



Institute
and Faculty
of Actuaries

The Future of Social Care funding – Who Pays?

IFoA Pensions and LTC Working Party
Products Research Group

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

November 2016



The Working Group and the IFoA Support

Working Group Members

- Tom Kenny (chair)
- Ailsa Dunn
- Jerry Barnfield
- Ben Rickayzen
- Audrey Teow
- Linda Daly
- Jesse Haines
- Pdraig O'Maille
- Wendy Beaver

IFoA Support Team

- Rebecca Deegan
- Steven Graham
- Catherine Burtle



Background to the paper

- Products to support Social Care funding
- Case studies
- Proposed Care Cap and probability of reaching it
- Means testing impact on incentive to save

3

The Social Care Landscape

The State



- Aware of the need for reform but reluctant to make irreversible decisions on social care
- Government spending cuts likely to impact

Individuals



- Complexity of funding needs
- Costs met in whole or in part by the individual
- Reluctant to fund in advance

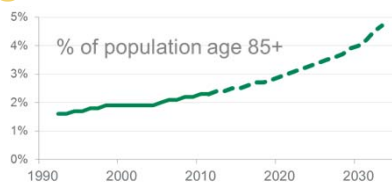
Insurance companies



- Uncertainty about future Government decisions
- Reluctant about devoting time & money

Changing market dynamics

- Demographic shift leading to more people living into old age



- It is estimated that there will be over 2 million suffers of dementia by 2015

- The National Living Wage could lead to a c35% increase in staff costs to 2020



- Technology may play a role in allowing people to remain at home for longer

5



Institute
and Faculty
of Actuaries

LTC Products



Immediate and deferred needs annuities

- Immediate needs annuities are the most popular insurance option for funding long term care
 - Purchased on entering care
 - Lump sum up front provides guaranteed income until death to pay for care needs
 - c£150m market, with average c£100k premium
- Deferred option is cheaper but less popular since risk of no payment

7

Accelerated whole-of-life policy for LTC

- Whole-of-life with LTC rider
- Death benefit reduced by any LTC payment
- Attractive to people wanting life cover, but with peace of mind over unexpected LTC costs
- Lower risk way for insurer to enter LTC market

8

Equity release

- Commonly in the form of lifetime mortgage
 - Homeowner receives lump sum in return for charge against property
 - Loan (plus interest) repaid on sale of home
 - Individual lives in property until death or entry to care home
- Usually a guarantee that loan repaid \leq % of sale proceeds



9

Possible product innovations



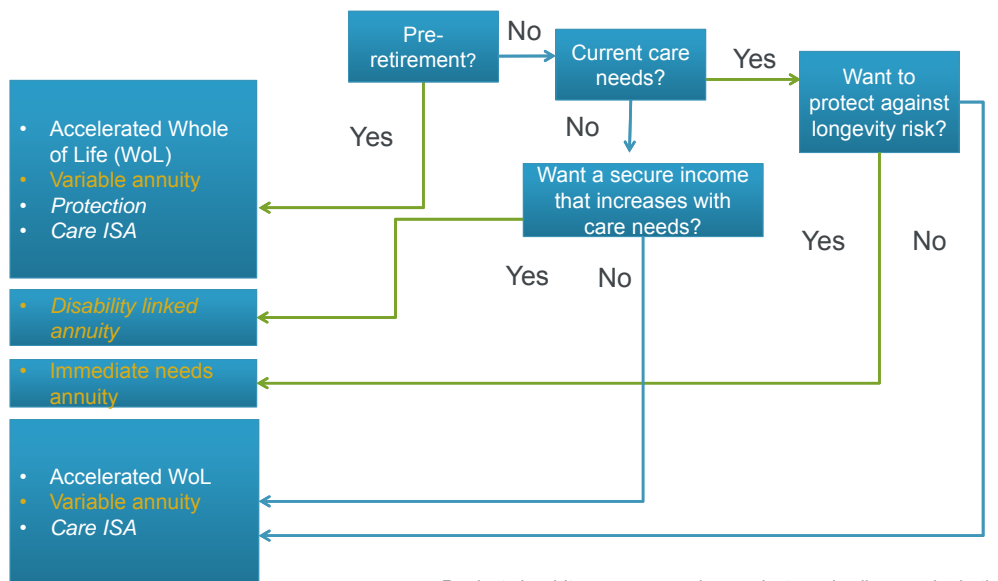
10

Disability-linked annuity

- Pays standard annuity while policyholder in good health
 - but much higher level(s) should LTC be required
- Greater access to pension lump sum could make DLA more affordable
- Could be more interest in DLA which pays nothing while individual in good health?

