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The Future of Social Care funding

IFoA Pensions & LTC Working Party
Products Research Group

Tom Kenny (Chair) – Just
Ailsa Dunn – Hymans Robertson

May 2017



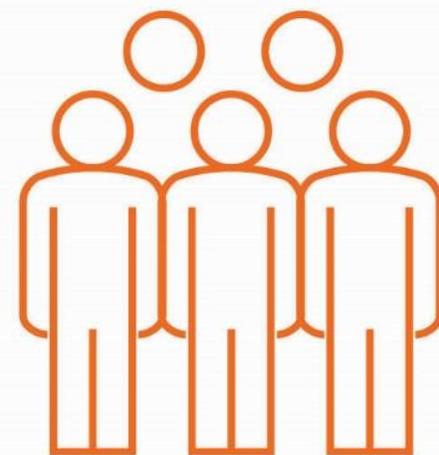
The Working Group and the IFoA Support

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Agenda

- Background on social care funding
- Summary of published results
- Incentive to save - what impact will the new means test have?
- Retirement tool – the final countdown
- Learning from Australia
- Your input required



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Background on social care funding

A week is a long time in politics...



Tory wobble as cuts for elderly slash May's lead

Corbyn halves gap as manifesto bombs

Labour's lead over the Tories has been slashed to its lowest point since the general election, as the party's manifesto proposals for cuts to elderly care have been widely criticised. The cuts, which would see the state pension age raised to 67, have been described as a 'betrayal' of the party's commitment to protect the vulnerable. The Tories have lost the prime minister's support, and the gap between them and Labour has narrowed significantly.

44
35
PAGES 10-18

Grime for Corbyn

Why British MCs are uniting behind Labour

Corbyn has become a hero to many young people, particularly in the music industry. British MCs are uniting behind Labour, seeing Corbyn as a champion of their generation. They are drawn to his message of social justice and his rejection of the establishment.

Prue Leith Bake Off's new star

Both in it

Prue Leith, the former Bake Off champion, has returned to the show as a new star. She is bringing her signature style and expertise to the competition, and is expected to be a major contender for the title.

Marin
It's Gro
May!

YOU WON'T HAVE TO SELL HOME TO PAY FOR YOUR CARE

May: EVERYONE can defer care bills - and keep £100k assets

Winter fuel cash axed for millions to help fund plan

Chelsea Manning praised this picture on Instagram after her release yesterday after 3,603 days in military captivity

PM gambles on making elderly pay their way

May's 'difficult' plan would mean loss of benefits and higher social care costs

The prime minister's plan to raise the state pension age has been widely criticised as a 'betrayal' of the party's commitment to protect the vulnerable. The plan would mean that many elderly people would have to pay for their own care, which is a significant financial burden.

'First steps of freedom'

Chelsea Manning savours liberty but legal battle to clear her name goes on

Chelsea Manning, the first openly transgender person in the US military, has been released from custody. She is now free to live her life as she sees fit, but her legal battle to clear her name continues.

BP Pledge

BP has pledged to invest in renewable energy

BP has announced a major investment in renewable energy, including wind and solar power. This is a significant step towards reducing the company's carbon footprint and supporting the transition to a greener economy.

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GET LEAN IN TIME FOR SUMMER WITH JOE WICKS

The Mail ON SUNDAY

Pippa's perfect (almost) royal day

STUNNING PICTURES AND REPORTS PAGE 10
PLUS GLORIOUS 12 PAGE SOUVENIR PULLOUT SEE CENTRE PAGES

THE DEMENTIA TAX BACKLASH

But they're still 12% ahead (and voters even prefer May to Maggie)

Licences could be needed for over-75s

Government is considering a new licence for elderly drivers

The government is considering introducing a new licence for elderly drivers, which would require them to pass a medical test. This is a controversial proposal, as it could be seen as a discriminatory measure against the elderly.

Davis warns Bi talks if EU dem

EU talks could be held if the UK demands a referendum

The UK government has warned that it will not hold any further talks with the EU unless the EU demands a referendum on the terms of the Brexit deal. This is a hardline stance that could lead to a prolonged period of uncertainty.

Health insurance that gives you up to 25% off healthy food from Ocado, and free delivery.

So that's what they mean by the 'Big Apple'.

Trump: I'm treated worse than any politician in history

Donald Trump has claimed that he is being treated worse than any politician in history. He has accused the media and the opposition of being biased against him, and has vowed to fight back.

No politician in history and say this with great surety, has been treated more unfairly

Donald Trump has claimed that he is being treated worse than any politician in history. He has accused the media and the opposition of being biased against him, and has vowed to fight back.

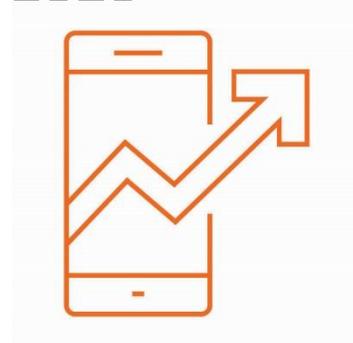
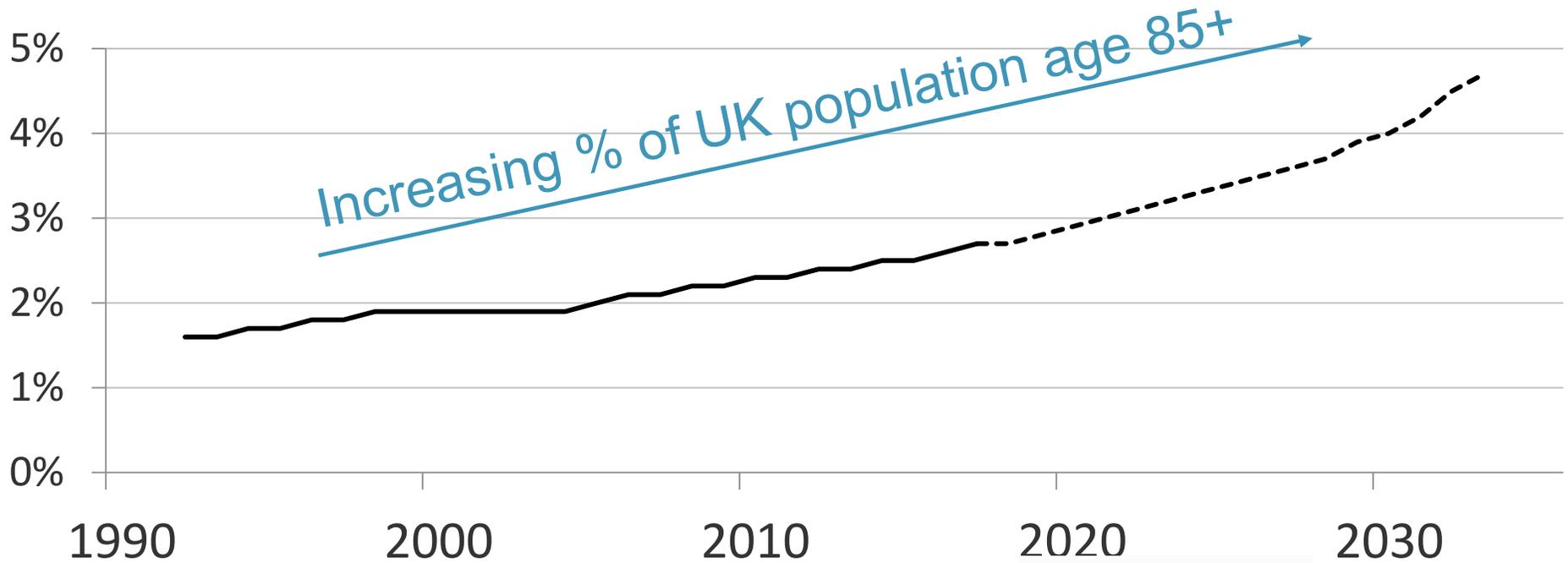
Norfolk, Missal and more armed officers

The Coastguard has announced that it will be recruiting more armed officers. This is a response to the increasing number of armed threats to the coastguard's operations.

