ILC-UK and Actuarial Profession Joint “Green Paper” Debate: The Future of Funding Long-term Care for Older People

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ILC-UK

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The International Longevity Centre - UK (ILC-UK) is an independent, non-partisan think-tank dedicated to addressing issues of longevity, ageing and population change. It develops ideas, undertakes research and creates a forum for debate. The ILC-UK is a registered charity (no. 1080496) incorporated with limited liability in England and Wales (company no. 3798902).

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Introduction and Background

It has finally happened. After many years in the political wilderness, the issue of long-term care funding has entered the mainstream of political debate. Despite the global recession and ôcredit crunchö, it is increasingly recognised that one of the biggest challenges confronting the UK remains how to best fund long-term care for older people.

In February 2008, the ILC-UK published ôA National Care Fund for Long-term Careö[1]. This report proposed a state-sponsored insurance fund to pool the risk of needing care for the post-retirement phase, into which individuals with sufficient means would contribute whether as a lump-sum at 65, through income payments or as a charge on their estate.

July 2009 saw the publication of the Governmentös Green Paper on social care: ôShaping the Future of Care Togetherö[2]. This ambitious and far-reaching document sets out a vision for a ôNational Care Serviceö with reforms proposed across social care delivery, organisation and the funding of older peopleös long-term care.

The Green Paper set out three different options regarding care funding[3]. The ôpartnershipö model continues the current system of means-tested co-payment state support, but with disability benefits reallocated via the proposed ôNational Care Serviceö and levels of support more precisely proportional to need.

The second and third options both propose state-sponsored insurance schemes for the retirement phase with individuals given full flexibility in when and how to pay, including lump-sums paid on retirement or as a charge on their estate. One option would be mandatory, which would ensure maximum coverage and enable progressive contributions, but would pose a political challenge. The other option proposes a voluntary approach to insurance, together with the possibility of individuals using a private sector market for long-term care insurance products, rather than a state-sponsored insurance fund.

However, during the Party Conferences 2009, this agenda took a surprising turn with the Government announcing a policy of free personal care in the home for individuals with the ôhighest needsö.

The Conservative Party subsequently proposed a voluntary insurance scheme: individuals would pay an £8000 lump-sum at 65 to insure against all potential residential care costs, albeit ignoring the cost of personal care in the home. The Conservatives say this insurance could be operated by existing private-sector insurers using branded products.

[1] http://www.ilcuk.org.uk/record.jsp?type=publication&ID=27
[2] http://careandsupport.direct.gov.uk/greenpaper/execsum/
[3] All of which exclude consideration of the ôhotel costsö of residential care

It is within this context that the ILC-UK, in partnership with the Actuarial Profession hosted a debate on 10 November 2009 to consider the future of funding long-term care for older people.

These notes are based on the presentations from the following speakers/ panel:

* Baroness Sally Greengross, Chief Executive, ILC-UK (co-chair);
* Ian Sissons, Healthcare Actuary, Munich Re (co-chair);
* James Lloyd, Senior Research Fellow, Social Market Foundation; and author of “A National Care Fund for Long-term Care”;
* Professor Julien Forder, London School of Economics & University of Kent and co-author of the Wanless social care review: “Securing good care for older people: Taking a long-term view”[4];
* Stephen Burke, Chief Executive, Counsel and Care; and
* Sue Regan, Chief Executive, Resolution Foundation.

The ILC-UK are extremely grateful for their contributions to the debate. We are also grateful to others for their comments from the floor.

Presentations from the debate are available from our website at:
http://www.ilcuk.org.uk/record.jsp?type=event&ID=65

The representation of the presentations reflect the views of ILC-UK and not necessarily the views of any individual speaker.

We are very grateful to the Nuffield Foundation for kindly sponsoring the event.

[4] http://www.kingsfund.org.uk/research/publications/securing_good.html

Ian Sissons, Munich Re

Co- chair Ian Sissons, Healthcare Actuary, Munich Re welcomed attendees to the Institute of Actuaries, commenting how important it was to debate the funding of long-term care for older people, not only in financial terms, but also as an issue that will have implications for the whole population.