11

LTC Product Decision Tree



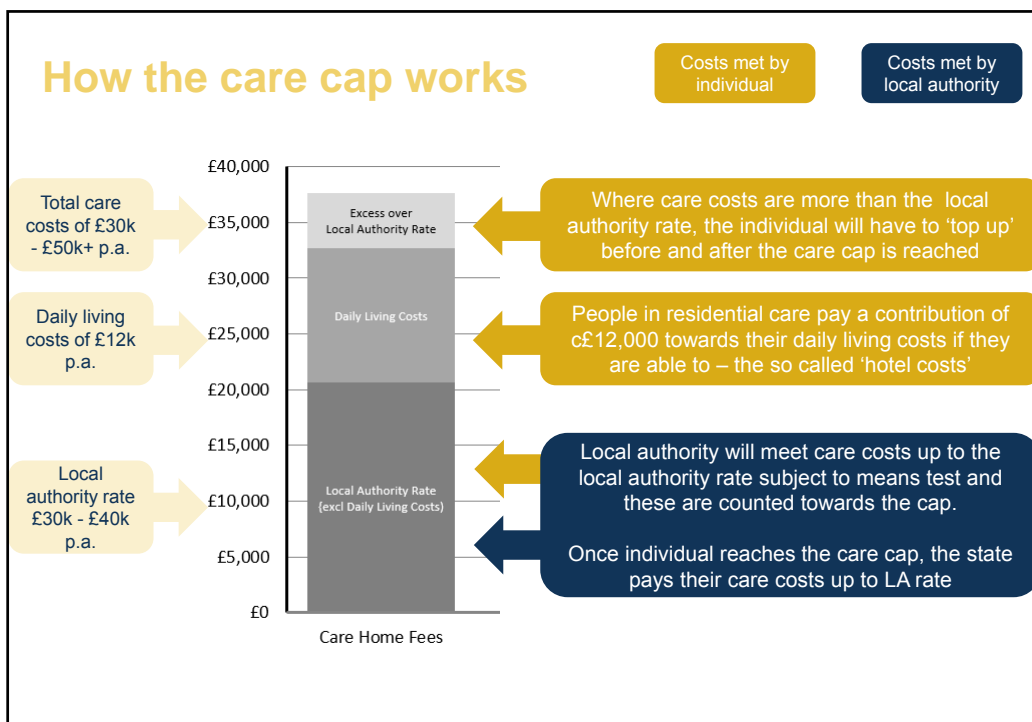
- Products in white are non-pension products and yellow can be both
- Products in italics are not currently available in UK market.



A complicated system

- The Care act 2014 introduced a Care Cap that will be in force from 2020
- Means tested system operated by local authorities
- Misconception that the social care system is an extension of the NHS
- Complexity of the system means widespread misunderstanding about split of costs
- Regional variations exist in provision (who qualifies) and costs





Example - Susan

- enters a care home costing £32,649 p.a.
 - of which £12,000 p.a. are daily living costs which don't count towards care cap
- qualifies for the NHS-funded Allowance but not attendance allowance



