Institute and Faculty of Actuaries

DP16/1: Ageing population and financial services

IFoA response to the Financial Conduct Authority

13 April 2016

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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.

Institute and Faculty of Actuaries

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Institute and Faculty of Actuaries response to DP16/1: Ageing population and financial services

1. The Institute and Faculty of Actuaries (IFoA) welcomes the holistic approach to the ageing population that the FCA is undertaking in this project. The IFoA has identified the ageing population as one of its key policy priorities and we have a programme of work that overlaps with a number of the themes highlighted in your discussion paper (DP). Three of the main areas of focus for our work on ageing population are longevity risk, social care costs in later life and adequacy of retirement income. In this response we give a brief overview of our policy positions and our ongoing work programme in these areas that we hope are of interest to the FCA, as well as answering the specific questions in the DP.

Longevity Risk

2. As people save and subsequently come to spend their retirement income, longevity risk – the risk of living longer than expected – is a critical concern, in particular, the risk of living to very advanced ages with depleted financial assets. The growing number of Defined Contribution (DC) schemes and the introduction of the freedom and choice agenda mean that it is more important than ever that individuals understand this risk and that appropriate tools are put in place to help individuals mitigate it.

3. Earlier this month we published 'Freedom and Choice: Public attitudes one year on', which reports the findings of a survey of over 1,000 over-55s. The survey found that 27% of the respondents had no idea how much longer they might live. If a person underestimates how long they are going to live and plans their retirement income accordingly, without any guaranteed income, they are likely to run out of savings before they die. Even if an individual has an understanding of their life expectancy, this is an average and predicting their actual life span is impossible. Products that offer a guarantee provide protection where an individual lives beyond the age they might have expected to live. It is therefore important that individuals understand the potential benefit of such a product.

4. To prevent retirees running out of funds in the latest stages of their retirement, we recommend individuals be nudged towards actions that are more likely to reduce the risk of them from running down their funds. Automatic enrolment (AE) has successfully capitalised on inertia to increase the number of people saving into an occupational pension. However, in the freedom and choice environment, inertia at retirement can lead to poor retirement outcomes if the path of least resistance is taking the whole pot as a cash lump sum.

5. To better understand whether people's retirement income decisions will help them to mitigate the impact of longevity risk in the latest stages of retirement we recommend that data (and analysis) is collected on:

i. how people are responding to the new pension system; and
ii. why they are responding in a particular way.

For example, if an individual takes their DC pension funds as early as possible (mindful of the tax implications), it is problematic if the individual has underestimated their life span and are therefore at risk of running out of funds. However, if the individual has alternative sources of wealth that will meet their retirement income needs, this same action may be in their best interest. It is therefore important that the rationale behind people's behaviour is captured as well as their actions.

6. This data should capture what influences people's behaviour, for example, access to information, guidance and / or advice and the use of defaults or incentives such as tax relief. This would help to assess which nudges could effectively encourage actions that are more likely to prevent people from running out of money. This data should capture those approaching retirement, at the point of retirement and those in their retirement, as it is important to understand how people are making decisions l at all stages of their retirement.

7. The IFoA is completing research on a number of these potential nudges. We would welcome the opportunity to discuss this research with the FCA in greater detail. We have already completed a report in conjunction with our Australian and American counterparts that provide an international perspective on approaches to mitigating longevity risk entitled 'The Challenge of Longevity Risk: Making retirement income last a lifetime'. This paper reviews the three countries' approaches to taxation of pensions and frameworks for providing information, guidance and advice. Based on the evidence from the three countries we recommend the implementation of default vehicles for decumulation. These default vehicles should offer a regular retirement income, but allow for flexibility in the early years of retirement, without locking the individual into a product. These vehicles should also provide a lifetime income guarantee in the latter years of the individual's life. We suggest the FCA considers requiring schemes and providers to put in place an appropriate default decumulation vehicle, analogous with AE requirements.

Social care

8. The number of people with social care needs in later life is rising and this is projected to continue. However, despite this increase, between 2009 and 2014 local authority spending on social care in England for those in later life fell in real terms by 17 percent.[1] This means that striking the right balance between State and self-funding will be important in creating a sustainable social care funding model. Financial services can play a role in helping self-funders to meet their care costs, but to create sufficient demand for a viable market, people need to be made aware of the potential costs they face should they have care needs. In addition, the system should incentivise, and not penalise, savers. It is only then that we might see an increase in demand for financial products to a level that would encourage market innovation.

