‘The Value of Advice’
Welcome from the Chair

Tish Hanifan Barrister - Joint Chairman, SOLLA

Lord Lipsey
Honorary President SOLLA
Chairman of the 2013 Conference
A Global Perspective of Later Life Issues and Care

Colin Dutkiewicz
Director, Europe, Middle East & Africa Swiss Re Services Ltd
Worldmapper: Land Area
Worldmapper: Total Population
Worldmapper: Elderly Population
Worldmapper: Public Health Spending
Worldmapper: Private Health Spending
Key Points

1. Advice has a quantifiable value (net of costs)
2. Care funding depends on cultural norms
3. Post-retirement protection products are big business
Advice has a quantifiable Value
GOOD DECISIONS and ACTION vs THE OTHER OPTIONS.
Value of Advice

■ General Insurance

■ Investment Growth
  - 5% after inflation over 20 years, minus costs (incl fees)

■ Insurance
  - Worse than average – Fantastic value for money
  - Better than average – Poor value for money

■ Maximise benefits
  - Private Medical
  - Employee Benefits
  - State Benefits

■ Social Value of Insurance
  - Surrounding social environment
Care Funding depends on Cultural Norms
Care Funding Options

Pre-fund Insurance

Accumulation Phase

Protection and Annuitisation Phase

Post-fund
Equity Release
Spend Inheritance
Viatical Settlement

Death
Disability
Unemployment

Age 25

Insurance Savings Family & Friends State
Social Contract

- State should provide
- State safety net (breadline)
- Employer Provide Benefits (State duty to provide jobs)
- Completely look after yourself
Post-retirement Care is Big Business
Old Age Dependency vs Out of Pocket health spend

Old age dependency ratio: Ratio of those people older than 64 to those aged 15-64
Note 1: Estimated savings pot at retirement at 2010, based on HSBC Retirement Report for each country
Source: AXCO Reports, EIU, WHO, BCG Analysis
# Types of Health Insurance owned

<table>
<thead>
<tr>
<th>Health insurance penetration</th>
<th>China</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>Korea</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>65%</td>
<td>28%</td>
<td>28%</td>
<td>57%</td>
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<tr>
<td>72%</td>
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<td>57%</td>
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## Type of health insurance owned

<table>
<thead>
<tr>
<th>Pre-retiree</th>
<th>Retiree</th>
<th>Pre-retiree</th>
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<th>Pre-retiree</th>
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</thead>
<tbody>
<tr>
<td>Medical reimbursement plan</td>
<td>Critical illness</td>
<td>Outpatient</td>
<td>Hospital cash</td>
<td>Disability income</td>
<td>Long term care</td>
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<td>35%</td>
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<td>4%</td>
<td>14%</td>
<td>2%</td>
<td>2%</td>
<td>39%</td>
<td>13%</td>
<td>35%</td>
<td>13%</td>
<td>39%</td>
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<tr>
<td>46%</td>
<td>21%</td>
<td>13%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>44%</td>
<td>13%</td>
<td>46%</td>
<td>13%</td>
<td>44%</td>
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<tr>
<td>47%</td>
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<tr>
<td>5%</td>
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</tr>
</tbody>
</table>

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*Medical reimbursement plan, Critical illness, Outpatient, Hospital cash, Disability income, Long term care*
Japan, Korea and Taiwan are more advanced in offering PRH products

