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A private-public partnership model for funding long term care in the UK

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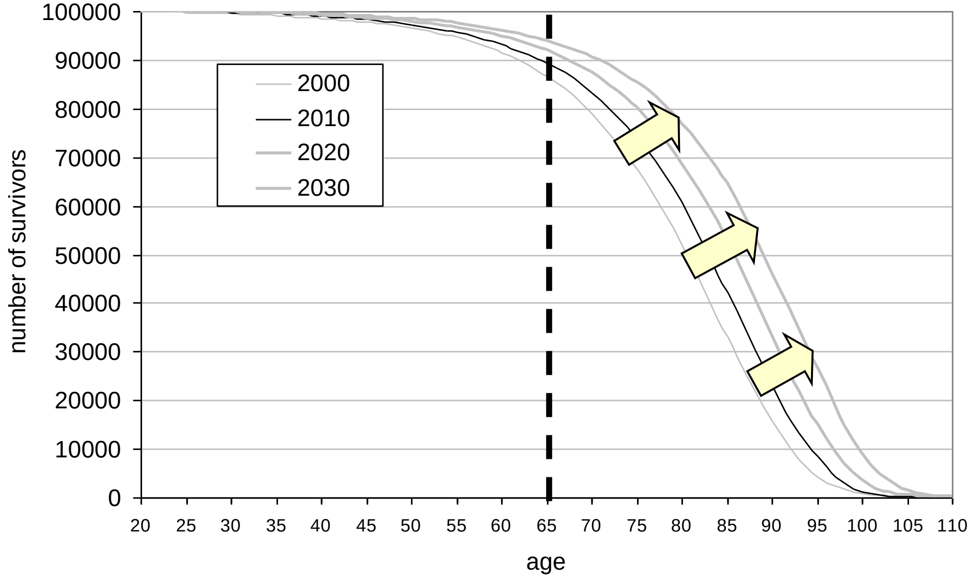
Outline of talk

- Context
- Consider income/assets of population age 65+
- Consider different LTC funding solutions for people with different circumstances
- Show how these products would operate with the State and how the poorest in society could be protected
- Provide examples and suggest how the system could be implemented

Strategic issues arising



Squeeze on public sector funding, higher state pension age, requirement to work longer plus demographic changes

equals

shortage of carers

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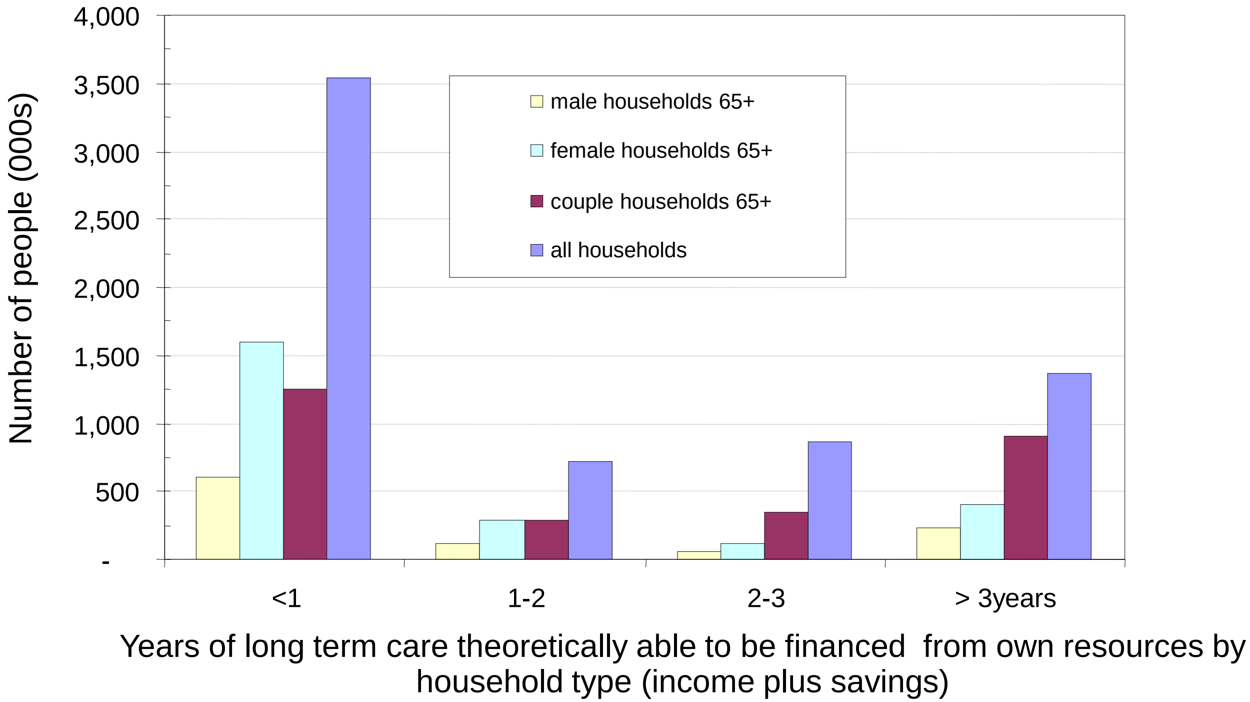
Peculiarities about the UK

