DEVELOPING PRODUCTS FOR SOCIAL CARE

PENSIONS AND INSURANCE WORKING GROUP

Association of British Insurers

EXECUTIVE SUMMARY

- The Working Group welcomes the new settlement for care funding, particularly the partnership between individuals and the State.
- The new settlement will enable the pensions and insurance industry to provide more support to individuals planning to pay for their care, if a number of challenges are addressed.
- Rather than a single, comprehensive solution, this support is likely to take the form of different products for different cohorts and different customer segments.
- To fully realise the promise of the new settlement, Government and industry must work together to address key challenges:
  - Build the general public's understanding
  - Enhance access to advice and guidance
  - Reduce regulatory risks
  - Minimise disincentives to plan
  - Implement the new system

EXECUTIVE SUMMARY (2)

- Given that 95% of people in care are aged 65 and over, **useful products will need to leverage the assets people already have** in the first instance (for the most part, housing and pension wealth).
- We expect people will make use of a range of products which will contribute to paying care costs. There is no “silver bullet” financial product to pay for care costs.
- We expect the market to develop by:
  - **Building on what already exists** – specifically, Immediate and Deferred Needs Annuities.
  - Adding **further flexibility to existing products**, providing new possibilities like disability-linked drawdown, extended age critical illness insurance and value protection options and whole of life insurance triggered by care needs.
  - Exploring whether **products previously available** could be brought back given the right market conditions – e.g. disability-linked annuities, and care conversion and hybrid protection products.
- We **do not believe that stand-alone products bought early in life are likely to be in demand**, and therefore we cannot see these being developed in the near future.
- **The message to younger people should therefore be to save through their pension for their later life needs** (including social care) and **to protect themselves whilst in work**.
- **The level of demand is the critical question for product providers considering the market.** Further research is needed to identify the overall potential market size, and the target customers for the products above. Specifically, we need to understand the two key barriers to demand:
  - **Perceived value of financial solutions** – Where people do not understand the risks and costs of care, the perceived value of planning ahead and paying premiums is low.
  - **Affordability** – Research specifically commissioned for this project by Prudential shows that this a concern for many people. Affordability is also tied in with the perceived value of solutions.

EXECUTIVE SUMMARY (3)

- Understanding the value of financial products is a **pre-requisite for market development**. This requires:
  - Public understanding about what the State offer does (and what it does not). This should be achieved through a **Government-led public information initiative**, which should be supported by the charitable sector, local services, care businesses and the financial sector.
  - Pathways to improve **access to regulated professional advice, and to guidance**. This includes a system where people are referred to regulated financial advisers at point of need, identified by SOLLA advisers in research commissioned for this Working Group as a key improvement to help people access advice. The ABI believes this should be part of the Care Bill and relevant secondary legislation, and have recommended amendments to this effect. For earlier life stages, good advice and guidance about financial decisions are equally important, for example at the at retirement stage.
  - **Encouragement to plan ahead** (or at least removing the disincentives from the system).

- **To enter any market, product providers consider a range of criteria**, including capital requirements and commercial considerations. The Working Group has identified the following **specific considerations** that apply to the market for care products:
  - The State offer is **new, unique internationally and has complicating factors**. This means that stakeholders must work hard to ensure people understand that they have a liability for costs, the level of that liability, and the range of solutions that might help them meet the liability.
  - Dovetailing of the State system and insurance will be appealing to customers. To **support better alignment** we need to address, for example, the relationship between local authority assessments and insurance claims eligibility, and incentivise planning ahead.
  - Providers must assess the **regulatory risks** of developing a product whilst the details of the State offer are still being settled. This is because providers need to satisfy the Financial Conduct Authority's expectations of customer suitability in product development. In particular, there is concern that acting in good faith to develop products may result in adverse regulatory action if the products do not accurately reflect the State offer.
  - **Long term stability of the State offer**.

EXECUTIVE SUMMARY (4)

- The Working Group has made recommendations with concrete changes that could help create a more positive environment. These are in the form of **quick wins and areas for exploration**.

- This industry report **cannot give commitments** that particular products will be developed. These are commercial considerations for individual companies who may approach Government on a one-to-one basis about product development intentions.

OVERVIEW

- CONSUMER NEEDS – LEVERAGING EXISTING ASSETS
- THE MARKET– HOME AND AWAY
- A RANGE OF PRODUCT POSSIBILITIES
- FRONT RUNNERS
- STAND-ALONE PRE-FUNDED MARKET?
- DETERMINING AND GROWING DEMAND
- PRODUCT DEVELOPMENT
- QUICK WINS
- AREAS FOR FURTHER EXPLORATION
- THE WORKING GROUP
- ANNEXES: RESEARCH COMMISSIONED FOR THE WORKING GROUP AND SOURCES

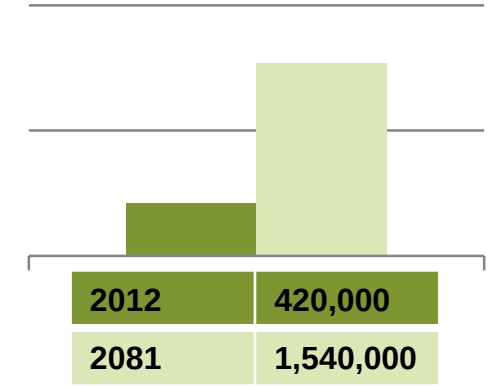
CONSUMER NEEDS – LEVERAGING EXISTING ASSETS

- The majority of people who have care and support needs are aged 65+ (Figure 1).[1] Further, given demographic changes, it is expected that this group will grow as the number of older people increases (especially the 'oldest old' group) (Figure 2).[2]
- The risk of being in a care home (or NHS long stay hospital) increases with age, with the risk peaking at approximately 16% for people aged 85+.[3] Therefore, the group who are most at risk in the next 20 years are those who have already retired.
- Products that will be most useful for this group are those that leverage the income and assets that they already have. In terms of income, this will include State support (income from the State pension and income-related and disability benefits), occupational and personal pensions, and returns from investments.[4]
- We also expect that many people will have to make use of assets, including pension and housing wealth (see Housing Wealth Working Group for more detail on uses of housing assets).[5]
- This means the majority of people are likely to use a range of products.

Figure 1

People in residential settings

Figure 2



THE MARKET – HOME AND AWAY

- **Products available in the UK now already help people with care costs:**
  - Immediate Needs Annuities – a solution with considerable growth potential (nearly 5,000 in-force policies in 2010).[6]
  - Retirement income products (and hence pension products) and investment bonds help people to pay for their retirement needs more generally, including paying for later life care.