<table>
<thead>
<tr>
<th>China</th>
<th>Japan</th>
<th>Korea and Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care-free Long Term Nursing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ LTC product</td>
<td>▪ New Gentle EVER</td>
<td>▪ Whole of life medical insurance</td>
</tr>
<tr>
<td>▪ SP or limited pay RP</td>
<td>▪ Medical insurance for those with chronic disease, targeting older people</td>
<td>sold in Korea and Taiwan</td>
</tr>
<tr>
<td>▪ Coverage to age 100, but eligible before 59</td>
<td>▪ Covers up to age 80</td>
<td></td>
</tr>
<tr>
<td>▪ 12% of SA p.a. on disability before 60 or survival past 60</td>
<td>▪ Eligibility in old age</td>
<td></td>
</tr>
<tr>
<td>Annuity (term)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Accumulated savings until retirement (low accumulation rate)</td>
<td>▪ Future Support</td>
<td>▪ Perfect integrated insurance 1.0</td>
</tr>
<tr>
<td>▪ Guaranteed term annuity at retirement</td>
<td>▪ Medical and cancer insurance</td>
<td>▪ CI, LTC and medical insurance</td>
</tr>
<tr>
<td>▪ Term up to age 80+</td>
<td>▪ Hospitalization, death, CI and LTC benefit</td>
<td>▪ CI protection age 80 years and LTC is covered until the death.</td>
</tr>
<tr>
<td>Annuity (whole life)</td>
<td>▪ 30 year payment for those below 60 and whole for those above</td>
<td>▪ Cover the whole family (up to 3 persons)</td>
</tr>
<tr>
<td>▪ Whole of life immediate annuity product</td>
<td></td>
<td>▪ Eligibility until age 65</td>
</tr>
<tr>
<td>▪ Purchase at retirement age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Kangxin&quot; Long Time Nursing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ LTC income on disability (and death benefit)</td>
<td>▪ Smart Vision</td>
<td></td>
</tr>
<tr>
<td>▪ Coverage until age 80</td>
<td>▪ Hospital cash (to top-up government provision of medical for old age), with ROP</td>
<td></td>
</tr>
<tr>
<td>▪ Eligibility before age 60</td>
<td>▪ Covers whole life (up to 100)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Eligibility in old age</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company's website, Swiss Re research

Average single premium of USD60k for age 60-65
# Example scan of products in Hong Kong, Singapore and Malaysia

## Hong Kong

<table>
<thead>
<tr>
<th>I'm Well</th>
<th>Pru Parent</th>
<th>PRU Senior Med</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed medical insurance into retirement</td>
<td>Hospitalization and LTC for those looking to support their parents (until age 85)</td>
<td>Term life policy with medical benefits</td>
</tr>
<tr>
<td>Hospitalization and surgical</td>
<td>LTC in monthly benefits</td>
<td>Hospitalization until age 80</td>
</tr>
<tr>
<td>Guaranteed coverage to age 100</td>
<td></td>
<td>Eligibility from age 45-70</td>
</tr>
<tr>
<td>Eligibility before age 70</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Long Term Care Continuing Income Benefit

- LTC
- Income on disability
- Eligibility before age 65

## Early Income Annuity Plan

- Annuity to age 99 or 20 yrs
- Accumulation period, e.g. premium for 3 years / or SP
- Non-guaranteed element as bonus

## Guaranteed immediate annuity

- Lifetime annuity for those aged 55-75
- Annuity based on yield on SP from 5-7%
- ROP at maturity

## State sponsored Eldershield

- Compulsory LTC for citizens and PRs
- Premiums paid from social security Medisave account
- Monthly income on disability

## Mediguard Senior

- Medical insurance
- Hospitalization benefits
- Eligibility from age 56-65
- Guaranteed renewal up to 75, age 80 discretionary

Source: Company's website, Swiss Re Research
US dominates Long Term Care

LTC Primary Market Premiums Inforce 2009

USD m

United States
France
Israel
Asia
Canada
Germany
Other Europe (incl. UK)
# US market standard product

