Funding Long-Term Care – Anticipating Needs and Improving Access to Insurance Products in the UK

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Agenda

Background
• The Dilnot Commission and the 2014 Care Act
• The burden of long-term care: drivers of demand and ability to pay

‘Prerequisites’ for long-term care product development in the UK
• The five “-ations”

Long-term care product experience
• Overseas long-term care products
• Past experience in the UK

Innovating long-term care products in the UK
• Potential product structures
• Potential approaches to managing long-term care risks

Conclusions
What are the costs of long-term care and who pays?

Care needs assessment

Financial needs assessment

Meet the needs criteria for local authority funding?

Yes

Means Tested: Eligible assets >£23,250?

Yes

Self-funding

No

No capital contribution
All income > £24.90/wk

Sliding scale capital contribution
All income > £24.90/wk

No

Eligible assets >£14,250

Attendance allowance – weekly benefit from DWP of £57.30 or £85.60
Cost of care

The cost of care varies by care setting:

- Domiciliary care can range from £4k to £36k a year
- Residential care - £32k a year
- Nursing care - £38k a year
- Private payer subsidy – costs £10k to £14k more a year if self funding vs state funding for same level and quality of care
- Care fee inflation increased in recent years as a result of introduction of National Living Wage

The Dilnot Commission

Key recommendations:

- The means-test threshold should be raised to £100k
- The total capital contribution should be capped at £35k.
- Annual living costs should be capped at £7k-£10k.
The 2014 Care Act

Sets out financial assessment rules and provides for a cap on costs (other than daily living costs).

Key omissions from this Act are:

- The lack of a specific amount for the cap on capital contributions over an individual’s lifetime (The provision allows a minister to specify this in the future)

- The lack of a deadline for the introduction of this cap on contributions (or any rules regarding revaluation of this cap in the future)

- The lack of any cap on or guidelines regarding daily living costs

Aggregate demand for long-term care in the UK

Demographic changes and prevalence of cognitive impairment at high ages is driving increased demand for long-term care.

Change in population (2018 to 2048)

Projected UK Dementia Sufferers

Assumes constant prevalence by age band

Source: Willis Towers Watson modeling
Ability to pay for long-term care

Changes in wealth in retirement will mean reduced ability to pay for long-term care:

- Decreasing house ownership and retirement income
  (e.g. no windfall from rapid growth in property values, fewer DB pensions)

- Increasing levels of personal debt (including non-mortgage credit)

- Smaller pension pots at retirement and tendency to spend, not save (esp. post pension freedoms?)

- Requirement for care starts later in life (more assets consumed already) and may last longer

- Increase in cost of long-term care outstripping earnings inflation?

Constraints on state ability to pay (1)

Cost of providing healthcare and pensions to increase dramatically – squeeze on other public services

Average annual cost to NHS per patient by age/gender
(assumes 4 GP visits per year, Nuffield Health, 2018)

Expected cost of NHS provision at 2% inflation (£billions)
Constraints on state ability to pay (2)

Cost of providing healthcare and pensions to increase dramatically – squeeze on other public services

Projected cost of UK state pension per annum

- **2018**: £50 billion (No Inflation)
- **2048**: £200 billion (Total Pension Costs - Triple Lock Inflation)

**23% increase due to demographic changes alone**

- **Combined cost projection for NHS and state pensions**
  - Additional c. £9 billion each year for 30 years to simply maintain current provisions

Source: Willis Towers Watson modelling

Constraints on state ability to pay (3)

GDP growth / tax revenues challenged by shrinking labour force and stagnant productivity per worker.

- **Change in labour force (effect of migration)**
  - 2018: 95%
  - 2048: 85%

- **Real-terms GDP Per hour Worked** (Index, 2010 = 100)
  - 1970-1987: Average 0.8% productivity growth p.a.
  - 1987-2007: Average 1.0% productivity growth p.a.
  - 2007-2017: Average 0.2% productivity growth p.a.

Source: OECD
https://data.oecd.org/pobj/gdp-per-hour-worked.htm

Source: Willis Towers Watson modelling
So what …?

