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Caring for the Elderly
Is there an Insurance Solution?

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New Generation Group Report

Contents:

Scope of Project

Throughout this document the phrase *'caring for the elderly'* is generally accepted to mean the over 65's who are suffering from age related illness and/or dementia, and more specifically those aged over 65 who are not able to care for themselves unassisted.

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Introduction

We live in an age where people are living longer than ever before. Almost one in five people alive today will live to see their 100th birthday and by 2040, almost 25% of all people in the UK will be older than 65.

Once a person has reached a stage where they can no longer live independently, there are few alternatives available but to enter a residential care home or receive long term care at home. This is particularly true given the fact that more so than ever before, individuals who would have traditionally relied upon their children to look after them in old age, are having families later and therefore may have young children to look after or may be living in a city or country far away from where their parents reside.

Whilst mandatory workplace pensions have now been introduced to help individuals plan for the future cost of living in old age, the New Generation Insurance Broking Group believe not enough is currently being done to help individuals prepare financially for old age, independent of any help that may be available from the government. Currently the costs of elder care are, for the most part, only addressed at the time they are needed. Often this results in individuals having to sell assets they have spent their lives working for, such as houses.

Why it matters and what to do about it

In 2016, 18% of the population of England was aged 65 or older and this figure is set to rise. By 2024 it is anticipated that 20%, or one fifth of the population will be over 65, meaning that this group of people in our society is increasing in both absolute number and as a share of the existing population.[1]

As the proportion of over 65's rises, so does the requirement to look after them, and the political conversation centres around what proportion of the care and associated costs should fall to the state or the private sector.

Whilst the 2017 General Election was expected to be a debate over Brexit, one topic changed the conversation and nearly toppled the fortunes of both parties. How to provide care for the elderly was thrust to the forefront as talks of a 'dementia tax' and action on the 2011 Dilnot report became key issues, forcing Prime Minister, Theresa May, to change proposals in the Conservative manifesto before the election.[2]

Politics aside, barely a week goes by without news coverage of people being forced to sell their homes in order to maintain their social care. Once an individual's personal resources are depleted, these vulnerable individuals can find themselves at the whim of bureaucracy, for instance with spouses not being able to stay together.[3]

Care for the elderly is not just a concern for the over 65's, it is highly relevant for older and younger people alike. All too often, offspring need to either: give up work to care for parents; or take on extra work to fund it. At the same time this generation are wanting to think more of their own futures, for instance buying homes and funding childcare against a perceived backdrop of being less well off than their parents, due to the high costs of housing.

At the moment it appears that the working population face a choice between increased taxes for state funding of the elderly,[4] or watching their grandparents and parents whittle down their own savings paying for care privately.

The CII New Generation Insurance Broking Group have undertaken to review this area, understand fully the current situation and to review possible alternatives with a view to advising whether or not insurance can sit alongside a political solution.

We hope to analyse the structure of the system currently in place; understand the cost of care to the economy; investigate how other economies and cultures address these issues; proposing concepts of potential alternatives from the public and private sector.

Our goal is to be a part of a process of change for the better. We are not aiming to single-handedly fix this problem. However, we do hope to be able to contribute positively to the ongoing debate.

We believe that coming from a fresh perspective, outside of the confines and limitations of the political system, we are in a strong position to provide clarity to the issues faced and propose solutions for greater consideration. We comprise a varied group of focused and determined professionals who are driven to use the opportunity the CII has provided us to make a difference. We hope to be able to involve ourselves within the organisations and institutions who are directly involved in shaping the sector and provide our insight and assistance where possible.

Whilst we do not expect to come up with one perfect solution, we do hope that we can help drive positive change, before the system fails entirely. It is our opinion that, regardless of political persuasion, change is vital.

1 https://www.ons.gov.uk/peoplepopulationandcommunity/
2 https://www.telegraph.co.uk/news/2017/05/22/theresa-may-expected-announce-dementia-tax-u-turn/
3 https://www.independent.co.uk/news/uk/home-news/couple-care-home-separated-elderly-92-year-old-married-glasgow-castlemilk-a8247166.htm
4 https://www.bbc.co.uk/news/health-44621047

The Cost of Caring for the Elderly to the UK Economy

We consider the cost of caring for the elderly to the UK economy itself. This cost can be broken down into two sections.

