



Institute  
and Faculty  
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# How can pensions help meet consumer needs under the new Social Care regime?

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# Agenda

- Background to pensions and social care in England
  - Potential products that could meet consumer needs
  - Probability of reaching the cap
  - Key findings and conclusions
  - Questions & Answers
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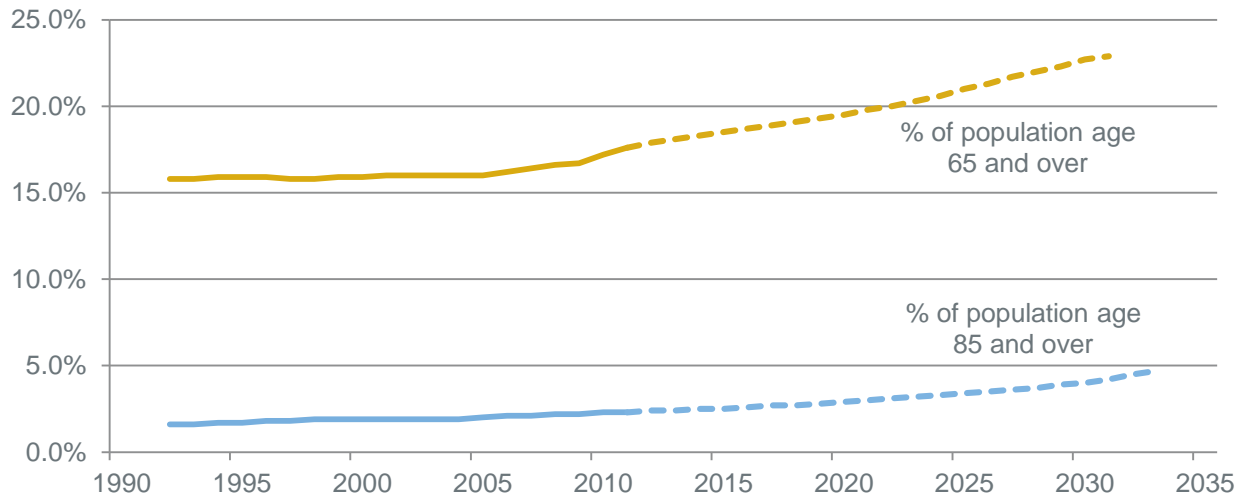
# Background to social care for over 65's

- Funded and operated by local authorities
  - State support is means tested
  - Current issues
    - Regional variation in level of provision (eligibility criteria)
    - Misunderstanding of the social care system – seen as an extension of the NHS (i.e. assumed free at the point of need)
    - Some people face catastrophic care costs before state support will kick in
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# Background to current (pre-budget) pensions regime

- Requirement to annuitise or go into drawdown by age 75
  - Life expectancy based restrictions on the level of income that could be taken from a pension
  - Tax incentives
    - Money saved in a pension is gross of income tax
    - 25% of fund can be withdrawn at retirement tax free
  - Pension income is taxed at the marginal rate of income tax
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# Caring for an ageing population



- UK number aged 65+ is expected to increase by **more than 50%** in the next 20 years
- Aged 85+ expected to **more than double** in the same period

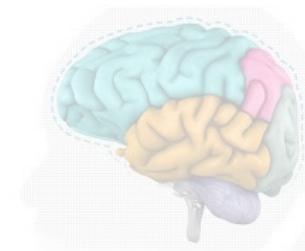
- Wide variations in life expectancies and probability of needing care between **males and females**



- Variation by **geographical region** in life expectancy and morbidity



- Incidences of **dementia** (moderate or severe cognitive impairment) are rising



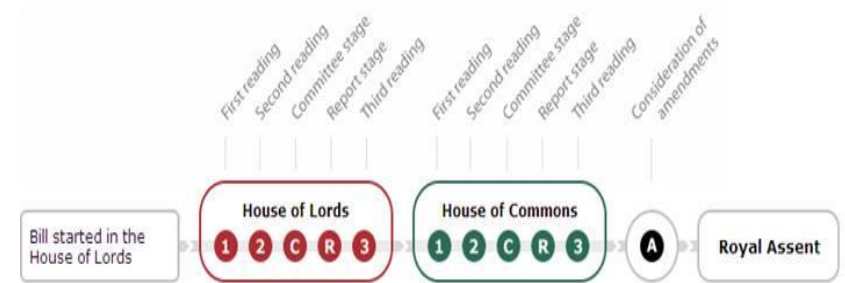
# Background to social care changes

- Background to social care changes

- Timeline
- Cap
- Different costs (hotel, Local Authority rate, top-up)
- New means test limits – (£17k to 27k/118k)
- Other changes