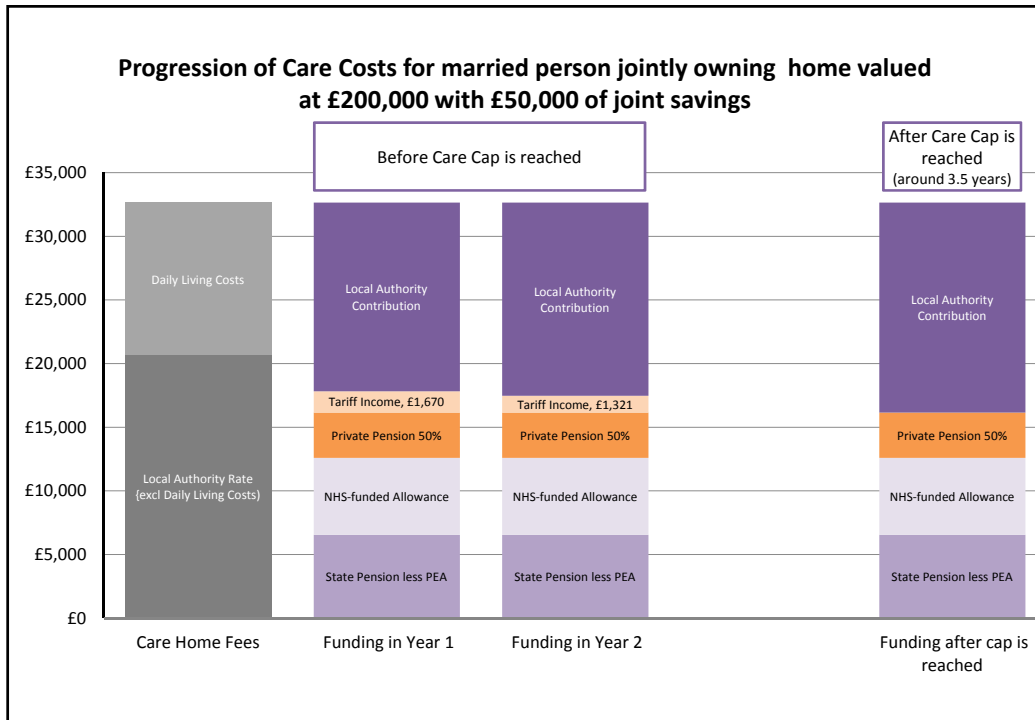
- pension income of **£21,000 p.a.** (State Pension, Private Pension and NHS-funded Allowance)



- Married with combined savings of **£50,000**



- Home is owned jointly and valued at **£200,000**



Example - Mary

- enters a care home costing £42,984 p.a. comprising:
 - £32,649 p.a. Local Authority set care costs (of which £12,000 p.a. are daily living costs which don't count towards care cap)
 - £10,335 p.a. additional top up costs



- pension income of **£21,000 p.a.** (State Pension, Private Pension and NHS-funded Allowance)