Costs to the economy

Firstly we have the direct cost to the economy, in terms of NHS and Local Authority spending on long-term Health Care (which provides health services and includes supporting the "activities of daily living" such as bathing, dressing and walking, and includes palliative care), and long-term Social Care (which provides assistance based services and includes day care, supported accommodation, and other services supporting activities such as shopping, cooking and managing finances). Such costs are relatively easy to calculate and can be predicted with some certainty.

Secondly there is the indirect cost of care, which arises out of the opportunity cost of those who give up work or work reduced hours in order to care for a friend, relative or loved one. This cost is much harder to quantify, but even with minimal estimates proves a significant loss of income for unpaid carers across the country which has a clear knock on effect to the economy as a whole.

Direct governmental cost

Total spending on long-term care in the UK in 2015 was recorded at £44 billion, according to the Office for National Statistics. Of this amount nearly two-thirds (£27.1 billion) is spending by the NHS and Local Authorities.

Splitting this between Health Care and Social Care we see that, whilst government expenditure accounts for almost 70% of Health Care, just under half of Social Care was funded by the NHS or Local Authorities. Of the remainder the majority of long-term Health Care was picked up as out-of-pocket expenditure by individuals, whilst the majority of long-term Social Care spending was picked up by charities and not-for-profits.[5]

We also know that this £44 billion of spending on long-term care represents nearly a quarter of all healthcare spending in the UK for the same period, making this a massive contributor to NHS and Local Authority costs.

Indirect cost of care

According to the Office for National Statistics in 2011 there were around 5.8 million people providing unpaid care, which represents over 10% of the population. The question raised in the census was "Do you look after or give any help or support to family members, friends or neighbours or others because of: long-term physical or mental ill-health or disability or problems related to old age?".

Unfortunately, the census does not then separate elder care from ill-health and disability care, and such a question may not be useful in any event as a number of cases would blur the line between elder care, and ill-health and disability care for elderly people which is not directly related to advanced age.

What these statistics do tell us however is that the total provision of unpaid care rose by 3.2% between 2001 and 2011, and the number of people over 65 rose by 11% in the same period. The number of people in organised elderly care remained roughly unchanged however, which points towards a growing care requirement being covered by friends and family members, and a growing number of over 65s not receiving care.

Based on mid-ranges for the ONS categories of unpaid care hours there were approximately 125.8 million hours of unpaid care given in 2011, or 3.4 million working weeks. At current National Living Wage this gives a figure of nearly one billion pounds of unpaid work in a single year. Whilst this figure is for total care, not just elder care, taking even a modest percentage of this figure to relate to elder care would still show a significant cost.

Clearly some of these hours of care will have been given by people in addition to their full-time work (around 3.7 million of those giving unpaid care did so for under 20 hours per week), but equally some of those who have left work or have been required to take on part-time roles to meet their care obligations will have been earning significantly more than the current National Living Wage.

In addition to this there is the risk to health of unpaid carers caused by their provision of care, particularly those who provide extensive time doing so in addition to their full-time jobs, and those 1.4 million people who each provide in excess of 50 hours of unpaid care per week. An analysis of census data in 2004 revealed that nearly 21% of those providing more than 50 hours care each week were in poor health, compared to only 11% of the non-carer population.[6] This poor health can in turn lead to those carers being unable to unable to work in the future, or indeed requiring care themselves.

Whilst the overall cost of carers' poor health is even harder to calculate, it is certain that the combination of direct governmental and hidden costs has a significant impact on society. With an aging population the severity of this problem can only increase.

5 https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthcaresystem/bulletins/ukhealthaccounts/2015#long-term-care-expenditure
6 http://static.carers.org/files/in-poor-health-carers-uk-report-1674.pdf