Baroness Sally Greengross, ILC-UK

Co- Chair Sally Greengross, Chief Executive, ILC-UK set out the questions for discussion at the event:

- Should the state adopt a mandatory or voluntary approach to insurance for long-term care?
- Should insurance be left to a private sector market or organised by the state? What are the likely benefits of each approach, such as levels of take-up?
- Should insurance schemes for long-term care focus on personal care, residential care, or both?
- What are the trade-offs between a national and locally organised system of care funding?
- How can means-testing eventually be eliminated from the long-term care funding system so that everyone has an incentive to save for retirement?
- What are the opportunities and pitfalls associated with long-term care funding becoming a mainstream political issue?

James Lloyd, SMF

The first speaker of the evening was James Lloyd, Senior Research Fellow at the Social Market Foundation.

James began by reflecting on why the Government produced the óShaping the Future of Care Together Green Paperô in the first place. He noted there is a massive unmet formal care need among older people in the UK at present, with 6,000 high need cases and over 275,000 lower need cases unmet.[5] The majority of provision is through informal care which is heavily over relied on, and people are experiencing catastrophic personal care costs as there is not enough money in the social care system.

James moved on to where we need to get to. In the short and medium term, he said that England and Wales needed to address problems among its current older population, increase the number of older people insured for risk of long-term care, eliminate unmet need and reduce the reliance on informal care. In the long-term, we also need to look at how to incorporate working-age contributions to fund the care system.

James looked at three of the funding options set out in óShaping the Future of Care Togetherô

Partnership Model

> ñIn this system, everyone who qualified for care and support from the state would be entitled to have a set proportion ï for example, a quarter or a third ï of their basic care and support costs paid for by the state. People who were less well-off would have more care and support paid for ï for example, two-thirds ï while the least well-off people would continue to get all their care and support for free.ò
>
> *'Shaping the Future of Care Together' (2009)*

James explained that this is essentially the current system of means-tested, state funded, co-payments, but with disability benefits reallocated through a national care service and care entitlement more proportional to means. He noted that there would be no real new money in the system, no protection for people from accumulated care costs and that it would be no more politically sustainable than the current system.

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[5] Commission for Social Care Inspection (CSCI), *The State of Social Care in England 2006-07*, January 2008

Comprehensive Model

> ñEveryone over retirement age who had the resources to do so would be required to pay into a state insurance scheme. Everyone who was able to pay would pay their contribution, and then everyone whose needs meant that they qualified for care and support from the state would get all of their basic care and support for free when they needed it.ò
>
> *'Shaping the Future of Care Together' (2009)*

James moved to the second funding option; a mandatory insurance approach with a £17-20,000 contribution into a state sponsored insurance fund for those over 65 years of age. He stated that the core insurance functions would likely be out-sourced to the private sector. There would be contribution flexibility at state pension age through income contribution or as a charge on an individualõs estate. It would cover longevity-risk for personal care costs, but, would ignore accommodation costs which would limit asset protection. James concluded that this approach would be a good mechanism to increase wealth spent on formal care provision, but it would be a real political challenge getting the public to accept a high mandatory contribution.

Insurance Model

> ñEveryone would be entitled to have a share of their care and support costs met, just as in the Partnership model. But this system would go further to help people cover the additional costs of their care and support through insurance, if they wanted to. The state could play different roles to enable this. It could work more closely with the private insurance market, so that people could receive a certain level of income should they need care and support. Or the state could create its own insurance scheme. If people decided to pay into the scheme, they would get all their basic care and support free if they needed it.
>
> People could pay in several different ways, in installments or as a lump sum, before or after retirement, or after their death if they preferred. Once people had paid their contribution they would get their care and support free when they needed it.ò
>
> *"Shaping the Future of Care Together"(2009)*

The final approach James talked about was the voluntary insurance approach; voluntary contributions of £20-25,000, with flexibility at state pension age through income contributions or as a charge on their estate. He noted that again this would be a mechanism to increase wealth spent on formal care provision. There would be a policy design choice between a state-sponsored insurance fund or private market insurance products. James concluded that this approach would be administratively and politically feasible, but that both options of voluntary contribution, whether it be state-sponsored or private, would face the challenge of levels of take-up amongst the population.