- **Other products were previously available but are no longer sold:**
  - Stand-alone pre-funded care insurance (nearly 29,500 in-force policies in 2010, with average premiums of £1,150/year for a regular premium policy, and £18,265 for a single premium policy).[7]
  - Care options on protection products, as a conversion option or hybrid (in 2004, FSA estimated 28,000 policies were sold per year by IFAs).[8]
  - A disability-linked annuity (briefly offered - under three months).[9]

- **No international system is directly comparable with UK (though France has similarities). Internationally, private insurance appears to work best when:**[10]
  - Complementing the State and the family in funding care (where predictable universal partial coverage)
  - The public system entitlement is clear
  - Linked to annuities
  - When sold to groups rather than individuals
  - There are very substantial subsidies or compulsion, if relying on private insurance as main funding source.

FRONT RUNNERS

- The Working Group considered a range of possible pensions and insurance products to help people pay for care and concluded that there is no “silver bullet” financial product to pay for care costs.
- However, there is scope to develop specialised care products, and the table sets out the most likely areas for development:

Products which already exist	Potential additions which add flexibility to existing products	Possible return of previously available products
• **Immediate needs annuities** – to cover all or some care costs. Julien Forder of the PSSRU estimated that 6 to 7 times more people could afford INAs than currently covered (under 7,000). This would be equivalent to 40% of all self-funders.[11] • **Deferred care annuity (stop loss)** - no benefits for first X years of care, then covers all costs.	• **Alteration to annuity value protection option** - exercise option to commute annuity. • **Capped or flexible drawdown** - to cover the general living expenses, or the capped amount. • **Life insurance** - joint life; whole of life triggering on death or care; life insurance linked to deferred payment scheme loan. • **Illness specific product** – covering extended age illnesses. • **Ring-fenced pension pot** – allow a portion of the pension pot to be ring-fenced at decumulation.	• **Disability linked annuity** - subject to taking a lower starting income, income increases at failing Activities of Daily Living (ADLs). • **Optional conversion on protection products** – e.g. an income protection policy switching to care insurance at retirement. • **Hybrid protection product** - care insurance as an additional option on a protection policy or on a pension plan.

STAND-ALONE PRE-FUNDED MARKET?

- We do not believe that stand-alone pre-funded products bought early in life are likely to be in demand, and we think it is unlikely that they will be developed in the near future because:
  - Products that require specialised saving for care from a young age are likely to be unappealing given other priorities (e.g. buying a home and having children). There are existing long-term savings products such as pensions and ISAs, which are tax advantaged and well established in the market.
  - The younger people are, the more encouragement needed. We do not believe the current or new system have the right incentives to provide the level of encouragement needed.
  - Previous experience in the UK market, and that of the US market, is not encouraging. For instance, in the US, premium increases for in-force policies are creating negative publicity and inviting scrutiny from politicians and regulators.[12]
  - However, we do note the interesting developments in markets such as Italy where group products comprise a large part of the market.[13] This feature was never present in the UK market and there could be lessons for product design and distribution.
- The message to younger people should be to:
  - Save more for their later life needs, including social care, through existing saving mechanisms like pensions and ISAs. We would emphasise the importance of making auto-enrolment a success and encouraging people to save more.
  - Protect themselves whilst in work.

DETERMINING DEMAND

- **The level of demand is the critical consideration for product providers exploring whether to enter the market.**
- There is some existing research already, including research commissioned for this Working Group.[14] However, **more research is needed to identify the overall potential market size, and the target customers** for the products above. Specifically, we need to understand the two key barriers to demand:
  - **Affordability** - Research commissioned for the Working Group by Prudential (see Annex 1) showed that affordability is a concern for customers.
  - **Perceived value of financial solutions** – Where people do not understand the risks and costs of care, the perceived value of planning ahead and paying premiums diminishes.

Time in care home (114 weeks) x Cost of care home (£536)[15]
£61,337 spent on residential care costs

And … 27% live in care homes for more than 3 years[16]

Will people be encouraged to plan ahead?
How many people will be self-funders over the next 20 years?

- To demonstrate the effect of these barriers, the Working Group looked at disability-linked annuities where:
  - People seek to maximise immediate income and discount future needs. This is unsurprising given that the median post-tax free cash pension pot is £20,000 and the mean is £33,400.[17]
  - Only 7% of retirees take up index-linked annuities, which reduce initial retirement income in a similar way to a disability-linked annuity.[18] This is despite the significant risks to peoples' living standards arising from even moderate levels of future inflation.
  - Legal & General contacted some specialist annuity IFAs with a case study of a disability-linked annuity based on figures produced by Ben Rickayzen.[19] The results were not particularly promising – see quotes below:

On the face of it, it would seem a good option but in reality would many people opt for it?

I see the advantages, but most opt for max income. I think interest will be high, but business volumes low.

GROWING DEMAND

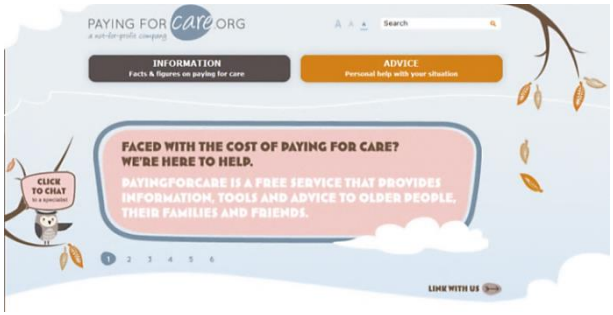
- The Government's commitment to social care funding reform is welcomed by the industry. Specifically, the recognition of a partnership where the individual and State share responsibility for care costs.
- A key benefit of the new model is that everyone will now have to approach the local authority to get assessed and 'start their meter running'. This will help people who have immediate needs, and should support the growth of the point of need market.

The key enablers to demand are also pre-requisites for market development:[20]

- **Public information initiative** – A public information initiative is needed because people need to understand how the new State offer will work and what responsibilities they have for funding care. This initiative will benefit the State because encouraging people to take personal responsibility and demonstrating the benefits of planning ahead, should result in people arriving at the point of care with appropriate funding arrangements in place. It would also stimulate demand for pension and insurance products.

  We also see a role for other stakeholders to support the information initiative, including local authorities, the third sector, and business (care homes and the insurance industry). Awareness building should include information on planning and financial education tools (see below). Important messages should include "save more to fund your later life needs" and the details of the State offer.

- **Duties to signpost and refer to financial advice** – There must be general signposting of people to financial information, as well as specific requirements to refer self-funders to professional financial advice. The ABI is recommending amendments to the Care Bill's clause 4 (and clause 34 for the Deferred Payment Scheme) to introduce a referral system, with the details to be resolved through secondary legislation (Statutory Instruments). This will require growth in the adviser sector, which will improve customer choice and improve distribution. For earlier life stages, good advice and guidance are equally important, for example at the at retirement stage.



PRODUCT DEVELOPMENT – CONSIDERATIONS FOR PROVIDERS

- **Decisions about entering the market/developing a new product involve commercial considerations by individual companies.** These include capital requirements, ability to price risk (i.e. sufficient information about risks), and having a business case for this product amongst other priorities (such as auto-enrolment). An example of a potential capital issue is that more capital may need to be held if there is a lack of data on risks (e.g. likelihood of claim).