<table>
<thead>
<tr>
<th>Product</th>
<th>Typical American Reimbursement Product</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Loss of at least 2 out of 6 ADLs for at least 3 months. Severe cognitive impairment</td>
</tr>
<tr>
<td><strong>Cover provided</strong></td>
<td>Reimbursement of certain health services and care in accordance with specified policy limits (nursing in skilled facility or at home, nursing homes, plan of care…)</td>
</tr>
<tr>
<td><strong>Insured’s choice</strong></td>
<td>Services and care (care at home, unskilled nursing facility, nursing homes, plans of care) and choice of daily limit</td>
</tr>
<tr>
<td><strong>Medical underwriting</strong></td>
<td>Full</td>
</tr>
<tr>
<td><strong>Issue age</strong></td>
<td>18 to 89 years</td>
</tr>
<tr>
<td><strong>Waiting period</strong></td>
<td>6 months (pre-existing conditions)</td>
</tr>
<tr>
<td><strong>Deductible</strong></td>
<td>0, 7, 30, 90, 180 or 365 days (insured’s choice, deductible sometimes imposed by the insurer for medical reasons)</td>
</tr>
<tr>
<td><strong>Annuities</strong></td>
<td>Temporary annuities(2, 3, 4, 5, or 10 years), seldom whole life (insured’s choice, duration of annuity sometimes imposed by the Insurer for medical reasons)</td>
</tr>
<tr>
<td><strong>Paid-up value</strong></td>
<td>Reduction in reimbursement limit or period of reimbursement</td>
</tr>
<tr>
<td><strong>Options</strong></td>
<td>Multiple options as well as the choices mentioned above: Inflation protection (5% Compound Inflation Rider); cover (Bed reservation …)</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>Non-guaranteed (whole of life level premiums)</td>
</tr>
<tr>
<td><strong>Rating classes</strong></td>
<td>Standard, substandard risks, preferred risks</td>
</tr>
<tr>
<td><strong>Case of loss of autonomy</strong></td>
<td>Premiums are waived</td>
</tr>
<tr>
<td><strong>Tax incentives</strong></td>
<td>Tax-qualified product</td>
</tr>
</tbody>
</table>
Typical French Cash Benefit Product

<table>
<thead>
<tr>
<th>Definition</th>
<th>Dependent or permanent loss of autonomy defined in terms of 4 ADLs (definite loss of at least 3 out of 4 ADLs; loss of autonomy due to dementia assessed by cognitive function tests, and/or the AGGIR scale, (GIR 1 or 2))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cover provided</td>
<td>Cash Benefit life annuities, lump sum home modification, services to provide assistance</td>
</tr>
<tr>
<td>Insured's choice</td>
<td>The amount of annuity</td>
</tr>
<tr>
<td>Medical underwriting</td>
<td>Simplified</td>
</tr>
<tr>
<td>Issue age</td>
<td>40 – 75 years</td>
</tr>
<tr>
<td>Waiting period</td>
<td>3 years for degenerative cerebral disease, 1 year for other diseases, none for accident</td>
</tr>
<tr>
<td>Deductible</td>
<td>3 months (with or without back payment)</td>
</tr>
<tr>
<td>Annuities</td>
<td>Cash Benefit life annuities</td>
</tr>
<tr>
<td>Paid-up value</td>
<td>After 8 – 10 years of contribution (annuity reduced only for total loss of autonomy)</td>
</tr>
<tr>
<td>Options</td>
<td>Lump sum home modification, funeral expenses</td>
</tr>
<tr>
<td>Pricing</td>
<td>Non guaranteed (level whole life premiums)</td>
</tr>
<tr>
<td>Rating classes</td>
<td>Standard, substandard risks</td>
</tr>
<tr>
<td>Case of loss of autonomy</td>
<td>Premiums are waived</td>
</tr>
<tr>
<td>Tax incentives</td>
<td>No specific tax incentives for the insured</td>
</tr>
</tbody>
</table>

- Level and annual premium basis, unisex rates
- Prudent calculation basis (prudent on lapse, future investment income)
  - Proportion of profits are returned to policyholder
  - Rest held back to provided a stabilisation fund
- Premiums are reviewable at company's discretion
  - Only a few cases where premiums have had to be increased
- Paid up benefit, normally after 8 years
- Relatively long waiting period
  - 12 months for claims due to sickness; 36 months for cognitive impairment
- Direct insurers usually write LTCI on a P&C license which implies much lower capital requirements (18% of premiums)
## Other European markets