Finally, James went onto look at the questions posed for debate:

Should the state adopt a mandatory or voluntary approach to insurance for long-term care?

If the Government adopts a voluntary insurance approach, one of the key challenges would be how to maximise rates of take up. James highlighted that the Green Paper had presented a false choice of a voluntary or mandatory approach, when in fact, they would need to consider a staged approach from voluntary to soft compulsion then to mandatory insurance. James stated that reform would have to change awareness, culture and attitudes to insurance and suggested mandatory insurance for older people could coincide with mandatory work age contributions.

Should insurance be left to a private sector market or organised by the state? What are the likely benefits of each approach, such as levels of take-up?

The key issue would be how to maximise rates of take-up in the voluntary insurance option. James commented that the state-sponsored insurance fund could be outsourced to the private sector and that there would always be a market for private sector insurance regardless of what the state did. James thought that a state sponsored insurance fund would achieve better rates of take-up as it could be branded simply, be promoted broadly (for instance in GP surgeries), would be more trusted and would eliminate the need to visit a financial advisor. A private sector market would necessitate individually risk rated premiums, including gender specific premiums. A state sponsored scheme could be enable ‘community-risk rated’ premiums and also adapt to geographical variations in unit care costs. James thought that a state-sponsored insurance scheme run by the private sector would be better due to levels of take-up, benefit and premium design. He used the example of the ‘Eldershield Scheme’[6] in Singapore whereby the government sets premiums and benefits with working-age contributions for people aged 40 and over. Auto enrolment was used from the launch and a transitional arrangement for the then current pensioner population. The private providers were Great Eastern, NTUC Income and Aviva.

Should insurance schemes for long-term care focus on personal care, residential care, or both?

The Green Paper sidestepped accommodation costs, which if left ignored would likely lead to undermining the long-term consensus for a new care system. James thought that accommodation costs could be incorporated as an optional add-on via a state-sponsored insurance fund or by a private sector product linked to participation in a state-sponsored insurance fund.

What are the trade-offs between a national and locally organised system of care funding?

In a locally organised system you are likely to see an instance of postcode-lottery service provision across England and Wales. James thought entitlements should be

[6] http://www.eldershield.com/eshield/jsp/index.jsp

portable and that reform could cause administrative problems of organising local authority financing if the system was not nationalised.

How can means-testing eventually be eliminated from the long-term care funding system so that everyone has an incentive to save for retirement?

Means testing is resented and resisted, causing a disincentive to save for retirement. James noted that by a long-term transition to a system of working age contributions to a care insurance fund would mean testing could eventually be eliminated.

What are the opportunities and pitfalls associated with long-term care funding becoming a mainstream political issue?

James noted that long-term care reform required a long standing political consensus or the public would have inhibitions about any reform.

James concluded his talk by commenting that, on one view, there is no long-term care funding problem and even with the current fiscal situation, there is significant wealth in the household sector with the ‘baby boomers’ being the wealthiest generation. The fiscal crisis should not be a block on reform and the guiding principle for Government should be to help people use the wealth they possess. He noted it was not the time to test "leave it to the market", and that there are behavioural barriers to being insured that need to be considered.

You can view James Lloyd's slides at http://www.ilcuk.org.uk/files/pdf_pdf_104.pdf.

Professor Julien Forder

Professor Julien Forder was the second speaker of the evening.

Julien noted the cost pressures of social care; he stated that if the same Personal Social Service (PSS) care packages are offered in the future estimated projections show spend would increase from £6.3 billion in 2010 to £12.1 billion by 2026, far exceeding the current PSS budget.

Julien then looked at the estimated projected number of hours in unmet need if the current care system continued as it is now. He stated that in 2010 it could be 100 million hours and in 2026, 140 million hours, with those not entitled to state support (after making contributions from income) drawing on average £28,000 of their own money to fund care; those entitled would spend £200 of their own money.

Julien then focused on attendance allowance and how it could be reformed. 2009-10 spend was projected to be £3.7 billion with 1.25 million recipients, with mainly low to middle income people targeted. Julien noted there was a high level of uptake amongst people with low level needs, compared to local authority means testing where only those with substantial levels of need were eligible for support. There is currently public support for people with assets less than £23,000, but those over the threshold in local authority care have to pay the full costs themselves.

