



The Actuarial Profession

making financial sense of the future

consultation response

HM Government

**Shaping the Future of Care
Together**

November 2009

Care and Support Team,
Room 149, Richmond House,
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LONDON
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05 November 2009

Dear Sir/Madam

Green Paper – Shaping the Future of Care Together

Thank you for providing the Actuarial Profession with the opportunity to comment on this consultation. Our substantive comments are attached to this letter.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us as per details below.

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Yours faithfully

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Introduction to The Actuarial Profession

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. They also advise individuals, and advise on social and public interest issues.

Members of the Profession have a statutory role in the supervision of pension funds and life insurance companies. They also have a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of the Profession in society.

Response to the Green Paper on "Shaping the Future of Care Together"

The Actuarial Profession welcomes the opportunity to contribute to the Green Paper on "Shaping the Future of Care Together".

The Green Paper published in July 2009 invites comments on three main questions. This response considers each of these three questions.

In the paper there is detailed consideration of both the delivery of care and the financial provision for care. We have concentrated our comments on the financial aspects that are more in keeping with our professional roles although we have also commented on the delivery of care where it is also relevant to the financial provision.

We have the following comments on the three questions summarised in section 7 of the Green Paper.

1. **We want to build a National Care Service that is fair, simple and affordable. We think that in this new system there are six things that you should be able to expect:**
 - **Prevention services**
 - **National assessment**
 - **A joined-up service**
 - **Information and advice**
 - **Personalised care and support**
 - **Fair funding**
- a) **Is there anything missing from this approach?**
- b) **How should this work?**

We would agree with the analysis of the factors that need to be taken into account in developing a National Care Service but there are likely to be difficulties in achieving such aims.

- Prevention Services are most effective when targeted at early identification of individuals who may have future care needs. The Green Paper does not identify in detail how this may be achieved but it is only by early identification and intervention that the future high costs of care may be reduced. This is an area where the Actuarial Profession may offer assistance in modelling techniques to help assess how such individuals may be identified at an early enough stage to enable measures to be taken to reduce the likely costs of care in the longer term.
- The National Assessment process should enable anomalies between different areas to be reduced but without clearly defined national protocols, including adequate processes for early identification as mentioned above, and periodic audit it may be difficult to achieve this in practice. Even with a standardised National Assessment there may still be significant differences in the care provided if there is not broad consistency in the care facilities offered in different areas of the Country.
- The requirement for a joined-up service would need to extend to the interface with the National Health Service, as there is no real difference between the delivery of acute care and social care even if there are to be differences in the funding of the two types of care.
- A wide range of organisations currently delivers Information and Advice in different areas. Consequently, the availability and comprehensiveness of these services is subject to variation. In order to deliver consistent advice there would need to be some means of setting mandatory uniform standards to apply across the Country.
- While a standardised National Assessment should provide consistency in determining care needs on an average basis the requirement for actual care will also depend on individual's own particular views on their requirements as independence and care needs mean different things to different people. A high level of commitment of the individual to the care plan is likely to achieve better outcomes than a plan that the individual feels is determined for him/her without a real personal contribution to that plan. Achieving the right balance between the needs of the average individual from the assessment process and the individual's view of their own requirements is likely to be difficult to achieve without significant resource commitment.
- There are a number of factors to take into account in determining if any funding solution is fair. There is the question of regional variations in both the range of services offered and the costs of services provided. A care plan determined in one area may not be able to be replicated in another area or may have a significantly different cost in another area. This would imply that a single uniform costing basis for care packages would not represent a fair funding basis. While uniform protocols for the provision of services would reduce the inequities of different services in different areas some inconsistencies would be likely to remain. A fair value of the personal care budget could be obtained by developing appropriate regional care cost indices for services offered in the region and additional indices for the costs of services that

may be required by individuals but that are not available in the particular areas. This would enable equivalent personal budgets to be set which vary taking into account the costs of services offered locally as well as providing a basis for adjusting the budget should an individual move from one area to another. The Actuarial Profession has experience in modelling indexation structures and would be able to offer assistance in this area.

As the care package should also take into account the individual's own feelings with regards to his/her care needs then there needs to be consideration of whether the fair cost reflects the cost of the average package of care costs or the package taking into account the individual perception of the care needs. If the latter is chosen there would need to be some mechanism for adjustment if the perception of care needs changes in future.

There would need to be appropriate reassessment of needs and appropriate personal budgets if individuals follow spending plans that are inconsistent with meeting their care requirements or even make their care requirements more acute. The question of what is fair funding in such a situation is difficult to answer.

2. **We think that, in order to make the National Care Service work, we will need services that are joined up, give you choice around what kind of care and support you get, and are high quality.**

- **Do you agree?**
- **What would this look like in practice?**
- **What are the barriers to making this happen?**

- “Joined up” services need to cover both the services offered within the National Care Service in general, between different areas within the National Care Service, between the National Care Service and the National Health Service and with other Countries within the UK at least in terms of access to information on services and funding.

As uniformity of services is likely to be only partially achieved across different areas there are limits to the extent to which services can be truly joined-up. Stipulation of certain core services to be provided in each area would achieve a base level of joined-up services but would still not address difference in approaches to the interface between the provision of acute and social care in different areas.

If a fully joined-up structure is unlikely to be achieved then it would be helpful to ensure that the provision of information is comprehensive enough to inform individuals of the availability of services and funding in different areas and in other Countries in the UK.

