



3rd edition of Mindful of Investing in Retirement

The Royal College of Physicians

Thursday 9th March 2017

**Funding health care in older age –
how can financial services help?**

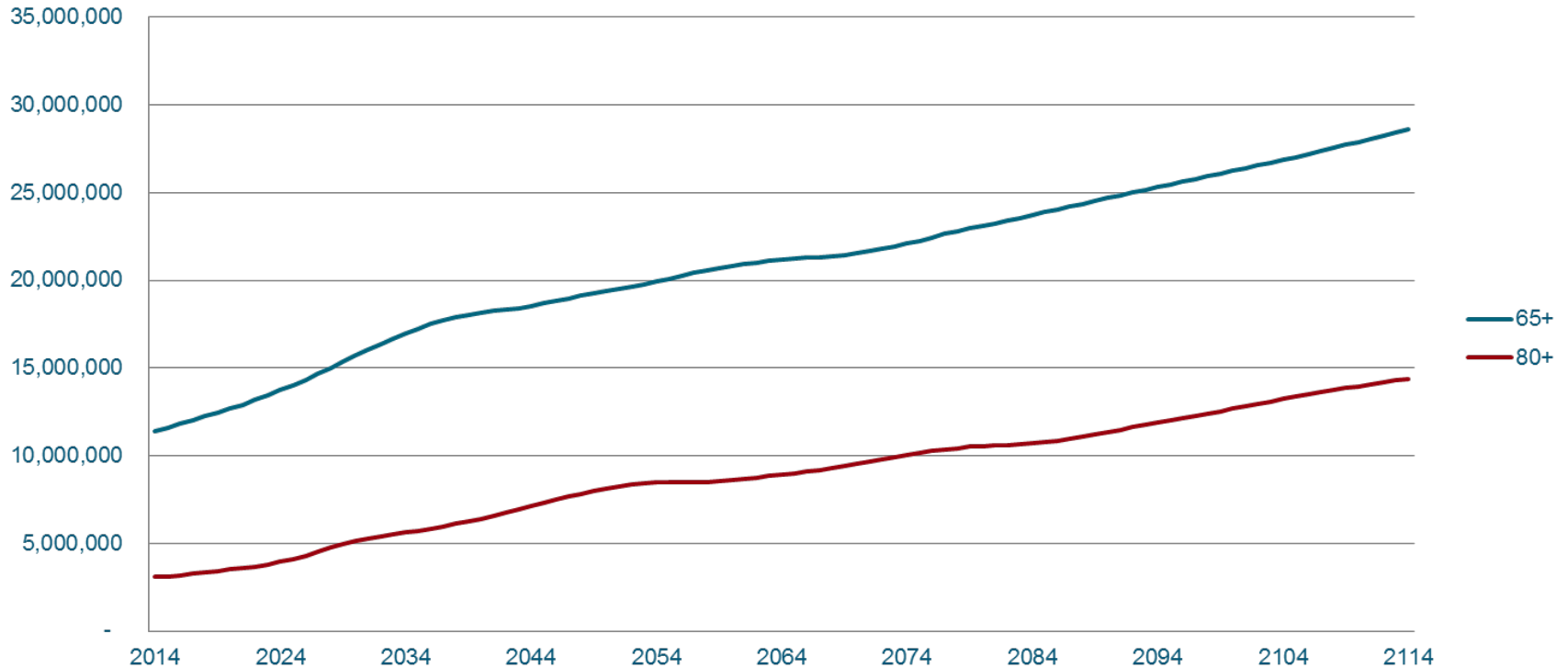
The threats and opportunities

Baroness Sally Greengross OBE



UK Ageing Population

UK population rise for ages 65+ and 80+



ONS: UK 2014-based National Population Projections

Sources. *Age UK and Mid-2015 Population Estimates* UK Office for National Statistics, 2016
International Actuarial Assoc. *UK Mortality and Longevity Update* November 2016
National Life Tables: United Kingdom, 2012-2014, Office for National Statistics, 2015
'Serious illness in the Over 50s', ILC-UK 2015



Inequalities in life expectancies



- There are stark differences in lifespans amongst groups in Britain.
- The top longest surviving 5% of men that have attained the age of 30 are now living to an average of 96 years, 33.3 years longer than the lowest 10%
- Healthy life expectancy for men at was highest in Wokingham at 69.8 years, and lowest in Manchester, at 55.9 years – a difference of 14 years!!

Source ILC 2016 and ONS 2016

Care and Paying for it - What do people want?

- In a '*Caring Choices*' survey, 90% of participants supported a universal system of care determined by people's care needs.
- 99% believed that more money was needed for social care.
- 72% of participants believed the costs of care should be shared between the Government and the individual.
- 69% of participants chose extra taxation, insurance or equity release as the preferred options to provide for their care.
- Most wanted a system that was easy to understand.