The Cost of Caring for the Elderly to the UK Economy - continued

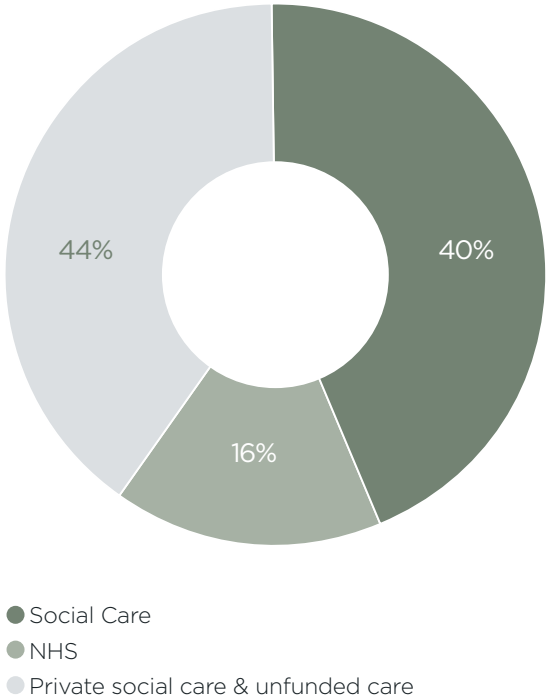
The costs of dementia

Dementia is a syndrome (a group of related symptoms) associated with an ongoing decline of brain functions. This may include problems with: memory loss; thinking speed; mental sharpness and quickness; language; understanding; judgement; mood; movement; difficulties carrying out daily activities.[7]

The cost of dementia to the UK is currently £26 billion a year, which works out as an average annual cost of £32,250 per person with dementia. Two-thirds of this cost is currently being paid by people with dementia and their families, either in unpaid care or in paying for private social care.[8] The NHS picks up £4.3 billion of the cost and social care £10.3 billion. Of the £10.3 billion, £4.5 billion is attributed to local authority social services for state funded care. The cost of dementia in the UK is expected to more than double in the next 25 years, from £26 billion to £55 billion in 2040.[9]

New research published in 2018 confirms the challenges faced by the Government and the NHS. A model developed by the Health Foundation, a charity, and the Institute for Fiscal Studies anticipates demand for spending on adult social care to rise by 3.9% a year over the next 15 years. Over the same period, the population over the age of 65 is expected to increase by 4.4 million; and the number over 85 by 1.3 million.[10]

Cost of dementia to the UK



7 https://www.nhs.uk/conditions/dementia/about/
8 https://www.alzheimers.org.uk/about-us/policy-and-influencing/what-we-think/dementia-tax
9 https://www.alzheimers.org.uk/about-us/policy-and-influencing/dementia-uk-report
10 https://fullfact.org/bbcqt/2018/Jun/21

What is the current situation?

A threshold of £23,250

The current situation for paying for care is complex and dependent on the individual's circumstances. The system is means tested and state funding is available for those who are considered eligible. In addition to this, and regardless of means, there are a number of small grants available to individuals, such as an allowance of up to £1,000 for minor adaptations to the home.

The threshold for means testing is currently set at £23,250. If the elderly person is receiving care at home, this £23,250 is assessed on their savings, it does not take into account any capital tied up in their house.

However, for those who are admitted into a care home this £23,250 takes into account both their savings and any capital tied up in their home. The practical effect of this is that almost anyone who is a home owner will have to pay all the fees should they be admitted into a care home.[11]

Someone with dementia may require one to one support with nearly every aspect of life, either at home with a homecare worker or in a care home. It differs from an illness such as cancer, because there is no obvious physical disease to treat, where the costs would be collected on the National Health Service (NHS).

"Dementia is a disease, as cancer is a disease, as heart disease is a disease. Getting dementia shouldn't mean families are left bankrupt or destitute with nothing to leave behind," Jeremy Hughes, Chief Executive of Alzheimer's Society said.

Successive Governments have continued to place the responsibility for funding of dementia care onto the people affected, but the current political climate suggests that people who require care towards the end of their life should not have to bear the sole responsibility for saving and paying for their care.

Many organisations including the Alzheimer's Society are calling for the Government to put an end to the 'dementia tax' to help protect people with dementia from the crushing cost of their care.

How much is 'dementia tax'?

It could cost between £600 to £1,200 per week to pay for someone with dementia to live in a care home. Should someone choose, good quality dementia care provided in one's home costs at least £20 per hour. People with dementia and their families can be paying these costs for a number of years. Alzheimer's Society calculations suggest that it costs an average of £100,000 for an individual's dementia care. Even if people pre-emptively saved for their pension, their dementia care bill could take over a lifetime to save for.[12]

This leaves individuals facing the daunting prospect of spending everything they have on their care, resulting in significant personal sacrifice such as selling their home.

