



Adult Social Care Market

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Actuaries have been involved in quantifying and managing long-term care risk in the insurance context since the 1990s, in addition to working with other health professionals to find appropriate solutions for private medical insurance, income protection, critical illness, and long-term care insurance. Over recent years, IFoA's members have produced a number of research reports on the sustainability of adult social care funding; in particular, analysing the costs for self-funders and the balance between state and personal funding. This includes:

- a joint report with Independent Age, *Will the Cap Fit? What government should consider before introducing a cap on social care costs*, which explores how a carefully designed care cap could provide a means of social insurance, which previously has not existed, in order for families to play for later life with certainty, and
- a paper which explores the role of pensions as a framework for saving to meet potential long term care needs, *How pensions can help meet consumer needs under the new social care regime*.

The pressures facing the health and social care system are largely driven by the UK's changing demographics. The population is growing, individuals are living longer, and there is a growing proportion of older people. In the face of profound demographic change, it is increasingly likely that more and more people will require long-term care in later life. With a complex funding system continuously under Government review, many individuals find it difficult to understand the potential social care costs they will be expected to meet later in life and, as a result, are not sufficiently prepared.

Furthermore, there is a hidden cross-subsidy in the care sector, in that privately funded provision subsidises under-payment from social service departments. In turn, it also drives down wage levels in the sector to unsustainable levels, meaning care homes often find it difficult to meet staffing levels required to provide adequate care. The entire sector urgently needs more funding, and long-term sustainable cross-party political agreement is a necessary prerequisite in this area, however hard to achieve.

The Care Act 2014 embodies the most recent attempt to reform the social care system in England. But despite making its way onto the statute book, the reforms were subsequently delayed in 2016 and have since been shelved in favour of new legislative proposals. The delay in tackling social care reform is both putting a strain on the Treasury's purse strings and leaving those who need to pay for care at risk.

With COVID-19 exacerbating the pressures already placed on the social care system and the NHS under increasing budgetary strain, the Government must now set out a clear strategy for tackling social care in both the short and the long term.

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Below we have identified a number of considerations the government should seek to address in any forthcoming proposals on adult social care reform:

Clarity around who will pay for care

1. The current funding system for social care is both complex and unsustainable. Many individuals find it difficult to understand the potential social care costs they will be expected to meet later in life and, as a result, are not sufficiently prepared to meet them. The current means testing system may also create a disincentive for some people to save. It is estimated that by 2023-24, an extra £7bn will be needed annually to enable the sector to meet demographic pressures, fund minimum wages rises and protect individuals from potential catastrophic costs.¹ Long-term solutions are needed to address the funding challenges faced by the sector.
2. In considering solutions, government must provide clarity about how care is to be funded. That is, whether individuals will be expected to cover or contribute the cost of their own care, or whether care costs will be met by the government or a combination thereof. The sooner this clarity is provided, the sooner individuals can start making informed decisions about their future. We note there are a range of insurance products already available to individuals. However, as many fail to anticipate their care needs, and to understand the costs they will be required to cover, the value of these products may not always be clear.
3. Clarity from the government about who pays for funding will also provide an incentive to the insurance sector in developing solutions. Without this clarity, there will be unwillingness to do so. Once this is decided, the insurance industry will be able to help with solutions, such as equity release and investment products, aimed at assisting individuals to save for, and meet, their care needs.
4. When determining who should pay for care, government should consider the implications for intergenerational fairness. Previously, generations have become wealthier than their predecessor and have contributed to the support of earlier generations in old age. A poorer younger generation and a growing proportion of older people means this is no longer sustainable. The government should consider whether reform should see each generation pay for their own care. Should the government propose this, it would need to consider how it manages the fairness associated with a particular generation having to cover care costs for two generations, as well as how it would facilitate a transition period for the population already at, or close to, retirement.

Clarity around who will provide care

5. Government should also seek to provide similar clarity about whether they intend to provide social care through the NHS, or whether they intend for care to be delivered privately. The private sector has created an efficient market for the provision of care, particularly in domiciliary care. The government should seek to understand the potential opportunities and challenges it may face in seeking to provide care services at the same level of quality as provided by the private sector.
6. The government must ensure that whatever decisions are arrived at regarding who pays for, and who provides, allow for the sustainable provision of quality care.
7. Once clarity is provided on both of these points, longer-term funding solutions can be developed. Actuaries are well-placed to provide analysis of proposed funding options. Actuaries can also support through the development of insurance and investment products which align with proposed long-term funding models.

¹ Health and Social Care Committee (2020) *Social Care: funding and workforce. Third Report of Session 2019-21.* <https://committees.parliament.uk/publications/3120/documents/29193/default/>

Domiciliary care

8. Numerous surveys continually find that home care is the more popular option amongst elderly people who need care. Further, person-centered care at home has a greater positive impact on wellbeing, happiness and reduced hospital admissions than admission to a care home.²
9. Reflective of a national and local ambition to support people to remain at home as long as possible, the number of domiciliary care services has been increasing. Between 2014 and 2019, domiciliary care agencies increased by 23 percent in England and 37 percent in London. Residential and nursing homes saw a drop of 17 percent in England, and 28 percent in London, during the same period.³
10. We would expect to see these ambitions and trends reflected in any forthcoming government proposals for long-term solutions for social care.