- Very wide distribution of wealth and income
- LTC system is opaque and complex
- Only the poorest and neediest get any help
- Depends on where you live whether you get help
- Different system in Scotland
- In Northern Ireland health and social care integrated but not in rest of UK

Affordability of long term care based on income and savings by household type

Only 400k out of 6.5m 65+ households can afford institutional care for more than *1 year* on the basis of income alone, but this increases to 3m if savings are included



Assumed cost of LTC £500 per wk.

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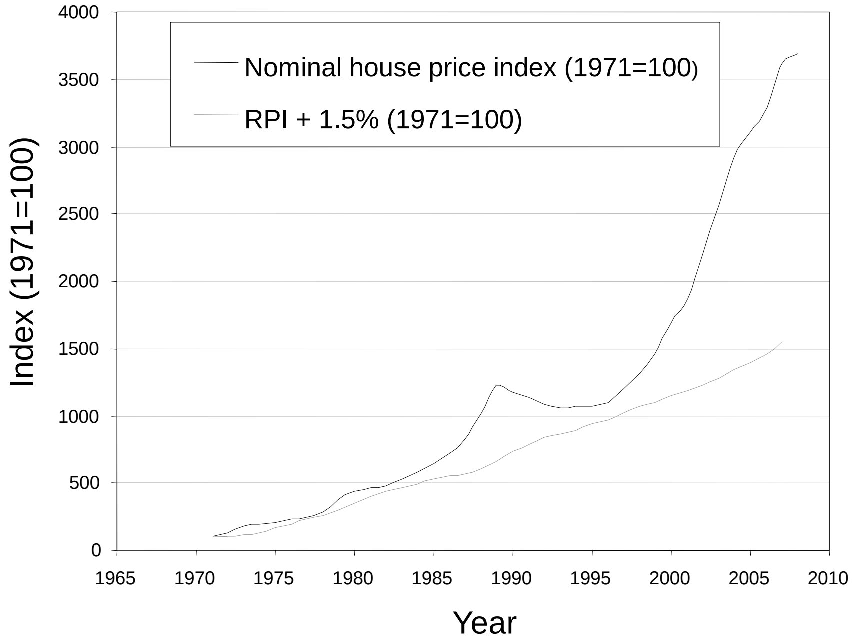
House prices versus RPI



House prices versus RPI:

Chart shows how house prices have moved relative to the RPI. In 1971 the value of a house would have roughly pay for 3.7 years worth of care. In today's prices it would pay for approximately 8.8 years.