- There are **specific considerations for product providers if/when developing a specialised care funding product**:

  - There are **regulatory risks** in developing a product whilst the details of the State offer are still being settled. Providers must demonstrate in the product development process that they are meeting the regulator's customer suitability rules. Providers must also be mindful that the Financial Conduct Authority has new powers to intervene in product development, and that this increased scrutiny creates additional regulatory risk.

  - The reforms result in a **new and unique funding framework, which has complicating factors**. This means that marketing and distribution of products requires extra attention to ensure customers understand what the product does and does not cover, and how this relates to the State offer.

  - From the point of view of the customer, a **product that dovetails exactly with the State offer** is likely to be the most attractive approach. However, there are aspects of the interaction with the State framework which need further exploration to achieve alignment. Specifically:

    - **Local authority eligibility assessments**. Specifically, carer-sighted eligibility for care and support (i.e. the presence of an unpaid carer will impact whether someone is eligible) is not an insurable risk.

    - There is **no benefit to the individual of planning ahead** unless they have income or assets well above the means test threshold, because saving or insuring for care costs means that the individual does not benefit from State support.[22] There was agreement that the more people lock their savings away for specific, long term goals, the greater the fiscal incentives provided to them (e.g. pensions). If incentives for long term care products do not follow this principle, they will be less attractive for consumers.

- **The stability of the State offer is also important for long-term products.** The Care Bill provides that the cap can be reviewed annually (clause 16), and further aspects of the funding framework can be reviewed at five-yearly intervals (clause 66). There is also the ever-present risk of a change in policy. We would encourage politicians and policy-makers to be mindful of the impact of such changes to the products held by customers.

QUICK WINS

Area	Issue	Suggested solution
Building understanding	Without an understanding of the new system, the risks and costs of care, and their options, people will not grasp the need to plan ahead.	A Government-led public information initiative, supported by charities, local authorities, care providers, and product providers.
Financial advice and guidance	- Without regulated financial advice at point of need, people, especially self-funders, will not have the appropriate information to make the right financial decisions and will not be able to access some products. - At earlier life stages, there are points where people could usefully receive more information about planning for their later life needs, including care costs	-The ABI has suggested amendments to the Care Bill to require local authorities to put a referral system in place at point of need. - Leverage the role of other organisations providing advice and guidance, for example, the Money Advice Service at point of retirement.
Minimising changes to the funding framework	Changes to the funding framework will have an impact on a) product development in the short term, and b) policy terms and conditions in the long term.	Government should be mindful of the impact of changes on the development of products, and seek to minimise change where possible. If change is necessary, the industry should be involved in discussions impacting on products.
Increasing the input of the Financial Conduct Authority	If the Financial Conduct Authority is not aligned with Government policy, this could result in providers developing products being caught in the middle.	The Financial Conduct Authority should play a more prominent role in policy discussions about the role of financial products to help pay for care, and should seek to regulate with the grain of public policy.
Disability-linked annuity	Without positive tax treatment (as afforded to a lifetime annuity), the product is less attractive to consumers.	A clear statement in HMRC guidance (at least) that an annuity which increases due to disability comes within the definition of an lifetime annuity.
Capped drawdown	Lack of flexibility in GAD limits means that amounts drawn down cannot reflect increased needs due to care costs (and lower life expectancy).[23]	Introduce new GAD limits that allow an increased amount to be drawn down if the person meets disability criteria (disability-linked GAD limits).
Flexible drawdown	A significant level of assets can be held in flexible drawdown, however a lack of flexibility in minimum income threshold (set at £20k) means that much of the fund is not accessible.[24]	Allow a lower minimum income threshold if the person needs care (matched to the general living expenses limit c. £12k), and also allow a greater range of income sources to be taken into account. (Note: important to check against inflationary measures in the £20k limit).
Life insurance	It is currently envisaged a loan from the deferred payment scheme will be repaid with the sale of the home, however there are other possible repayment options.	Keep the rules for the deferred payment scheme flexible, so that products like life insurance can be used to repay the loan. This means that the home can be kept for future generations.

FOR FURTHER EXPLORATION

Area	Issue	Next steps – to explore:
Extension of value added protection option	Currently, customers can opt for a value protection option which returns the fund held in annuity (minus any pay outs) if the person dies early. There is no allowance for early access due to care, and if such access were allowed it would likely attract a 55% tax charge as an unauthorised payment. [25]	Whether early access for care purposes should be allowed, and review the appropriateness of having the 55% tax charge apply.
Effect of means testing on consumer behaviour	There is no incentive for people of modest means to protect themselves if the result is simply to replace State support.	Whether disincentives can be removed by excluding specialised care products (in full or part) from means testing. (For example, investment bonds with life insurance elements are currently treated this way)
Interaction between insurance claims and Local Authority assessment	Assessments that have discretionary elements (such as a lower eligibility threshold) are not conducive to an insurance claim trigger, due to the difficulty in accurately pricing risks and setting contract terms. This means that expectations of a product to exactly match the £72k liability are difficult to meet.	Whether we can agree common assessment and eligibility criteria that satisfy all stakeholders. The alternative is acceptance that products are unlikely to dovetail exactly, and action to mitigate customer misunderstanding about coverage and claims triggers.
Protection products distribution	Distribution of care insurance earlier in life is limited because only COBs regulated advisers are permitted to advise on long-term care insurance products but protection distributors include ICOBs-only advisers.[26]	Whether it is possible to increase distribution avenues, and reintroduce the potential for protection products with care insurance elements.
Increasing income to individuals through products	Products that provide people with an income are subject to income tax, which means that less money is available to pay for care costs. (However, an immediate needs annuity paid to a registered care provider is not subject to income tax).	Whether all products paid direct to a registered care provider can be exempted from income tax.
Power of attorney rules	The requirements of the Mental Capacity Act 2005 make powers of attorney more expensive documents, which creates the disincentive for consumers. Without a power of attorney in place, a client with no capacity has their finances frozen, causing significant issues for accessing the care they need.	The possibility of new regulations or forms which simplify the power of attorney process and reduce the cost for consumers.
Developing capability in the adviser market	Although a substantial number of advisers have passed the specialised qualification for providing advice on long-term care insurance, the market for specialist advisers is small. While standards are high amongst this group, market growth means capability must be built up.	Review qualifications for advisers and ensure that they are appropriate. This includes the potential to require a continual professional development element, so that learning is maintained.

PENSION AND INSURANCE WORKING GROUP

Terms of Reference

1. What products could be developed and / or marketed to help people pay for their care costs?
- Broadly what would each product offer?
- Who in the population would it cater for?
- What would the product typically cost?
- How interested are firms in developing the product?

2. How do we create the right environment for these financial products?
- What are the barriers to these markets?
- What are the enablers?
- What concrete changes would create a more positive environment?