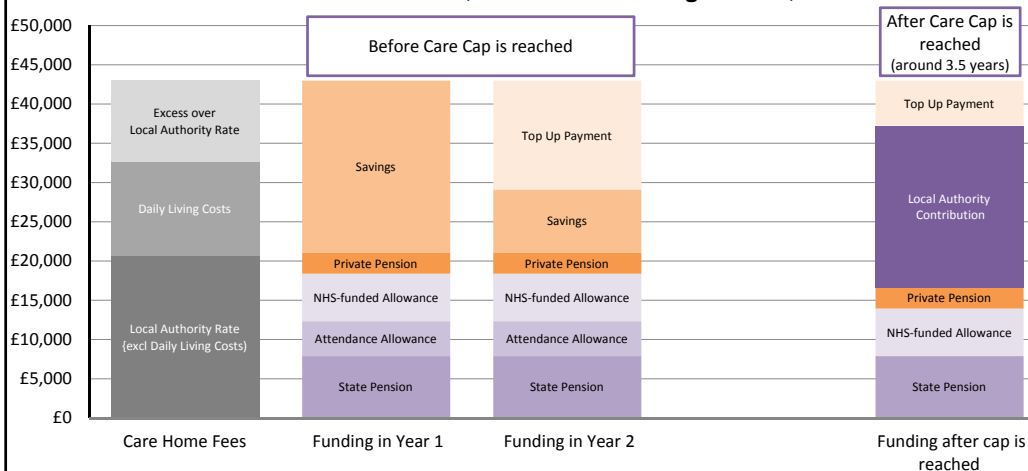
- Single with savings of **£30,000**



- Home is owned and valued at **£200,000**

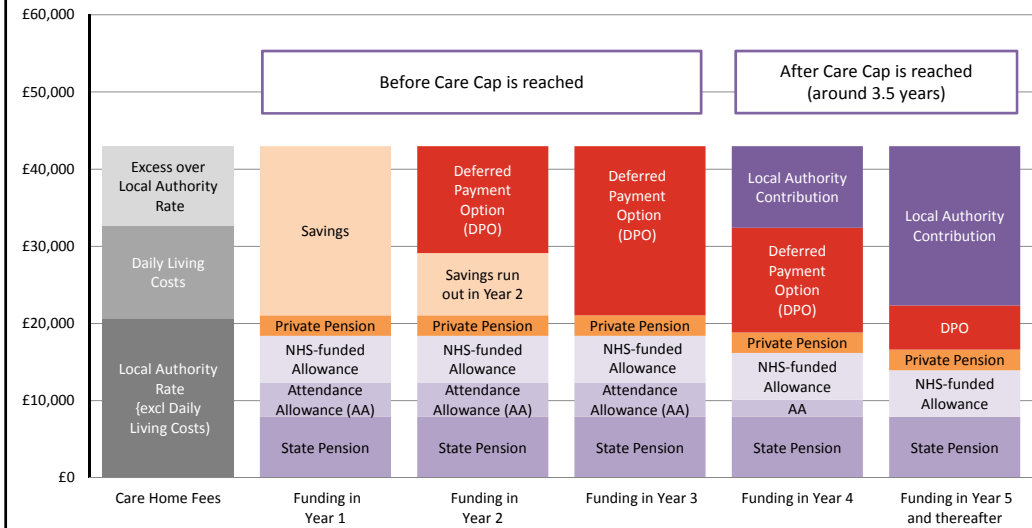
Mary uses Top Up Payments

Progression of Care Costs for a single person owning a house valued at £200,000 and with savings of £30,000