But not everybody will wish to sell up…

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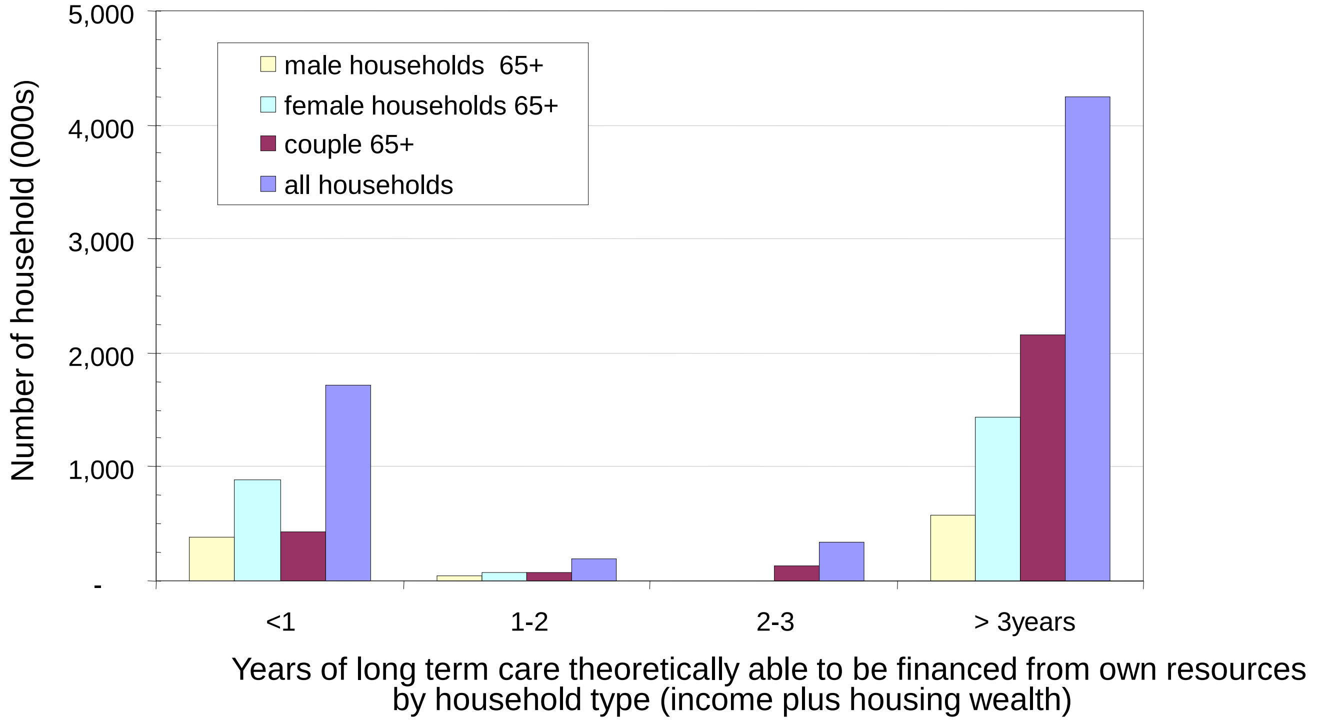
Affordability of long term care based on total wealth by household type

If housing wealth is included then 4.6m households could afford care for more than *1 year*



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How to mobilise private finance

3 classes of product: ‘point of need’, ‘point of retirement’, ‘any time’

- Equity release products
- Immediate needs annuities
- Top up insurance
- Accelerated life insurance
- Disability Linked Annuities
- LTC bonds

No one product will suit all needs or personal circumstances, so a variety of products and financing mechanisms are proposed