Working Group members

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Andy Johnston, Hannover Re
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Athole Smith, Prudential
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Helena Dumycz, IFoA
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With thanks to the following people for their contributions to discussions:

- Adelina Comas-Herrera, LSE / PSSRU
- John Jackson, Oxfordshire Council
- Gary Brown, FCA
- Tish Hanifan, SOLLA
- Institute & Faculty of Actuaries Pensions and LTC Working Party – Products Research Group, particularly Thomas Kenny (Chair) and Jerry Barnfield

Process followed

A series of five workshops over May and June, with experts invited in to share ideas with the Working Group members.

A collaborative process with real commitment from all Working Group members to sharing ideas and information.

The workshops covered:

- A common understanding of the consumer and market
- The State framework and frontrunner products
- Barriers and enablers
- Solutions
- Agreement of findings (conclusions)

ENDNOTES

1. Laing & Buisson survey (2013) – there are 431,500 elderly and disabled people in residential care (including nursing), of which approximately 414,000 are aged 65+.

2. Laing & Buisson, *Laing's Healthcare Market Review 2011-2012*

3. Laing & Buisson, *Care of Elderly People Market Survey 2012/13.*

4. Department of Work and Pensions, DWP Pensioner Incomes Series, *Composition of the average incomes of pensioner units 1994/95 – 2010/11.*

5. Rowena Crawford and Gemma Tetlow, IFS Report, *Expectations and experience of retirement in defined contribution pensions: a study of older people in England.* See Figure 3.2 Composition of total family wealth – DC pensions 13%, DB pensions 17%, pension in receipt 13%, financial 12%, physical 11%, and primary housing 34%.

6. Association of British Insurers, *Long term care business in force at year end*. In 2010, there were approximately 4,700 immediate need annuities in force.

7. Association of British Insurers, *Long term care business in force at year end*. In 2010, there were approximately 29,500 pre-funded insurance policies in force, which comprise of both single premium and regular premium policies.

8. Financial Services Authority, *Regulation of Long Term Care Insurance - FSA PS04/14,* 2004.

9. Ben Rickayzen, Faculty of Actuarial Science and Insurance, Cass Business School, *An analysis of disability-linked annuities,* 2007.

10. Adelina Comas-Herrera, Personal Social Services Research Unit, London School of Economics and Political Science. *Barriers and Opportunities for private Long-Term Care Insurance: What can we learn from other countries?,* Co-authors: Rebecca Butterfield, Jose-Luis Fernandez, Raphael Wittenberg and Joshua M. Wiener, study funded by Axa Research Fund.

11. Julien Forder, PPSRU, sponsored by Partnership, *Immediate Needs Annuities in England,* 2011.

12. TransAmerica and Aegon, *Reflections on the US long-term care market – possible learnings for the UK,* 2013.

13. Adelina Comas-Herrera, Personal Social Services Research Unit, London School of Economics and Political Science. *Barriers and Opportunities for private Long-Term Care Insurance: What can we learn from other countries?,* Co-authors: Rebecca Butterfield, Jose-Luis Fernandez, Raphael Wittenberg and Joshua M. Wiener, study funded by Axa Research Fund.

14. See findings from Prudential research, *Long Term Care Proposals, June 2013* – attached in Annex 1. See also, for example, James Lloyd, Strategic Society Centre, Immediate Needs Annuities: Their role in funding care, 2011 and Julien Forder, PPSRU, sponsored by Partnership, *Immediate Needs Annuities in England,* 2011.

15. Time in care home: 114 weeks (801 days) is the average length of stay in BUPA care homes. Cost of care home: £536 per weel is the UK average annual fee in 2012 for a single room in a private residential home. Both statistics from Julien Forder and Jose-Luiz Fernandez, *Length of stay in care homes,* PSSRU Discussion Paper 2769, 2011.

ENDNOTES (2)

16. Julien Forder and Jose-Luiz Fernandez, *Length of stay in care homes,* PSSRU Discussion Paper 2769, 2011.

17. Association of British Insurers, Annual pension annuity data collection.

18. Association of British Insurers, Annual pension annuity data collection, Data for period 1 January 2011 - 31 December 2011. The 7% covers annuities that increase by a fixed amount, by RPI and by LPI.

19. Legal & General, Disability Linked Annuities research, June 2013.

20. See findings from SOLLA survey with ABI – attached in Annex 1.

21. Ruth Hancock, Juliette Malley, Raphael Wittenberg, Marcello Morciano, Linda Pickard, Derek King and Adelina Comas-Herrera*, The role of care home fees in the public costs and distributional effects of potential reforms to care home funding for older people in England,* Health Economics, Policy and Law / Volume 8 / Issue 01 / January 2013, pp 47 73. See page 52: "The complex means test for public support makes it difficult for individuals to judge whether it would benefit them to supplement public support through private savings or insurance. The means test generate 100% effective marginal tax rates on income and the capital thresholds produce discontinuities in the return to savings. The system may therefore distort savings decisions (in general and as between saving in different forms). This has led to concerns that the current system reduces incentives to save (Her Majesty's Government, 2009; Mayhew et al., 2010)."

22. Government Actuary's Department, Drawdown pension tables, see: www.gad.gov.uk/services/Pensions_Policy_and_Regulation/Income_drawdown.html

23. HMRC, RPSM09103600 - Technical Pages: Member benefits: Drawdown pension: Flexible drawdown - minimum income.

24. See Finance Act 2004, unauthorised payments.

25. Financial Services Authority, *Regulation of Long Term Care Insurance - FSA PS04/14,* 2004.

Figures:

1 – Association of British Insurers, using data from endnote 1 above.

2 – Association of British Insurers, using data from endnote 2 above.

ANNEX 1
RESEARCH CONDUCTED FOR THE PROJECT

Prudential – “Long Term Care Proposals” (June 2013)
SOLLA with ABI – “Financial advice and Long Term Care” (June 2013)

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'Money Matters' Community members' reaction to ....

Long Term Care Proposals

June 2013

This report is a preliminary analysis that looks at topline findings, further detail and analysis can be provided if required.

