ready to play our part in this work to help understand and manage the financial risks created by the demographic changes we expect in the future.

Sue Elliot
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Institute and Faculty of Actuaries
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