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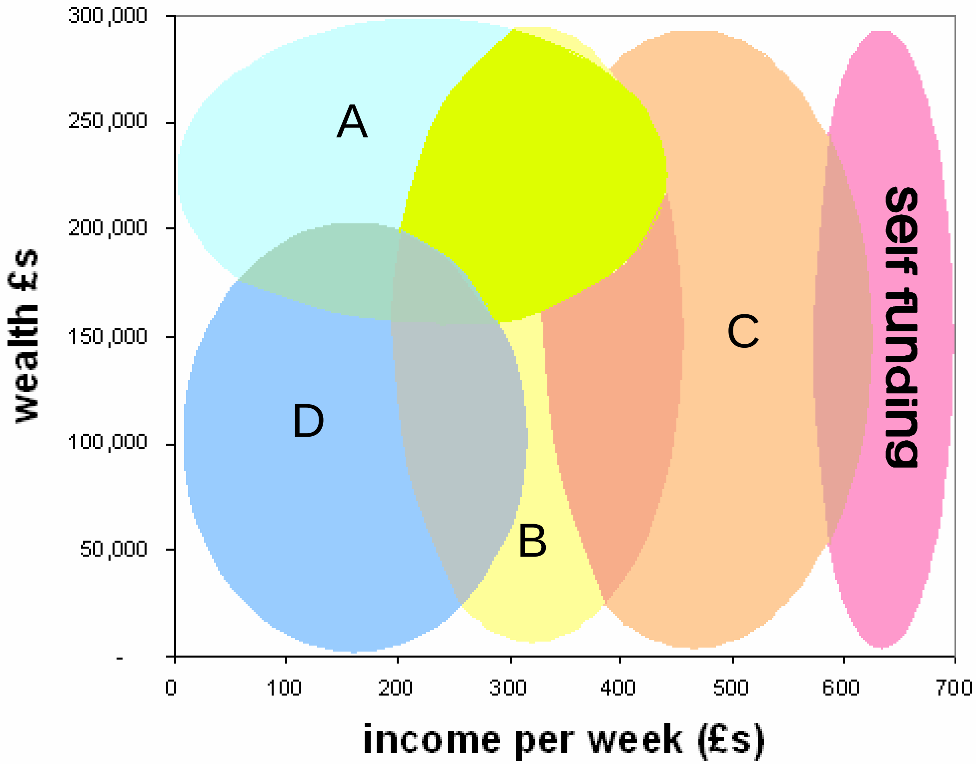
Why LTC bonds?

- There is a large population that cannot afford any LTC
- Would pay out only if LTC needed, otherwise go to estate or pay for funeral expenses
- Would pay monthly prizes e.g. like premium bonds
- Would accrue interest just as in a bank
- Evidence tells us that people on low income buy premium bonds, lottery tickets etc.
- Would at least be a contribution and would attune the population to saving for care in old age

What is the market?
Income-wealth map and market penetration



Key
A= Equity release
B= Top up insurance
C= DLA
D= LTC bonds

Something for everybody…………

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Interfacing products with means testing

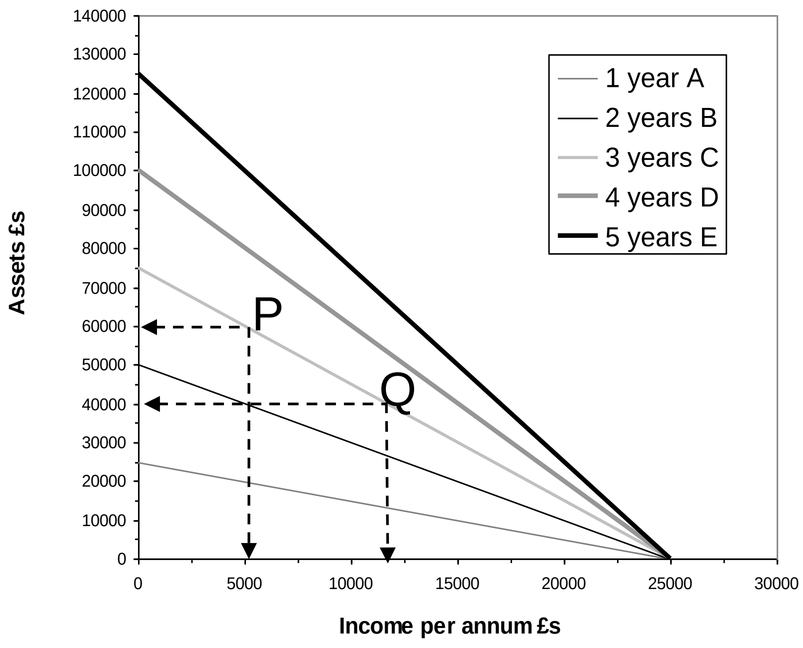
- Current system too complex and not equally applied
- Disincentive to save and deters low cost private finance solutions
- Unfair because people just above the threshold have no state support or limited means to insure against risk
- It's not what people want! (Green Paper consultation)