- Recent budget announcement

- Facilitate product innovation
- Concern that pension fund will be exhausted before LTC required



# Why pensions?

- An established framework
  - Speed of introduction
  - Flexibility
  - Common asset
  - Employer engagement
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# Overview of products considered

Product	UK Market size (2012)
Protection Insurance	New product*
Income Drawdown	£1.2bn (ex Self Invested Personal Pensions)
Ring-fenced pension pot (Pension Care Fund)	New product
Disability-linked annuity	New product
Immediate and deferred needs annuities	£0.2bn (as a Purchase Life Annuity (PLA))
Variable annuities	£1.4bn

*\*this product is not currently marketed in the UK. However, there are over 30,000 policies in-force in the UK*

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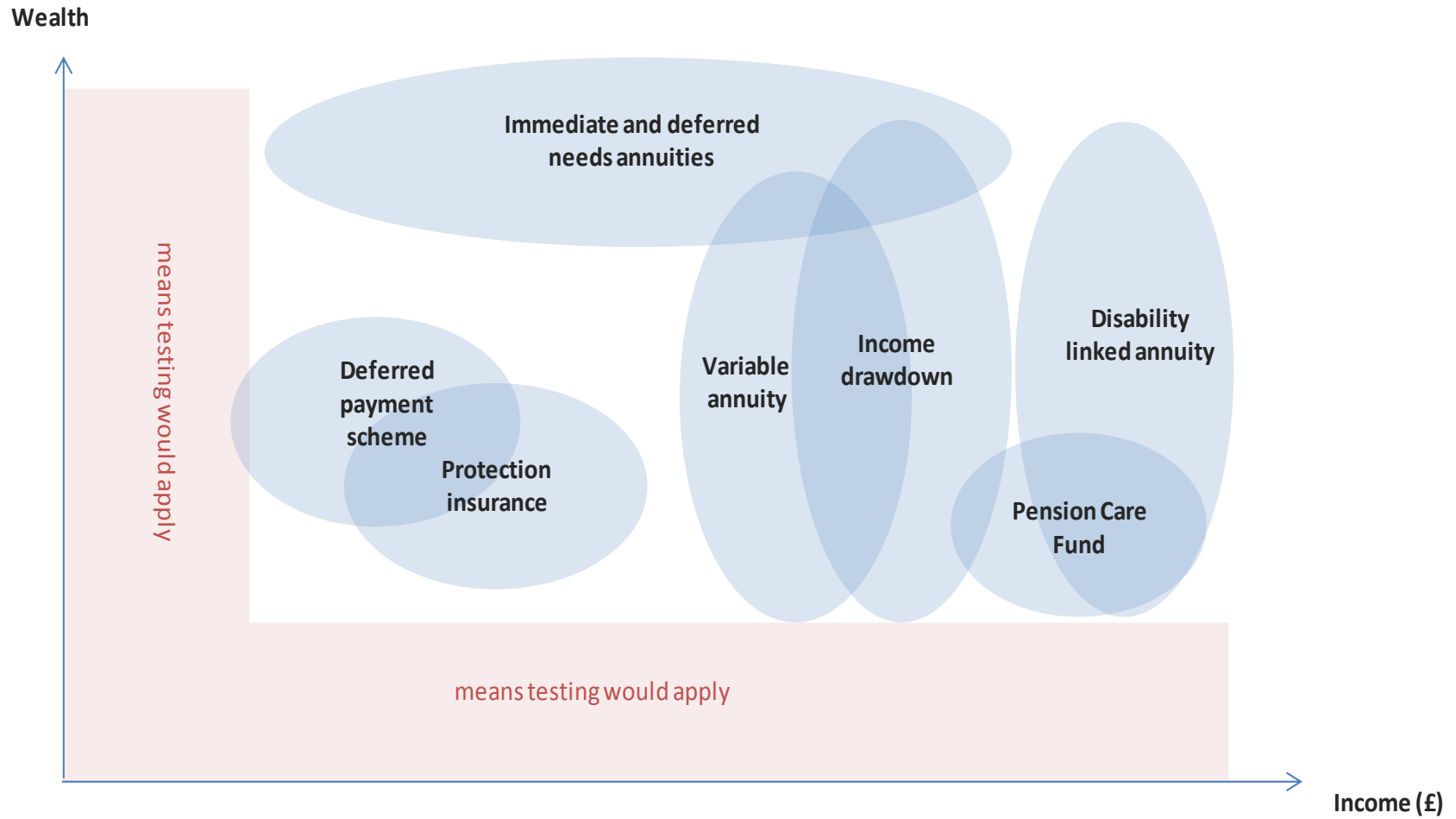