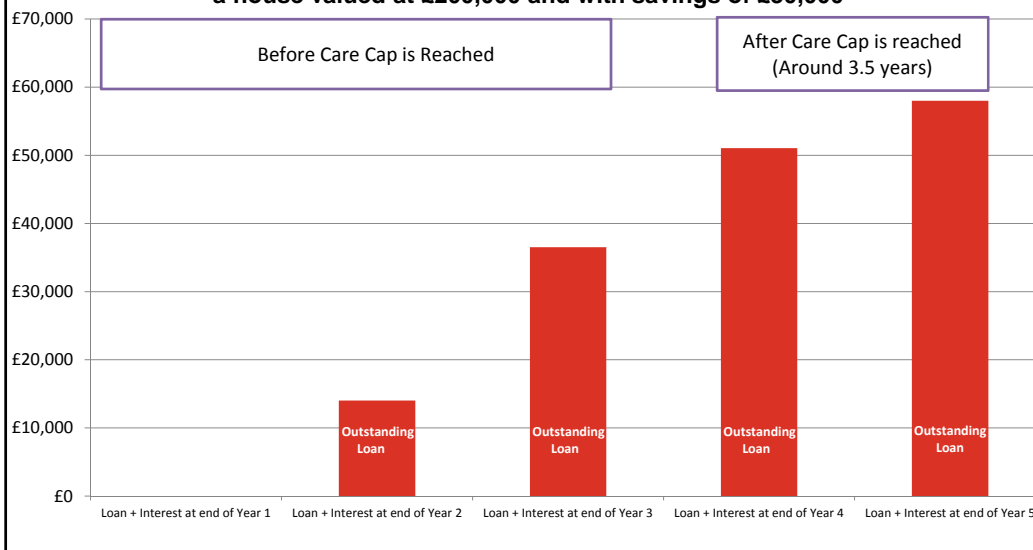
Mary uses the Deferred Payment Option

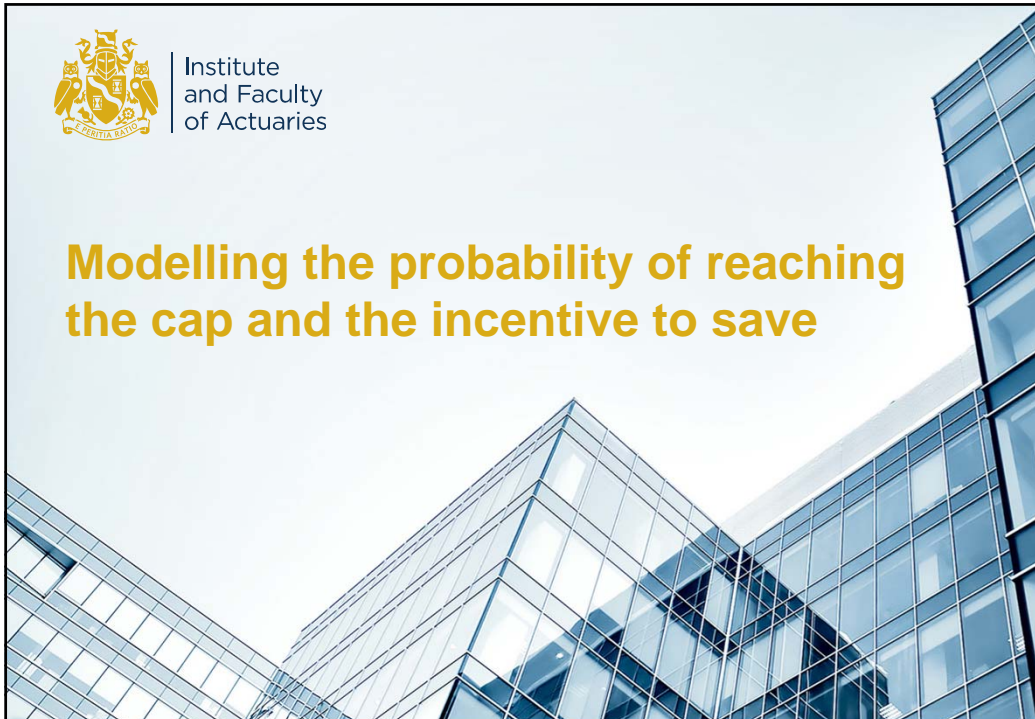
Progression of Care Costs for a single person owning a house valued at £200,000 and with savings of £30,000 using the Deferred Payment Option