Principles underpinning new system of public support

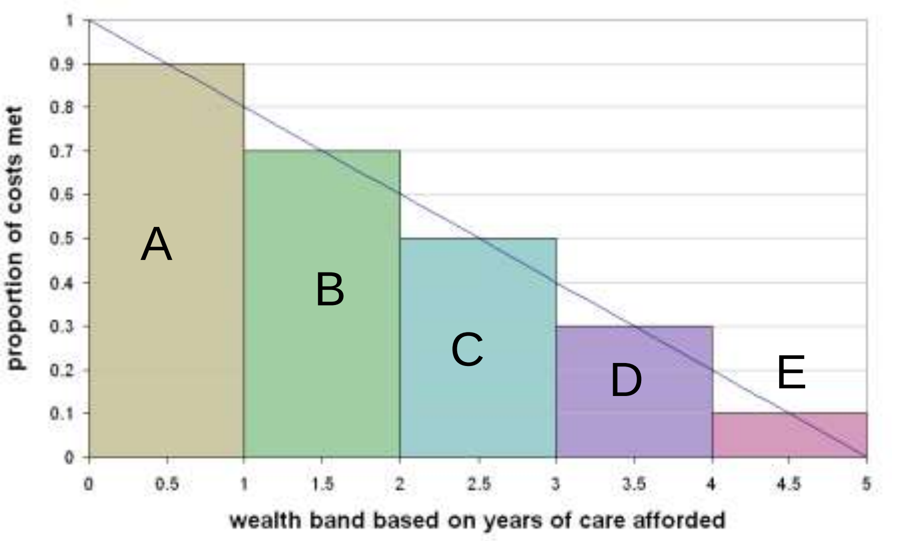
- All people should receive something unless they are fully self-financing
- It should be based on income and assets
- It should not dis-incentivise people to save or purchase products
- It must be fair and transparent!
- It should be affordable in terms of public expenditure

Proposed system

Stage 1



Stage 2



1. People are placed into 'wealth bands' according to the years of LTC they can afford based on both income and assets.
2. People needing LTC receive a proportion of their LTC costs based on which band they are in as shown in example

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Example

- Assume value of the state pension and other benefits is worth £10k per year and that care costs £25k a year.

- Based on the rates shown a person in each band would receive:

  - A: £13.5k (£25k-£10k) x 0.9 shortfall £1.5k
  - B: £10.5k (£25-£10k) x 0.7 shortfall £4.5k
  - C: £7.5k (£25k-£10k) x 0.5 shortfall £7.5k
  - D: £4.5k (£25k-£10k) x 0.3 shortfall £10.5k
  - E: £1.5k (£25k-£10k) x 0.1 shortfall £13.5k
  - >E nothing (£25k-£10k) x 0.0 shortfall £15.0k

Rates are illustrative and actual rates would need to be affordable in public expenditure terms

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Case studies

Assets	Mrs White	Mr Black
House	40,000	0
Savings	6,000	25,000
Total	46,000	25,000