Key conclusions from these projections are:

• Costs of care likely to increase – more elderly people with increasingly complex needs

• Public purse likely to be squeezed – not clear that social care will be funded to the same level

• Disposable income / savings may decrease (e.g. if taxes are raised to fund public services)

• It’s likely that demand for protection from care costs will increase

‘Prerequisites’ for long-term care product development in the UK
**Legislation**

Need for clarity on what the state funded social care regime will be going forwards

- products can be designed to meet consumer needs that remain
- greater certainty of level of demand from consumers
- consumers will also have greater clarity of their needs

Government policy is confusing and that is causing problems...

- 61% are confused about care policy
- 67% don’t know the level of assets they can own above which they must pay their own costs
- 52% are delaying making financial plans about care until new rules have been introduced

Source: Care Report 2017, Just

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**Standardisation**

The Care Act 2014 introduced a national eligibility standard. The person will have eligible needs if they meet all of the following:

- they have care and support needs as a result of a physical or a mental condition
- because of those needs, they cannot achieve **two or more** of the outcomes specified
- as a result, there is a significant impact on their wellbeing
- Outcomes include common activities of daily living:
  - Managing and maintaining nutrition
  - Maintaining personal hygiene,
  - Managing toilet needs,
  - Being appropriately clothed,
  - Maintaining a habitable home environment,
  - Being able to make use of the adult’s home safely...
Education

• There is a requirement under the Care Act for local authorities to ensure people can “get the information and advice they need to make good decisions about care and support”.

• However, 20% of people surveyed by Just believe the Care cap is already in place and 58% didn’t know.

• It is clear that without a well informed general public there is very little chance of them making financial plans that allow for the cost of care appropriately.

Taxation

• To encourage private provision for long term care costs through savings or insurance there needs to be some form of tax incentives

• The current means tested system means that for every £1 saved towards care costs it can lead to an 80p reduction in benefits*

• Better private planning for potential care needs in retirement means

→ less burden on the state later, potentially offsetting any lost tax revenues from incentives offered earlier

Innovation

- Need to find innovative solutions to:
  - Overcome the lack of clarity in regulations / future certainty around costs of care provision
  - Prevent long-term care from being a “point-of-need” consideration.
  - Spread the burden across multiple providers.

- Need to engage in reducing the risk, not just indemnifying it.

- Need to work with the LTC sector to provide cost-effective care and gain offsetting care profits if LTC claims are high.

- Need to overcome the stigma of poor product performance in the past.

Long-term care product experience
Past-experience of LTC products launched in the UK

The last UK provider (Just) of pre-funded long-term care insurance withdrew from the market in 2010 citing a lack of demand.

The paper ‘Gone for Good? Pre-funded insurance for long-term care’ (The Strategic Society Centre) notes the following key issues:

- Uncertainty around care needs and mental discounting of the risk of requiring care
- Uncertainty around future state provision and assets versus means test thresholds
- The cost of protection and relative value of protection against other risks
- Distrust of insurers and shortage of qualified IFAs
- Belief that you can get around means testing by off-loading your assets prior to requiring long-term care.

Overseas long-term care products (1)

USA/Canada: “Long-term care insurance” (which can actually mean a range of things)

- Typically RP policies: sum assured can be drawn on when triggers related to ADLs are met:
  - May cover:
    - Home adaptations to support independent living
    - Home-based care or assisted living arrangements
    - Day-care services outside of the home
    - Nursing home residence
  - Common features:
    - Multiple claims allowed (if triggered) up to aggregate value of sum assured
    - ‘Guaranteed renewable’ if premiums are paid and benefits not exhausted, policy cannot be terminated by the insurer.
    - Indexation of premiums over the policy lifetime.
    - Option to make the policy paid-up with a consequent reduction in the maximum benefits payable.

  Can also exist as a rider – accelerating (on an indemnity basis) a proportion of life assurance product benefits in the event of a long-term care trigger
Overseas long-term care products (2)

USA: Nursing home “Doubler”

- Annuities with an additional benefit triggered upon needing institutional (or possibly at-home) care:

  - The benefit doubles on meeting the specified trigger, typically for a limited period, e.g. 5 years.
  - Initial annuity payment slightly lower for the same premium.
  - The maximum payment period may affect a small proportion of policy holders.

- Typical triggers
  - Impairment of ability to perform a specified number of ADLs.
  - Diagnosis of a severe cognitive impairment (where ADL performance impairment would be expected).