Mary uses the Deferred Payment Option (cont'd)

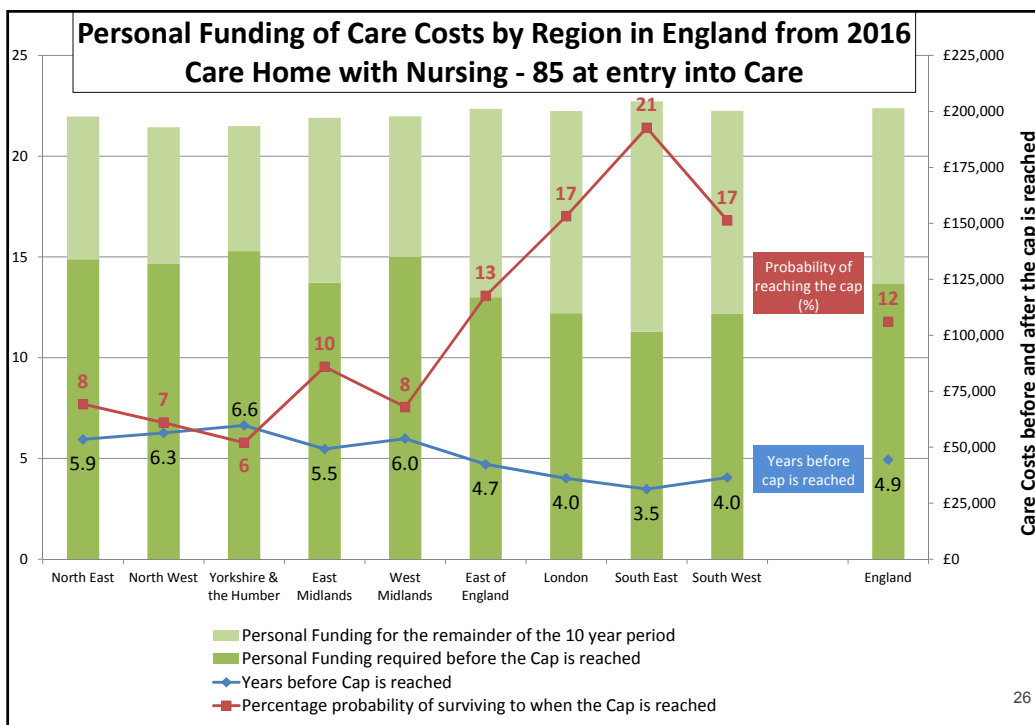
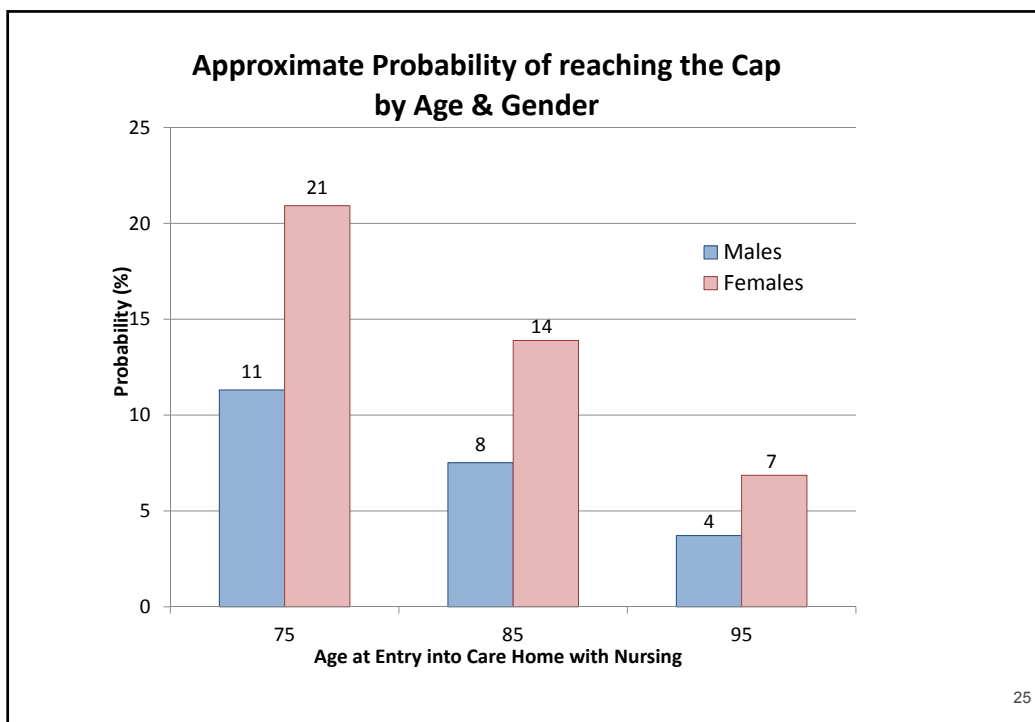
Progression of Deferred Payment Loan for a single person owning a house valued at £200,000 and with savings of £30,000