<table>
<thead>
<tr>
<th>Germany</th>
<th>Spain</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Basic LTCI was made mandatory in 1995</td>
<td>• LTCI relatively recent innovation, growth outlook is promising</td>
<td>• The LTCI insurance market remains small</td>
</tr>
<tr>
<td>• Benefit levels are regulated and do not cover all LTC expenses, hence a gap</td>
<td>• Legislation in Dec 2006 established a broad framework for an integrated private-public system for LTC for Spain's ageing population</td>
<td>• LTCI is mainly group business and is expected to grow strongly</td>
</tr>
<tr>
<td>• Gap may be insured with private supplementary LTCI</td>
<td>• System will be implemented in stages, with the aim of full operation by 2015</td>
<td>• Industry level schemes which provide compulsory cover are being introduced, increasingly as riders to group pension policies</td>
</tr>
<tr>
<td>• Much of these covers is written by health insurers -&gt; 85% of market</td>
<td>• Public expenditure on LTCI is planned to increase from 0.33% of GDP in 2007 to 1% in 2015</td>
<td>• Existing players launched new products (e.g. Generali, Allianz)</td>
</tr>
<tr>
<td>• Fixed benefit and reimbursement LTCI policies and sold (only 14% reimbursement)</td>
<td>• Details of private role have yet to be decided</td>
<td>• New players entering the market (e.g. Poste Vita)</td>
</tr>
<tr>
<td>• Product features</td>
<td>• Several LTCI products have been launched, but no sales so far</td>
<td>• A compulsory LTCI protection scheme funded at national level is under discussion and is being promoted by ANIA</td>
</tr>
<tr>
<td>• Level annual premium basis</td>
<td>• Industry is lobbying for tax advantages for LTCI</td>
<td></td>
</tr>
<tr>
<td>• Premiums reviewable (in the event of very adverse claims development) subject to the approval of the company trustee</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Recap of Main Points
Key Points

1. Advice has a quantifiable value (net of costs)
2. Care funding depends on cultural norms
3. Post-retirement protection products are big business
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Q&A

Norman Lamb MP
Minster of State for Care and Support, Department of Health
Changing the delivery of advice and information: mycareinbirmingham

Peter Hay CBE
Strategic Director Adults & Communities, Birmingham City Council
Changing the delivery of advice and information:

mycareinbirmingham

Peter Hay
Strategic Director, Adults and Communities, Birmingham City Council
22\textsuperscript{nd} January 2013
Content

• Drivers behind a new approach
• Our on-line marketplace
• Beginnings of consumer data
• Information on quality
• Next steps
Spend and operating model

- Care and support to individuals: £258m (gross)
- Enablement: £14m
- Safeguarding
- Prevention: £1m + Third sector: £9m
- Support and information offer: £4m

Citizen purchased care – own resources

Citizen’s needs

Citizen’s means
7-year

6-year squeeze on public service spending

© Institute for Fiscal Studies

Note: Figure shows total public spending less spending on welfare benefits and debt interest.
A stretched response to austerity
Welcome to Birmingham City Council’s adult social care advice and information website

"My son Trevor has a physical disability. We've found this website really useful to get information and advice about services for Trevor, and for me as a carer."

Let's see how we can help you today
I'm interested in...
- General information
- Choices for me
- Choices for someone else

Providers please click here to advertise your services for free

Site guide:
- Needs and Goals to help you to find out your social care needs and life goals; and
- Marketplace to buy the support you need.

You can contact us by phone
Phone 0121 303 1234 from 8.45am to 5.15pm Monday to Thursday, and from 8.45am to 4.15pm Friday

In an emergency, out of these hours
What do I need help with?
Assess my needs
Moving into the market place
Information on choices

Choose who you'd like to provide your help

- Employ & manage someone myself
  - Independent Personal Assistants
    - Personally chosen
    - May share an interest
    - More control over work done & flexibility over days & times
    - No replacement cover
    - Responsible for recruiting & employing staff, their wages, tax, etc

- Pay a business to do it for me
  - Homecare & PA agencies
    - Trained & vetted staff, recruited & employed for you
    - Replacement cover
    - Clear tasks agreed with the agency
    - May be less flexible
    - Different staff may visit
    - May be more expensive

See more
Choice of providers
Details and booking

A Hand To Help

About me & my interests
I am a young and friendly female who enjoys cooking, going to the cinema, days out and going to the gym

Experience
I have several years experience as a personal assistant/support worker and have most recently worked as a warden in a sheltered housing scheme. I have recently set up my own business as a personal assistant being supported by the prince’s trust.