THE COASTGUARD'S NEW ARMS

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Changing market dynamics



The political timeline (so far)

July 2011

Dilnot Commission
recommendations
released

April 2015

Care Act 2014 comes into force.
Implementation of national
eligibility threshold and deferred
payments schemes

Mar 2017

Manifestos
released with
social care high on
the agenda

May 2013

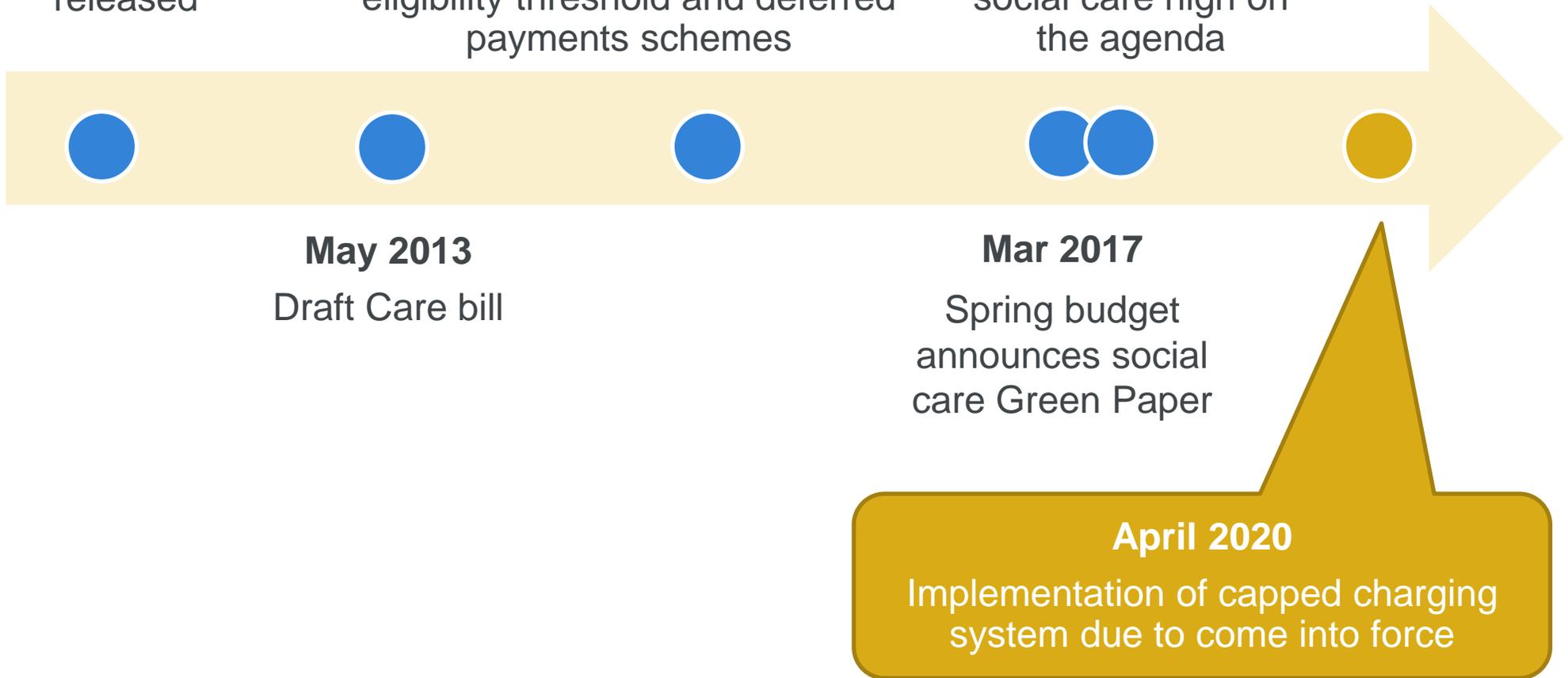
Draft Care bill

Mar 2017

Spring budget
announces social
care Green Paper

April 2020

Implementation of capped charging
system due to come into force



Already a complicated system

- Care act 2014 introduced (in England and Wales only):
 - Deferred payment scheme
 - Care Cap of £72k
 - Increased means testing limits
- Complexity of the system means widespread misunderstanding about split of cost and the support that is available
- Means tested system operated by local authorities, not an extension of the NHS
- Regional variations exist



What's on the horizon?



“You cannot look at this question as simply being about money in the short term.

If we're going to give people the reassurance they need in the long term, it's about finding a way forward that will give a sustainable solution for the future”



“A Labour government would give social care the funding it needs and give a firm commitment to take failed private care homes into public ownership to maintain social care protection”