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Content

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- Background & Objectives
- Methodology
- Context
- Reaction to Government Proposals for long term care
- Overview of reaction to long term care proposals from Prudential
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  - **Idea B: Life Insurance**
  - **Idea C: Deferred care annuity**
  - **Idea D: Care linked annuity**
  - **IDEA E: Immediate needs annuity**
  - **IDEA F: Deferred payment scheme**
- Suggestions / Alternatives
- Recommendations

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Executive Summary

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- The Government proposals for long term care were generally welcomed by Money Matters members; they are seen as a step in the **right direction**, allow people to **plan** effectively and the **cap** is welcomed.
- Reaction to the **six ideas** presented to members was mixed. Main concerns were around the **affordability** of monthly premiums and lump sum payments.
- Members were also concerned about the **risk** of **investing** lump sums and **trusting** financial providers with their money.
- The **'deferred payment scheme'** was the preferred option via the discussion boards as it was felt to offer **minimal risk** to people – no investments lost if care not required.
- Survey results found that members thought Pru should **develop** the '**life insurance**' idea more than others (42% saying Pru should do this)
- The ideas for **investments while working** were considered good options in principle and could offer a **solution** for **long term planning**, but again **costs** would need to be factored in especially in the current economic climate.
- Many **questions** arose about the ideas; namely what happens if people don't have any **assets** to cover costs (either before or after death); how do the propositions impact on **partners** of those who require care; what **level of care** will be provided……(see appendix for full list of questions for each idea)

Background & Objectives

Background

- As a member of the Association of British Insurers, Prudential have been tasked with exploring customer reactions to possible product ideas that could help people to plan and save for their Long Term Care needs
- This is in response to the Governments proposals to cap care fee costs at £72,000 from April 2016

Below is a summary of how the proposals will work in practice:

	Care in your own Home	Residential Care
	Your Local Authority (LA) will assess your care needs and also your ability to pay for care. In assessing your ability to pay, the LA will consider both your income and your assets (including the value in your house)	
Cost of Living	You are expected to pay for all food and accommodation – these are not care costs	Food and accommodation up to £12,000p.a. are not regarded as care costs
The maximum you will pay towards care	The LA will take on all care costs once you have paid £72,000 for care. The £72,000 cap is for care based on the LA's assessment of your needs and the cost of care provided by the LA. If you choose a more expensive care provider, the local authority will not view any amount above their assessment costs as a care cost. (You would be expected to pay this excess even after the £72,000 'cap' had been reached).	

Objectives

- To capture opinions on the Governments proposals for long term care
- To gather feedback on six ideas developed by Prudential in response to the government long term care proposals

Methodology

- Prudential's Money Matters online community was used to gather reactions to the governments proposals via online discussion boards
- Further to this, six product ideas were tested on the Money Matters community via discussion boards and a survey (we had 224 replies to the discussion boards and 67 responses to the survey)
- The six ideas were presented in pairs to reflect the 3 lifestages they would be relevant to:
  - Working
  - At retirement but before require care
  - When require care

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Context

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How are respondents' health?

58% of survey respondents are in good health and do not require care

Only 1.5% of Money Matters members have poor health and receive care in their own home

Experience of caring for others

57% of survey respondents do not provide care for anyone

15% care for an elderly parent / relative

20% have cared for an elderly parent / relative who has since passed away

Worried or Planning for care?

While 51% disagreed with the statement ' I don't worry about what care I might need in the future', 73% have not made any plans in case they need long term care

Reaction to the Governments' proposals for long term care

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Members felt the changes are a **step in the right direction**, and certainly identified the benefit of allowing people to **plan** or their care needs

This is a **significant planning benefit** - if you are going to have to pay for care you can at least know that any assets over this level are protected (for care costs).

It's good to finally some come **clarity** on this topic. I think these proposals are a good first stab at enabling people to plan with some confidence.

For those who have done very nicely over the past 50, 60, 70 or 80 years or so, the proposal **to only sting one for £72000 seems excellent**.

I think the proposals strike the **right balance.**

It is a **start**..... After years people do need to know where they stand.

Questions arose about how do people with **no assets** pay for their care?

Not all of them have private pensions as well as State pension, **not all of them have their own property.**

It says £240 a week for hotel type accommodation. But who has that sort of money. Pensioners will only be getting just over £140, so **how are they going to find thee other £100.**

The **cost of care** was mentioned spontaneously and suggestions that care homes should be **non-profit making**. While seeing the benefits of planning, there was **resentment** that their hard earned money would line the pockets of care home managers.

.....the **cost of care** provided by private companies is a **major objection** to me. The care provided is **varied in quality** to say the least and the inspections by the Care Commission is **not reliable**. I would like to see all care homes run by **'non profit'** organisations whose priority would be the patient not the profit margin.

I have rather **ambivalent** feelings about this. You have to pay **living costs** where ever you live. You will no longer be living in your home so essentially you do not need it. Then I have the thought that I really do not want the home I worked so hard to buy to be sold so **someone else will profit** from it by charging a fortune to look after me.

It really annoys me that **profits** are being made from the care of our elderly relatives. It should be a no profit facility. If this was the case I wouldn't mind so much about paying for my care.

I really do think **care homes costs should be capped**, as some of the charges are just criminal

Positive comment

Neutral comment

Negative comment

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Overview of reaction to long term care propositions from Prudential

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General sense that ideas would only be suitable to those who had a lot of money.

	Appeal (top 2 boxes)*	Should Pru develop (%Yes)	Main concerns
Lifestage: Working			
Idea A (Saving for care through a pension plan)	24%	24%	Affordability
& Idea B (Life Insurance)	33%	42%	
Lifestage: Retired but before require care			
Idea C (Deferred care annuity)	7%	13%	Potential loss of money if no care needed
& Idea D (Care linked annuity	16%	21%	
Lifestage: Require care			
Idea E (Immediate Needs Annuity)	9%	18%	Unrealistic vs Realistic
& Idea F (Deferred payment scheme	43%	33%	

I just wonder how people are going to **afford** to pay this **extra money**……I can't see many average workers being able to pay this amount of money every month

I would be more likely to take out an **ISA** at least that way I am in total control of my money and can access it when and whenever I need to.

Idea C is **betting** you will have to have care in the future

D is better (than C), but you still **loose** the **money** if you never need care. I'd prefer a plan where if the money isn't used for your care then it is available to become part of your estate. I.e. no risk

£100K – Totally **out of the question** for me

the main question and deciding factor for me being affordability, and the only **realistic** option in my mind was Idea F.

* How appealing do you think the proposition would be to those who are still working / who are retired but do not require care / require care? Please use a 5-point scale, where 1 means 'Not at all appealing' and 5 means 'Very appealing'

Saving for care through a pension plan has some benefits but affordability and loss of control are concerns

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Idea A: Saving for care through your pension plan

People would save additional money into their pension plan each year while they are working so that they build up a pot of additional money to cover their care costs.

42% agree this proposition has **appeal** but would want to **know more** about costs

Benefits of pension plans: including it as part of pension provision would emphasise the importance of saving for care requirements as well as tax relief

you would get extra tax relief on extra money going into pension plan

I favour idea A (over idea B) simply because this places more importance on the need for payments. Everyone will give greater importance to pension arrangements rather than any life insurance

Inheritance: members like that any money set aside and not used would be included as part of their estate so family could benefit

I like .....that family get the money if its not used for care.

78% agree this proposition is **unrealistic** for most people

Affordability: members felt that many people would not be able to **afford** the **additional monthly** payments.

Pensions for many are an extra and this fund seems like an extra too far for most of us

I don't think that many will be able to find the extra cash for these schemes while trying to make a living.