11 https://www.nhs.uk/conditions/social-care-and-support/local-authority-funding-for-care/
12 https://www.alzheimers.org.uk/info/20091/what_we_think/146/dementia_tax

What is the current situation? - continued

Understanding the costs

Care homes

The cost of a care home can vary considerably depending on the location in the UK and the type of care required. A care home will provide personal care that covers help with washing, dressing and giving medication. There are other care homes which provide additional services such as medical and nursing care, these options will cost more money depending on the type of care required. The more specialised the care, the higher the fees and, of course, more comfortable surroundings and facilities will also increase the cost.

A breakdown of the average regional weekly care home fees can be seen in the Table 1 below.[13]

Home care costs

Modifications can be made if the client does not wish to go into a care home. This includes installing a stair lift, adapting the bathroom or widening doors to accommodate a wheelchair.

Assistance can be claimed towards the cost of modifications. However, in order to do so, a local authority will need to prepare a bespoke care plan and complete a financial assessment before any funding is agreed.

As with the cost of care homes, the cost of home care can vary hugely depending upon location. There are significant regional variations and costs will also depend on the type of care needed, hours required and what time of day and week are wanted.

Self-funding

A person is classed as a 'self-funder', if they are paying for their own care home fees. They can choose their own care home and go to the home directly to agree a financial agreement for their own care. If a person starts funding their own care and they run out of money, then the local authority would step in to take over funding of care. The person's needs, and financial state would firstly need to be assessed.

Average regional weekly care home fees

Region/Cost per week	Care home	Care home with nursing
East Midlands	£578	£725
East of England	£673	£986
London	£741	£949
North East	£563	£666
North West	£511	£776
Northern Ireland	£516	£670
Scotland	£639	£852
South East	£702	£1,041
South West	£655	£927
Wales	£566	£769
West Midlands	£573	£837
Yorkshire and the Humber	£546	£755

13 Table 1: LaingBuisson Care of Older People UK Market Report 28th edition 2017. Data from 2016/2017.

What are our Politicians Doing?

The inclusion and subsequent removal of the 'Dementia Tax' in the 2017 Conservative manifesto was widely condemned and seen as a major reason for their inability to win a majority in the General Election.

Theresa May, sensing a weak opposition, called an election in April 2017 to increase the number of Conservative MPs sitting in the House of Commons and ultimately improve her hand in the upcoming Brexit negotiations.

With a 21% lead in the polls, many thought that the Tories' advantage was unassailable and, rather than run a 'boring' campaign as some had advised, May instead made certain decisions which came back to haunt her.

The most significant of these was her social care initiative known widely as the 'Dementia Tax'. Based upon proposals made in the Dilnot Report, this recommended an increase in the capital assessment threshold from £23,250 to £100,000.

Despite being a rise in the current threshold, which you might think would be well received by the population and the media, the release of the information was bungled. Many of the cabinet - including the Health Secretary - saw this policy only once the manifesto was released.

The issue behind this policy which caused most uproar was the lack of a cap on total costs. The proposal by the Conservatives increased the 'floor' (total protected assets) from £23,250 to £100,000 but the omission of a cap meant that families were liable for their own care until this 'floor' had been reached. Rather than care bills counting up to a spending limit (the 'cap'), instead you would be counting your assets down to the 'floor'.

Fuelled by the media, this proposal appalled the electorate with many fearing they would ultimately need to sell their homes in order to afford care bills. It was deemed to be an unpopular policy subjecting family to near limitless liability should a loved one develop dementia.

As a flagship policy, this was not what you would describe as a vote-winner and, following reports of lifelong Conservative voters destroying their membership cards in front of party activists, change was coming. This came in the form of a rather ignominious U-turn by the Conservative Party, and subsequent loss of face for Teresa May.

Has this political mishap turned a much-needed initiative into a political hot potato, destined to lay underground until someone dares to dig it up again?

Worldwide Long-Term Care Solutions

Across the world, countries tackle the issue of social care by different means. These means are usually influenced by economic and social factors, but surprisingly, the success of a social care system is not dependent on either.

The John A Hartford Foundation Index of Societal Aging was designed to measure the degree of success or failure of policies which were designed to facilitate the successful ageing of society.

The factors chosen for inclusion in the index are survival, equity, education, health care, productivity, engagement and cohesion.

It is interesting to note that the Hartford aging index concluded the top five countries to grow old in are in three different continents, most with completely different cultures and economic capability.

In this article, we will be reviewing Sweden, the US, Japan and Singapore. We hope to explore their long-term insurance offerings or lack of offerings to see if there is anything that can be learned by the UK.