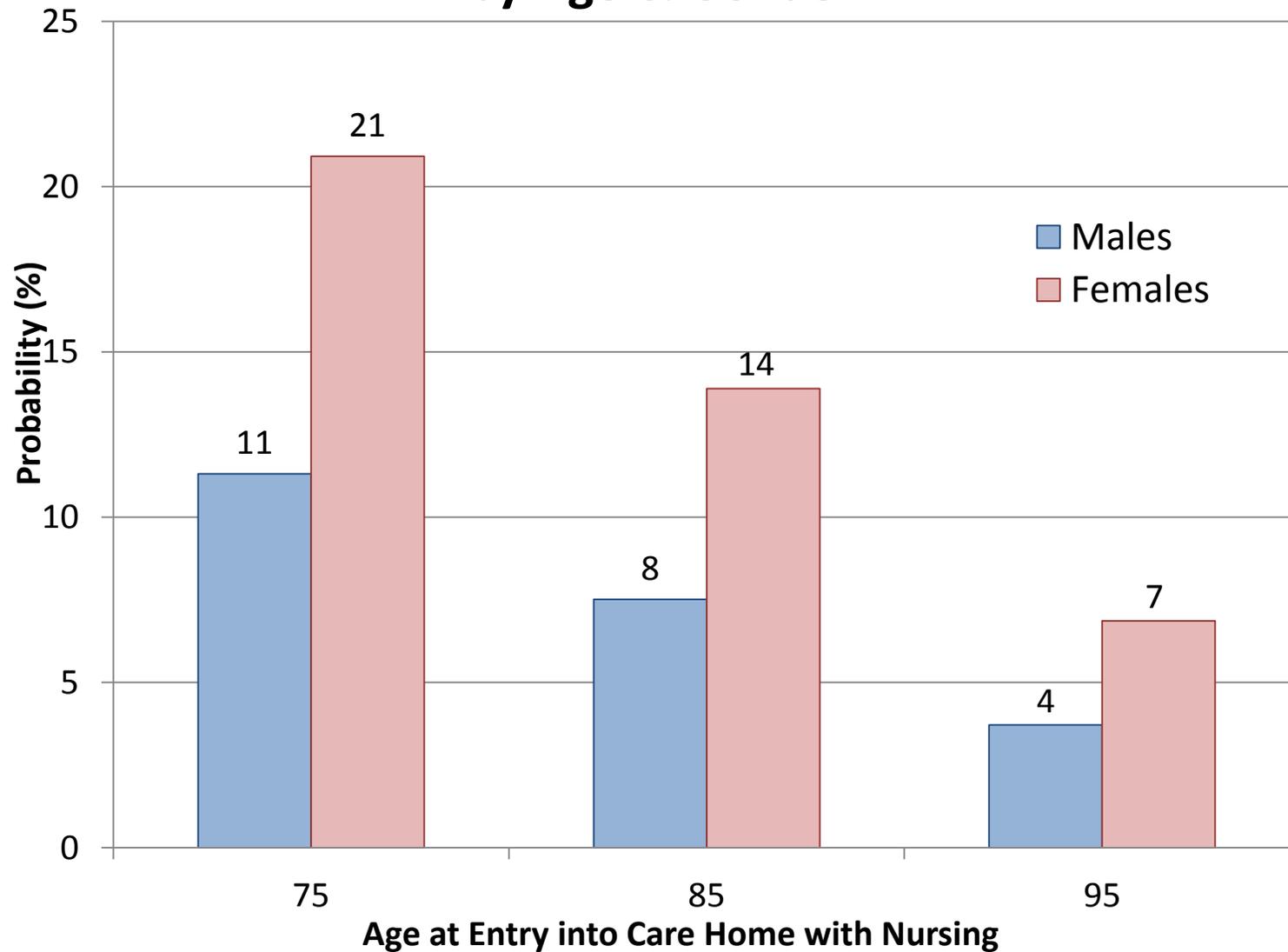


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Published results

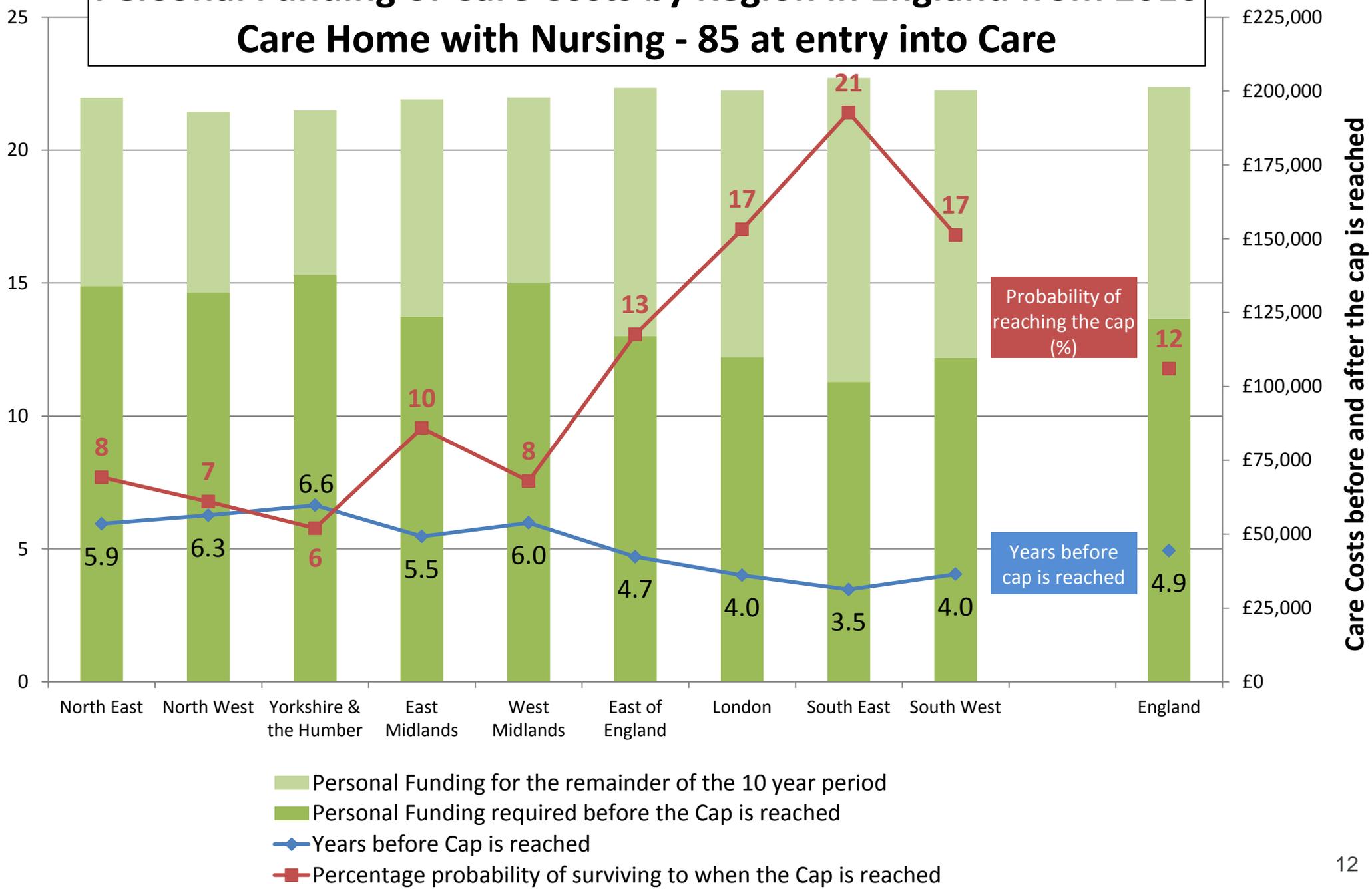
Products research group

Approximate Probability of reaching the Cap by Age & Gender



Personal Funding of Care Costs by Region in England from 2016

Care Home with Nursing - 85 at entry into Care



Possible product innovations

Care ISAs

Variable annuities

Income drawdown

Equity release variations

Disability-linked annuity

Pre-funded protection





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Changes to means testing

Encouraging savings for care

One of the major challenges to address is the incentive to save for potential future care costs. In our analysis we found:

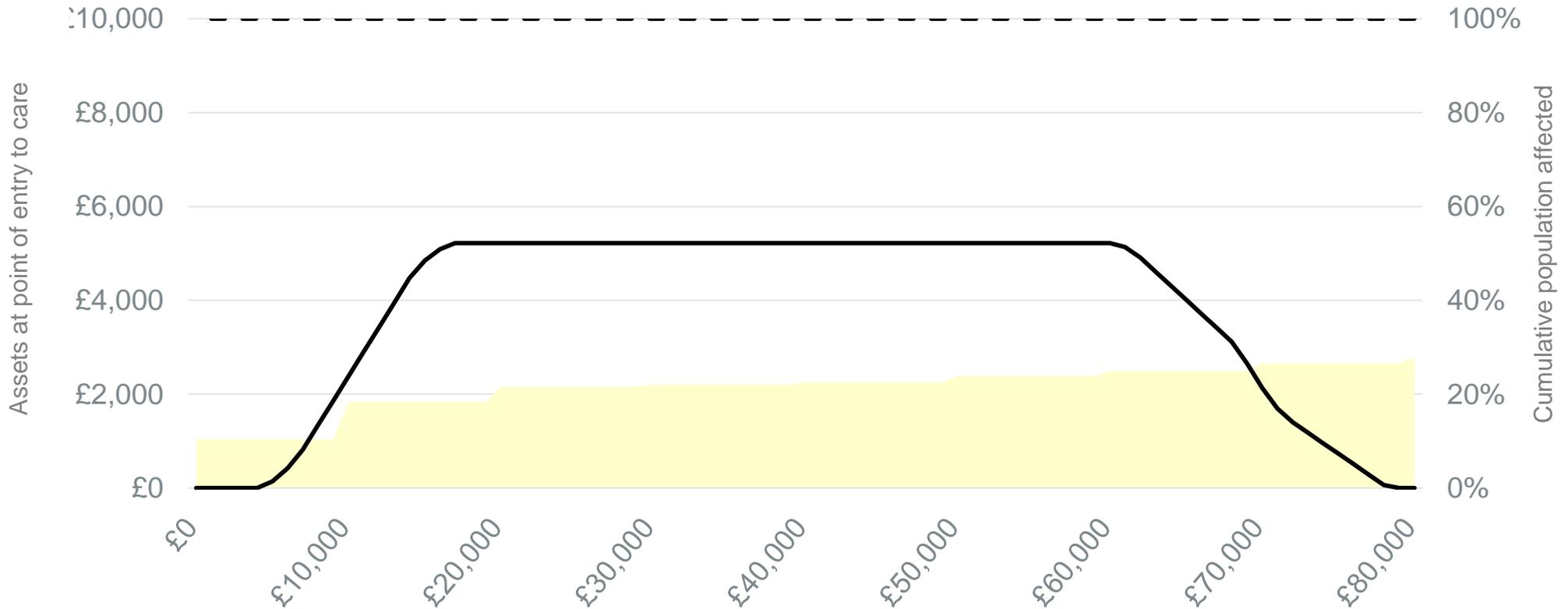
1. The current means testing system is a **disincentive to saving**
2. Means testing thresholds as set out in 'the Act' provide a greater level of reward for savers than the existing thresholds, and may increase the level of saving for care, but they **could still act as a barrier**
3. Additional money put aside could lead to an increase in the amount that the individual has to contribute to their care costs with **no change in the cost or quality** of care received

Scope of means testing investigation

- Our **aim** was to analyse the impact of the new means test limits on incentivising saving towards long term care, extending our scope in 2 ways:
 - expand our analysis to understand the impact on savers of a range of **different levels of means testing thresholds**
 - overlay the results with **population data** to understand the current population dynamics and who will benefit/lose out from changes to the current thresholds

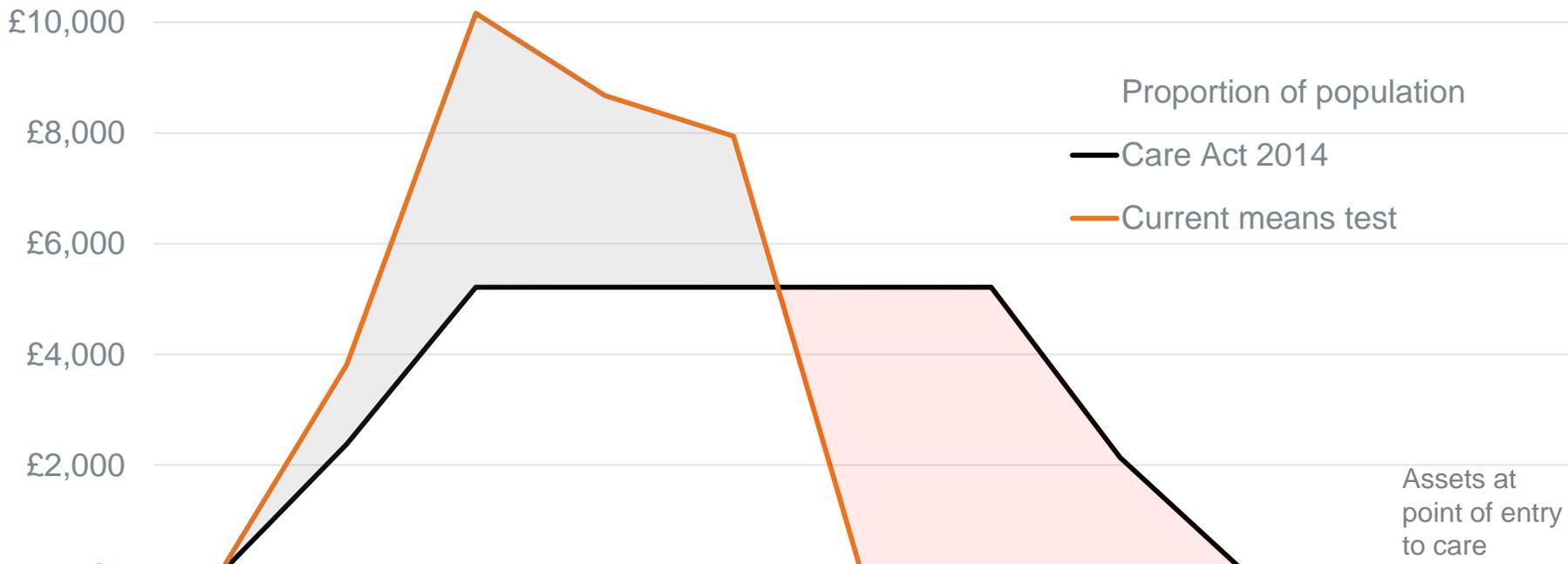
Impact of new means test limits (Care Act 2014)

Increase in personal funding over the first 3 years
for additional **£10,000** saved



Impact of change in upper capital limit

Increase in personal funding over the first 3 years, for **£10,000** of additional savings under existing and proposed means test limits