# Overview of products considered

Product	Time of purchase	Income can change on needing care	Death benefit	Money can be used for funding other needs
Protection insurance	Near/At retirement	Yes	No	No
Income Drawdown	At retirement	Yes	Yes	Yes
Ring-fenced pension pot	Anytime	Yes	Yes	Yes
Disability-linked annuity	At retirement	Yes	No	Yes
Immediate and deferred needs annuities	On needing care	Yes	No	Yes
Variable annuities	At retirement	Yes	Yes	Yes

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# Target consumer profile



# What impact will the care cap have?

- What is the probability than an individual survives to reach the cap?
  - How much does the individual pay before reaching the cap?
  - How much does he/she pay after reaching the cap?
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# Probability of individual reaching the cap

- model depends on:
    - Age
    - Gender
    - Health status
    - Type of care home and rates
    - Regional Local Authority set care costs
    - State and means tested benefits received
    - Survival rates used
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# Care Costs

- We considered care costs paid by individuals and Local Authorities over a 10-year horizon:
    - before care cap reached
    - after care cap reached
    - allowing for
      - inflation
      - regional care home costs
      - ‘metered costs’ i.e. excluding care costs beyond LA set rates and ‘hotel’ costs
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# Data and assumptions

- care costs based on Laing & Buisson (2013)
    - average care home costs (with and without nursing)
    - Local Authority set care costs
    - rates in 2012/13  inflated to 2016/17
  - 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
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# Survival rates for care home residents

- survival rates based on
    - PSSRU/BUPA Report on Length of Stay in Nursing Homes in England (2011)
  - survey had mean entry age of 85
  - survival rates dependent on gender, age and type of care home
  - looking to update the survival rates using the multi-state model described in Rickayzen and Walsh (2002)
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# Probability of reaching the Care Cap after 2016

(for single owner occupiers over State Pension Age)