- I am happy to help with: Washing, Toileting, Dressing, Eating, Moving, Learning difficulties, Mental health issues, Getting in/out of bed
- I do not usually help with: Incontinence, Holding, Sensory impairments
- I am happy to accompany on: Shopping, Social/activities, Short breaks, Holidays
- I am happy to do: Laundry, Housework, Meal preparation, Sleepovers, Ad hoc one off appointments
- Social care courses undertaken: Emergency first aid
- Languages spoken: English
- I am happy to organise a stand-in when I go on holiday or if I am sick
- I am a non-smoker
- I have a driving licence
- I am willing to use my own car
- Last CRB check: 05/12/2012
- References available

You should have a written contract when hiring a Personal Assistant

Shortlist
Or choose agencies by features
So far...

- 3150 suppliers registered
- Real evidence of diversity in choices (meals, home support etc)
- Potential to drive employment options
- Providers drive their supply of information
First quarter marketplace usage
Site holds people’s interest

Average time in market place by day

Day (October 2012)

Time

00:00
02:24
04:48
07:12
09:36
12:00
14:24
16:48
19:12
21:36
00:00

S1
Allowing us new insights...
Provider Quality

• Framework contracting for citizen led quality judgements
• Provider Quality Profile
• Persistent requests for “soft” intelligence
• Being precise about council’s role
Just a Beginning

• Infant products and steps in a grown up world!
• A capped model of care costs (Dilnot) will drive further demands – especially £0-£cap
• Account management and consumer trends?
Note the scale is different from slide 1 and 2. Instead of starting at £250m it starts at £150m – slide 1 & 2 baseline is represented by the green horizontal line.
Conclusion

• Information to guide choices is key to market shaping by consumers
• Potential to generate new insights into consumers
• Key to transformation...
• ...but just beginning...
The role of advice in delivering a better system of social care.

Shadow Minister for Care and Older People
Q&A

Shadow Minister for Care and Older People
Commentary on the morning sessions

Lord Lipsey
Honorary President SOLLA and Chairman of the 2013 Conference
Welcome Back

Lord Lipsey
Honorary President SOLLA and Chairman of the 2013 Conference
Dilnot and beyond

Lord Warner
The role of financial products in a public-private partnership

Les Mayhew
Professor of Statistics and Insurance Cass Business School
The role of financial products in a public-private partnership

Les Mayhew
Cass Business School

SOLLA conference
The Value of Advice
January 2012
Challenges ahead

- To design a sustainable system built around individuals, helping them to plan and prepare and encourage saving
- Create space for financial products, that is attractive to all users and provides targeted state support
- Do so in a way that is as simple as possible, fair and sensitive to different circumstances without cliff edges
- Also in a way that doesn’t result in artificial barriers to accessing health or social care, in which rules do not keep changing
Strategic issues arising

Squeeze on public sector funding, higher state pension age, requirement to work longer plus demographic changes equals

Higher care costs, shortages of carers, higher taxes or reduced public funding elsewhere
Outline

• Consider product solutions for people with different circumstances
• Show how these align with the distribution of income and wealth
• Consider interface between private finance products and the cap
• Consider state support and how poorest in society would be protected
• Summarise implementation issues
Principles of a partnership model

- Flexibility and choice
- Fairness and equity
- Help for those in greatest need
- Consistency and certainty
- Affordability (state and individual)
- Available when needed
- Simplicity
How to mobilise private finance

No one product will suit all needs or personal circumstances.

A variety of financial products are needed:

• ‘point of need’
• ‘point of retirement’
• ‘anytime’

Examples of products:

• ‘Top up’ insurance
• Equity release products
• Immediate needs annuities
• Disability Linked Annuities
• LTC bonds/trust fund
‘Top-up’ insurance

- There are no current providers of pre-funded LTC insurance and existing market is small
- Previous attempts to launch pre-funded have failed, although there are established markets in the US and France
- Insurance is expensive and falls between two stools; e.g. it does not attract self-funders or poorer pensioners
- One effect of the cap could be to make pre-funded insurance more attractive and affordable
Equity release

• Take out a loan on your property which is paid back when you die or house is sold
• Typically purchased post-retirement
• Loans may be to supplement income and lifestyle reasons
• LTC loans come later possibly after some of the equity has been depleted
• People may also downsize and release equity that way
Why equity release is attractive

House prices versus RPI: Chart shows how house prices have moved relative to the RPI. In 1971 the value of a house would have roughly pay for 3.7 years worth of care. In today's prices it would pay for approximately 8.8 years.

