Institute and Faculty of Actuaries

# Social care funding in England

## IFoA response to House of Lords Economic Affairs Select Committee inquiry

8 October 2018

## About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues. To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to Government, policymakers, regulators and other stakeholders, in order to shape public policy.

Actuarial science is founded on mathematical and statistical techniques used in insurance, pension fund management and investment. Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and this long term view is reflected in our approach to analysing policy developments. A rigorous examination system, programme of continuous professional development and a professional code of conduct supports high standards and reflects the significant role of the profession in society.

Institute and Faculty of Actuaries

Lord Forsyth of Drumlean
Chair, House of Lords Economic Affairs Select Committee
House of Lords
London
SW1A 0PW

9 October 2018

Dear Lord Forsyth,

**RE: IFoA response to House of Lords Economic Affairs Select Committee inquiry on social care funding in England**

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the House of Lords Economic Affairs Select Committee inquiry on social care funding in England. The IFoA is the UK's only chartered professional body dedicated to educating, developing and regulating actuaries. We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues.

2. UK actuaries have been involved in quantifying and managing long term care risk in the insurance context since the 1990s. The evolution of models for health provision to meet changing needs is a feature of both public and private sector work, and actuaries work with other health professionals to find appropriate solutions for private medical insurance, income protection, critical illness, and long-term care insurance.

3. IFoA members have produced a number of research reports on the sustainability of adult social care funding, in particular, analysing the costs for self-funders and the balance between State and personal funding. Our members are working on further analysis ahead of the expected green paper, with a view to assisting the Government as it looks for ways to meet the changing needs, demands and expectations of the health and care system as a result of changing demographics.

Responses to inquiry questions

**Question 1: What are the funding challenges for social care in England, and how can they be overcome?**

4. The funding challenges facing the care system are largely driven by the UK's changing demographics, in particular the ageing population. The population is growing, individuals are living longer, and in the coming decades there will be a growing proportion of older

people in the population. The number of those over the age of 75 is projected to double over the next 30 years[1].

5. However, improvements in healthy life expectancy are not keeping pace with this increasing longevity. Males can now expect to spend 16.1 years in poor health in later life, and females 19 years[2]. Research also suggests that the prevalence of multi-morbidity (the presence of 2 or more conditions) is forecast to rise, not just in the retired population, but in younger age groups too[3].

6. All these trends point towards increased pressure on public services, in particular health and social care, as the number of people using public services outnumbers the number of those paying into the system through general taxation (i.e. the working age population). Taking social care as an example, already 1.2 million people do not have access to the social care they need – a 48% increase from 2010[4]. This should not be seen as older people creating a 'burden' on health and care services, but a demonstration that the system is inadequate.

7. It is also worth noting that the family unit providing support to elderly members is likely to face stresses as families tend to be more spread geographically. Often care is provided by the partner who are themselves elderly. The proposed system has to find a better way to support the elder and their partners/families to provide care at home for a longer period.

8. In order to meet these challenges, the government will need to strike a balance between state and individual funding to meet health and care needs within a sustainable framework. However, while actuaries are able to comment primarily on funding aspects of the issue, the profession also has a good appreciation of risk frameworks, and there is a significant risk that the social care system in its current form is not structured in the most efficient way, leading to a waste of funding. The government should also consider innovative approaches to help deliver the efficiencies needed to address the funding constraints.

9. More broadly, we recommend that a combination of approaches might be necessary for a truly long-term funding model, in order to avoid exacerbating issues around intergenerational fairness. This might include one solution for those already in retirement, or with care needs, and one for the working population with potential future care needs. In particular, we would caution the government from asking younger generations to bear a disproportionate amount of the costs of supporting the current older generation, particular when this cohort may, generally, be able to rely on housing wealth.

10. For example, this may include a solution that enables people with care needs, or who are already in retirement, to use some of the value in their homes to fund their care costs, without having to move out of their home. One product where the market is already rapidly growing, and where the regulatory framework is already taking steps to adapt to growing demand, is equity release.

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[1] ONS (2016) National Population Projections, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections

[2] Public Health England, Health profile for England, Chapter 1: life expectancy and healthy life expectancy, July 2017 https://www.gov.uk/government/publications/health-profile-for-england/chapter-1-life-expectancy-andhealthy-life-expectancy

[3] A Kingston, L Robinson, H Booth, M Knapp, C Jagger, Projections of multi-morbidity in the older population in England to 2035: estimates from the Population Ageing and Care Simulation, Age and Ageing, 2018

[4] Age UK, Care in Crisis, 13 October 2017 https://www.ageuk.org.uk/our-impact/campaigning/care-in-crisis/

11. There is a sizeable group of older people on low income for whom moving house would be impractical but for whom a higher income could significantly help improve their day-to-day life and wellbeing – particularly older retirees who live alone and may have current or impending care needs. Equity release mortgages enable a residential property owner to release part of the value of their property without having to sell the home immediately and they can continue to live there until they die or go into residential care. The released equity in the property could be used to fund social care costs, or pay for improvements that enable people to live independently in their home for longer.

12. Conversely, a pre-funded model, whereby the working age population takes action now, where they can afford to, could enable them to better prepare for potential future care costs. However, the current means testing approach acts as a disincentive to save or insure in this way. A recent IFoA paper explores the idea of a prefunded model in more detail, with reference to the virtues of the German system.