Control: for some members these ideas would result in **a loss of control** over their finances, which would not appeal to them. This links in with the general theme of a lack of trust in financial service providers that we have seen on the community lately

that I don't like the idea of yielding control in this way.....and that I would be paying over the odds for an outcome that I could engineer just as well for myself.

Pension company locking your hard earned money away for years with no guarantees of fabulous returns

Priorities: younger people were felt to have **other priorities** than planning for care e.g. mortgages, children etc.

...but I do think a 40 year old might have other priorities - usually you will have children - may be teenagers - and you know how expensive they can be. Really, it all depends on disposable income.

48% think it's a good idea, but it needs more thought

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A life insurance type product has some appeal: it would be simple and understandable, but affordability is a concern as is the ability to trust providers with their money

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Idea B: Life Insurance *

For this idea you would make a regular payment to an insurance company as you would for life insurance. If you require care, the insurance company pays out a lump sum to you. If you die before you require care, the insurance company pays out a lump to your family.

52% agree this proposition would allow people to **manage** and **achieve** their **care needs** if required

Simplicity: The idea was felt to be **simple** and **easy to understand**

Idea B sounds the better one to me, simply because it seems more **simplified**.

Flexibility: May provide **greater options** and flexibility on policy types and amounts paid than the pension option (Idea A)

Of the two b seems the more **affordable** option, with a appearing to be a very large commitment. I would be interested to see the cost of option b and the likely pay outs.

60% agree this proposition has **appeal** but would want to **know more** about costs

*Feedback on Idea B was hindered by the lack of information on how much monthly costs would be: further testing is required with more specific information.

Affordability: members felt that many people would not be able to **afford** the **additional monthly** payments.

The annual premium necessary for people to generate an eventual payout to meet care needs is almost certainly **beyond anyone** on less than the **average income** and/or over the age of 45.

However, a lot of people would also have to find the money for the regular monthly payment .....Unfortunately it all comes down to whether someone can **afford** either at the end of the day.

Trust: members were generally **not comfortable** with the idea of entrusting insurance companies with their money

What are the charges and will they be fully transparent? How can you be sure the insurance company will actually pay out a lump sum to the family on death. I am sorry to be so **sceptical** but I have read some terrible stories where some insurers have gone to any lengths to avoid paying out.

42% think it is worth Prudential developing this product

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Concerns about affordability and risk meant that the idea of a lump sum payment of £16,000 did not appeal to members

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Idea C: Deferred care annuity

For this idea you would pay a lump sum or regular payment to an insurance company (e.g. a 65 year old would typically pay £16,000 to cover their care costs of £72,000 assuming 1 in 3 people need care.)

70% agree that proposition C is **unrealistic** for most people

Choice: Allows you to **choose** the **care** you get

May suit some people who like to have insurance as a cover available, means they can **control** their **provision of care** if needed

Risky: Idea C was considered a **gamble**; a lot to pay out for possibly **no return**. Members would prefer to keep their money and remain in **control** of what happens with it

NO way would I hand over £16K to a financial company on the **chance** I may need care in the future.

....How many of the general public have £16000 lets be honest? Not many, so it would be **impossible** to get them to save or pay that into the new system.

Idea C seems a **lot to pay up front** and really the way it is explained is a bit of a **gamble**, so why not gamble that you will not need it, take a chance and keep the 16K. Not very appealing to me.

I wonder how any people would think **staking £16,000** on a **bet** with **odds of 1 in 3 against** would be a good idea. It seems pretty good for the insurance industry!

43% think it's a good idea, but it needs more thought

43% do not believe Prudential should develop this proposition

Everyday living costs and the need for all their pension was a barrier to taking a lower retirement income

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Idea D: Care linked annuity

When you retire you choose to take a lower retirement income from your pension when you retire e.g. 10% less. If you require residential care then your retirement income will double and the remaining 'pot' from your annuity will cover the costs of your care. The annuity income will stop when you die

50% agree that proposition D has appeal but would want to know more about costs

Realistic: as long as people can afford the 10% reduction then it could be a suitable option.

If people can do without 10% of their pension without starving, becoming homeless or suffering hypothermia, it may be attractive.

It is not a lot to lose (10%) but a lot to gain (double pension) if you need it.

Day to day living costs: Members were **reluctant** to **sacrifice** 10% of their pension as proposed for Idea D; they felt they **needed every penny**, especially in the current economic climate with **cost of living** increases

This is good in theory but **who will opt for picking up less** when they are fit and healthy and able to spend on the off chance that they might end up in a care home?

Taking a reduced pension is also a **weak idea** because so very many pensioners need all their pension. Again we are looking at those who are **well off.**

No way would I like to lose 10% of my pension **I just about get enough** to let me live comfortably if I had the choice of having a happy comfortable retirement or paying into a care scheme comfortable retirement will win every time

48% think it's a good idea, but it needs more thought

A lump sum payment of £100,000 was unachievable for most and therefore not a viable option

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IDEA E: Immediate needs annuity

For this idea you would pay a lump sum to an insurance company. The insurance company then guarantees to meet your care costs for the remainder of your life.

85% agree that proposition E is unrealistic for most people

This idea was considered completely unrealistic and unobtainable for most members: a lot of money to pay upfront but with potentially little return

I am also in a position to pay £100,000 to an insurance company. To do so would be **lunacy**. It makes more sense to leave the money where it is and watch it grow. If I need care then the money will be there and if not I can take that world cruise and still have some left to leave. Therefore option E is a non starter.

IDEA E is a **non-starter**. How many people have £100,000 (or even half of that amount) to pay for such an annuity?

Idea E is completely **out of the question**, and I am sorry to most people **unrealistic**. Perhaps ok for bankers or politicians.

43% do not believe Prudential should develop this proposition

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The deferred payment scheme appealed as it left people in control of their finances and care costs were only paid if required

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IDEA F: Deferred payment scheme

With this idea the local authority pays for your care. You owe the local authority £72,000 which they will get from your estate when you die. You could use the life insurance idea (B) to ensure your family are not faced with a bill when you die.

55% agree this proposition would allow people to **manage** and **achieve** their **care needs** if required

+

55% agree that proposition F has **appeal** but would want to **know more** about costs

This idea had the greatest appeal to members; it was considered realistic and to have the least impact on individuals

Considered the least risky option as members can keep hold of their own money and only pay out if necessary after death.

I prefer IDEA F because it leaves you in **control** of your assets while you are alive and your care costs will be paid after you are dead and you no longer need your assets. Also being dead you won't mind much if your home is sold etc.

Idea F is **good**. That's the one for me. I can **keep my money** and the house will more than cover the fees for both of us. This is a **painless** and **risk free** approach. Let the kids sort it out when I'm gone.

Idea F seems **plausible** and would have the least impact on the individual

Questions were asked about what happens if you don't have any assets or an estate an how would LA's cover the costs?