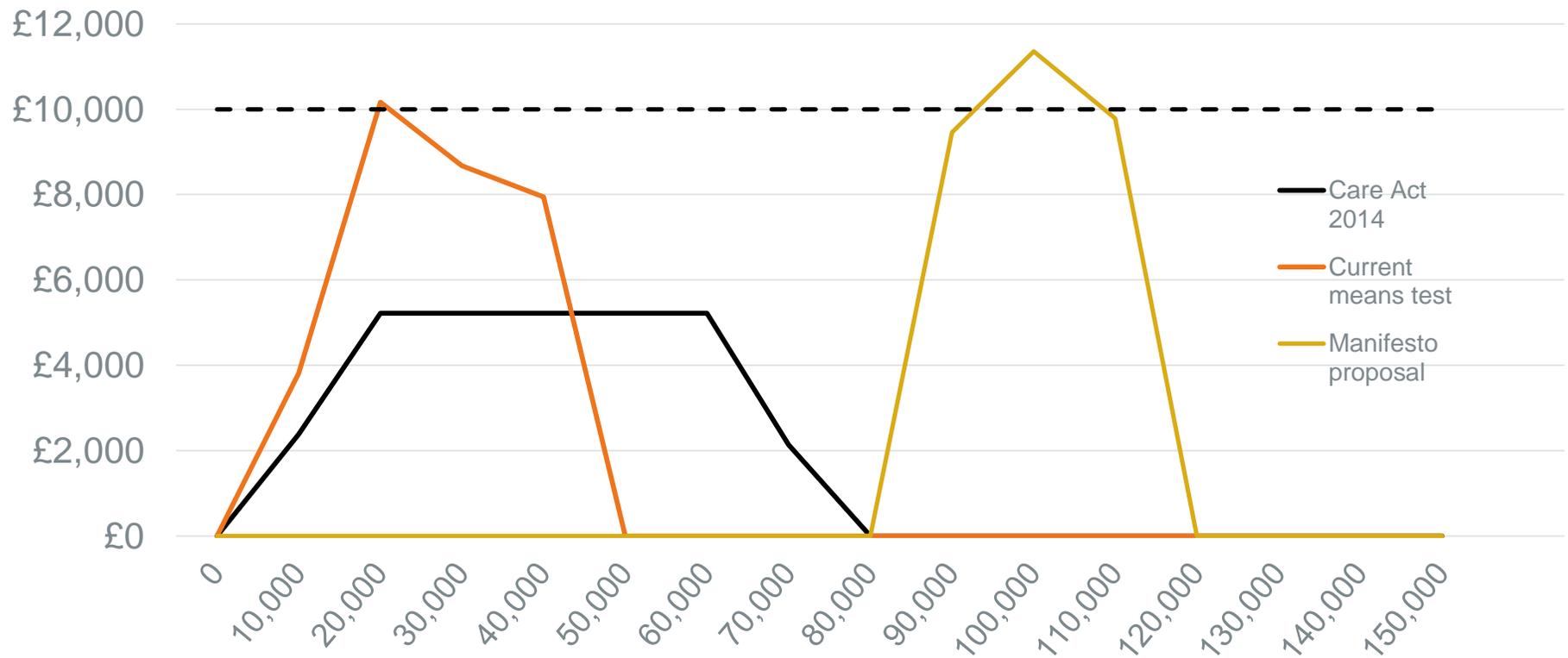


| | 0 | 10,000 | 20,000 | 30,000 | 40,000 | 50,000 | 60,000 | 70,000 | 80,000 | 90,000 | 100,000 |
|--------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Proportion of population | 10.3% | 8.0% | 3.3% | 0.4% | 0.6% | 1.3% | 1.0% | 1.7% | 1.1% | 2.3% | 2.3% |

- Less than 30% of those 85+ have assets of less than £80,000

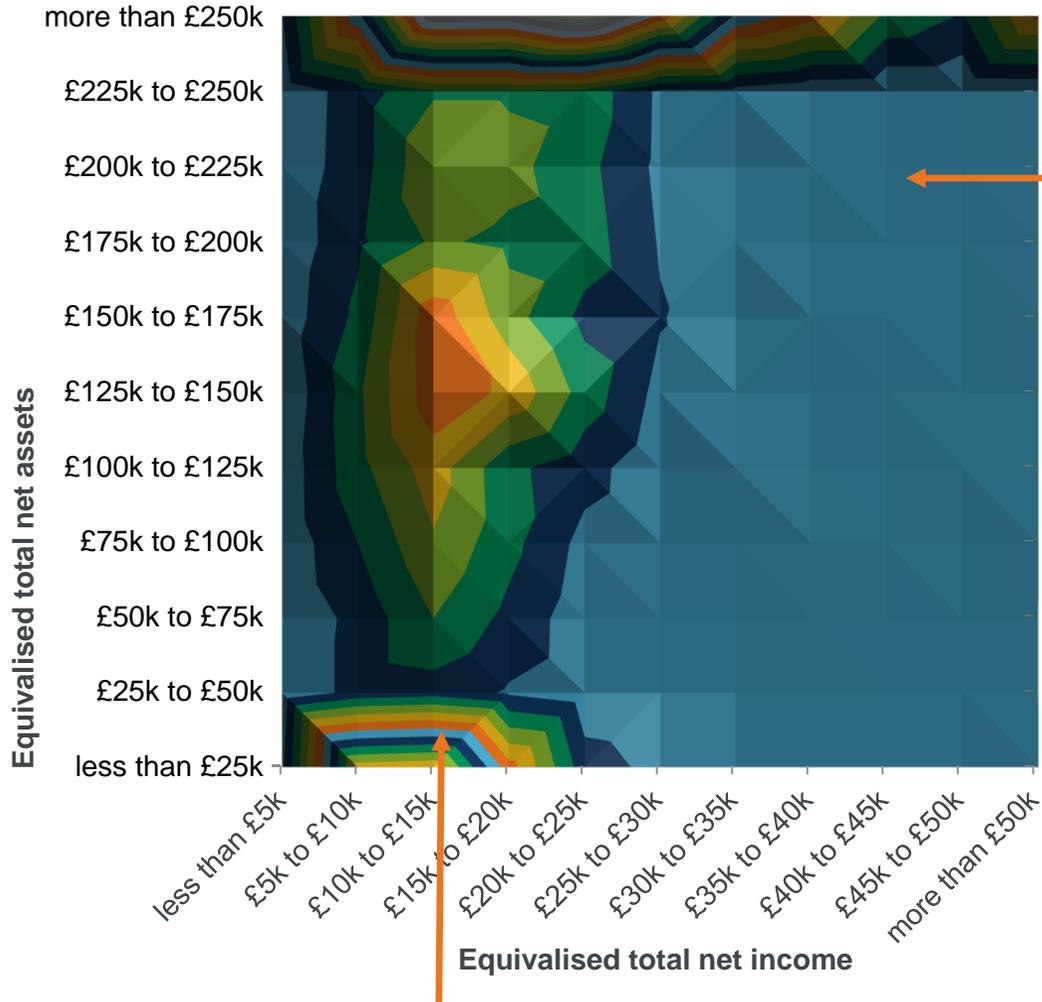
What might the future hold?

Increase in personal funding over the first 3 years, for £10,000 of additional savings under existing and proposed means test limits



Population dynamics

Assets-Income contour for Age 65+



Median assets of £200,000 for those 65+ reducing to £170,000 for those age 85+

- Polarised results driven by home ownership
- Relatively high proportion of asset-rich homeowners
- Total net income clustered around £10-£20,000 p.a.

Median income of £16,000 for those 65+, reducing to £13,000 for those age 85+

Summary of findings

- The current means testing system can cause a disincentive to save with an effective 'tax rate' of over 100% for some people!
- Under the Care Act 2014, those with few assets on entry to care have a higher disincentive to save
- There is less/no disincentive to save for:
 1. Those with high assets on entry to care
 2. Those with high income in retirement
- Individuals could put money aside into means testing exempt products to reduce their income in retirement and protect their assets eg income bonds, funeral plans, trusts

Recommendations

- Removal of biases in the means testing system that penalise less wealthy savers
- Introduction of new categories of financial products that allow
 - savings to be exempt from the means test up to a specified threshold, for example
 - savings from pensions ring-fenced for care costs
 - care savings accounts
 - if they do not need to be used then given exemption for Inheritance Tax



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The Final Countdown!