Gender	F
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Type of Care Home	Nursing
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Age at entry to Care Home	85
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Care Home Region	East Midlands
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Assets at entry to Care Home	£150,000
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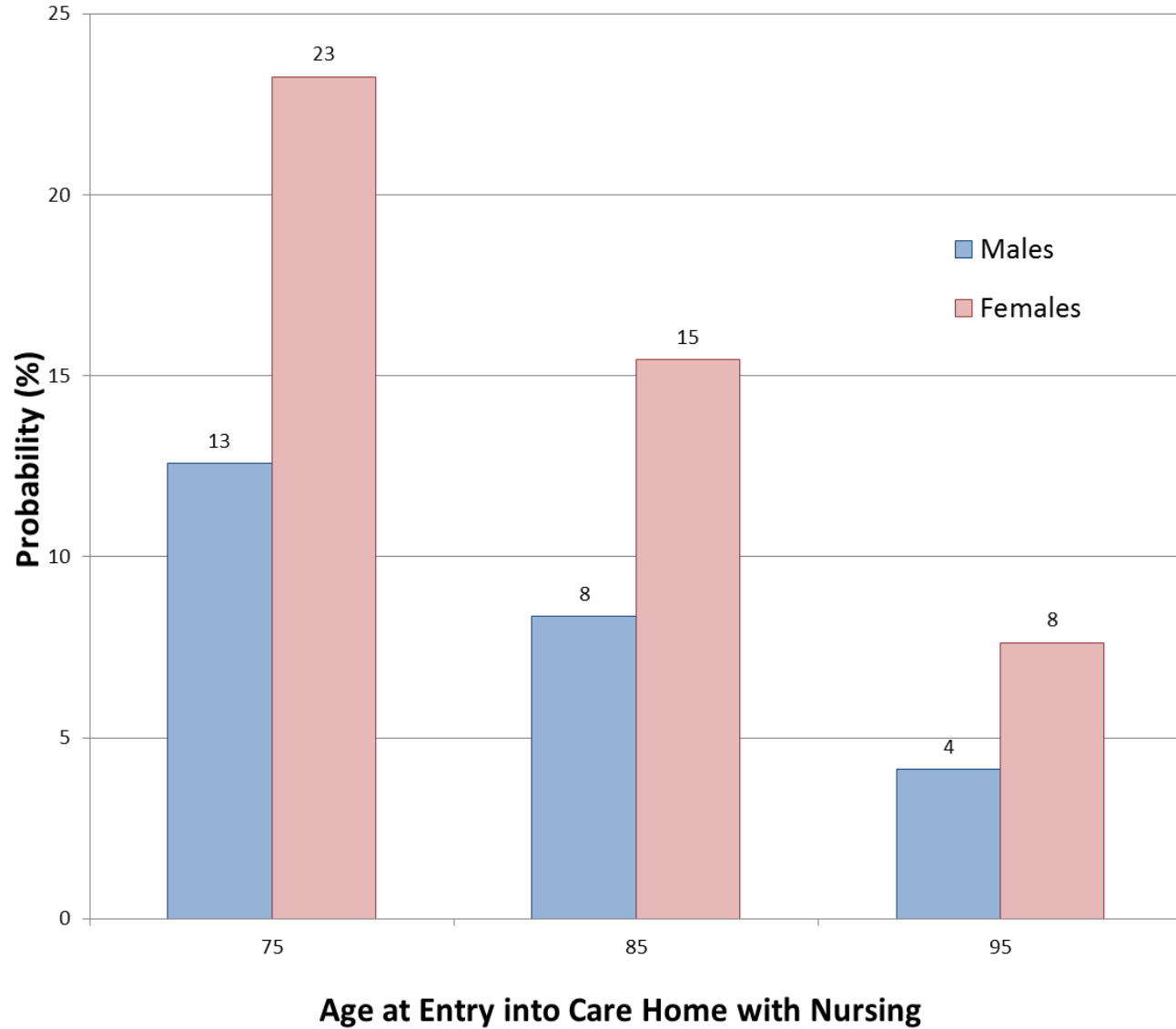
Income at entry to Care Home	£12,000
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Results	
Years before Cap reached	<b>5.6</b>
Probability of surviving to when Cap reached	<b>11%</b>
Personal Funding required before Cap reached	<b>£142,000</b>
Personal Funding for remainder of 10 year horizon	<b>£102,500</b>