3. **The Government is suggesting three ways in which the National Care Service could be funded in the future:**

- **Partnership – People will be supported by the Government for around a quarter to a third of the cost of their care and support, or more if they have a low income.**

- **Insurance – as well as providing a quarter to a third of the cost of people’s care and support, the government would also make it easier for people to take out insurance to cover their remaining costs.**
- **Comprehensive – Everyone gets care free when they need it in return for paying a contribution into a state insurance scheme’ if they can afford it, whether or not they need care and support.**
 - a. **Which of these options do you prefer, and why?**
 - b. **Should local government say how much money people get depending on the situation in their area, or should national government decide?**

The Green Paper asks for comments specifically on the three propositions outlined above. Our comments are in the bullet points below however we have some more general comments that we would like to make.

The National Health Service operates on a different funding model where there is significant inter-generational support from the younger ages (who provide more of the costs by way of taxation) to the older ages (who receive more of the benefits from the service). Adopting a different funding model for the National Care Service, where the support is within each generation, introduces an inconsistency which is difficult for people to understand. The argument for a single generational approach in the Green Paper is based on the need to avoid further taxation imposition on the working population. This could potentially have an adverse impact when that generation reaches older ages if the proportion requiring care increases with the increase in expectation of life. The Actuarial Profession, with its familiarity with population modelling, would be able to provide assistance in modelling the full impact of such inter and intra generational impacts to provide a full analysis of the effects of the two different funding models being suggested.

The suggested approach to funding the cost of care is also different to the approach to funding pension provision. Personal contributions to pensions and care provision both provide for income streams in retirement but the funding proposals for the personal contribution to care costs are different to the funding approach for pensions. In the case of pensions there is a partnership between State and personal provision but the personal contribution is financed by an individual accrual with taxation advantages. A care funding model that is aligned to this pensions model has not been considered in the Green Paper.

The Green Paper also includes the comment that certain allowances currently available to individuals, such as Attendance Allowance, will be withdrawn in order to more clearly focus resources on those with the greatest care needs. Such allowances can currently enable individuals to take appropriate action to help delay the time at which they need more formal care by funding lifestyle and household modifications at an early stage before any needs assessment may be triggered. We suggest that further modelling of this potential impact should be considered and the Actuarial Profession could help in this analysis.

We note, and support, the comment that there will continue to be provision of services and finance from taxation to meet the care needs of those who are either unable to meet the cost of care due to low income or assets or who develop a high level of care needs at a young age.

There is a further inconsistency between the services provided by the National Care Service and the National Health Service in relation to the provision of the costs referred to as “accommodation costs” in the Green Paper. These are excluded from the costs covered by the funding options under the social care proposals but are covered, subject only to the reduction of Attendance Allowance after 28 days, for hospitalisation under the acute care services of the National Health Service.

Our specific comments on the three proposed funding methods are as follows.

- The Partnership proposal supports around one quarter to one third of the cost of the care. This still leaves the responsibility for the major share of the costs with the individual and as the overall costs vary significantly the level of protection from this proposal is relatively small. In addition as the accommodation costs would need to be fully met by those who eventually need care in a Care Home, and such costs may significantly exceed the comparable costs that the individual might have been used to incurring, the effective proportion of the overall outlay may be a very small proportion of the total cost. This proposal does not offer a great degree of risk sharing even within the generational group.
- The Insurance proposal requires a number of factors to be considered before it could be implemented on an efficient basis.
 - In order to achieve an adequate take up rate, under the private insurance version, on a voluntary basis there would need to be both significant marketing of the benefits of such cover before and at the time that the policy needs to be purchased. In view of the limited sales of similar products in the past it may be unlikely that the insurance industry would be willing to bear part of the costs of such activities. There would need to be discussion with the industry on this point.
 - Under the private insurance version there would need to be consistency between the triggers for payment of benefit under the core State scheme and benefits under the insurance policy. The entitlement to the State benefits would be triggered by the needs assessment. The insurance industry is unlikely to accept this as the trigger for entitlement under the insurance policy unless it is clear that the needs assessment is uniformly applied both between different regions and over time. Without full consistency the insurers would not be able to ensure that their premiums were compatible with the underlying risk. Detailed discussion with the industry would be necessary on this point.
 - In order to treat customers fairly the insurers, under the private insurance version, would seek to apply effective risk rating to the policyholders so that regional variation in the costs of care and individual health status would be reflected in the premium. While alternative community rated structures could be considered under this model there would need to be significant dialogue with the insurance industry on this subject, which would also need to include the regulatory aspects.
 - Under the state-backed version the latter two points would be less relevant although similar considerations would apply if it was required to co-insure or reinsure such a fund with the industry.

- The Comprehensive model has the advantage of universal coverage which is consistent with the approach to benefits available under the National Health Service but is inconsistent with the element of personal risk that applies under pension provision. While the Comprehensive model appears to retain the intra-generational approach to funding it does introduce a potential inter-generational subsidy if the contribution levels are subsequently found to be too high or too low compared to the benefit stream that they are funding. In this case the State scheme contributions, which are funded from taxation, need to increase or decrease to provide the necessary balance.

The three funding proposals start from the premise that the entitlement to benefit starts at the point of the individual needs assessment. None of these alternatives produce benefits before the point at which the need for care can be crystallised. Consequently, there is no financial provision for measures to be taken by individuals to adopt preventative measures, such as lifestyle change and the early use of technological aids, to delay the time at which formal care needs occur. There should be scope for innovative insurance products to incorporate such preventative benefits as well as the more formal costs of care.

Summary

We have commented on the specific questions posed in the Green Paper mainly from the financial perspective. We have highlighted a number of areas where further detailed consideration will be necessary whichever method is recommended for the future. We would welcome the opportunity to contribute to the more detailed analysis when you review the overall responses and start to develop conclusions.