House prices versus RPI
How many people could use equity release?

The number of people able to fund their care for more than one year from income and savings alone is very small but this increases dramatically after housing assets are included.

Chart showing the number of households in England able to finance LTC needs for 1,2,3,3+ years. Based on English Longitudinal Study of Ageing (ELSA)
Immediate needs annuities

• An Immediate Needs Annuity (INA) is usually purchased when someone enters a care home.
• It is paid direct to the care provider and the income is not subject to tax.
• The protected amount of capital reduces in line with the income paid from the annuity.
• Any remaining capital that has been protected, can be paid back to the estate of the deceased.
• The protection part of the policy ends once income payments equals the original sum protected.
Disability Linked Annuities (DLAs)

- Works likes a pension annuity and is actuarially fair
- But:
  - Higher payments if become disabled
  - Even higher payments if go into care
- Can apply to any kind of pension – private, public sector and state pension alike
Example of a DLA based on lump sum of £100,000

<table>
<thead>
<tr>
<th></th>
<th>Healthy</th>
<th>Failed 2 ADLs</th>
<th>Failed 3 ADLs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat rate annuity</td>
<td>£6,730</td>
<td>£6,730</td>
<td>£6,730</td>
</tr>
<tr>
<td>DLA (1/2/3)</td>
<td>£5,760</td>
<td>£11,510</td>
<td>£17,270</td>
</tr>
</tbody>
</table>

Income per year (£000s)

Income doubles when a person becomes disabled and triples when severely disabled
Extending DLA principles to state or public sector pensions

**Example of Attendance Allowance**

- Tax free benefit paid to people aged 65+ with a physical or mental disability or both
- However, could be simplified by incorporating it within the state pension
- Would increase as person became more disabled
- Would be equivalent to a ‘DLA’
Why ‘Long Term Care Bonds’?

- A large number cannot afford care, and have not saved for a pension
- LTC bonds are like premium bonds that would pay cash prizes and accrue interest
- Only cashable when needing care, otherwise value goes to estate or pays for funeral expenses
- People on low income more likely to buy premium bonds, lottery tickets etc.
- Potential to make a contribution to care needs in group that would normally have 100% of care needs met by the state
What is the market?
Income-wealth map and product penetration map

Key
A= Equity release or Immediate needs annuities
B= Insurance products
C= DLA
D= LTC bonds
What is the market?

Income-wealth map and product penetration map

Key:
A = Equity release or Immediate needs annuities
B = Insurance products
C = DLA
D = LTC bonds
Interfacing financial products with the cap

• The cap provides a limit on care costs up to a fixed amount

• People could self-fund or seek protection for all or some of the cap (e.g. to protect inheritance)

• This may be financially expensive and so some may just protect against a possible shortfall
Combining income and assets into one scale

**Basic formula**

Notional years of support afforded = Value of assets divided by annual cost of care less annual income

**Example**

At points P and Q:

- £80k / (£25k - £5k) = 4 years
- £40k / (£25k - £15k) = 4 years
Concept of the Personal Funding Gap (PFG)

- The personal funding gap (PFG) is defined as the difference between (a) the years of care needed before the cap is exhausted; and (b) the years of care an individual can afford or wishes to buy.
- The years of care needed before the cap is exhausted equals the care cap divided by the annual cost of the assessed care needs.
- The resulting difference, measured in years, is then converted into a cost which is the shortfall or the minimum amount to be insured.
An example of the Personal Funding Gap (PFG)

Formula

\[
PFG(\text{years}) = \frac{\text{Care Cap notional cost of care p.a.}}{\text{Assessed care costs}} \quad - \quad \frac{\text{Personal capital assets}}{\text{Assumed capital assets}}
\]

Example 1: Mrs X
Let life-time care cap = £75k
Let assessed care costs be = £25k p.a.
Assumed capital assets = £60k
Assumed actual cost of care = £40k p.a.
Assumed income = £10k p.a.

Years to reach cap based on assessed care costs: 75/25 = 3

\[PFG = \frac{75}{25} - \frac{60}{(40-10)} = 1.00 \text{ years}\]

Based on this formula a person would take 3 years to reach the cap (£75/£25k = 3).