Data collection

11. Improved data collection and sharing will be central to delivering necessary improvements to the social care sector. In addition to supporting the Department of Health and Social Care's (DHSC) effectiveness in overseeing the adult social care market, it will allow for greater understanding of key challenges, such as capacity issues. As it enables funding and insurance solutions to be modelled more vigorously, it will also allow for greater understanding of the appropriateness of proposed solutions.
12. Data available on the number of individuals receiving care at home is poor. The same is true of data on those providing care, both formal and informal. As a result, the size of the social workforce is not clear. Annual *State of Caring* reports from Carers UK provide some insight. However, these reports rely on survey responses and do not provide the whole picture. COVID-19 vaccinations data has provided some insight into who is receiving care in their home. While there is an opportunity to leverage this, Government should look to collect robust data about domiciliary care as standard, given this is the preferred option for most.
13. As many IFoA members are experts in this area, we welcome an opportunity to discuss with Government the need for, and solutions to, improving data capture and availability.

COVID-19 Implications

14. The onset of COVID-19 has put further economic strain on an already struggling care sector. These costs include the provision of Personal Protective Equipment (PPE), testing, increased cleaning and less flexibility in workforce deployment through the creation of smaller care bubbles. Although short-term funding is now available from the Government to offset some of the additional costs, many care providers remain under financial pressure, which is compounded by falling occupancy levels in care homes from excess deaths, practical restrictions on new admissions and reduced demand for residential care. Charitable organisation, the Association of Directors of Adult Social Services, has reported that the pandemic has made their members increasingly concerned about the financial viability of care providers within their council.⁴
15. Many care home providers have called for the provision of social care to be zero-rated for value-added tax (VAT).⁵ Currently care homes are VAT exempt, which means they do not have to charge VAT on their services. Changing the status of providers in the sector from exempt to zero-rated would allow them to reclaim VAT on expenses. Home care providers have raised this would provide them with savings that they can reinvest into their business to meet the increased costs they have experienced during the pandemic. Government may wish to consider the potential merits of changing the VAT status of social care providers.

² The Good Care Group. *Improving Wellbeing through Care at Home*. https://www.thegoodcaregroup.com/application/files/7015/6923/5687/TGCG_-_Improving_Wellbeing_through_Care_at_Home_Guide_-_6.11.15.pdf

³ Care Quality Commission (2019) *The state of health care and adult social in England 2018/19*. https://www.cqc.org.uk/sites/default/files/20191015b_stateofcare1819_fullreport.pdf

⁴ ADASS (2020) *ADASS Coronavirus Survey*. <https://www.adass.org.uk/media/7967/adass-coronavirus-survey-report-2020-no-embargo.pdf>

⁵ Homecare.co.uk (2020) *Home care providers demand zero-rated VAT to protect sector*. <https://www.homecare.co.uk/news/article.cfm/id/1631311/Home-care-providers-demand-zero-rated-vat#:~:text=Goods%20and%20services%20offered%20by,cannot%20reclaim%20VAT%20on%20expenses.>

16. Staff vacancies and job turnover are persistently high in the UK social care sector. It is estimated that the adult social care workforce in England has around 112,000 vacancies and a turnover rate of 30.4 percent.⁶ COVID-19 will likely exacerbate these issues. Nigel Edwards, CEO Nuffield Trust, recently stated, 'When the dust settles, we are likely to have an exhausted and, in some areas, traumatised workforce'.⁷
17. As the sector employs a quarter of a million people from beyond the UK,⁸ ending the freedom of movement between the EU and the UK may further impact workforce availability. It's noted that some areas of the country are particularly reliant. For example, 40 percent of social care staff in London are from overseas.⁹
18. Ahead of any proposals for reform, it is imperative that an assessment is made of the sector, its workforce and of the level of funding required in the wake of COVID-19.

Social care funding has been considered at length over the past 20 years. This includes the Royal Commission in 1990, the independent King's Fund in 2005, the Wanless Social Care review in 2006, the Dilnot Commission in 2011, the Barker Commission in 2014 and the House of Lords Select Committee in 2017.^{10 11} Despite this, we are no closer to a sustainable funding solution that will provide individuals with much needed certainty. Continued inaction by the government is preventing the most vulnerable in society from receiving the support they need. Failure to bring forward conclusive and comprehensive proposals that would fully address the care challenge in the 21st century signify a failure in DHSC's efforts to oversee the market.

We would welcome an opportunity to discuss both our existing and planned analysis on this topic with you on more detail. Should you want to discuss any of the points raised please contact Faye Alessandrello, Policy Manager (faye.alessandrello@actuaries.org.uk) in the first instance.

⁶ Skills for Care (2020) *The state of the adult social care sector and workforce in England*. <https://www.skillsforcare.org.uk/adult-social-care-workforce-data/Workforce-intelligence/publications/national-information/The-state-of-the-adult-social-care-sector-and-workforce-in-England.aspx>

⁷ Nigel Edwards (2021) *Recovery from covid-19 relies on NHS staff, yet last week's budget had little to say on health or social care*. <https://blogs.bmj.com/bmj/2021/03/10/recovery-from-covid-19-relies-on-nhs-staff-yet-last-weeks-bud>

⁸ The Health Foundation (2019) *Health and social care workforce. Priorities for the new government*. <https://www.health.org.uk/publications/long-reads/health-and-social-care-workforce>

⁹ Ibid.

¹⁰ House of Commons Library (2017) *Social Care: Government reviews and policy proposals for paying for care since 1997 (England)* <https://publications.parliament.uk/pa/cm200910/cmselect/cmhealth/22/2208.htm>

¹¹ The King's Fund (2018) *The future of adult social care: sticking plasters or the road to full recovery?*

https://www.local.gov.uk/sites/default/files/documents/A%20brief%20history%20of%20reform%20%E2%80%93%20what%20lies%20amongst%20the%20grass%20-%20Richard%20Humphries.pptx_.pdf