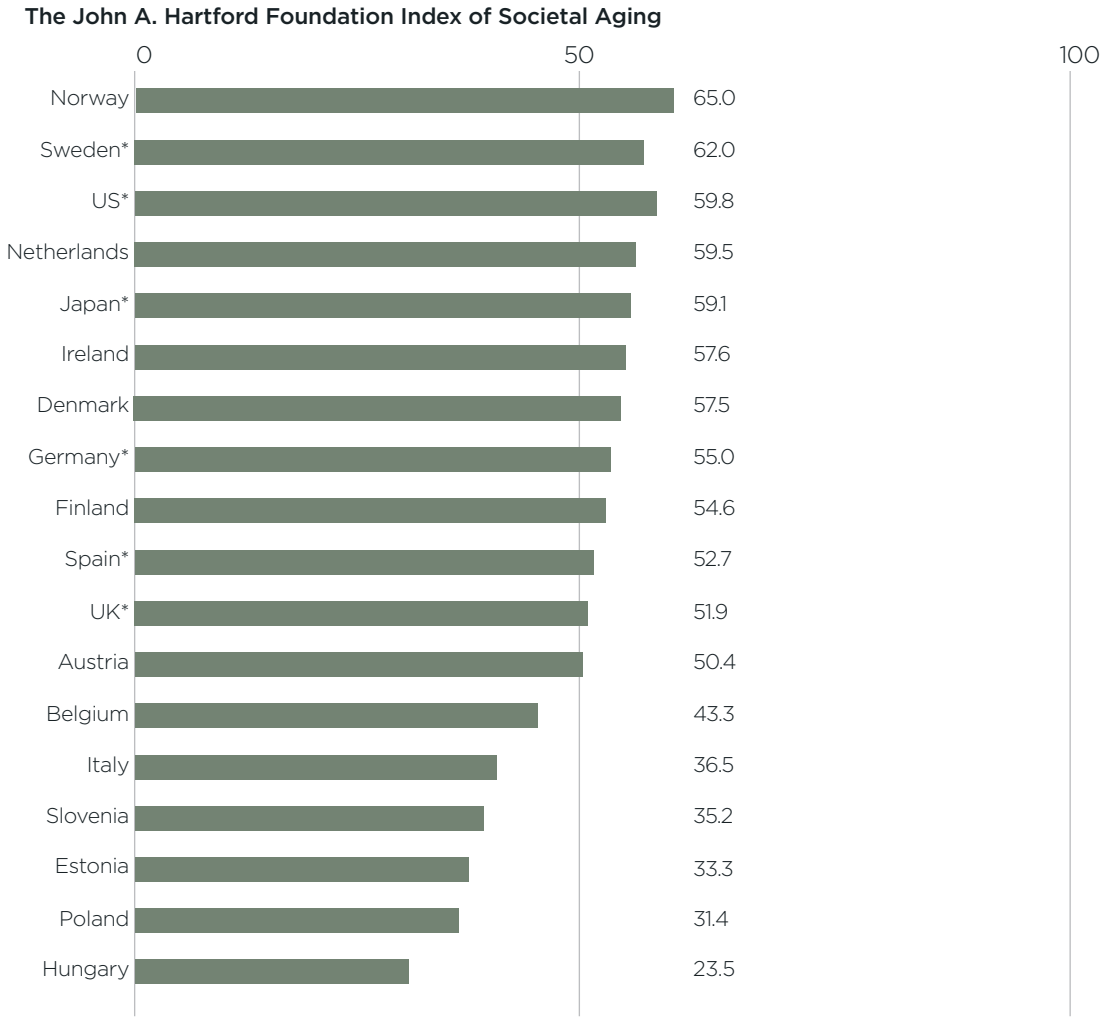


Figure 1 Credit: John A. Hartford Foundation Index of Societal Aging

Worldwide Solutions Caring for the Elderly - continued

Sweden

The Swedes are notorious for their forward thinking and generous welfare state. Care for the elderly in Sweden is the financial responsibility of the local municipalities instead of the central government and is funded by local constituents. For elderly care costs in 2014, only four per cent of the costs were financed by patient charges and the rest were subsidised by the community.

However, the wind is changing, and Sweden is now using private organisations to manage elderly care whilst still being subsidised by the local government. This has been criticised by many and the companies involved were accused of letting profit have a negative effect on the standard of care given. Nevertheless, Sweden is thinking forward by indirectly tackling the issue of social care by trying to create a healthier nation, a nation which will live longer, healthier lives and thus reducing the need for social care.