13. There are also a range of both insurance and savings-based financial products that already exist on the market, that could be suitable for certain parts of the working population, depending on their wealth, assets, risk appetite and health. In addition, the pension reforms of 2015 will enable individuals with defined contribution pension pots the flexibility to access money from their pension to pay for care. However, whilst it is too soon to know the impact of the reforms, policymakers should be alive to the risk that the 'Freedom and Choice' agenda could in fact create a greater burden on the social care system, particularly if individuals spend down their pension pot too quickly, or underestimate their need for care later.

**Question 2: Why have successive governments been reluctant to address challenges in the delivery of social care?**

14. Our view is that, for future reform to be successful, it will be crucial for the Government to raise awareness of the current system and the risk of care costs to the public. This would enable the public to make a better informed view of any future Government proposal and could avoid the misconceptions that we have seen in the past. The government should therefore consider initiatives that encourage a greater national conversation about the role of the state and the individual, and how society as a whole should meet these needs.

**Question 3: How can a sustainable funding model for social care supported by a diverse and stable market be created?**

15. We would point to the reforms of workplace pensions following the Turner Commission which ultimately led to the creation of automatic enrolment, considered to be one of the most successful policy interventions in recent years. Legislated for by the Labour Government with cross-party support following the recommendations of the Commission, and implemented by the Coalition Government, membership of occupational schemes reached a record high of 51.1 million in 2017[5]. The success of the policy is in large part due to its development by cross-party agreement, and that the framework of the Commission reduced the politicised nature of the issue, allowing for genuine, long-term policymaking to be achieved, the results of which will have an impact far beyond a single Parliament. The stability and certainty of the process has also fostered an active and competitive workplace pensions market. Whilst we would not recommend the

[5] ONS figures

establishment of another independent commission, we believe there are a number of relevant lessons to be learnt from the experience of automatic enrolment from a process perspective. Any attempt to build consensus or even principles for reform through cross-party dialogue would be a welcome step forward.

**Question 4: How can the cost of the provision of social care be fairly distributed?**

16. The number of people with care needs in later life is rising and, worryingly, so is the number of people with unmet care needs. It is important that we meet these needs, but that in doing so we do not place an unfair burden on younger and future generations. This could be achieved by introducing policies that mean those who are able to meet some of their care costs do so within a framework that is sustainable in the long-term. In addition, as previously mentioned, government should also consider making changes to the existing means testing approach as in its current form, it acts as a disincentive to save or insure for care costs, particuarly for lower or middle income earners.

17. As referenced earlier, we recommend that government should consider both immediate solutions designed for current older generations to use their assets without having to sell their home, such as innovation in the pensions and equity release markets, alongside longer-term solutions for the current working age population that have an element of prefunded solutions for social care.

**Question 5: What lessons can be learnt from elsewhere in the United Kingdom, or from other countries, in how they approach social care?**

18. Germany, Japan and Singapore are three of a number of countries that IFoA members have analysed in recent years, which have national insurance programs that could provide examples for a long-term solution in England.

19. In Germany, there is a mixture of social and private insurance schemes. Compulsory social insurance was introduced in 1995. However, those with higher incomes, civil servants and the self-employed may opt for private insurance instead of the social insurance. Contributions to social insurance are split between the individual and the employer. This structure enables both public and private systems to sit alongside one another. Members of the public are aware that both the public and private insurance will cover only a portion of the care costs and that the family needs to pay the balance.

20. In 2000, Japan created a care social insurance programme. This programme covers domiciliary and residential care and the benefits are set nationally. It is compulsory for those over 40 years of age to contribute and it offers access to social care for those aged over 65. The level of contribution is dependent on income, but the benefit is dependent on need, as opposed to being means tested.

21. Another interesting example of a strong social underpin supported by financial services is Singapore. In 2017, the Bloomberg Global Health Index ranked Singapore as number four in the world and another Bloomberg index of the world's most efficient healthcare systems ranked Singapore first in 2014 and second in 2017. The Government-run mandatory insurance scheme in Singapore is ElderShield, but it will be replaced by CareShield Life from 2020 for younger cohorts. Both of these schemes are pre-funded, not pay-as-you-go, so that each cohort contributes to its own care costs and avoids passing the burden to future generations and the risk-pooling element helps to keep the scheme sustainable.

22. Singapore is also improving sustainability of the system by taking a preventative approach by focusing Government campaigns on healthy living in old-age and moving towards universal coverage for future generations. In recognition that long-term care needs can be diverse they are striving for a system that is sufficiently flexible to enable individuals to use the services most appropriate for their care needs and circumstances. Whether care is provided at home, by day care centres or nursing homes, or whether it is provided by formal caregivers or by family members.

23. Finally, the multi-layered system operates in a way that avoids the pitfalls of moral hazard when consumers stay in care when they no longer need it, as well as adverse selection. This has resulted in cost-sharing features on both the supply and demand sides of healthcare further supporting sustainable financing of the system.

24. Lessons can also be learned from France in terms of the benefits of raising awareness. The French Government has managed to significantly increase the amount of private provision for care through a Government-led public awareness campaign. Part of this awareness stems from families being required to play a key role in financing and assisting with LTC - so like the German system there is no expectation that costs will be met in full by social insurance.

25. In the Care Act 2014, for the first time the UK Government legislated for changes to the current system with the aim of encouraging innovation in this market. The lack of market response was cited as one of the reasons for the deferral of these reforms to 2020. If the Government genuinely wants people to be aware that they may have to fund care needs themselves and to make provisions then we believe widespread public engagement is needed.

Should you want to discuss any of the points raised please contact Henry Thompson, Policy Manager (Henry.Thompson@actuaries.org.uk / 0207 632 2135) in the first instance.

Yours sincerely,

**Jules Constantinou**
**President, Institute and Faculty of Actuaries**