Idea F Of all the 6 ideas this seems the most **realistic**, **affordable**, **manageable**, and this would be the one I went for if I had to

Idea F possibly but what happens if you have not got any estate to pay out if you die what happens then. Not everyone has got an estate to leave to settle their debts at the end.

42% think it is worth Prudential developing this product

48% think it's a good idea, but it needs more thought

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Suggestions / Alternative

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Money matters members had some suggestions / alternative solutions to how the long term care costs could be met or planned for:

Could pharmaceutical companies help cover some of the costs?

All the efforts to extend life have caused the care problems, so the **profit makers from wonder drugs** that keep us going should cough up a few quid to the system..

Alternative saving options e.g. ISA's had a greater appeal: Meant people can stay in control of their own finances

With these products I would be committing myself to a long-term contract, with penalties etc. With savings accounts and investments (such as equity ISAs) I have **total flexibility** to chop and change. I prefer the idea of investing for the future over the idea of taking a gamble on the future.

Can people who pay for their care have a choice of what level of care they get? Many not happy at the prospect of having the same level of care as those who haven't paid

I would however expect to be cared for at a **higher standard** than those who pay nothing towards their keep

Recommendations

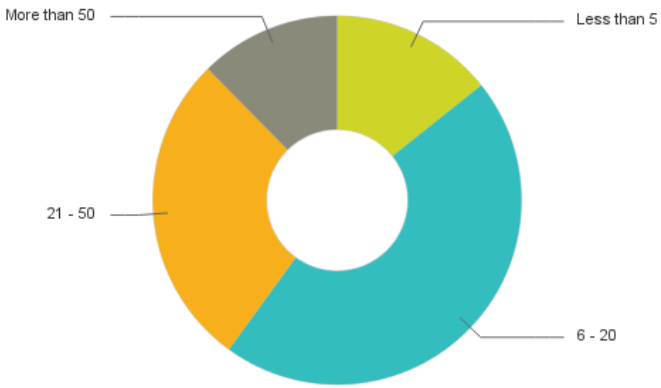
- While the Governments proposals are generally welcomed, some residual concerns need to be addressed e.g. members queried why National Insurance was not sufficient to cover care costs?
- Is there scope to review the costs of care provision so that people will not resent their savings being used to profit care home owners?
- Can pharmaceutical companies contribute to the costs of care?
- The ideas presented to Money Matters members raised a number of questions so greater clarity of the implications / terms of any of these ideas is required before people will consider them.
- Certain ideas had greater appeal than others; feasibility reports will be needed before any ideas are introduced
- This report gives a topline summary of the reaction of a small number of people to the ideas; these all need to be developed further and tested with a wider audience, and an audience who they would be relevant to before any further insights can be drawn.

SOLLA WITH ABI – FINANCIAL ADVICE AND LONG TERM CARE

Background to survey: Questionnaire developed by ABI and emailed to members of the Society of Later Life Advisers (SOLLA) for response from Thursday 20 June to Friday 29 June 2013. There were 105 responses in this period.

Q1 In the last year, how many times did you provide financial advice to someone where paying for long term care was discussed?

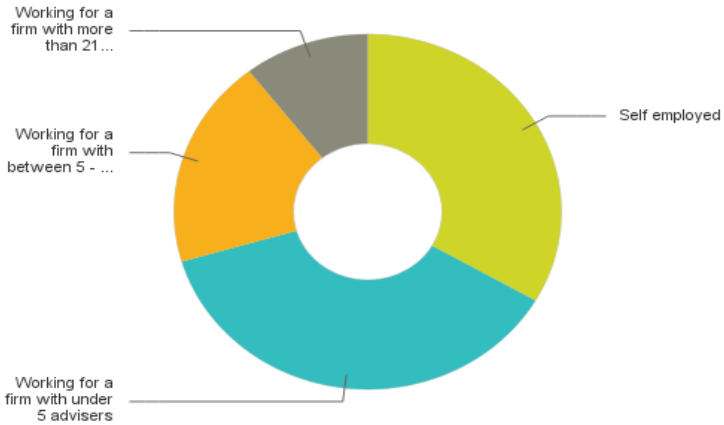
Answered: 105 Skipped: 0



Answer Choices	Responses
Less than 5	14.29% (15)
6 - 20	45.71% (48)
21 - 50	27.62% (29)
More than 50	12.38% (13)
Total	105

Q2 Are you...