Source: *Caring Choices* Survey



The Care Act 2014

Rationale:

- Improving Independence & Wellbeing
- Preventing and delaying the need for care and support
- Integration
- Personalisation
- Cap on Costs – to limit liability
- Deferred payments

Progress since the Care Act?

- There are inequalities in outcome between those older people who are able to access information and advice and those who do not.
- Under the Act Local Authorities' new duties include the need to provide information on how to access services and support for carers.
- *Independent Age* has found that the majority of councils are providing a minimum level of information and advice online
- While 52% of local authorities provided a good response to telephone enquiries although 34% did not provide a satisfactory response.

“the quality and safety of care of our elderly is at risk and....the social care crisis is real and it is happening right now.”

‘There is also an urgent need for a review, ideally cross-party of the provision and funding of social care in the long term’

Source: Independent Age 2016. LGA Letter Nov. 2016

Adult social care: a pre-Budget report – CLG Select Committee March 2017

Care – Where are we now?

- 1.2 million people aged 65+ who don't receive the care support they need.
- There has been a £160 million cut in total public spending on older people's social care in the five years to 2015/16, while demand has risen rapidly.
- By 2020/21 public spending on social care would need to increase by a minimum of £1.65 billion to £10 billion in order to stop things getting worse than they are today.
- Men tend to underestimate their life expectancy by an average of 6 yrs, while women tend to underestimate their life expectancy by an average of 8 years.
- Many older people could be at risk of running out of retirement savings.
- Means testing means that most people will have to fund their own care.
- The provision of informal care has been unable enough to fill the gap.

Source : Data from Club Vita, presented at the ILC-UK's 2015 Future of Ageing Conference
Local Government Association (LGA) Press Release, February 2017
'The Health and Care of Older People in England 2017' Age UK Briefing, February 2017

Hospitals in Crisis?

- A&E patients in England experienced the worst month of delays in January since a four-hour target was introduced 13 years ago
- NHS England's winter figures show trusts have declared 'operational problems' 141 times and suffered string of 'black alerts'
- 61,727 people waited more than four hours to be admitted in December after treatment in A&E, which was also the highest ever seen, and well above the previous record of 53,640, seen in March 2016.
- NHS England pointed to the rapidly rising demand for care and the fact that there was a 41% increase in delays in patients being trapped in hospital, despite being fit to leave, because social care support was not available to allow their discharge.
- When social care isn't available, patients experience delays in moving from hospital to appropriate ongoing social care settings – preventing patients being admitted at the front end in A&E

Care Providers Under Pressure

- The care home market is extremely fragile and Care providers are under increasing pressure.
- In 2015/16, 48 councils reported dealing with at least one home care provider who had ceased trading
- 59 councils reported at least one provider 'handing back' a contract, meaning they had elected to stop providing services to council clients; and two of the largest national home care providers also left the council market.
- In 2016 in England and Wales 47 care home operators became insolvent. and more will follow.
- Since 2010 there has been a steady decline in the number of residential home beds with huge variation across the country.
- Reductions in LA fees and increasing property costs, plus the introduction of the national living wage will add extreme strain on provider finances.

What is the true rate for care?

- A consequence of this squeeze on profits is that care homes are to seeking to extract more profit from self-funders,
- Due to bulk buying by LA's the rate they pay for the same care bed is substantially lower than a self-funder would pay.
- Now it has become clear that self-funders are not merely subsidising council-funded residents but fast becoming the sole source of care homes' profits.
- This means that previous calculations of the “self-funder tax” – the difference between fees paid by private residents and fees paid by councils – have been hugely underestimated.

What is the true rate for care?

- Self-funders, now spend £713 a week on a residential care home.
- Nursing homes, which provide a higher level of care, have increased their fees by even more. A standard nursing home bed cost £798 in 2013 and now it costs £874, a rise of almost 10pc in three years.
- Councils paid care homes £104 per week less, than the real bed cost,
- But the overall figure is likely to be far larger as the low fees paid by council-funded residents allowed care homes to take only a 7pc profit margin and for care homes to achieve their notional break-even 11pc target profit, self-funders would have to pay the difference.
- The weekly cost of providing care in Surrey in 2014-15 was £558. The council paid £326, leaving a shortfall of £232. The amount charged to self-funders to cover the shortfall was therefore $£558 + £232 = £790$.
- But the real fee charged was £960, a significant £170 above the amount that would have made up for the council shortfall and consequently some care homes do not house any council-funded residents at all, because the fees are simply too high

Care Funding v Lifestyle Spending?