USA

The United States of America has a limited provision for care, whereby most is either self-funded or is provided partly by the private sector. Only approximately 1 in 10 (aged over 65) hold private insurance for long-term care.

However, despite this, the US has rated above the likes of Japan and the Netherlands on the Hartford wellbeing index. Is this an argument to support privatised social care?

The USA has a private long-term care insurance market with policies which can cover care arrangements such as home care, assisted living, home modification and nursing homes. Cover varies, and policies can have exclusions similar to that on a private health care policy. As with all insurance policies, the amount of money you are able to invest to protect yourself will determine the level of cover received. Additionally, with only 1 in 10 aged over 65 holding this cover, it does not appear to be very popular, or perhaps it is a luxury for only the very few.

Japan

Japan has the highest proportion of over 65 year olds in the world. So surely there must be many struggles for them to meet the cost of long-term care with so many elderly people within their population? Research shows that there doesn't appear to be as much of a problem in Japan as there is in the UK. The Japanese culture of family caring for the elderly has been long-standing in the country. However, due to poverty, lack of public care homes, time and resources for care, care for the elderly has become somewhat of a burden in Japan.

In the year 2000, Japan launched a 'Long Term Care Insurance' scheme. The funding of this scheme was met by a combination of tax and insurance premiums payable by everyone over the age of 40. Mandatory contributions meant that the cost of the scheme was met and the financial burden of caring for the elderly reduced. Contributions towards the scheme are based upon income, with higher earners contributing more towards the scheme.

The scheme works by covering those aged over 65 who require long-term care or assistance. For those age 40-65, it provides cover for those who have an age-related disease such as early-stage dementia. The benefits of the scheme are given based upon the individual's needs. These include home visits and long term care facilities which allows the family to choose the level of care needed.

Problems with the scheme so far have included funding with it costing more than initially expected. However, the scheme has lasted for 18 years which shows that it has generally been a success.

Worldwide Solutions Caring for the Elderly - continued

Singapore

Singapore currently has a programme called 'Eldershield'. This is a national insurance scheme introduced for those over the age of 40 to help cover the costs of long-term care. It works with there being a few insurers who provide the scheme. All at the same cost and providing the same payments for care, the insurer is randomly assigned to the individual. Everyone has the right to opt out of the scheme so some choose not to pay into it.

The ElderShield scheme comes into effect once an individual cannot do a number of 'Activities of Daily Living'. This includes feeding and mobility and provides the individual with a monthly pay out. The scheme has its limitations though, namely the fact that it will only pay for a maximum of six years. However, individuals are allowed the opportunity to pay extra and top up their care payments for a greater level of coverage.

Singapore has a new scheme proposed for 2020 called 'CareShield Life'. Within the scheme, you would pay annual premiums from the age of 30 to 67, the cost differs and is higher for woman than men. The scheme will continue to provide monthly pay-outs for those who cannot do a certain amount of 'Activities of Daily Living', similar to the current ElderShield scheme. However, the payments will continue for as long as the person needs them. The government have been able to achieve this by longer premium payments as payments will start at the age of 30 as opposed to the current 40.

United Kingdom

Given the research into long-term care insurance, we've found that other countries have successful schemes in place. So why is the UK so far behind with this?

Whether the solution is for this to be state funded, privately funded or a combination of the both depends on whether commercial interest can be properly governed to ensure care is of an adequate level. In the examples discussed above, some countries rely more on state funding, other solely on insurance and some combination of them both.

If we left the state solely responsible to pick up the bill, would voters vote for a party who would increase taxes to fund this? The direction of this raises serious questions about how the government should resolve the issue surrounding long term care in the UK.

Immediate Needs Annuities

What are annuities?

An annuity is a type of insurance policy that provides a regular income in exchange for an upfront lump investment. As concerns long-term care, an annuity is bought as a one-off purchase, with insurers guaranteeing an income to pay for care costs for the rest of the purchaser's life. This is where the term "Long-Term Care Annuity" is derived from. More commonly, the annuity is known as the Immediate Needs Annuity.

Insurers may have to make payments for only a few months, or for a number of years, with this being a part of the risk insurers carry. Similarly, the individual faces the risk of paying a large amount for only a few years' support. Policies can also be arranged to increase on an annual basis in order to allow for inflation and increases to the costs of care.