Helping people manage money in retirement

- Developing a straightforward interactive web-based tool to
 - help guide people to manage their income and assets in retirement
 - and, equally importantly, manage their expenditure in retirement
 - in the expectation that care provision may well be needed in later life
- The model is in development
 - aiming to make available later this year
 - show snapshots of the model today
- It's The Final Countdown for their money in retirement

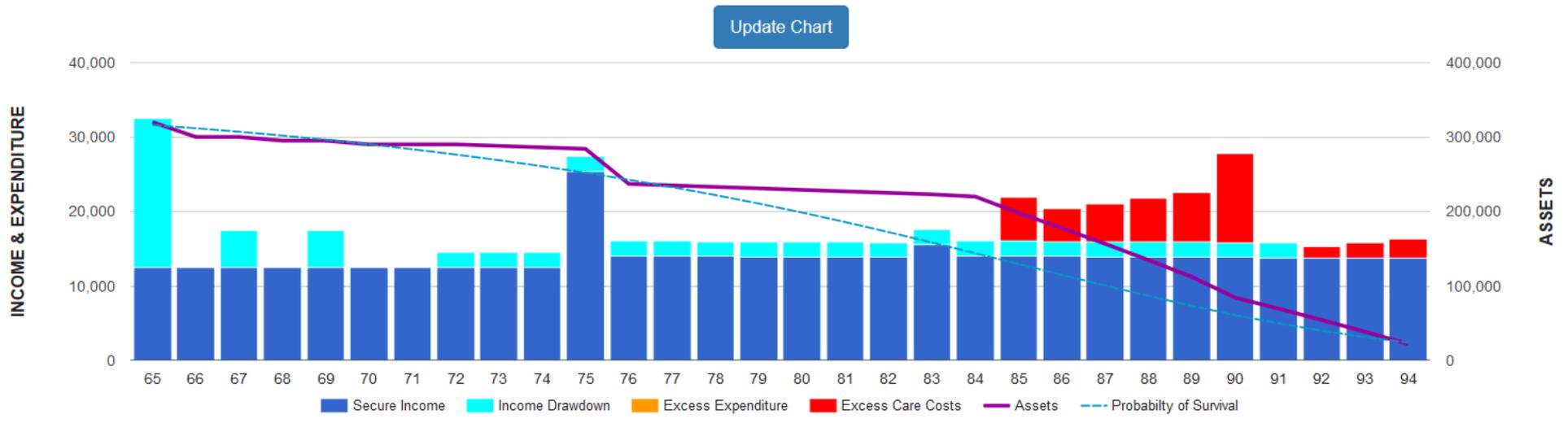
Income and Expenditure in Retirement including potential Care Costs

| Personal Details | Assets | Income | Potential Care Home Needs |
|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gender <input checked="" type="radio"/> Male <input type="radio"/> Female | House - 200000 + Total DC Pots - 100000 + Savings, ISAs and other Investments - 20000 + | State Pension - 7500 + Defined Benefit Pensions - 5000 + | Age at Entry to Care - 85 + Type of Care Home <input checked="" type="radio"/> Nursing <input type="radio"/> Residential Care Home Region North East |
| Current Age - 65 + Taxpayer Status Non taxpayer Choose an Expenditure Profile Cautious | | | |

- Capture some key data to initiate the model
- Personal Details
 - include a number of Expenditure Profiles – we'll start with a 'Cautious' profile
- Assets
 - includes any DC pots as well as property and savings
- Income
 - includes state pension, DB pensions and annuities
- Potential Care Home Needs
 - care fees depend on needs and vary within region

Income and Expenditure in Retirement including potential Care Costs

| | | | |
|---------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------------------|
| Personal Details | Assets | Income | Potential Care Home Needs |
| Gender <input checked="" type="radio"/> Male <input type="radio"/> Female | House - 200000 + | State Pension - 7500 + | Age at Entry to Care - 85 + |
| Current Age - 65 + | Total DC Pots - 100000 + | Defined Benefit Pensions - 5000 + | Type of Care Home <input checked="" type="radio"/> Nursing <input type="radio"/> Residential |
| Taxpayer Status Non taxpayer | Savings, ISAs and other Investments - 20000 + | | Care Home Region North East |
| Choose an Expenditure Profile Cautious | | | |



- Model displays projected income and assets including
 - excess expenditure and care fees over income
 - probability of survival
- User can add/delete events – as shown on next slide
 - e.g. one-off or regular drawdown, annuity purchase

Income and Expenditure in Retirement including potential Care Costs

Personal Details

Gender: Male Female

Current Age:

Taxpayer Status:

Choose an Expenditure Profile:

Assets

House:

Total DC Pots:

Savings, ISAs and other Investments:

Income

State Pension:

Defined Benefit Pensions:

Potential Care Home Needs

Age at Entry to Care:

Type of Care Home: Nursing Residential

Care Home Region:

Update Chart



List of Events

Add new event Delete selected event

| Age at Event | Type of Event | Amount | £/% | Repeat? | Period (Years) |
|--------------|------------------|--------|-----|---------|----------------|
| 65 | One-Off Drawdown | 20000 | £ | N | 0 |
| 67 | One-Off Drawdown | 5000 | £ | N | 0 |
| 69 | One-Off Drawdown | 5000 | £ | N | 0 |
| 72 | Regular Drawdown | 2000 | £ | Y | 20 |
| 75 | Annuity Purchase | 45000 | £ | N | 0 |
| 83 | Annuity Purchase | 6000 | £ | N | 0 |

Income and Expenditure in Retirement including potential Care Costs

| | | | |
|---------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------------------|
| Personal Details | Assets | Income | Potential Care Home Needs |
| Gender <input checked="" type="radio"/> Male <input type="radio"/> Female | House - 200000 + | State Pension - 7500 + | Age at Entry to Care - 85 + |
| Current Age - 65 + | Total DC Pots - 100000 + | Defined Benefit Pensions - 5000 + | Type of Care Home <input checked="" type="radio"/> Nursing <input type="radio"/> Residential |
| Taxpayer Status Non-taxpayer | Savings, ISAs and other Investments - 20000 + | | Care Home Region North East |
| Choose an Expenditure Profile Spendthrift | | | |

Update Chart

- Changing the Expenditure Profile to 'Spendthrift'
 - reflects extra expenditure in early phase of retirement
 - but assets run out after about 6 years of care home fees

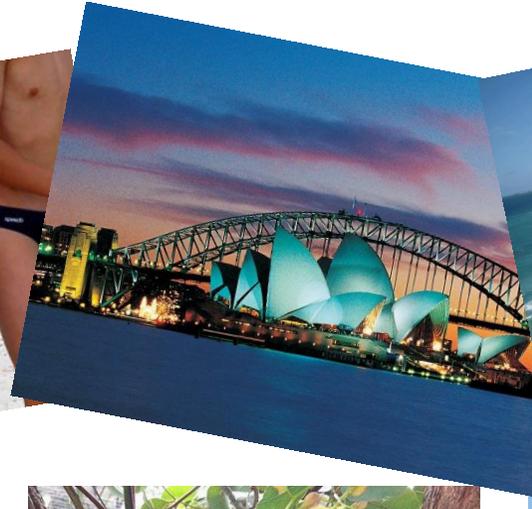


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Learning from the land down under



Why Australia?



MINIMUM
ADDITIONAL
LEVEL OF
INCOME AND/OR
GUARANTEED
LEVEL OF
INCOME



BROADLY
CONSTANT
REAL INCOME
FOR LIFE



FLEXIBILITY



CIPR

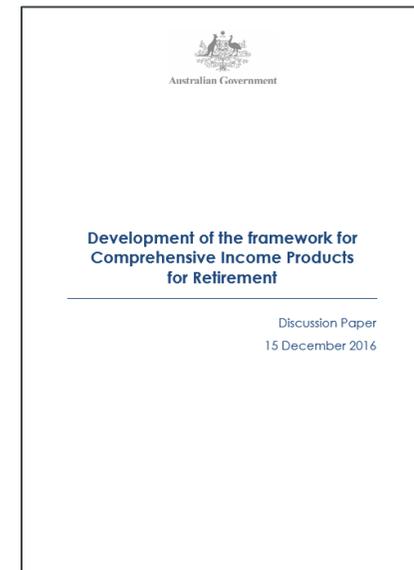


Why Australia?