If a person requires care after the age of 85, the UK average fee is £29,276.p.a.

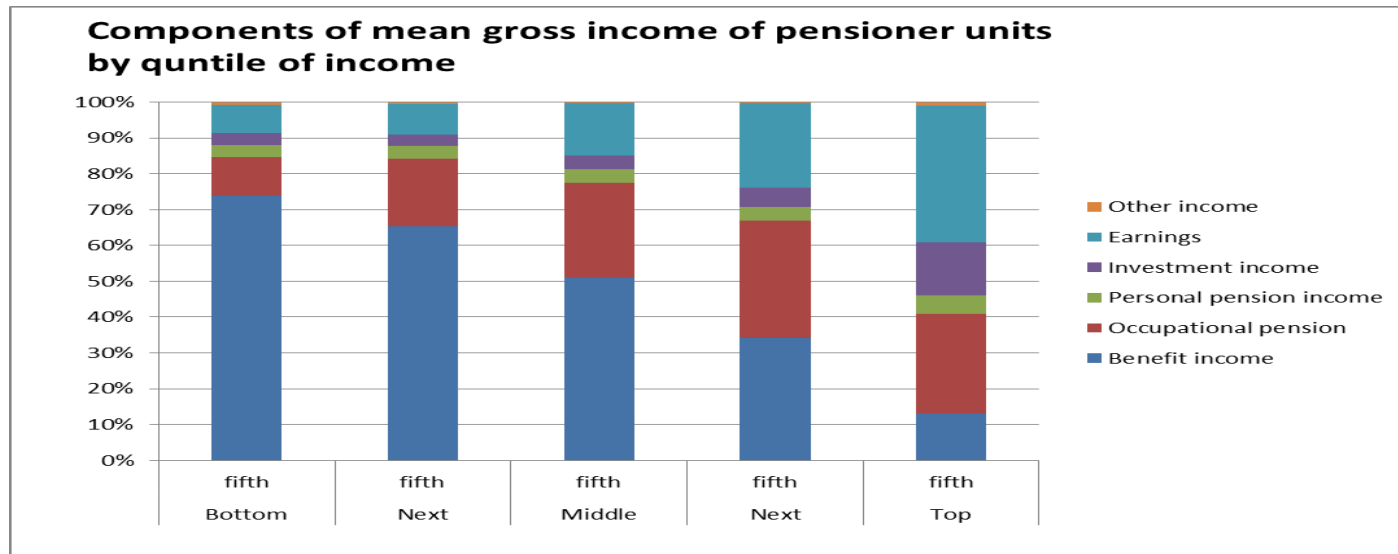
If they live for five years, their overall costs would be £146,380.

If you don't qualify for NHS care and your assets are worth more than £23,250, and you have to go into a care home, you will have to pay for your care.

A long period spent in care can be significantly more expensive than any of the other phases of retirement.

But not everyone will need care!

Funding Care – Pensions?



- A high proportion of people are failing to save adequately for retirement. During the period 2010-12, median total pension wealth, for all those who have saved something into a pension, was £46,900. However, 42% of adults have no private pension savings whatsoever.
- As a result, State Pensions and other benefits make up the largest part of a pensioner's income. This has remained consistently the case for many years.
- Lower to medium income groups are particularly reliant on state benefits to fund retirement with nearly 75% of income for the bottom fifth coming from the State
- Role of Enhanced or Impaired Life Annuities?

Care Funding - Role of Insurance?

The Market

- There are no pre-funded LTC products in the UK and awareness and sales of Immediate Needs annuities remain low.
- The largest p/f market worldwide is the U.S. with over 7 million policyholders – but providers are withdrawing from this market!

