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Incentivising Care Funding – A Social Imperative

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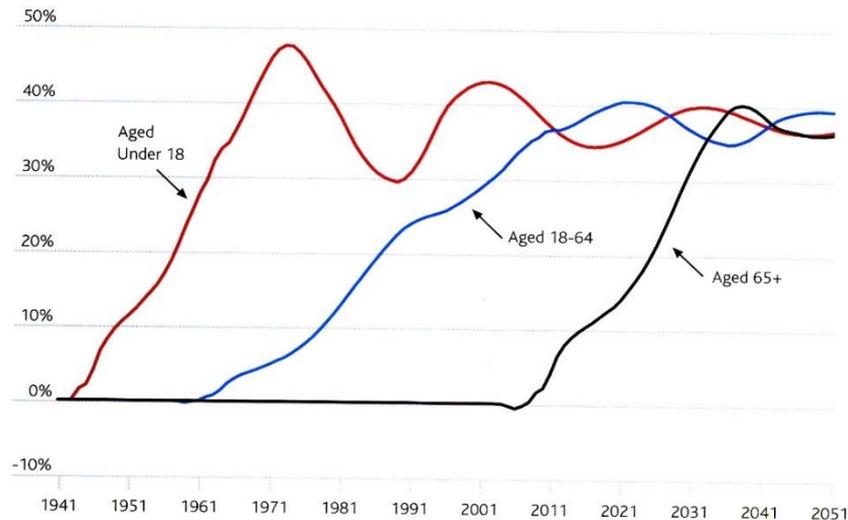
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Demographics demand action Now!

- Huge rise in numbers age 85+ ahead
- Pensions Crisis becomes Care Crisis
- No money set aside at national, local or individual level



Source: Pensions Commission analysis based on a synthetic model of the England and Wales population



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Next Crisis In Our Aging Population

- Worse than pensions crisis
- With pensions we could delay start date, albeit belatedly
- With care, once needed, it can't wait
- Most assume NHS will pay, but it won't
- Care spending being cut from already inadequate levels
 - No spending on prevention/early intervention
 - Self-payers subsidising local authority underspend
- NHS 'safety net' to run out of resources



Health & Care – artificial distinction

- Health need: taxpayer pays all, NHS unlimited funding
- Social care need: taxpayer pays none, council means-test funding
- Unfair and unsustainable – all are health issues
 - Cancer vs. dementia
- Heading for more severe rationing as councils struggle
- Need integration of health and care



Care – Two Stages

- Short term: Address inadequate current funding
- High costs coming soon from catastrophic events, serious illness
- Insurance as well as savings – ultimately state picks up
- Need money to pay for what's required before it's too late
- Long-term: Set up new system to help people prepare for future
- Early intervention can prevent much more expensive costs later
- Planning to pay for future long-term care – savings + insurance?



Failure to plan for Social Care

- Crisis due to good news – as life expectancy and health improve
- BUT – care funding falling as demand rising
- Welfare State/NI didn't cover care costs of an ageing population
 - Beveridge covers pensions, unemployment and illness, not care
- Inadequate planning for demographic realities – it's already very late
- Must bring social care into 21st Century



Di not to the rescue... no!

- Raising means-test to $>£100,000$ good, but £12,000p.a. hotel costs
- £72,000 cap isn't a cap - spend c.£150,000 before any help
- Only starts once needs substantial – no early intervention
- Only get minimum council standard, if want more must pay
- Where can money come from? Deferred payment plans limited
- Insurers say cap too high to make insurance viable



Main Failings of Current System

- Unpredictable, unfair, unmet need
- Inadequate funding forcing falling standards
- 15 minute visits and minimum wages
- Insufficient information or advice – people don't plan ahead
- Strain on NHS 'safety net' will keep growing
- Must urgently get funding at national and individual levels



How can we improve funding?

- There is no single solution
- Savings-based solutions – may need incentives for care saving
 - Care ISAs
 - Pension withdrawals tax free if used for care
 - Family Care Saving Plans
 - Workplace Savings or Insurance Plans – auto-enrolment?
 - Care Annuities/Equity release
- Insurance-based solutions - not yet viable?



Incentivising care saving

- New tax incentives would signal publicly the need to prepare
- No money set aside but decent society can't deny care to its elderly
- Families don't know they need money for care
- This is vital for younger generations too
- But we must prepare properly – savings / insurance



Care ISA

- New ISA allowance to encourage care saving
- Allow people to transfer existing ISA to become a Care ISA
- If money stays locked in can pass on IHT free on death if unused
- Care fund for next generation
- Perhaps £10,000 pa, up to £50,000 per person total contribution?
- Can fund care needs before state would help – could pay for others?



Using pensions to fund care

- New pension reforms encourage more money into pensions
- No more forced annuitisation (once annuitised, fund is gone)
- No more 55% tax on death, encourages money to stay in pensions
- If money is left till later life it can help with care needs
- Further incentive – withdrawal tax free if used for care



Family care saving plans

- Consider introducing saving plans for families or affinity groups
- New customer unit for the savings industry?
- Pensions may be needed by everyone, care is perhaps 1 in 3 or 1 in 4
- But don't know which one, so join together to save can cost less
- Within any couple – at least a 50/50 chance of needing care?
- Catastrophe insurance in case probability higher than expected?



Workplace saving plans

- Older workers may need time off for elder care
- A savings or insurance plan can pay when or if need arises
- Employers could help with saving for care, some express interest
- Use for homecare or telecare? Eldercare vouchers?
- Similar principle to pensions – auto-enrolment, tax relief?
- e.g. auto-enrolment contribution/auto-escalation for care



Insurance?

- Care cap too high for insurance up to the cap
- Insurers might insure catastrophe but not unlimited payout
- Could help with prevention – e.g. house insurer demands locks, smoke alarm, burglar alarm
- Could national insurance be adapted?
- Labour's 'death tax' was worth pursuing further!



Annuities/Equity Release

- Currently the only real options – only at point of need
- Not for preparing in advance though
- May help some but not a broad solution
- Downsizing home for homecare is better done in advance
- Need to build more suitable housing – alternative pension assets?



Government Must help More

- Information, education and advice for people and families
- Tax incentives for care saving
- Insurance – both national and individual may be needed
- Hypothecate National Insurance?
- Tax on estates?
- Extend the Welfare State to cover care in later life



Changing the Terms of the Debate

- Social care is not just about old people
- It's about families and loved ones
- A family member may need care, if not ourselves
- More integration of health and care budgets for older citizens
- Incentives for care services to save money to NHS
- Incentives for GPs to save money on future care



Integrating NHS and Social Care

- Good social care could save older lives better than doctors
- Expedite out of hospital into homecare
- Better for individuals to stay at home longer if they can
 - independence, choice, personalisation, familiarity
- Prescribing domiciliary care can save NHS money
- Support for family carers + telehealth and telecare



Conclusions

- Ageing population should be great news but...
- We haven't prepared – next crisis after pensions already starting
- Big challenges – NHS can't cope and care cap isn't a solution
- Need to fund care in advance, not at point of need
 - Care savings incentives, insurance, prevention?
- Integrate care into NHS + maybe future national insurance reform
- A new 21st Century Beveridge – it's a social imperative



Questions

Comments

Let's discuss...

The views expressed in this presentation are solely those of Dr. Ros Altmann and do not construe any investment advice.



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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