Fundación Edad&Vida — 10 años juntos —

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Long term care funding in the UK: The Dilnot Commission and the co-existence of public and private systems

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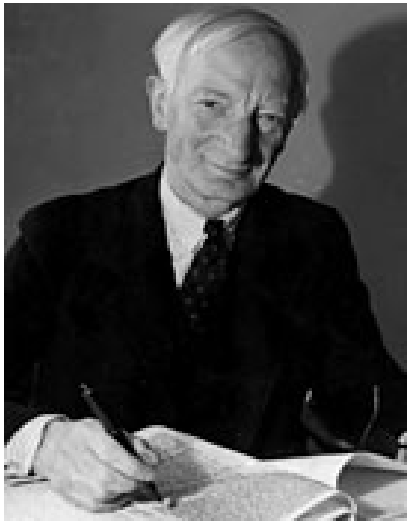
Care and the welfare state

- Beveridge's giant evils (want, disease, squalor, ignorance, idleness) excluded care needs
- Less demand for long term care (before rapid population ageing) but also care was provided in the private or family sphere



- Private/family provision has been undermined by socio-economic change but informal care remains the bedrock of UK care system
- Long term care is amorphous, cannot be delivered only by the state on a mass scale

Current funding system

- Plural funding system reflects amorphous nature of LTC, but also legacy of lack of planning
- Care services mainly provided by local councils – very complex means-testing system (although free personal care in Scotland)
- Some get free care, many are charged according to volume of care needed, many individuals forced to sell their home
- Other: NHS, Attendance Allowance, informal carers, self-funders
- Criticism: means-testing cliff-edge, support for carers, ‘postcode lottery’, lack of joined-up provision.

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Sustainable?

- Growth in demand for LTC = 30-50% by 2050
- Cost to the state increases 50% in 15-20 years, 100% in 30-40 years
- Unmet need, spending not keeping pace with demographic change, ‘rationing’ by councils
- Should a new funding settlement reduce costs to the state, or increase the state’s role so the care system is more sustainable at the individual level?

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The funding debate

- Royal Commission 2000 recommended free personal care for all (rejected by UK governmentt but introduced in Scotland)
- Wanless review 2006 recommended ‘partnership’: the state funds two-thirds of required care package, then matches individual contributions to final third
- Wanless problems: state subsidy for wealthiest and least afflicted, means-testing through the back door, excludes hotel costs, ‘pot fallacy’
- Revised in 2010: state funds 50% of package, then gives £1 for every £2 individual contribution

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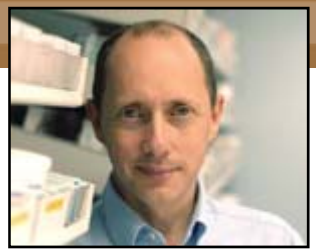
National Care Fund

- Principle of social insurance
- Enrolment fee to join NCF, based on means-testing
- Provides full, standard care coverage, and certainty for life
- Problems: means-testing (cliff-edge, disincentive), complexity, hotel costs, non-joiners
- Model adopted by Labour government in 2010 – but subsequently lost general election



Dilnot Commission

- Coalition government rejected NCF, appointed Andrew Dilnot to develop new funding settlement
- Partnership approach without matching contributions
- In part, new government is seeking to minimise role of the state in era of austerity
- But also recognises the amorphous nature of care, and interfaces between…
  - Care, health, housing
  - Formal and informal carers
  - Public services and community/neighbourhood provision
- Much larger role for private insurance?

Private insurance

- Most proposals envisage some role for private insurance.
- Private insurance will be crucial to mixed economy of care funding.
- But market is tiny. Only available products are immediate needs annuities; 4% of 120,000 self-funders in residential care.
- Last provider of pre-funded care insurance products exited the market in 2010.
- Uncertainty over state support was a decisive factor.

Barriers to private insurance

Supply-side

- Future demand?
- Nature of demand?
- Cost and/or trustworthiness of care assessments
- Reputational risk
- Regulations i.e. Solvency II
- Adverse selection
- Poor financial advice

Demand-side

- Ignorance of risk
- Perception that costs will exceed coverage
- Complexity / expense
- Bequest motive
- Other sources (state, inheritance, informal care)
- Distrust
- Behavioural traits

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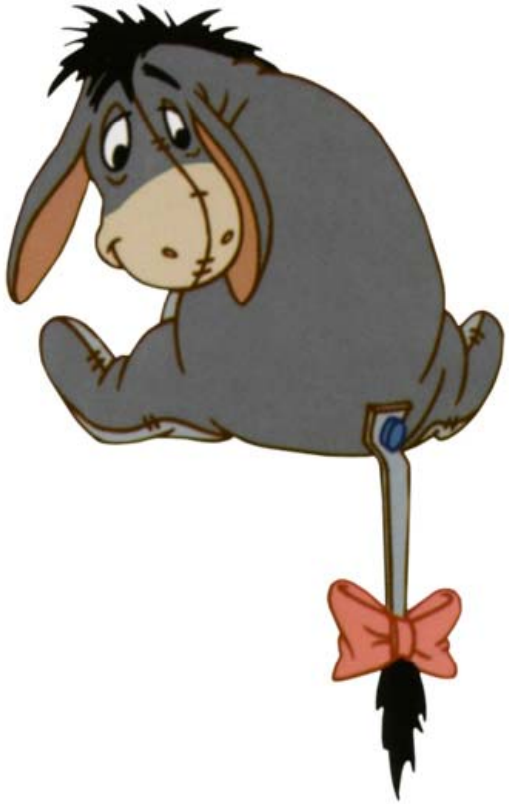
The state's role in enabling a private care insurance market