Their shortfall measured in monetary terms is then the PFG x (their actual annual cost of care less their annual income) i.e. = 1.00 x (£40k-£10k) = £30k.
Mrs X’s shortfall is £30k. She has care costs above her assessed care costs. However, she also has the option of switching to something cheaper i.e. less than £40k a year.
Bridging the PFG with insurance

Example

- A person aged 65 has a PFG of 1.5 years. Actual care costs are currently £40k p.a. and income is currently £10k p.a.

- They thus face a bill of £45k in today's money \([1.5 \times (\£40k - \£10k)]\)

- There is an assumed 20% chance they will need LTC in 15 years time

- After allowing for cost inflation etc., they would need to pay a level annual premium of around £690 for 15 years to cover this amount including 5% administration costs
Interfacing private finance products with state support

- Dilnot proposes raising the capital threshold to £100k to avoid the current ‘cliff edge’ of £23.25k
- According to the NAO the public finds means testing too complex and a burden on users; it also increases administration costs
- Its complexity is arguably a barrier to developing a market for private finance products except for the rich
- Many will see little financial return to saving as savings are part of the means test
- Complex mathematics could be needed to combine all three elements to determine entitlement so scope for error is great
- Argument for simplification is therefore very persuasive
Principles underpinning new system of public support

- People receive something unless they are deemed self-financing.
- Support is based on both income and assets.
- System incentivises people to save or plan for their care.
- It should be affordable in public expenditure terms and stable over time.
- People can by-pass system if they wish.
- It's should be simple to understand.
Individuals accessing state support are placed into wealth bands

Suggested rates of support:

A = 90%
B = 70%
C = 50%
D = 30%
E = 10%
> E Zero%
Example

- Assume reckonable income is £10k per year and that care costs are £25k a year. A person in each band would receive up to:

  - A: £13.5k = (£25k-£10k) x 0.9    shortfall £1.5k
  - B: £10.5k = (£25-£10k) x 0.7    shortfall £4.5k
  - C: £7.5k = (£25k-£10k) x 0.5    shortfall £7.5k
  - D: £4.5k = (£25k-£10k) x 0.3    shortfall £10.5k
  - E: £1.5k = (£25k-£10k) x 0.1    shortfall £13.5k
  - >E nothing = (£25k-£10k) x 0.0    shortfall £15.0k

Rates are illustrative. Actual rates would need to be affordable in public expenditure terms.
### Cost of care

<table>
<thead>
<tr>
<th></th>
<th>£s</th>
</tr>
</thead>
<tbody>
<tr>
<td>assessed care cost</td>
<td>15,000</td>
</tr>
<tr>
<td>p. year</td>
<td></td>
</tr>
<tr>
<td>assessed living</td>
<td>10,000</td>
</tr>
<tr>
<td>costs</td>
<td></td>
</tr>
<tr>
<td>total</td>
<td>25,000</td>
</tr>
</tbody>
</table>

### Assets

<table>
<thead>
<tr>
<th></th>
<th>Mrs White</th>
<th>Mr Black</th>
</tr>
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<tbody>
<tr>
<td>house</td>
<td>40,000</td>
<td>0</td>
</tr>
<tr>
<td>savings</td>
<td>6,000</td>
<td>25,000</td>
</tr>
<tr>
<td>total</td>
<td>46,000</td>
<td>25,000</td>
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</tbody>
</table>

### Income

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>state pension</td>
<td>5,000</td>
</tr>
<tr>
<td>occupational pension</td>
<td>3,000</td>
</tr>
<tr>
<td>attendance allowance</td>
<td>3,600</td>
</tr>
<tr>
<td>total</td>
<td>11,600</td>
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### Notional years of care afforded

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Band</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
</tbody>
</table>

### Public contribution

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>4,020</td>
</tr>
<tr>
<td>shortfall/gap (a-b-c)</td>
<td>9,380</td>
</tr>
</tbody>
</table>