9. The IFoA has published two research papers that set out potential financial products for meeting the costs of social care in later life:
    i. How pensions can meet consumer needs under the new social care regime
    ii. How financial products can work alongside the Care Act (2014) to help people pay for care

    The papers consider amongst other products, pensions, insurance and equity release. An over-arching message from both papers is that the current social care funding system is

[1] The Kings Fund (2015) How serious are the pressures in social care

complex. There is a number of components to social care costs for both State and self-funded elements, for example the split between daily living costs, local authority rates and top-up fees. If individuals are to navigate social care funding successfully, good information and guidance and, where appropriate, advice is needed.

10. As part of our next phase of research we will specify a tool that can be used to help people to understand their potential care needs and costs. Again, we would welcome the opportunity to discuss this work in greater detail with the FCA.

Adequacy

11. If people are going to be able to meet their retirement income needs, including any potential social care costs, they will need to have saved adequately throughout their working lives. In our policy briefing 'Saving for retirement', we recommend four key priorities to overcoming these barriers. These four priorities are:
    i. The pensions and social care framework must be sustainable for the State, individuals and employers
    ii. There must be clarity on the role of the State
    iii. Individuals need to understand how long they might live and the likelihood of them living to much older ages
    iv. Individuals need to understand what level of savings they will need to meet their retirement income needs, including potential social care costs, and be encouraged to save to meet them.

12. Clearly, there is a role for financial services in helping people to save adequately for their retirement, including ensuring that:
    i. there are good quality pension schemes and products for both the accumulation and decumulation phases that offer value for money
    ii. Charges are transparent and explained clearly
    iii. Appropriate investment strategies that meet scheme members' risk profile
    iv. Clear communication – segmenting communication, for example, by age or pot size, will help to ensure that the communication is relevant. Tiering communication will build financial capability over time and help avoid overwhelming the individual with information
    v. Sign-posting Pension Wise (or an evolution of this in light of the Budget announcements) to everyone approaching retirement
    vi. Developing tools that help people to compare their options without commercial bias.

13. We have a number of working parties that are exploring which investment strategies, during the decumulation phase, would enable individuals to meet their retirement income needs and help them to mitigate longevity risk. We are also working to develop a tool that will help people to compare a range of product types and what product, or combination of products, might best help them to have an adequate income for the duration of their retirement. This in turn, would identify where savings are not adequate to meet these needs.

14. We are also working on a further research paper with our Australian and American counterparts to assess public perceptions of adequacy, as well as a UK-specific policy briefing that assesses the policy landscape and how this is affecting adequacy. We anticipate this will help to inform debates around appropriate measures of adequacy and how much people need to be saving. We would be happy to share these outputs and those of the working parties with the FCA once they are finalised.

Consultation response

Question 1: Do you have any views on the ideas set out in this DP and can you suggest areas of focus that would improve financial markets for older consumers?

Pensions

15. The development of appropriate default decumulation options that promote behaviours more likely to lead to good outcomes for retirement income would improve financial markets for older people. These could be useful for all scheme members, but in particular where
    - members are unable to engage, or do not engage, and so do not make an active decision about their retirement income, or
    - the alternative path of least resistance would be to take all of the pension savings in one, or a series (dependent on taxation) of lump sums.

16. It is important that any default:
    i. Does not lock a person into a potentially inappropriate product – if the default is a product lasting for the member's lifetime, it should allow a suitably lengthy initial period during which they can opt out of the product
    ii. Is transparent regarding its charging structure with charges capped in line with accumulation requirements
    iii. Offers an element of guaranteed income to mitigate the impact of longevity risk
    iv. Is able to match its investment and de-risking strategy to its members' likely needs, for example, their likely retirement dates
    v. Has communications which clearly set out the member's expected retirement income for the duration of their retirement; the circumstances under which the default is unlikely to be appropriate e.g. if someone has health issues that might shorten their life span; and makes sure the member is aware that they can opt out
    vi. Has an effective governance structure that reviews the appropriateness of the default for its members on an ongoing basis
    vii. As far as possible, protects members from having to make decisions at the latest stages of retirement where cognitive decline is more likely to be a reality