- 'Top up' pre-funded LTC insurance
- The tail risk
- Disregarding insurance pay-outs in means-testing



UK pensions reform

- Much more generous universal state pension
- Increasing state pension age
- Decline of defined benefit occupational pensions
- National Employment Savings Trust (NEST):
  - Auto-enrolment
  - Minimum employer contribution
  - Low cost
  - Risk-pooling

How could private pensions and care insurance co-evolve?

1. Annuities

- Innovation in annuity market would enable regular pensions saving to be used for care insurance products – no significant policy change would be required
- Disability linked annuities, accelerated life insurance
- Barriers to annuities innovation seem to be falling:
  - resolution of state care provision
  - increasing generosity of state pension
  - NEST increases market size for annuity providers

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How could private pensions and care insurance co-evolve?

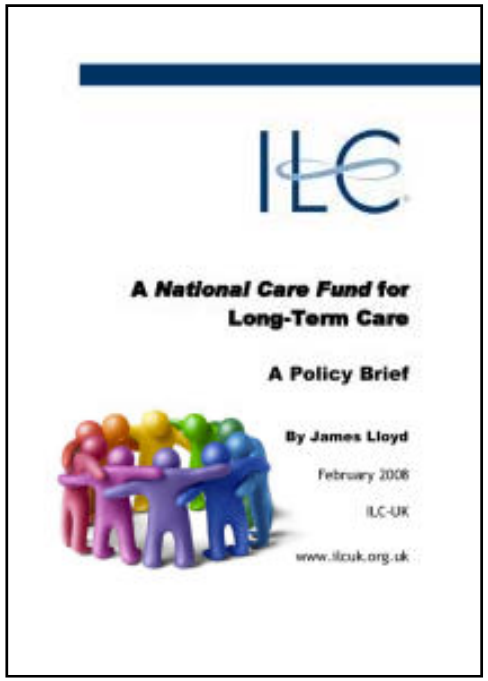
2. NEST

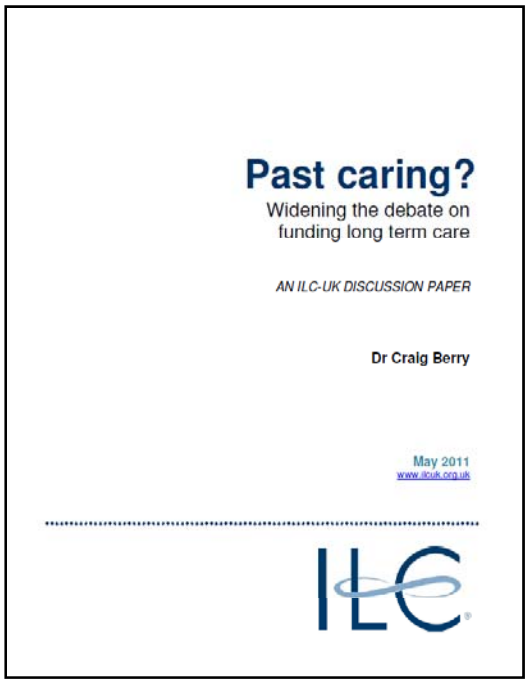
- NEST could directly offer a vehicle for saving for care costs
- The care and pensions pots could be combined at retirement
- Alternatively, care pot could be retained to fund an immediate needs annuity at a later point

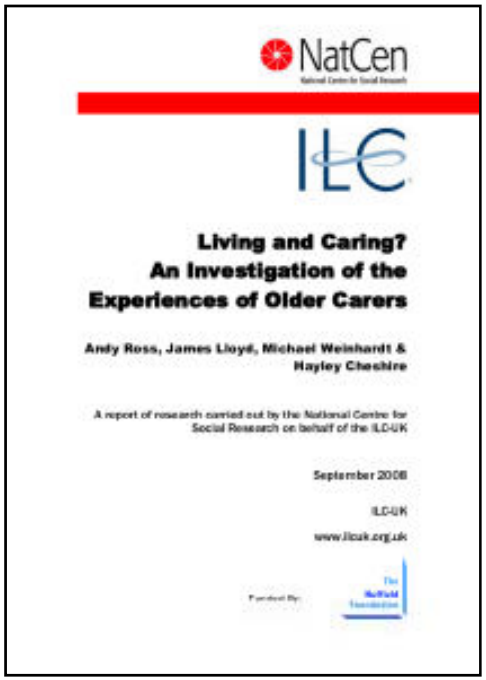
nest™ NATIONAL EMPLOYMENT SAVINGS TRUST

- *Problems*: automatic enrolment not permissible, tax relief not affordable, employers would be unwilling to contribute
- *Benefits*: low costs, risk-sharing, branding

Further reading…







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