### Top up options

<p>| | |</p>
<table>
<thead>
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<tbody>
<tr>
<td>Insurance</td>
<td>Y</td>
</tr>
<tr>
<td>LTC bonds</td>
<td>Y</td>
</tr>
<tr>
<td>equity release</td>
<td>Y</td>
</tr>
<tr>
<td>INA</td>
<td>N</td>
</tr>
<tr>
<td>DLA</td>
<td>N</td>
</tr>
</tbody>
</table>

### Illustrative public support rates:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>90%</td>
</tr>
<tr>
<td>B</td>
<td>70%</td>
</tr>
<tr>
<td>C</td>
<td>50%</td>
</tr>
<tr>
<td>D</td>
<td>30%</td>
</tr>
<tr>
<td>E</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>others: self funding</td>
</tr>
</tbody>
</table>
Income asset map with bands

Income £11,600
Assets £46,000
Band D
Public contribution £4,020
Shortfall £9,380

Income £8,600
Assets £25,000
Band B
Public contribution £11,480
Shortfall £4,920
How Mrs White proceeds to the cap

Mrs White (income £11,600 p.a.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>years of care afforded</th>
<th>Band</th>
<th>Care support</th>
<th>Funding gap</th>
<th>Cap (cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>46,000</td>
<td>3.4</td>
<td>D</td>
<td>4,020</td>
<td>9,380</td>
<td>15,000</td>
</tr>
<tr>
<td>2</td>
<td>36,620</td>
<td>2.7</td>
<td>C</td>
<td>6,700</td>
<td>6,700</td>
<td>30,000</td>
</tr>
<tr>
<td>3</td>
<td>29,920</td>
<td>2.2</td>
<td>C</td>
<td>6,700</td>
<td>6,700</td>
<td>45,000</td>
</tr>
<tr>
<td>4</td>
<td>23,220</td>
<td>1.7</td>
<td>B</td>
<td>9,380</td>
<td>4,020</td>
<td>60,000</td>
</tr>
<tr>
<td>5</td>
<td>19,200</td>
<td>1.4</td>
<td>B</td>
<td>9,380</td>
<td>4,020</td>
<td>75,000</td>
</tr>
</tbody>
</table>

remaining capital 15,180

Assumes she is not insured and needs to draw down her assets to plug the gap until the cap is reached after 5 years in this case.

Note: It is possible that her capital might be exhausted before the cap is reached. Also for consideration therefore could be inclusion of a lower capital limit which may also be reached before the cap.
Professor Plum

Income: £14,600
Assets: £100,000
Un-banded Public contribution: £ (zero)
Shortfall: £25,000

Not eligible

Current limit for support, £23,250

Income asset map with bands
Income and asset distribution in 65+ age group

Each point is an actual individual aged 65+

Data points are taken from ELSA, English Longitudinal Study of Ageing

ELSA contains data on older people relating to health and disability, economic circumstance, social participation, networks and well-being.
Wealth ‘heat map’ based on 65+ population

Under present system, ~22% could be under the threshold.

Under new system, ~30.1% would get something.

Contours are deciles of population.

Data refers to 2010.
<table>
<thead>
<tr>
<th>Band</th>
<th>Percentage of 65+ population</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>19.8%</td>
</tr>
<tr>
<td>B</td>
<td>2.1%</td>
</tr>
<tr>
<td>C</td>
<td>2.2%</td>
</tr>
<tr>
<td>D</td>
<td>2.8%</td>
</tr>
<tr>
<td>E</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Self funding 69.9% (>5years)
Conclusions

• A cap helps to limit a person’s exposure to future care costs but it is not a complete system
• A variety of savings products is needed for different wealth/asset classes
• Firm ground rules will be needed to price products and avoid complexity
• Some products may need to be kite marked or regulated in some way
• The least complicated product is LTC bonds and could be implemented now there are no interactions
• The interaction between financial products and the cap needs careful thought and design
• The interaction between the cap, possible financial products and means testing is the most difficult territory
• Advisors will play a key role but they will need tools to evaluate different options and circumstances
• The next period will need intensive research assuming the cap is enacted
Later Life Adviser Accreditation
Adding Value

Sarah Thwaites
Deputy CEO Financial Skills Partnership
Closing remarks

Tish Hanifan Barrister - Joint Chairman, SOLLA

Lord Lipsey
Honorary President SOLLA
Chairman of the 2013 Conference