17. We agree with the FCA that cognitive ability should be one of the key areas of focus for financial services. For example, in pensions, drawdown arrangements require the individual to continue to make investment decisions and the amounts to withdraw. However, cognitive decline associated with ageing will often make this decision making increasingly burdensome. Whilst acknowledging the need for the financial industry's approach to dealing with vulnerable customers to improve, we believe that the most effective way of dealing with this is to focus on prevention. Prevention means encouraging individuals to plan for this eventuality at the outset, whilst they still have full cognitive capability, and putting in place advance measures to mitigate any difficulties. Defaults that take over as required, or ensure that the pensioner puts in place an appropriate power of attorney at the outset, could be a useful mechanism for dealing with cognitive decline. Waiting until someone suffers cognitive decline and then trying to deal with the problem is too late. As an example, the proposed NEST default pathway, with the purchase of deferred annuities for later life achieves this and, at the same time, addresses longevity risk.

Social care

18. Another area of focus is products that can help people meet their social care costs in later life. The risk, at age 65, of an individual needing eligible care during their lifetime is approximately

one in three for women and one in four for men.[2] The average length of stay in a care home is 42 months for self-funders and the average cost for residential care in England is £574 per week, or £29,848 per annum. This means that the average cost of care for someone who has care needs for the average length of time is £104,468.[3,4] For many this is a significant cost and the expenses associated with care needs could unexpectedly reduce living standards in retirement, even for someone who has made prudent plans for retirement income.

19. Whilst it is still too early to know what decisions people will make regarding their retirement income since the introduction of pension freedoms, there is a risk that it could discourage savers from products, which involve a permanent commitment of funds. This would mean that products for social care would need to reflect the flexibility of the freedoms, otherwise it is likely that incentives would need to be offered to encourage people to make provision for these costs. As stated in paragraph 5 of our response, it would be helpful if data were collected on how people are responding to the new system to assess what nudges and incentives could be effective in helping people to use their savings to meet all of their retirement income needs, including their care costs.

20. There is a range of products that could be developed, which we discuss in greater detail in our papers highlighted in paragraph 9. These include:

    i. Protection insurance - these products are designed to cover an event that is uncertain, and in some cases unlikely to occur, but where the financial consequences may be challenging where there is no insurance. Social care insurance is not a new product, but is not currently marketed in the UK.

       The likelihood that someone will need funding for social needs in their lifetime is potentially higher than that of many events for which protection insurance is commonly purchased (e.g. term assurance policies covering death, critical illness or income protection). As such, the cost of cover may seem like a high proportion of the eventual maximum benefit paid upon incidence, a factor that may seem to negate the attractiveness of such protection.

    ii. Disability-linked, immediate needs and deferred needs annuities – these products pay out benefits at the point of reaching eligible care needs, although dependent on the annuity type, they can be purchased either before or at the point of need. These products will often accelerate the amount in payment compared to a standard annuity as it is expected that it will be paid over a shorter period.

    iii. Care ISA – this product would take the shape of a savings vehicle to encourage people, old and young, to increase their savings to meet any future social costs. Incentives would likely be needed to encourage saving. We note the introduction of the Lifetime ISA and would be interested to see whether Government felt this could be a useful vehicle for encouraging saving to meet social care costs.

    iv. Accelerated whole of life policy - several insurance companies have introduced a new product which adds a protection style benefit for social care to existing whole-of-life assurance products. The product works by making an accelerated payment to a policyholder should they require social care, be it receiving care at home or in a care

[2] Rickayzen, B. (2007) 'An analysis of disability-linked annuities'. Actuarial Research Paper 180. Cass Business School: London
[3] Forder, J. & Fernandez, J.L. (2011) 'Length of stay in care homes'. Report commissioned by BUPA Care Services. PSSRU Discussion Paper 2769. PSSRU: Canterbury
[4] Laing & Buisson (2015) 'Care of Elderly People UK Market Survey 2014/2015'

home. The lump sum paid on death is reduced by this accelerated payment.

v. Personal Care Savings Bonds (PCSBs) – Mayhew and Smith at Cass Business School proposed this product.[5] The bonds are designed to encourage saving for social care by providing extra money at the time of greatest financial need. The PCSB fund would pay out once eligible care needs begin. PCSBs would attract a small rate of interest, in addition to prize money (much like Premium Bonds), which would be paid at monthly intervals throughout the duration of the holding. PCSBs are likely to be attractive to older people who have only a basic pension and modest savings, but also to other age groups as they not only attract interest but also pay prizes.

vi. Equity release - there is a sizeable group of older people on low income where moving house would be impractical, but where a higher income could help improve their day to day life and hence wellbeing – particularly older retirees who live alone and may have impending care needs. The release of housing equity could be used to fund social care costs, or pay for improvements that enable people to live independently in their home for longer. We are aware that the PRA is currently reviewing equity release mortgages and this could affect the future role of these products.