Julien noted that the cost pressures on the current system have increased significantly and projected figures are conservative considering the demographics of the population are changing rapidly and unit costs are likely to change in that way too. It is also difficult to predict levels of disability as well, so modelling assumes constant proportion of age and disability. The current system is a safety net providing the bare minimum and to improve it reform must provide better levels of support for individuals and ensure that more people are helped; this will reduce unmet need and unfairness. Julien noted that the Green Paper hinted at reforming social care alongside attendance allowance which would improve efficiency and save money overall.

The solution to a better care system requires money and scope to improve resources, if by reform we want more people covered, less unmet need and less spend-down it will be at a higher cost. For significant reform Julien questioned whether the system needed more tax funding and asked whether people would be willing to pay, and if so, whether working population or older population should pay and those in need or everyone.

You can view Julien Forder's slides at http://www.ilcuk.org.uk/files/pdf_pdf_104.pdf.

Stephen Burke

Stephen Burke, Chief Executive of Counsel and Care, was the third speaker of the evening. Stephen first paid tribute to James and Julien, noting that they had worked for many years on the issues around long term care and had made invaluable contributions to the debate.

Stephen stated that Counsel and Care wanted a system that was simple, fair and affordable for all and welcomed three things from the Green Paper. The first was that it provided a very good case for change and that 'doing nothing' would not be an option anymore. Older people and carers are desperate for a change, at present too few are getting the support they need and the current system is too complex. Secondly it provided consistency and uniformity across England which is what older people want, as long as it can still be delivered locally. And thirdly he welcomed the comprehensive option of everyone sharing the risk and the cost of care in the future. Stephen highlighted there is little evidence that voluntary options work. He noted the comprehensive model would need to be simple and clear, and must keep pace with an ageing population.

To ensure a successful reform of the care system Stephen thought that four things would need to happen. Change would need to be system wide; the national framework must be delivered locally; there would need to be one single funding stream for care; and access would have to be universal for all.

Stephen highlighted that the Green Paper had omitted some key points though. He noted there was no reference to ósocial capitalô and also insufficient consideration to unpaid carers, without which, the current system would collapse. He commented that there was not only a need to join up health and social care, but also to integrate housing into it too, as well link to other strategies, for instance the National Dementia Strategy, End of Life Care Strategy, Lifetime Homes, Lifetime Neighbourhoods Strategy and the National Strategy for Carers. Also that the emphasis was on universal care but it also needed to include advocacy, without which people would not receive the care, support and choices they need.

Stephen also mentioned that there was no detailed modeling in the Green Paper, and he hoped that the White Paper would show more information about who would pay and how much they would pay as well as more detailed information about eligibility and means-testing.

Stephen mentioned that he and Baroness Sally Greengross had just come from an event where there were 150-200 older people, some of whom were frightened by the prospects in the Green Paper and others felt let down by it. They had voiced their concerns about contributing all their life to a system which they are now being told will not cover their needs and they will be asked to contribute large amounts to their care.

There were also still questions why the government cannot pay for care through taxation considering they have bailed out the banks with large amounts of money against which the social care system funding gap pales in comparison. Stephen added that this debate should lead to a wider discussion about taxation more generally.

Stephen felt that that the first year of the next government would be critical to social care and that a consensus needed to be formed in order to ensure reform of the system would work.

Sue Regan

Sue Regan, Chief Executive of the Resolution Foundation was the final speaker of the evening.

Sue began by giving the Resolution Foundationös three thoughts on paving the way to successful reform. Firstly she felt a focus on more general reform of social care and to have a vision of what to fund was needed. Sue commented that the Resolution Foundation had recently looked at the architecture of social care and how a new system can be more efficient and bring down costs in a report entitled ôNavigating the Wayö[7] Secondly that reform could not wait and that immediate short ï term steps to improve what is currently on offer was needed. Sue also agreed with Stephen that there needs to be more information and advice available, especially around supporting low earners to access wealth in their homes. Thirdly Sue also noted that the process of reform needs to be looked at and there is a need to have political consensus from the outset. The Resolution Foundation had conducted some research into the process of pension reform and published a news release calling for future social care reform to pass the same five comprehensive tests that were applied to pensions[8].