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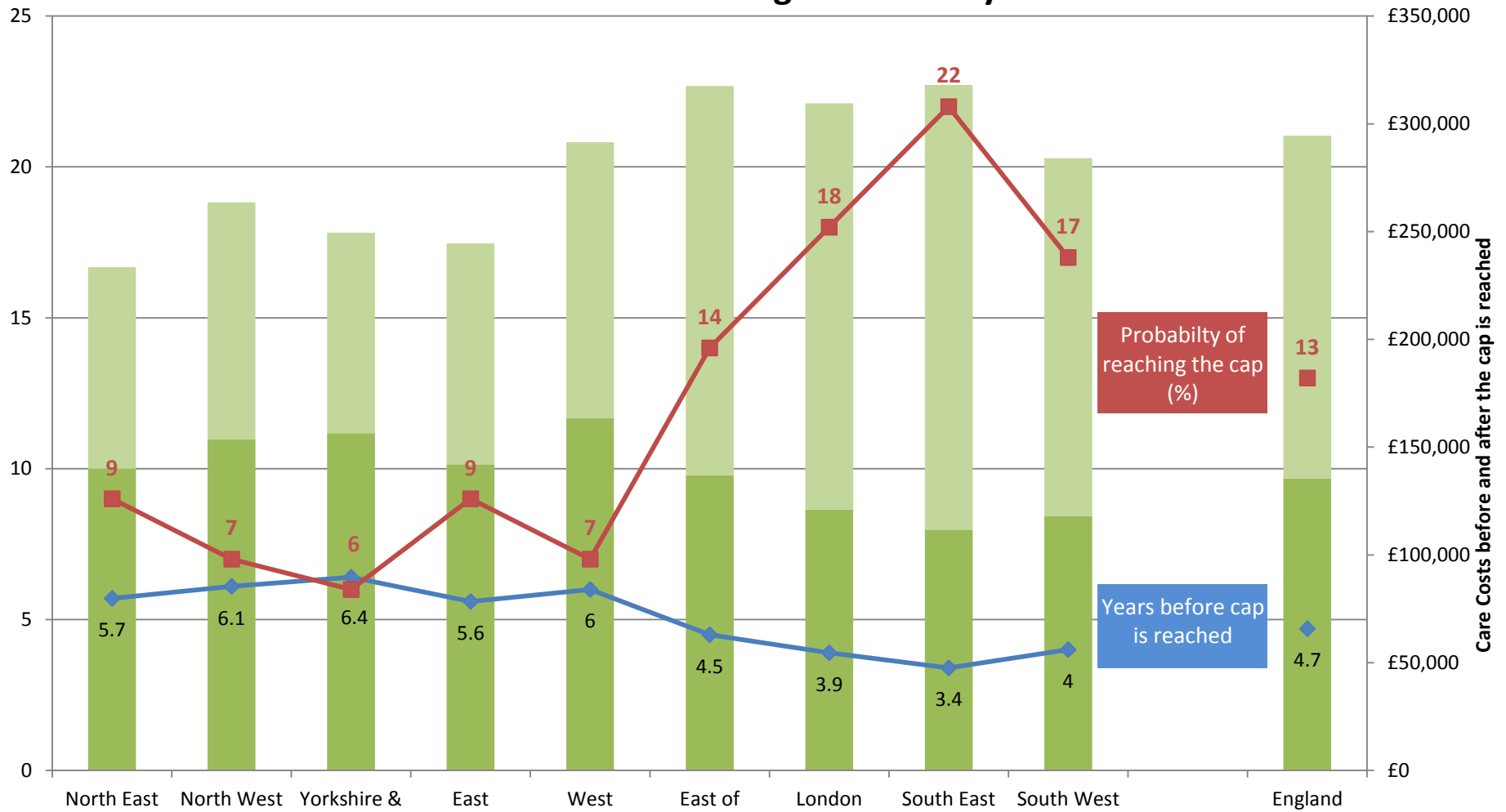