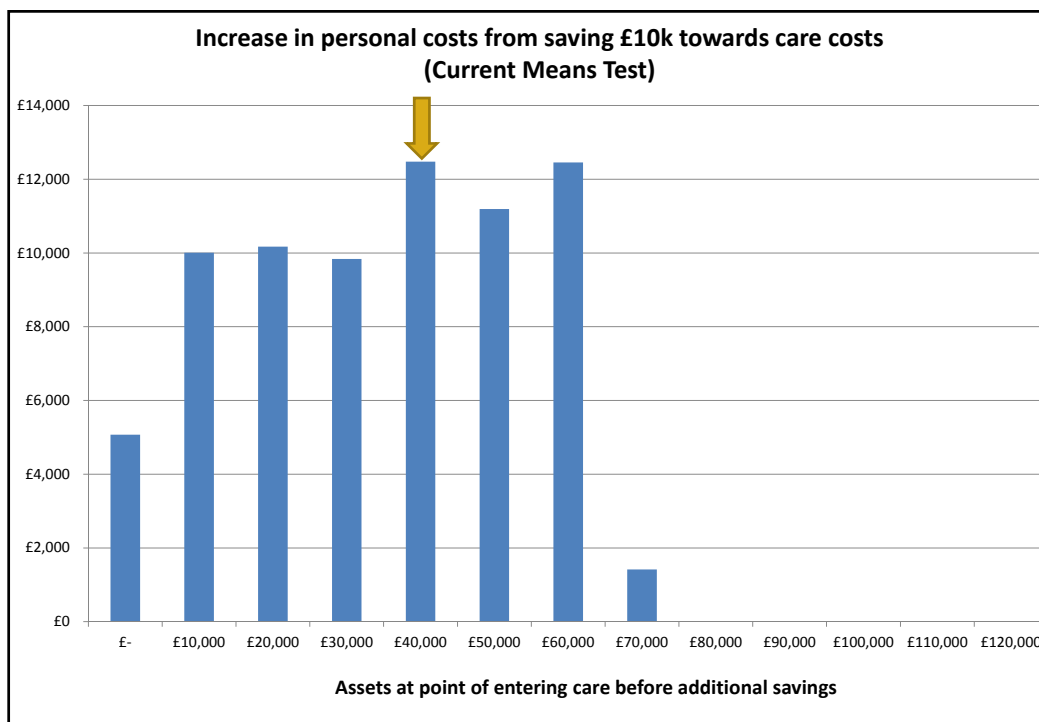
Data and assumptions

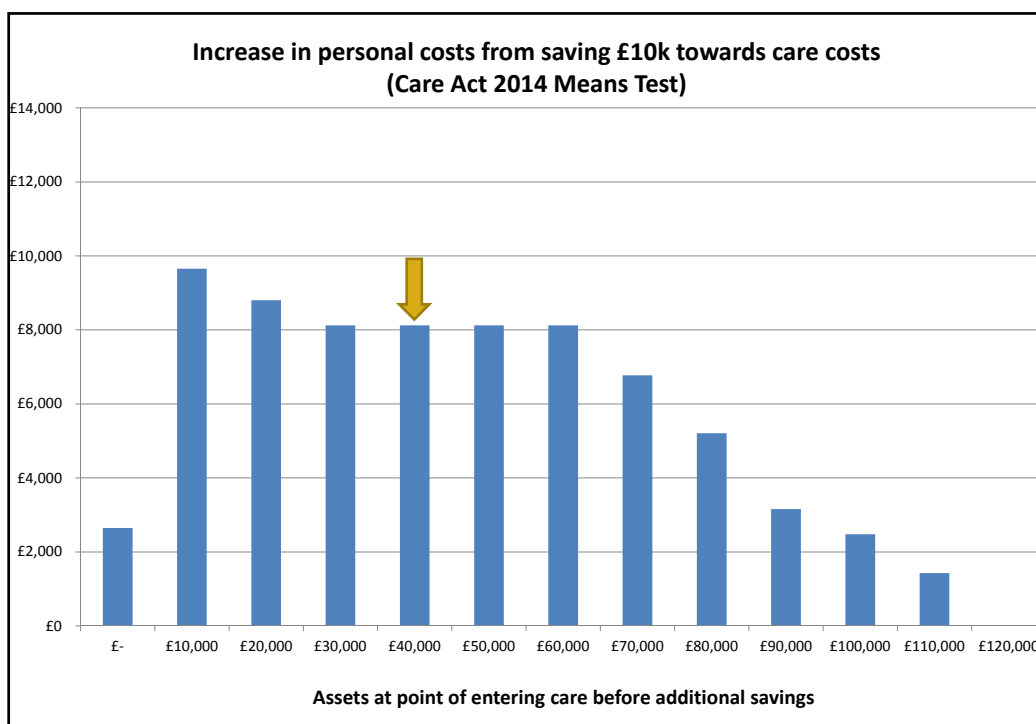
- care costs based on Laing & Buisson report
- survival rates based on PSSRU/BUPA Report on Length of Stay in Nursing Homes in England
- other assumptions
 - all amounts inflated by 3.5% per annum
 - as cap increases, the percentage of the cap achieved remains constant
 - individuals choose to continue to make top-up payments even after cap is reached



Incentive to save

- one of the major challenges to address is the incentive to save for potential future care costs
- a major reason why individuals save for LTC needs is so they can influence the type or quality of care they receive
- our model demonstrates that the current means testing approach is a disincentive to saving
 - Care Act 2014 is an improvement
 - further changes should be considered





Conclusions

1. It is still too early to understand exactly how individuals will respond to the pensions freedom and choice agenda
2. The care funding system is very difficult for people to understand - the proposed changes in 2020 make it even more complicated
3. The current means testing system can cause a disincentive to save with an effective 'tax rate' of over 100% for some people!

Discussion points

1. What are the barriers to product innovation in the LTC market?
2. How are pensions freedoms going to affect social care funding?
3. Is the Care Act going to be implemented in 2020?





Questions



Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the IFoA .