- Australia has many parallels with the UK in terms of demographics and post-retirement funding systems
- Limited research completed in recent years comparing the UK and Australian systems
- Several recent and planned legislative and regulatory changes relating to post-retirement funding

Minimum annual retirement contribution levels

| Year | Australia | UK |
|---------|-----------|------|
| 2017-18 | 11.0% | 2.0% |
| 2018-19 | 11.5% | 5.0% |
| 2019-20 | 12.0% | 8.0% |



- **Why Australia?**

We will focus on relevant learnings from the Australian system comparing four aspects:

- post-retirement demographics
- funding of care
- insurance and other product solutions
- recent and planned government legislative and regulatory changes

Post-retirement demographics

- Ageing population
 - age 65+ projected to increase from 14% to 22% in 2061
 - age 85+ expected to more than double to 5%

Table 1: Old age dependency

| Year | Japan | USA | China | Australia | UK | Thailand |
|------|-------|-----|-------|-----------|-----|----------|
| 1990 | 17% | 19% | 8% | 17% | 24% | 7% |
| 2010 | 36% | 19% | 12% | 20% | 25% | 12% |
| 2030 | 57% | 32% | 25% | 31% | 34% | 26% |
| 2050 | 82% | 34% | 40% | 36% | 39% | 44% |

Source: US Census Bureau

- Life expectancy (M/F) at age 65 increasing (Source: OECD)

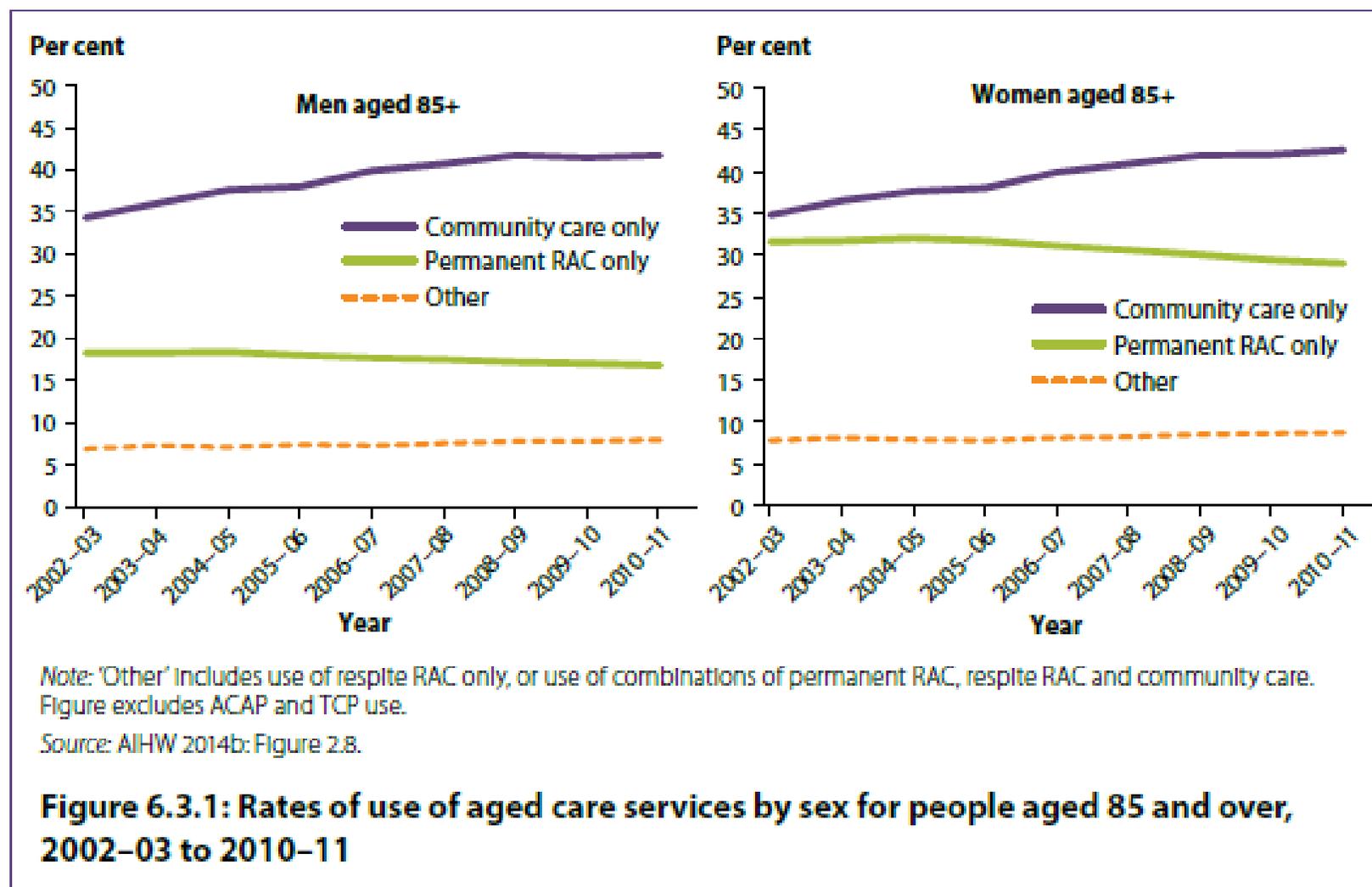
| | 2010 | 2014 |
|-----------|-----------|-----------|
| Australia | 18.9/21.8 | 19.4/22.2 |
| UK | 18.2/20.8 | 18.8/21.3 |

Funding of care in Australia



- National information centre launched in 2013
- Caps apply (figures at 20 March 2017)
 - Annual cap of \$26k and Lifetime cap of \$63k
- Means tested care fee - need an aged care assessment
 - All assets are included
 - Property disregard applies
- Basic daily fee pegged to Age Pension + accommodation payment (upfront bond or ongoing) + extra services fees

Funding of care in Australia



Legislative and regulatory environment

- Several key regulatory changes expected to encourage market for annuity-type products in Australia:
 - Government enshrined objective of superannuation to provide income in retirement to substitute or supplement the Age Pension
 - “CIPRs” (Comprehensive Income Products for Retirement) framework
 - Removal of impediments to deferred and group/pooled annuity products
 - Consultation on CIPR and MyRetirement products ends on 9 June 2017

Legislative and regulatory environment

PROBLEMS SEEKING TO BE ADDRESSED

OBJECTIVES OF CIPRS PRODUCTS AND THE CIPRS FRAMEWORK

Individuals are **self-insuring against longevity risk** and may be living more frugally in retirement than they need to

Increase individuals' standard of living by facilitating risk pooling – providing security of income for life and the potential for higher income in retirement



Individuals face a **lack of diversity and choice** in retirement income products, in particular an absence of products that efficiently manage longevity risk

Increase the availability and choice of products that efficiently manage longevity risk



The superannuation system is **not achieving its objective efficiently** due to its over-reliance on account-based pensions

Increase the efficiency of the superannuation system so that it can better meet its proposed objective