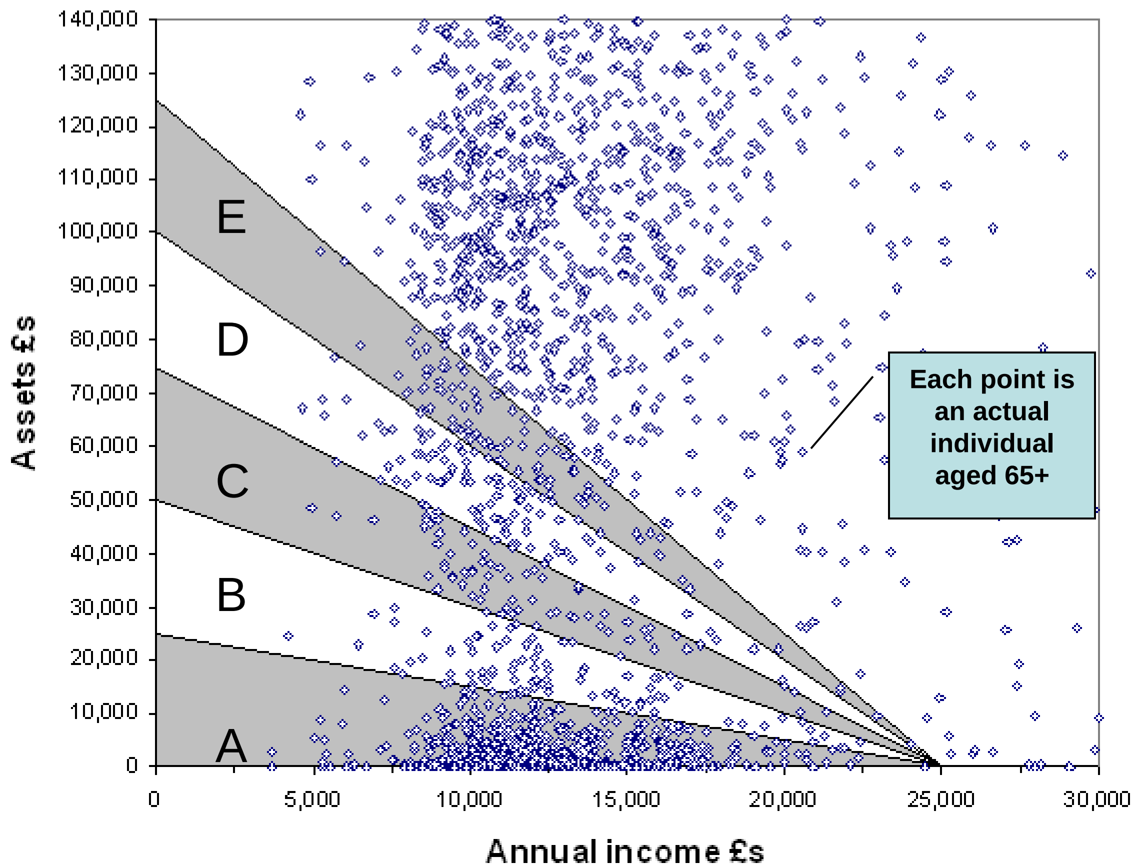
Income	Mrs White	Mr Black
Total pension (£ pa)	11,600	8,600

Notional years of care afforded	3.43	1.52
Band	D	B
Public contribution	4,020	11,480
Income shortfall	9,380	4,920

Top up options	Mrs White	Mr Black
Top up insurance	Y	Y
LTC bonds	Y	Y
Equity realease	Y	N
Immediate needs annuity	N	N
DLA	N	N

Illustrative public support rates: A = 90%; B=70%;C=50%;D=30%;E=10%; others: self funding

Income and asset distribution



% people 65+ by band

A – 19.8%

B - 2.1%

C - 2.2%

D – 2.8%

E – 3.1%

Self funding 69.9%

Under present system

~22% could be under the threshold

Under new system

~ 30.1% would get something

Summary of key proposals

1. *<u>Control of public expenditure is maintained</u>*:
   - through the personal cap (e.g. £25k)
   - through the banding structure and top up rates
   - through the unified assessment system
2. *<u>Equity</u>* through universality and equal treatment of people with different means
3. *<u>Flexibility and choice</u>* through the range of products and ways of meeting costs
4. *<u>Avoidance of gaming:</u> '7-year disposal of assets rule'*

Suggested role of the State

To:

- Clarify State entitlement based on a unified assessment system
- Provide regulation of products and policy stability
- Make it easier to get financial advice and direction at points of need or contact
- Provide incentives for people to take up private finance products e.g. through the tax system
- Improve the quality and efficiency of care services (e.g. tax breaks for care homes)
- Create conditions for private sector to invest

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END

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