Sue went onto look at the funding options themselves and highlighted the need to work from an individual perspective and that care should be both preventative as well as remedial, there is a need to look at formal alongside informal; housing alongside transport. She noted that there needs to be more of an understanding in the Paper over full funding solutions, for instance, how to pay for accommodation costs or low level need. She saw a need to be more realistic about human behaviour, and that people relate to money differently, hence why we have auto-enrolment on pensions because not everyone saves and plans for the future. On that basis Sue thought the voluntary approach may not work.

Audience Discussion with Panel of Speakers’

The audience and panel took part in a lively debate after the presentations and there were many important and interesting comments and questions posed.

One contributor questioned whether a comment about immediate need annuities being only suitable for wealthy households was reasonable. The audience member argued that immediate need annuities are suitable for all self funders facing catastrophic care costs and not necessarily for the wealthy as they do not run out of money. He also noted that there was a demand side barrier to any pre-funded insurance schemes, not actually around demand for the scheme, but awareness of them due to people not receiving advice on funding options when they need it most. Political consensus was needed not just through to the next election, but across the next three to four decades to ensure fairness across the generations. James responded by saying that immediate need annuities are unlike any other type of insurance as it pools uncertainty. He added that the key question would be what the minimum level of wealth is for someone who would need to take out one of these policies.

One attendee questioned how the debate should be framed that is not just about how much we should pay through taxation, but the wider fundamental question of how we view the role of the state and the support it provides. He was an advocate of a smaller state, less intervention and leaving the market to its own devices.

[7] http://www.resolutionfoundation.org/documents/NTWsummary.pdf
[8] http://www.resolutionfoundation.org/documents/PR5tests030609final_000.doc

Another person commented on the lack of information about prevention services and quality of care in the Green Paper. She questioned why there could not be just a taxation option. James noted that in the EU there are social insurance funds which are overseen and state sponsored (for instance in Germany and Ireland) and these rely on state bodies to organise or commission out core functions to the private sector. James questioned whether the taxation route would give people what they wanted, and that the benefit of an insurance policy would be that it was tailored to the individual rather than in the hands of different governments.

One participant noted that most people want to live in their own homes and that the Green Paper did not include enough about the benefits of using assisted technology as part of care support. Also it was noted that there is not only regional postcode lotteries, but also national ones too, in particular there are better services in Scotland compared to England and Wales. Julien agreed that there was a national and local postcode lottery and he hoped that a move to a comprehensive model would bring consistency but he questioned whether services would be levelled up or down compared to a local authority's current provision.

One attendee highlighted that people are not clear what they are paying for and that there is a need to either untangle health and social care or completely integrate the two which would be better. The Royal Commission on Long Term Care (Sutherland Report) was quoted[9].

It was noted that we still legally get free healthcare but not social care, but in a hospital setting, people would receive care for free. James agreed this was a major challenge and it was difficult for policy makers to resolve. He noted there was a need to break barriers between users and carers and that the Department of Health and stakeholders were working on these issues.

There were many general comments including one audience member noting that there is a need to be realistic and that funding long term care by increasing inheritance tax would be a foolish move, either public spending needed to be cut or a rise in tax, one of which would obviously be more appealing to the voter. The contributor also questioned whether the gap in unmet need discussed by Julien (100 million to 140 million hours in 2026) was really the area that needed 'plugging' rather than concentrating on richer people having their care for free. Another participant commented on the comprehensive system stating that a single assessment would be needed for insurance purposes.

Many contributors also made suggestions including looking at other benefits older people currently receive and seeing if some of these could be altered to improve funding (for instance prescription charges) and if the system needed increasing care hours then there could be a service whereby people of a certain age contribute their time. One audience member questioned whether you could split the debate into generations and suggested that the baby boomers are lucky to be sitting on so much property and surely they could be using their assets. A final contributor added there

[9] http://www.scottish.parliament.uk/business/research/pdf_res_notes/rn00-78.pdf

was a need for more later life advisors as there is a lack of education for low earners on how to utilise their assets.

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