Solution

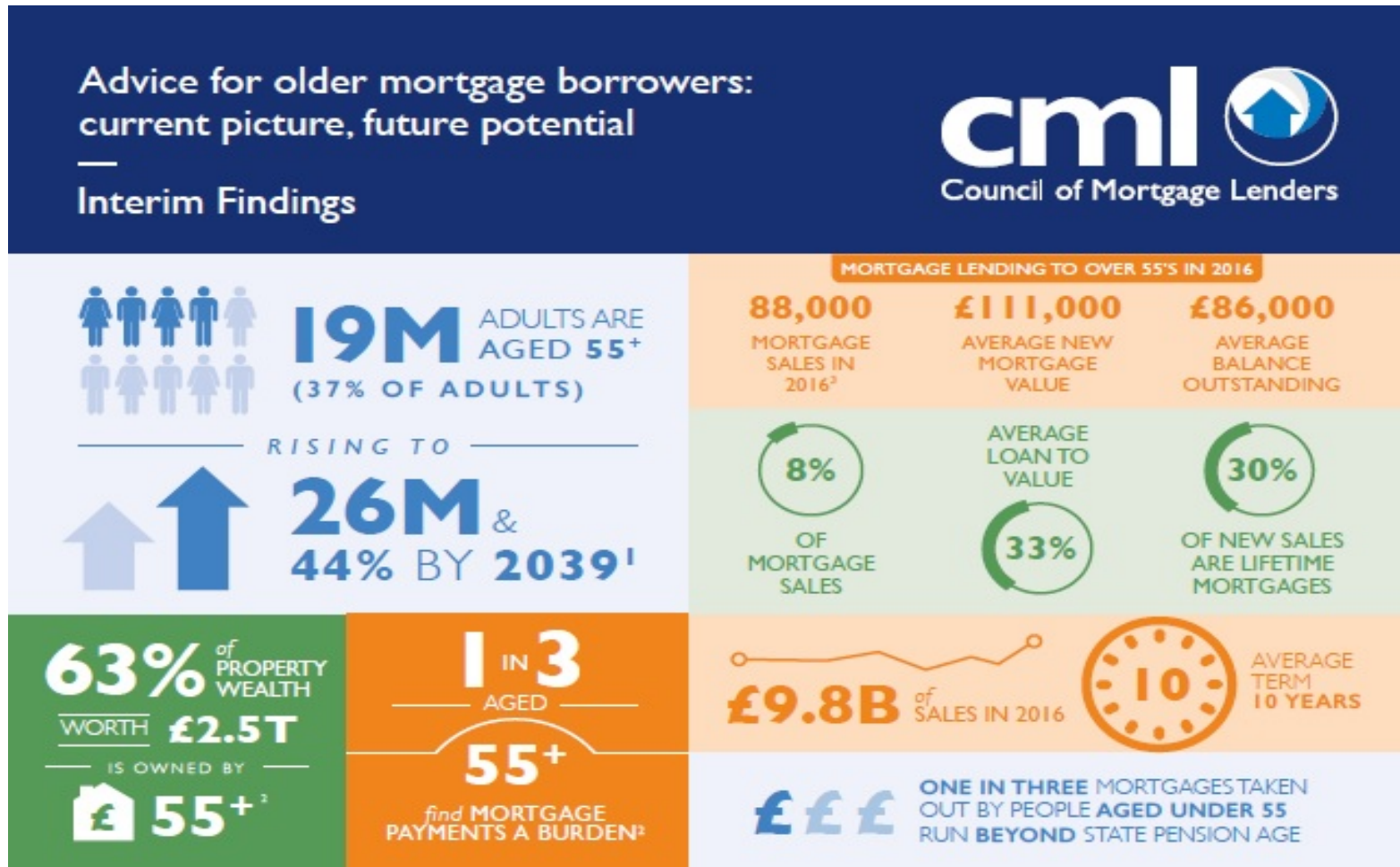
- Improved advice – availability and access
- Combining LTC insurance with life insurance, disability-linked and impaired life annuities, critical illness, Pensions – especially after recent changes to Pension flexibility etc.
- Downsizing, Equity Release, Care Duty (Death Tax!)

Care Funding –Property?



- About 3 in 4 of those now retiring and 69% of 65-74 year olds and 66% of people over 75 own their homes.
- It is estimated that housing equity owned by the 65+ population is worth around £1.4 trillion.
- In Q3 2016, the total value of Equity Release lending grew by more than a quarter (26%) year-on-year to a new record high of £571.6m.
- Annual lending for 2016 was on course to break through the £2bn mark for the first time, having reached £1.48bn in the first nine months of the year: just £128m short of 2015's full year total of £1.61bn.
- Lump sum lifetime mortgages had a 37% share of the market in Q3 with drawdown lifetime mortgages accounting for 62% of plans, with home reversions less than 1%.
- Context with Downsizing, Estate and IHT planning?
- Care funding may come from a variety of sources! Advice needed!

The Future of Advice



CML Research Report on what might be done to develop and improve the provision of advice and financial products for older borrowers is to be published later this spring.

Source. Preliminary report on Older Borrowers - CML March 2017



The Future of Advice

Promoting the right kind of advice is crucial in helping consumers make informed decisions about their financial and care funding options,

- SOLLA – The Society of Later Life Advisers
- CML Research Report will look at 4 key issues for policymakers:
 1. The reputational risks in lending – and providing advice – to older borrowers.
 2. Product silos and a lack of flexibility.
 3. Developing a clear understanding of the needs and circumstances of older borrowers.
 4. Regulatory silos tend to reinforce the boundaries between mortgage lending and equity release.

Industry Challenges



- Education and Information
- Funding Care – Context with Pensions, savings and assets
- Advice – who pays and how?