## Approximate Probability of reaching the Cap by Age & Gender



# Personal Funding of Care Costs by Region in England from 2016

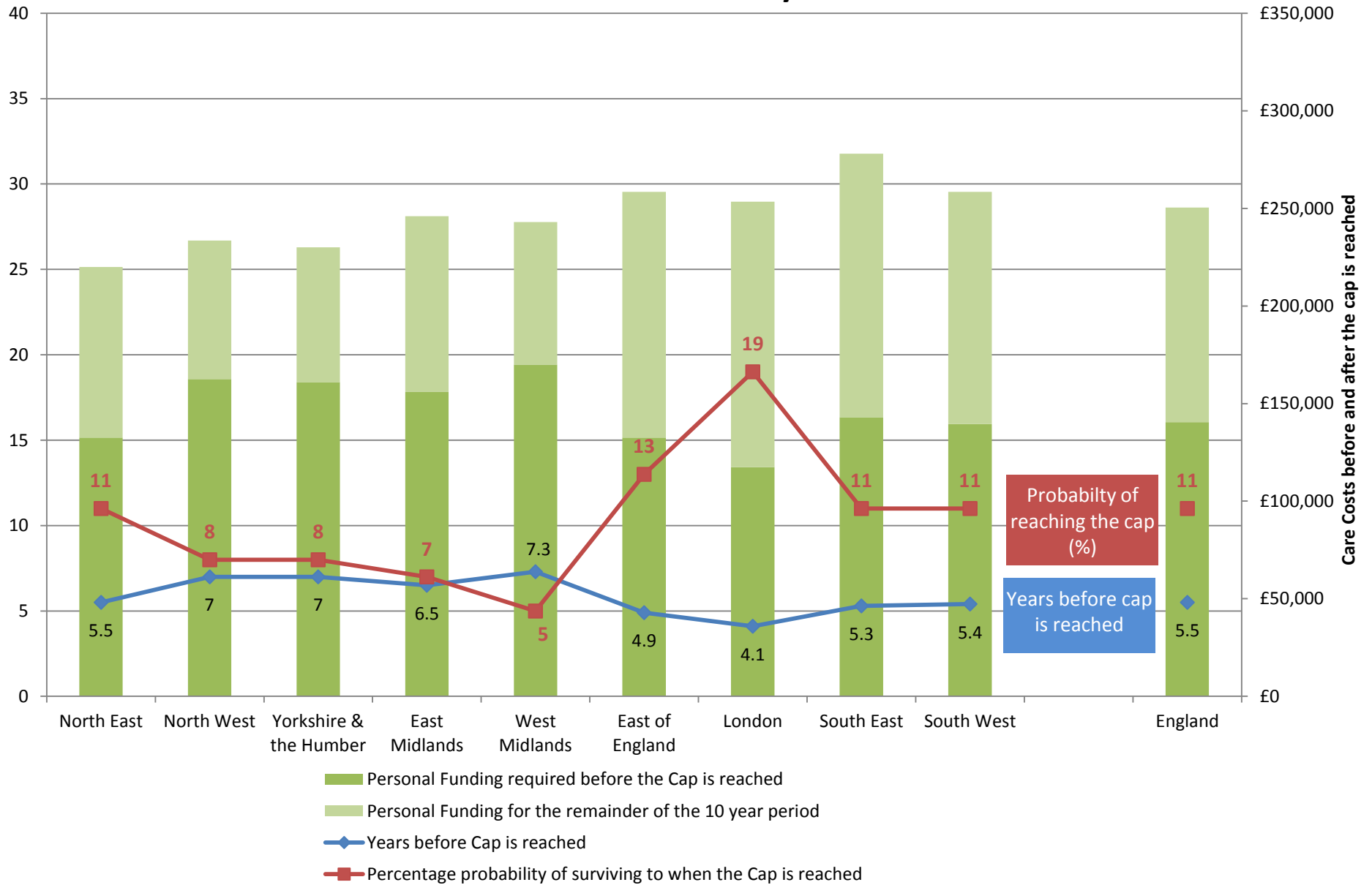
## Care Home with Nursing - 85 at entry into Care



- Personal Funding required before the Cap is reached
- Personal Funding for the remainder of the 10 year period
- ◆ Years before Cap is reached
- Percentage probability of surviving to when the Cap is reached

# Personal Funding of Care Costs by Region in England from 2016

## Care Home - 85 at entry into Care



# What are the 'Expected' Personal Costs?

Personal costs for 85 year old entering Care Home with Nursing				
Region	75% survival	50% survival	25% survival	'Expected costs'
North East	£14,500	£33,000	£80,500	£54,000
South East	£24,000	£51,000	£100,500	£73,000
<b>England</b>	<b>£20,000</b>	<b>£44,000</b>	<b>£96,000</b>	<b>£65,500</b>

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# Summary of findings

- “Pension” provides an existing framework
  - Budget announcement needs careful consideration
  - Significant proportion of retirees will need LTC
  - Most people who need LTC will not benefit from the cap
  - Benefit of cap and personal costs vary significantly by region
  - Range of pension products that could support LTC
  - Tax and regulatory changes could help product innovation
  - Clear communication of impact of cap to consumer is crucial
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# The paper can be obtained from....

<http://www.actuaries.org.uk/research-and-resources/documents/how-pensions-can-meet-consumer-needs-under-new-social-care-regime-f>

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