Who are they for?

Technically, anyone over the age of 60 is eligible for an annuity if they need to be cared for, either in a care home or by a provider in their own home. Ordinarily, those that take out these annuities may not qualify for local funding or want to enhance their care at home by paying a little more.

This immediate need care fee payment is designed for those who are already in a care home or about to move into one. They are not designed for people who do not need to pay for care immediately, or people who simply want to plan ahead in the event that they should require long-term care in the future.

How do they work?

An immediate needs annuity is designed to cover the shortfall between income and the cost of care for the rest of the resident's life. The price of the plan is based on how much income you need and the insurance company's assessment of how long you're likely to need it for. It is very important to shop around for an annuity as the rates differ widely.

The amount paid up front will depend on a variety of factors such as:

- Age
- Current annuity rates
- The level of income needed
- The health and life expectancy of the individual.

A medical examination is not required before purchasing, although personal information from a GP would be provided for underwriters to review individually.

The income from the plan is tax free if paid directly to the care provider; if paid to the individual to fund their care at home, payments are taxed and insurers may require that specific care providers are used.

Immediate Needs Annuities - continued

Benefits, disadvantages and risks of an annuity

The key reason an annuity is bought is that it provides peace of mind and stability to individuals. Recipients are safe in the knowledge that their needs will be funded and do not need to endure the stresses of worrying about how they will pay for their care.

One of the crises facing the older generation currently is how they will be supported in their final years, with many people forced to sell their homes or use other capital they may have. The media has reported widely on examples of older people being evicted from care homes due to lack of funding or having to sacrifice a disproportionate amount, in order to receive a minimal level of dignity and respect. Since the government has done little to rectify the situation, and seems unlikely to do so for the foreseeable future, annuities provide a private sector solution to this widespread and upsetting predicament.

Since policies are individually underwritten, there is a great deal of flexibility in their arrangements. Some may choose to simply pay for the costs of their care home each year, but they could be tailored to fund only a portion of the costs for a lower up-front amount or adjusted to increase annually to protect against inflation.

On the downside, since amounts are set when the policy is purchased, if the costs increase due to changes in providers, or worsening health needs, should preparations not be made, the policies may not be sufficient to meet their purpose for the duration of the recipient's life.

It should not be forgotten, however, that annuities are essentially insurance policies, with risks for the purchaser and the insurer. Whilst they may be modelled based on life expectancy and cost forecasts, it could be that the purchaser does not receive anything close to the value of their policy. To ensure against this, some policies have now started to protect some of the purchase price through capital protection, although this too comes at an additional cost. Conversely, insurers may be exposed to long tail costs as medical treatments improve and some care recipients living longer.

Given the variety of annuity options available, it is prudent for anyone considering the purchase of an annuity to seek financial assistance in the form of an adviser. However, because these annuities are only available at the point that care is required, this may mean that individuals who may no longer have full possession of their faculties will have to deal with the hassle of obtaining independent financial advice at a time when they should be focusing on their health.

Finally, once a plan has been taken out, it can't be cancelled easily. Should care no longer be required, there are no arrangements for partial refunds.

The current marketplace

Those needing annuities would need to appoint a financial adviser to guide them through the process and act as an intermediary with insurers. There are also a number of charities and not-for-profit organisations that have been established to provide assistance.

There is now a preference to seek advice from a Later Life Accredited Adviser who is a member of the Society of Later Life Advisers (SOLLA). These advisers would be able to obtain quotations for a variety of insurers with a standardised application form, then provide the client with all their options and the relevant costs.

There is a wide number of providers in the marketplace, however, each have their own appetite and policy structures, with rates differing widely. There is therefore great pressure to ensure that individuals receive the right advice and make well informed and educated decisions.

Immediate Needs Annuities - continued

Summary of annuities

There is no doubt that an immediate needs annuity serves an important function for people who need to fund immediate care home costs. The products have developed within a stable market place and even though there is still a wide variation in pricing, the average buyer would have a range of suitable products to choose from, allowing them to arrange a policy that is most appropriate for their demands and needs.

It is notable that these products do not seem to be advertised or discussed until they are needed, with little marketing outside of care homes and the like. Whilst this may seem logical, if younger people were made more aware of these products, they may be able to prepare their finances differently to ensure that they have sufficient capital available to purchase the annuity should it be required. Additionally, as noted, clients need to be highly informed before making any decisions when purchasing annuities; if the general public was more aware of these products, there would be greater knowledge and expectations before purchasing.