Summary of common structures seen

[Not to scale]

- LTC Insurance
- Policy Inception e.g. age 65
- Retirement
- Care home
- Annuity + Rider

- Premiums
- Benefits

No detailed underwriting required (for standard annuities) if no benefit is payable in a deferred period.
Existing / recently-launched products in the UK

- Care plan (launched 1995)
  - Immediate or deferred needs (up to 5 years) annuity
  - Lifetime level or indexed income paid tax free
  - Medically underwritten at point of need.
  - Capital protection up to 75%

- Care rider on Whole of Life Assurance (launched 2014)
  - Accelerates part of the life cover after a needs-based assessment up to £250k.
  - Focus on degenerative illnesses, e.g. Alzheimer's, Dementia, Parkinson's; also covers against impact of strokes.

- Assisted living insurance (launched 2017)
  - Choose either £20k or £30k of fixed cover (not indemnified)
  - Pays an 'Assisted Living Allowance' up to £1,000 a month, needs-based assessment
  - Pays up to £10,000 as an 'Assisted Devices Allowance'
  - Pays up to £2,000 for respite care

- Buy to let lifetime mortgage
  - Can release between £10k and £750k
  - Borrower can use funds released to pay for residential care

- Regular drawdown
  - Can drawdown from £200 a month to supplement retirement income, which could be used to pay for domiciliary care costs
Innovating long-term care products in the UK

Thoughts on novel product structures

Flexibility needed:
- Legislative change
- Care Act 2014 caps
- Local authority contributions
- Means testing changes

Certainty needed:
- Level of protection provided
- What happens if means testing and caps change?

Marketability:
- Easily understandable
- Seen as good value for money
- Must be IFA-friendly

Cost and quality management:
- Trigger framework
- Investment choices
- Strategic partnerships in LTC industry.

Not just a life insurance industry question: other options exist
A with-profits-like LTC protection product

FUND A: Unit Linked
Investment including LTC providers and LTC-related product developers

Premiums for LTC
LTC profit’ dividend

With-profits-like structure allows flexibility to deal with regime changes.

Claims
Fund A + Fund B on death
Agreed cap on LTC claims reflected in the premium.

FUND B: ‘LTC Units’
Units initially zero-valued

In event of a reduction in the care cap or an LTC risk profit, their value increases.

If unit value is non-zero, a ‘dividend’ is paid back to the policyholder after age 75 (say).

On death, the value of the LTC units can be paid as a terminal bonus.

Guaranteed Care Fees Annuity Options

Pension pot (minus premium for guarantee)

Drawdown account

Guaranteed rate on surplus in drawdown account up to pre-agreed cap

LTC Trigger

Protection against reductions in mortality for those in care (which would reduce the rate of an immediate needs annuity)

Normal withdrawals over time
Defined benefit long-term care packages?

<table>
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<tr>
<th>DB Pension Schemes</th>
<th>DB LTC Schemes</th>
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<tbody>
<tr>
<td>Starts at retirement for (almost) all employees</td>
<td>Starts far later in life for only a proportion of employees</td>
</tr>
<tr>
<td>Duration of payment likely to be many years</td>
<td>Much shorter expected period of payment</td>
</tr>
<tr>
<td>Relatively high expected cost to the employer</td>
<td>Relatively low expected cost to the employer</td>
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Salary / period of service link → Not an indemnity
Bulk LTC cover could be provided by insurers

Managing the risks of providing long-term care cover - Strategic investments

Option 1: Providers of long-term care
- Residential / nursing homes
- Home-based-care providers

Option 2: LTC tech developers
- Robotic aids / mobility tools
- Home modifications

Option 3: Healthy retirement
- Smart-home diagnostic devices
- Pharmaceuticals targeting main causes of LTC requirements
Managing the risks of providing long-term care cover
- Specified providers of care

- Fixing costs in advance
- Giving security to care-home providers
- Restricting user choice?
- Possible discounts on non-residential care?
- What if the providers' facilities are already full?

Conclusions
Conclusions

• Demand for care is increasing at a time when public funding for care is being squeezed.

• The Care Act has left significant uncertainty around future individual liability for care costs.

• Public understanding of LTC costs is limited, so preparation for these costs is sparse.

• Nor is there (currently) a favourable tax environment to encourage saving for LTC costs.

• We need innovative products and cross-sector co-operation to provide insurance-based solutions and to better manage the risks arising from long-term care products.

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