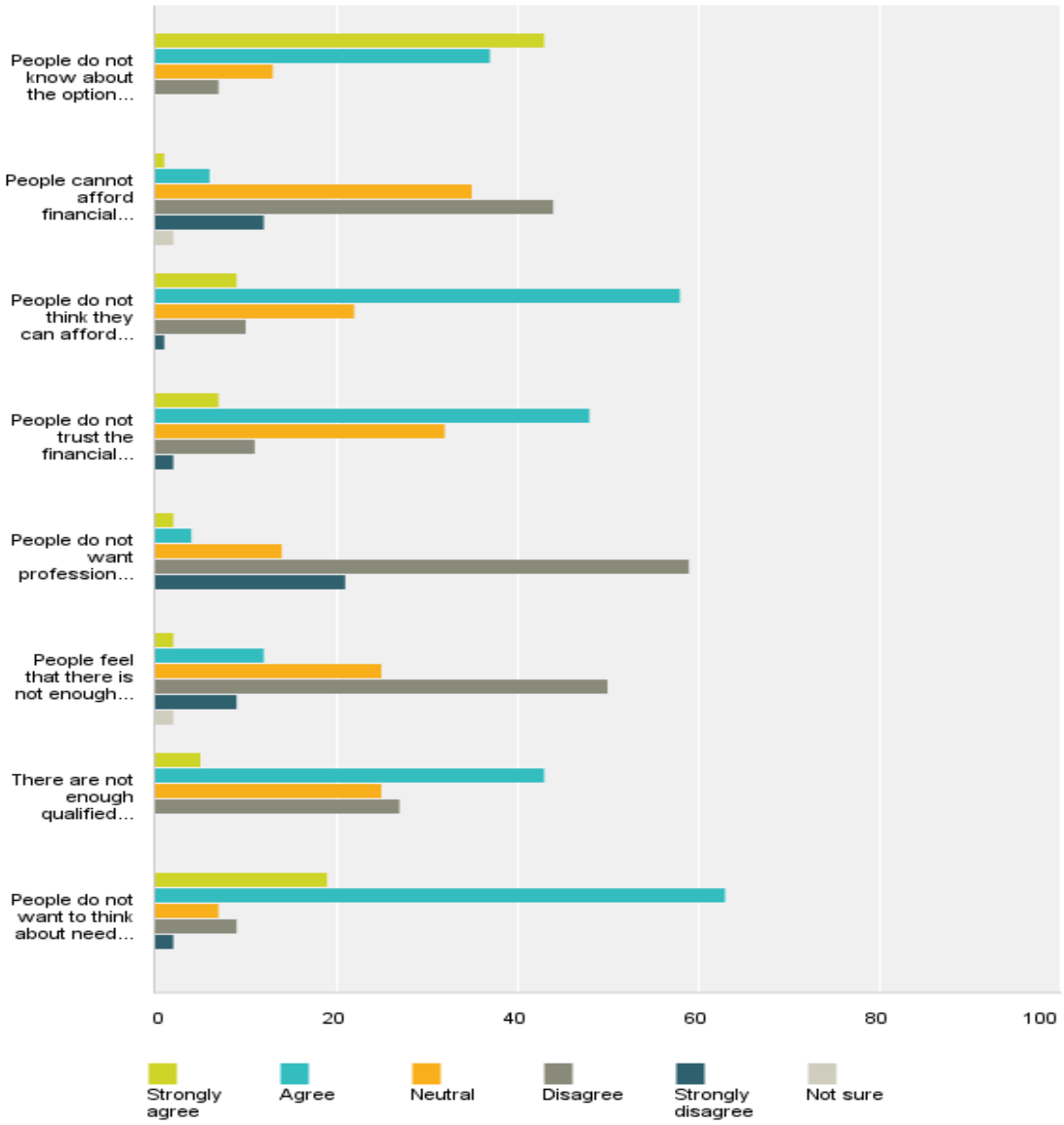
Answered: 105 Skipped: 0



Answer Choices	Responses
Self employed	33.33% (35)
Working for a firm with under 5 advisers	37.14% (39)
Working for a firm with between 5 - 20 advisers	19.05% (20)
Working for a firm with more than 21 advisers	10.48% (11)
Total	105

Q3 Please tell us whether you agree or not with the following statements about barriers to people accessing financial advice for long term care costs:

Answered: 100 Skipped: 5



	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Not sure	Total
People do not know about the option of financial advice	43%	37%	13%	7%	0%	0%	100
People cannot afford financial advice	1%	6%	35%	44%	12%	2%	100
People do not think they can afford financial advice	9%	58%	22%	10%	1%	0%	100
People do not trust the financial services industry	7c%	48%	32%	11%	2%	0%	100
People do not want professional advice	2%	4%	14%	59%	21%	0%	100
People feel that there is not enough time to take advice	2%	12%	25%	50%	9%	2%	100
There are not enough qualified advisers	5%	43%	25%	27%	0%	0%	100
People do not want to think about needing care	19%	63%	7%	9%	2%	0%	100

Q4. What are the two improvements that could be introduced to help people access financial advice? (e.g. a referral system where the local authority refers someone to a financial adviser, or an awareness campaign)

- The most popular suggestion, by over half of respondents, was to refer people to financial advice. While many respondents agreed that Local Authorities should refer people, there was also agreement that other organisations could also refer people, including care homes, GPs and NHS staff, and charities like Citizens' Advice Bureaux and Age UK. Several respondents suggested that referral could occur when someone accesses Attendance Allowance or requests a Power of Attorney.
    - There were specific suggestions about how this could be achieved, including opening up the existing adviser panels to a greater number of advisers, putting the requirement in legislation, and penalising people financially if they refuse financial advice.
- There was also agreement by a significant number of respondents that an awareness campaign would help support people. Some felt that public awareness would involve Government explaining proposals more transparently and/or making the system simpler.
- Respondents felt that awareness should include information about the role and work of later life advisers, including their fees.
- There was also belief that improvements would occur if the financial adviser role was promoted by colleagues in the care sector, including Government, NHS and care home staff, and Local authority staff. There was an acknowledgement that an education piece was needed here as well, as some colleagues in the sector are not well-versed in what financial advisers do and may mistrust the financial sector.
- Some respondents felt that product providers could improve their marketing with better targeting and more specific information, as well as improving/increasing the number of products available.
- There was a strong call for better working together between all involved, including the charitable sector, care homes, the health sector, providers, and advisers.
- Finally, there were suggestions about improving trust in financial advisers, including having a central publically accessible register of regulated later life advisers, requiring higher qualifications for advisers, and for all advisers to include long term care in fact finds.
- Specific recommendations included for Government to make advice more affordable by introducing a Legal Aid-like system of free advice to low-income people, solicitors taking on a broader role and taking more responsibility for the financial wellbeing of clients, for care homes to have financial advisers sign off financial arrangements before clients can enter care, and tailored advice on Scotland.

Q5. From your experience of advising clients, what kind of long term care products do people ask for?

- The majority of respondents' experience is that clients do not "ask" for products. Some felt that this was because clients are not sufficiently aware of products to make a request in the first place. In fact, their experience was that clients tend to make more generic requests for advice and, where a specific need is identified, it tends to be in terms such as getting "help producing income to pay for fees".
- Where products are specifically requested, these tend to be Immediate Needs Annuities and pre-funded products. Other products mentioned by respondents include: investment products, equity release, pensions and annuities, lump sum enhanced annuities, and savings and bonds.
- Clients also make request for information about State 'products' like how to access State benefits.
- Respondents noted that clients tend to ask for specific features, rather than a product. Some of the features named include:
  - Income generating
  - Comprehensive
  - Low cost
  - Providing peace of mind
  - Ability to pass on unused amount to next generation
  - Asset protection

Simple.
Comprehensive.
Low Cost!

- Respondents also felt that some clients have unrealistic expectations

They want the income without having to buy it. In other words a miracle.

- It was also mentioned by several respondents that arranging Immediate Needs Annuities for relatives can trigger a request from clients for information about any pre-funded products for themselves.

Q6. From your experience of advising clients, what kind of long term care products do people need?

- The greatest product need identified by respondents was for Immediate Needs Annuities, with a number of respondents asking for more competition in the market.
- Secondly, there was a call for pre-funded or risk-based insurance products with at least one respondent suggesting these should be incentivised.
- Other products mentioned include:
  - Disability-linked annuities
  - Deferred payment scheme
  - Equity Release
  - Hybrid products
  - Savings vehicles
  - Annuities, including lump sum enhanced annuities

> What they need and what they are prepared to pay for are completely different things.... Their attitude is if they can't pay for the fees the care home won't throw them out.

- Product features requested include products:
  - That are simple and value for money
  - That generate income
  - With an investment element
  - With capital protection periods
  - With asset protection (ability to pass on to next generation)
  - That provide certainty and cover all care costs

> Those which can provide peace of mind and security, easy to understand and good value for money.

- Some features were named specifically for annuities:
  - Short term annuities
  - Ability to increase income at point of care
  - Ability to pay to registered care provider like an INA
  - Allows early access to fund care.

> They need to be aware of the options available to them that best suit their needs and objectives.

- In a similar vein to responses to question 5, respondents felt that the financial advice was the key product and that individual circumstances determine what is needed, which can often be a mixture of products.
- There was also a feeling that people need a plan or strategy, with a key component of that plan being income management.

ANNEX 2
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