21. For any product solution to develop that will encourage individuals to take personal responsibility for self-funding their social care, on the scale required to be commercially viable, it will require widespread public engagement. This would need to promote the necessity for individuals to ensure appropriate financial provision is made for any future care needs. Industry and governmental bodies have a joint role to play in making information available and raising awareness of the funding needs and the potential range of product solutions that exist. This educational role should be targeted to different segments of the population to achieve maximum engagement, for example, people at different ages, different life stages and with different levels and types of wealth.

Non-life insurance

22. We support the principle that customers should not be treated unfairly because of their age. However, we would argue that where age is determined to be a relevant risk factor, financial services providers should be able to consider this factor in their decision making, to ensure pricing is set in all customers' best interests. Where age is not determined to be a relevant risk factor, we agree that steps should be taken to ensure consumers are not discriminated against based on their age.

23. Motor insurance is an illustrative example of where age is used as a differentiator, as opposed to a discriminator, and impacts on young drivers at least as much as, if not more so than older drivers. The recent introduction of the 'black box' telematics device has so far tended to focus on inexperienced drivers. However, there may be benefit to older drivers for whom such technology can help to identify how well they are driving, and therefore, provide a more informed basis for premiums, as well as if and when they might decide to give up driving. At the moment this is left to the individual judgement of older drivers who may not truly recognise when they are no longer fit to drive. If telematics play a role in feeding back to

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[5] Mayhew L.D., Smith, D. (2014), 'Personal Care Savings Bonds: A New Way of Saving Towards Social Care in Later Life', The Geneva Papers on Risk and Insurance Issues and Practice, 39(4), p.668-692

older drivers information about their continuing ability to drive, this could ease insurers' approach to providing cover to older drivers and move away from a blanket age cut-off point.

24. The potential protection that general insurance products offer against unexpected costs could be of even greater significance once people are in retirement. There is a benefit, both financially and psychologically, to a regular insurance payment that protects against a volatile cost that may arise from an adverse event. Examples of this include warranty insurance, home assistance cover, home insurance and even pet insurance. Clearly these products should offer value for money and be affordable for older consumers.

25. In our 'Fairness in insurance pricing report' we provide further detail on the perceived fairness of insurance pricing for segments of customers based on differentiators such as age. This paper also details some of the potential consequences for consumers and society where restrictions are placed on using differentiators such as age as a pricing factor. Should the FCA focus its efforts on non-life insurance, we would be happy to assist the FCA as we have a number of working parties undertaking research on non-life insurance.

Question 2: Are there specific products, services or distribution channels that are particularly associated with poor outcomes for older people?

26. There is a poor perception of annuities amongst consumers. It is imperative this perception does not undermine the value of products that offer protection from not just longevity risk, but also inflation, investment and market risks. Annuities also offer pooling of risk to make premiums more affordable for all. There is an unavoidable trade-off between the maximum level of monthly / annual income someone might expect to receive and the cost of having a guarantee that gives certainty that an income will be provided. It is important this trade-off is appropriately communicated to consumers when planning for their retirement, so that they can understand the difference between having a potentially higher income at the outset vs having an income that lasts the duration of their lifetime.

27. To help communicate this trade off we agree with the recent Independent Review of Retirement Income by David Blake, that annuities need rebranding as products that offer a guaranteed income for life.[6] We also believe that the market for these products must evolve to meet changing consumer needs. The guaranteed income is, for many, likely to be of higher importance in the later stages of retirement, with flexibility being of greater importance in the early years of retirement. It is important that the benefits as well as the potential pitfalls (i.e. the lack of flexibility) of these products is communicated to consumers and that, as far as possible, safeguards are in place to prevent consumers buying products that are not appropriate to their individual circumstances, especially as currently these products are not reversible. However, with the proposed introduction of a secondary annuity market from April 2017, these products will also be reversible. We question whether reversing their annuity is likely to promote good outcomes for the majority of people.

