Affordability and attractiveness of private long-term care insurance for residential care in England

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Aims

To assess

- affordability of a regular premium LTCI for residential care, with and without a lifetime cap on liability

- attractiveness (from the perspective of the individual) of taking out regular premium LTCI **for care home costs** at age 65, under current and potential reforms to the mean tests

- for a representative cohort of people aged 65

Step1: Estimating expected length of stay (LOS) in care homes from age 65

- Expected LOS estimated from PSSRU projections of prevalence of care home residency and official cohort projections of male and female mortality, in a manner similar to UB (but for care homes only)

- Care home mortality rates are assumed to be higher than general mortality
  - for **all** care home residents – **high LOS variant**
  or
  - for **recent** care home entrants only – **low LOS variant**

- Lifetime probabilities of care home entry are assumed to be 19% (men) and 34% (women) (Social Care White Paper, 2012)

Estimates of expected lifetime LOS in care homes at age 65 assuming higher mortality for **all care home residents**

	men	women	total
P(care home entry)	.19	.34	.27
E[LOS] weeks	**32**	**89**	**64**
E[LOS|entry] weeks	**171**	**262**	**235**
E[duration of liability for care costs, £35k cap] weeks	**18**	**27**	**22**
E[duration of liability for care costs, £35k cap|entry] weeks	**93**	**98**	**97**
E[time to death or care home entry]	18 years	21 years	19 years
Unisex insurance single premium assuming loss ratio of 60% & cover for care component of fees at £333 pw (zero cost real inflation and discount rate).			**£35,520**
Equivalent annual premium paid until death or care home entry			**£1,870**
£35k cap: single premium			**£14,430**
Equivalent annual premium			**£760**

Estimates of expected lifetime LOS in care homes at age 65 assuming higher mortality for **all care home residents** **(new entrants)**

	men	women	total
P(care home entry)	.19	.34	.27
E[LOS] weeks	**32 (17)**	**89(37)**	**64 (28)**
E[LOS|entry] weeks	**171 (86)**	**262 (109)**	**235 (101)**
E[duration of liability for care costs, £35k cap] weeks	**18 (14)**	**27 (33)**	**22 (26)**
E[duration of liability for care costs, £35k cap|entry] weeks	**93 (74)**	**98 (81)**	**97 (79)**
E[time to death or care home entry]	18 years	21 years	19 years
Unisex insurance single premium assuming loss ratio of 60% & cover for care component of fees at £333 pw (zero cost real inflation and discount rate).			**£35,520 (£15,540)**
Equivalent annual premium paid until death or care home entry			**£1,870 (£820)**
£35k cap: single premium			**£14,430 (£12,210)**
Equivalent annual premium			**£760 (£630)**

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Care home funding in England (April 2010 prices)

- care home fees around £525 per week of which £333 often assumed to be care costs, £192 'hotel' costs
- state funding depends on assessed care needs and a means test
- if capital (usually including housing wealth) > £23,250
  – liable for 100% of the fee
- when capital < £23,250
  – required to put all income except a personal expenses allowance of £22.30 towards the rest of the fee
  – assessable income includes notional weekly income on capital between £14,250 and £23,250 of £1 per £250
  – **assessable income includes any insurance benefit**
- receipt of disability benefit (AA/DLA) ceases if receiving state help with care home fees

Step 2: estimate benefits from insurance using microsimulation model, CARESIM

- uses micro data on older people's incomes and capital (2 years' Family Resources Survey)
- simulates taxes, means-tested benefits and the means tests for residential (and domiciliary) care for people aged 65+
- calculates what each older person in the sample would pay for care *should he/she need it*
- used here to:
  - calculate affordability of insurance premiums, and potential benefits from insurance in terms of savings in out-of-pocket care home costs
  - for a representative sample of 65-69 year olds
  - under different treatments of income and capital including Dilnot proposal for a cap of £35,000

Illustrative effects

- % of current 65-69 year olds who could fund the insurance premium out of their disposable income without reducing their income to below 125% of the minimum guaranteed through social assistance

- among those who could afford premiums
  - average out-of-pocket care home costs with/without insurance for care part of fees/care + hotel parts (less higher rate AA)
  - distribution of savings, with insurance, in out-of-pocket expenses

- For different funding systems
  - current English system
  - upper capital threshold raise to £100k
  - upper capital threshold abolished
  - life time cap of £35k plus upper capital threshold raised to £100k ("Dilnot")

Affordability of premiums

		High LOS	Low LOS
without cap	cover for care costs only	50%	57%
	cover for care + hotel costs (less AA)	45%	55%
with cap	cover for care costs only	58%	59%
	cover for care + hotel costs (less AA)	56%	57%

Attractiveness **for those who can afford premiums**, high LOS

		Current system	Upper limit £100k	No upper limit	"Dilnot"
No insurance	mean out-of-pocket care costs	100,800	99,880	99,890	80,660
insurance for care costs	o-o-p savings: median	84,400	84,340	84,340	57,030
	o-o-p savings: 25th percentile	56,890	56,010	56,010	47,010
	o-o-p savings: 5th percentile	20,330	20,330	20,330	18,480
insurance for care + hotel costs (less AA)	o-o-p savings: median				
	o-o-p savings: 25th percentile				
	o-o-p savings: 5th percentile				

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	o-o-p savings: 5th percentile	20,330	20,330	20,330	18,480
insurance for care + hotel costs (less AA)	o-o-p savings: median	116,250	116,200	116,200	88,750
	o-o-p savings: 25th percentile	77,570	77,570	77,570	67,690
	o-o-p savings: 5th percentile	54,420	54,240	54,240	47,550

Sensitivity analysis

Sensitivity to lower LOS

- premiums lower, so affordability higher e.g. without cap, 57% rather than 50% for care costs, 55% rather than 45% for care+hotel costs

- out-of-pocket costs without insurance lower: £42k for cover for care costs compared with £100k on average

- savings from insurance are lower: 5% would see an out-of-pocket saving of less than the premium for cover for care costs only; 25% see savings of less than around £30k

- Using a 'buffer' of 150% for affordability (and high LOS)

  - 38% can afford cover for care (46% with cap)

  - 5th percentile of savings rises to £33k (£23K with cap)

- Disregarding insurance benefit in means test

  - 5th percentile of savings rises to £48k (£42k with cap)

Conclusions (1)

- without a cap on lifetime care costs, regular premiums for care are "affordable" by around 50% (high LOS) or 57% (low LOS) of current 65-69 year olds

- a cap reduces premiums; they become affordable to nearly 60%

- average out-of-pocket expenses for care home fees for those who can afford premiums are around £100k or £80k (Dilnot) on high LOS but around half this on low LOS

- the amount by which insurance reduces out-of-pocket expenses varies depending on entitlement to means-tested state support. For many of those who can afford premiums it could be large, but for a small minority insurance would not be very beneficial (potential for mis-selling/buying?)

Conclusions (2)

- a higher affordability threshold would exclude many of those who would see only small benefits from insurance

- disregarding insurance benefit from the means-test would increase the attractiveness of insurance for those with modest means

- debatable whether private insurance can/should complement means-tested state LTC funding systems for those in the region of the means test

- is insurance for care costs alone advisable, or should insurance aim to take insured completely out of means-testing (i.e. for care+hotel costs) ?