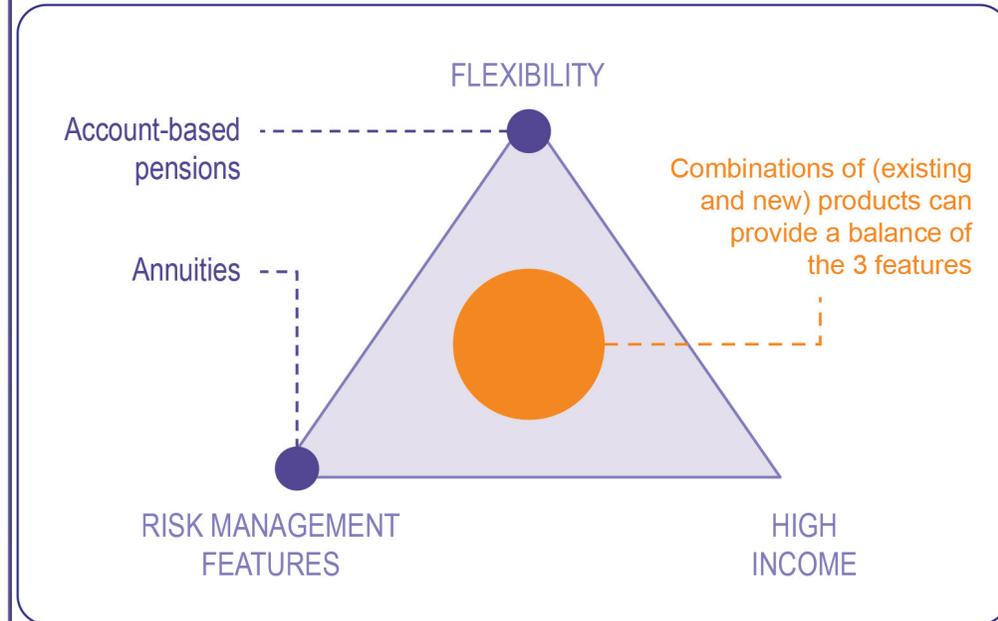
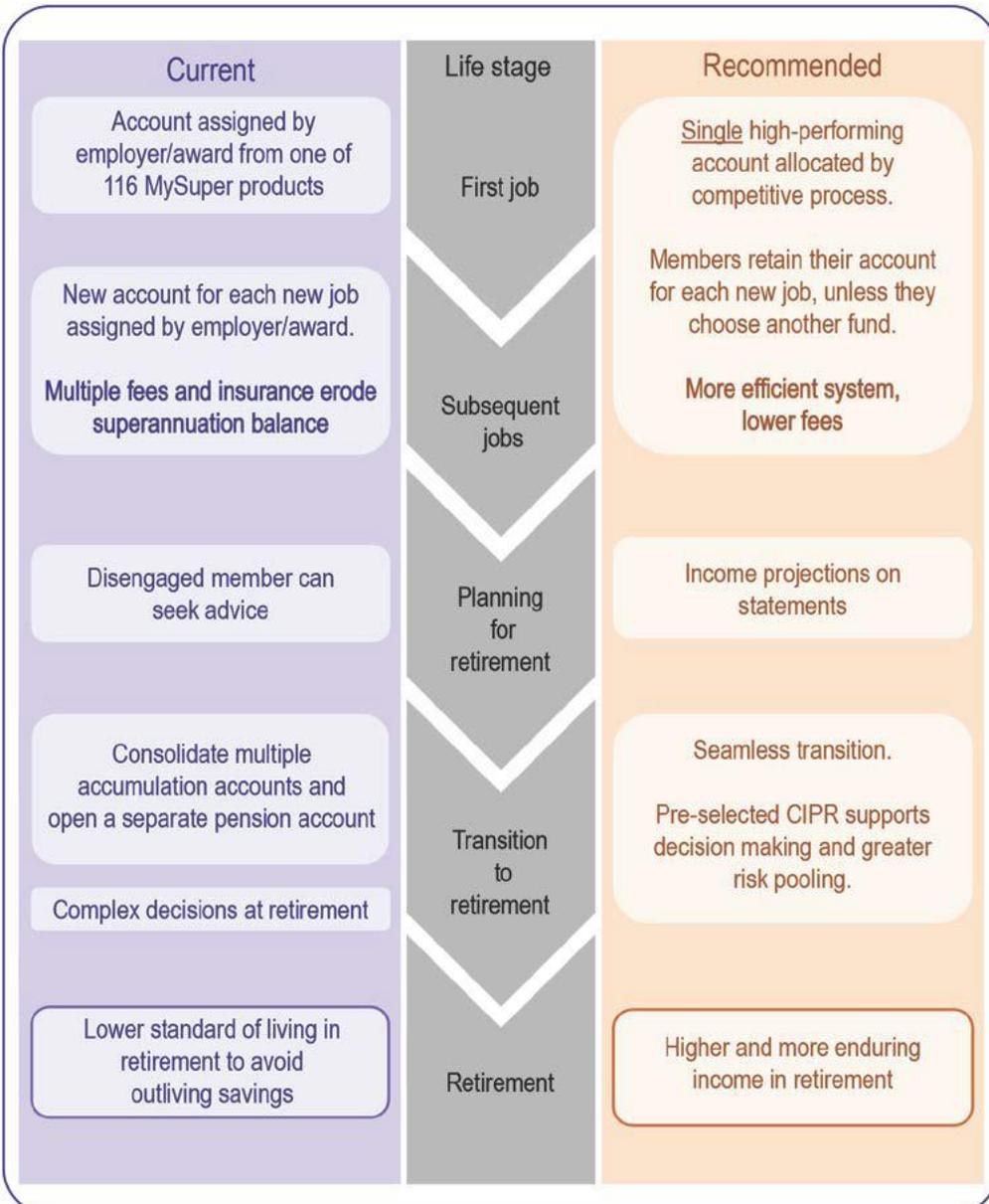


Individuals face **complex financial decisions**, a lack of guidance and behavioural biases at retirement but many are unlikely to seek financial advice

Empower trustees to provide members with an easier transition into retirement



Legislative and regulatory environment



Products

- Annuity market different direction of travel:
 - annuitisation levels 3% in Australia but rising
 - 75% in UK (pre-2014) and now 30% UK (Q3 2016)
- Retirement and care annuities now widely available on platforms and via industry superannuation funds
- Growing equity release market
- Deferred annuities likely to become popular
- Growing market for care insurance
 - Challenger's CarePlus annuity sales AUD 90m 1H17, +100% vs 2H16



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Over to you



Discussion points

1. What do you think will be in the Green Paper?
2. If the means test threshold changes to be £100k including property how will consumers behaviour change? What can insurers react?
3. What should change in the social care funding system?
4. How are pensions freedoms going to affect social care funding?
5. What are the barriers to product innovation in the LTC market?



Questions



Comments

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Appendix 1: Assumptions underlying the model

- Illustrations in the pack, unless stated otherwise, are based on:
 - Assumptions underlying our care cap model:
 - care costs based on Laing & Buisson report
 - survival rates based on PSSRU/BUPA Report on Length of Stay in Nursing Homes in England (2011)
 - all amounts inflated by 3.5% per annum
 - as cap increases, the percentage of the cap achieved remains constant
 - individuals choose to continue to make top-up payments even after cap is reached
 - Means testing model :
 - Income of £12,000 on entry to care equal to the personal expense allowance
 - Results focus on the impact of surviving 3 years in LTC

Appendix 2: Regional variations

Scotland:

- Free personal care for over 65s and free nursing care for all (at local authority rates).
- National deferred payment system.

Northern Ireland:

- Means tested benefits – lower limit is £14,250 and upper limit is £23,250

Wales:

- Means tested benefits at single 'capital limit' of £24k
- Greater integration of health and social care system

Regional variation in level of provision (eligibility criteria) and costs

- across jurisdictions
- within some jurisdictions

England:

Care Act 2015 proposals relate to England.

- New Charge Cap
- New deferred payment system.