28. Drawdown products are not without risk as demonstrated in the recent market environment. There is a risk if people do not understand the potential volatility that can arise in drawdown arrangements, that drawdown could also become associated with bad customer outcomes. In addition, whilst drawdown offers the flexibility many people are likely to value in the early stages of retirement, it would not be appropriate for many as a long term solution. The need to make ongoing decisions will be a challenge for individuals and there is a heightened risk that in the latest stages of retirement, where cognitive decline is most likely, drawdown is not

[6] Blake, D. (2016) Independent Review of Retirement Income – We Need a National Narrative: Building a Consensus around Retirement Income

an appropriate product. Again, it is important that the trade-off between increased flexibility and certainty of income is fully understood.

Question 3: What is the role of industry and other stakeholders (collectively as a market or at an individual firm level) in addressing the issues identified?

29. We believe that industry's role is to:
    i. ensure that communications to members on their occupational and private pensions are clear regarding charges and projected future retirement income;
    ii. offer a range of products that meet retirees' needs in different circumstances;
    iii. alert Government and regulators to any barriers, for example market or regulatory, to meeting consumer needs; and
    iv. use their knowledge and skills to influence the direction the industry takes for the benefit of all consumers.

30. To meet changing consumer needs, regulators could play a role by ensuring the regulatory framework fosters market innovation, whilst making sure that the necessary consumer protections are in place. Regulators and Government should ensure that regulation is effective and proportionate so that the public can have confidence in the pensions framework and the security of their savings.

31. Government's should ensure clarity on what support an individual can expect to receive from the State in the following forms:
    i. age-related State benefits, including the State Pension, winter fuel payment, housing benefits and council tax exemptions;
    ii. taxation of pensions (both contributions and benefits); and
    iii. make the difference between NHS and social care funding models clear and do more to simplify, and help people understand and navigate, the different elements of State (both central and local authority) funding.

    We would also ask the Government to consult and provide clear explanations where changes to pensions and health and social care funding are made so that each generation can have reasonable certainty about what State benefits are available to them. This will require the Government to create a stable and sustainable framework and avoid constant tinkering to the system.

32. Collectively, industry, regulators and Government must help individuals to understand their potential retirement income needs, including how long they might live, in particular, how likely they are to live to the oldest ages, and the consequences of this. One means of going someway to achieving this could be for industry and regulators to sign-post all individuals to Pension Wise (or any evolution of this in light of the Budget), whilst the Government ensures that Pension Wise is fit for purpose, with industry and regulators helping to identify any gaps based on feedback from its customers.

Question 4: Do you have any evidence of effective approaches to meeting the needs of older people that you have already developed and tested, or that you have observed in other markets (UK and international)?

Pensions

33. In our report '<u>The Challenge of Longevity Risk: Making retirement income last a lifetime</u>' we use lessons from the UK, America and Australia to identify effective approaches to managing longevity risk. Across all three countries, people are living longer, yet there is evidence that individuals underestimate and are uncertain about their life expectancy. The financial

implications of increased longevity are that either individuals will outlive their retirement savings, or alternatively, they will underspend and potentially have an unnecessarily reduced quality of life as a result of fear of outliving their savings.

34. The political appetite for change to pensions is evident across the three countries.
    i. The Financial Systems Inquiry in Australia concluded that the market for decumulation vehicles for DC "is underdeveloped and does not meet the risk management needs of many retirees".[7]
    ii. In America, the policymaking and regulatory bodies have made efforts to help individuals, for example, the Advanced Notice proposals to ensure that the annual benefit statement for DC scheme members includes a projection of lifetime income.
    iii. In the UK, the introduction of pensions freedoms in the Taxation of Pensions Act (2014) has created a fundamental change in the pensions framework.

    In all three countries, the transition from Defined Benefit (DB) type arrangements to DC has increased employees' responsibility for ensuring the adequacy of their savings and managing them once they reach retirement and beyond.

35. Based on our analysis we believe there are five principles for managing longevity risk in a DC environment:
    i. Adequacy – this is twofold: saving enough during working life to meet retirement income needs and spending those savings in a way that means they last for the duration of retirement
    ii. Information – people need information leading up to, at the point of and throughout their retirement to help financial planning. This should include information on life expectancy and projected income
    iii. Flexibility – it is critical that the pensions framework is sufficiently flexible to reflect individuals' different retirement needs and promotes innovation. However, it is important this is balanced against the need to have appropriate consumer protections in place
    iv. Equity – changes to the pensions system should not be undertaken without consideration of the costs and sources of funding, with analysis on whether this could be considered fair across a given population
    v. Sustainability – financial planning for retirement is long-term and as such the pensions framework should support this and should have a long-term focus. In addition, the framework must be equitable between generations.

36. Based on these principles we recommend two policy responses to meeting the needs of older people:
    i. Defaults at decumulation, the principles for which we have set out in paragraphs 15 and 16 of this response. NEST's proposed default pathway is an interesting attempt to address some of the challenges around certainty of income and longevity protection in later life and declining cognitive ability.
    ii. Guidance and advice – we argue that governments, those who provide retirement income solutions and employers should share responsibility for helping people to navigate their retirement income choices. The needs of retirees will be many and varied. There was agreement across the actuarial bodies of the UK, America and Australia that both regulated financial advice and publically funded guidance are a prerequisite to supporting individuals in making retirement income decisions. For

[7] Australian Government the Treasury (2014) Interim report of the Financial Stability Inquiry. Commonwealth of Australia, 2014

those who would benefit from taking financial advice, it is important that the benefits of advice are understood.

Social care

37. In 2012, we published a comparison of six different countries' social care funding models and their potential application to England 'Long term care – a review of global funding models'.

    i. France
    Around 70% of the care budget is funded by local government, with 30% coming from central government. Central government funding is through employers' social security contributions, as well as general taxation, with additional funding coming from France's Solidarity Day. On Solidarity Day employees donate their earnings from that day to fund care. This Government-led public awareness campaign has led to a growth in private insurance. Less than 1% of care spending in 2007 was from private insurance provision, but by 2010 15% of the population, aged over 40, had a care policy. This growth has been mostly attributed to the public becoming more aware of the risks and costs involved and the gaps in public provision.

    ii. Germany
    The system in Germany has a mix of social and private insurance schemes. Compulsory social insurance was introduced in 1995. However, those with higher incomes, civil servants and the self-employed may opt for private insurance instead of the social insurance. Contributions to social insurance are split between the individual and the employer. The structure enables both public and private systems to sit alongside one another.

    iii. Japan
    In 2000, Japan created its care social insurance programme that covers domiciliary and residential care and the benefits are set nationally. It is compulsory for those over 40 years of age to contribute and it offers access to social care for those aged over 65. The level of contribution is dependent on income, but the benefit is dependent on need, as opposed to being means-tested. There is not a significant private insurance market for care.

    iv. Netherlands
    The Netherlands set up a publically funded scheme to ensure no one had high expenses for meeting care needs. However, this has undergone review as costs have ballooned, rising by 66% from €14bn to €23bn between 2000 and 2010. This has meant the system has been in constant flux.

    v. United States
    The US has Medicaid that is funded through general taxation and is a means-tested welfare programme for the poorest. The private insurance market is relatively well developed with products covering both domiciliary and residential care. The 2010 Affordable Care Act regulates and subsidises health insurance to make it more affordable and as of 2016, large employers have to provide health-coverage to full-time workers.

38. In terms of application to UK policy, France managed to increase significantly the amount of private provision for care through a Government-led public awareness campaign. If the Government truly wants people to start thinking seriously about their potential social care costs in later life and make provision, we reiterate the need for a targeted and ongoing awareness raising campaign, led by Government.

39. Japan and the Netherlands have taken an approach that has a greater emphasis on publically funded provision; however, the costs associated with this, particularly in the Netherlands, have led to a costly system. On the other hand, the US has taken steps to increase private provision by creating a health insurance market that is affordable for consumers. Germany has achieved a system where public and private funding sits side-by-side and where employers also contribute. The German system mirrors the UK's approach to auto-enrolment, where there has been success in driving up the number of people saving for their income needs throughout retirement. Perhaps a similar approach could be adopted for social care funding.

Should you wish to discuss any of the points raised in further detail please contact Rebecca Deegan, Policy Analyst (rebecca.deegan@actuaries.org.uk / 02076322125) in the first instance.

Yours sincerely

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