Much like a life assurance policy that is cheaper if bought younger and runs in monthly instalments for lengthy periods, with a lump sum payment in the event of death, there may be a market for a similar product that is paid into throughout the life of the purchaser and is activated upon entry to a care home or when care at home is required, working like an annuity at that point.

This concept would allow individuals to plan for their long-term care, without having to worry about selling assets such as houses or using life time savings to fund their long-term care needs.

Conclusion

What we found

The CII New Generation Group does not feel that the insurance market is adequately placed to cater for the pitfalls an ageing population will bring. We will be exploring how the market and state can work together to help alleviate the potential long-term costs to society. Over the course of the year, we have looked at different facets of Social Care with the overall goal to help educate the general public and ultimately see whether we can find a solution to this ticking time bomb.

The current system is broken

Through our research and reviews of this complex topic, it is clear that change is necessary.

We first reviewed the debate of the 'Dementia Tax' from the recent general election and reviewed the political divide that this issue encompasses. We saw how fractious the issue was and how politically sensitive the topic has become. We believe that negative politics over the issue, and the fear of being attacked for an imperfect policy, may only delay the change that is so vitally needed.

We also reviewed the wider impact that the current situation has on the economy. First, consideration was given to the significant direct governmental cost of health care and social care, an amount of £44 billion, which still leaves a great deal of costs borne by individuals. Although harder to quantify, of equal importance was the indirect cost of care from unpaid care, which is provided by approximately 5.8 million people impacting their wages and production as well as their health.

Specific focus was given to costs of dementia care in the UK, which is currently £26 billion per year, and the proposed solutions. It was noted that current system requires individuals with assets above £23,250 to fund their own care, with the costs of care homes being between £600 to £1,200 per week. Whilst support for those in care is present for those members of society who cannot pay, the burden of self-funding remains on individuals with almost any savings or assets and decisions to review the cap have been pushed back to at least 2020.

Other countries are doing better

In the search of a solution, a comparison was conducted between the systems in place in the UK and other leading nations. The US runs primarily on a privately funded insurance-based market, providing superior care to those who can afford it. Sweden places the financial responsibility on local municipalities, as opposed to central government; additionally, Sweden has an innovative approach to improving the health and wellbeing of its population, inherently reducing the need for care. Japanese culture used to rely heavily on families looking after the elderly, however this is becoming an increasing burden on the country's resources. In 2000, Japan introduced a tax on those over 40 to contribute to the costs of care. This solution was recently proposed in the UK[14], but the Japanese scheme is not without its problems. Whilst Singapore did have a program taxing those over 40, it only provided limited care. Singapore is introducing a new scheme in 2020, with tax on those aged 30 to 67 to provide wider care, for longer, to those who need it. It is our opinion that the UK should learn from these other models and aim to take lessons from them when proposing alternatives to the current system.

14 https://www.bbc.co.uk/news/uk-wales-44629932

Conclusion - continued

Could the private sector provide the answer?

One other avenue of solution was explored, by way of opportunities for the private sector to provide support. A review was given to the immediate needs annuity, which is essentially an insurance product that does provide purchasers with care for the duration of the time they need it. Whilst these products provide a great service to those facing the uncertainties of entering long-term care, there are advantages and disadvantages involved. Overall, we see these as positive solutions provided by insurers to those needing long-term care, however they are limited only to those with the capital to purchase the product, as well as the clearness of mind to make the arrangements. The product is not utilised fully in the marketplace. It was also noted that the annuity is only available to those about to enter care homes, they cannot be purchased as a long-term plan for those who do not yet need care.

What this means

As has been stated many times, the New Generation Insurance Broking Group believes that change to the current system is necessary. However, having learned from the complications of the previous election, it is not likely that the government will implement any significant changes for the foreseeable future. Similarly, the private sector may be equipped to provide alternatives, although a major transformation of the public mindset may be required in order to successfully do so.

As with many public policy issues, support is available for those who need it the most, whilst at the other end of the spectrum, there will be individuals who will be able to fund their care privately. However, it is clear that future generations will not be catered for by current systems and that change is vital.

Our conclusion is that this issue is one that must be addressed by the government, it is not the responsibility of the private sector. The government must move to improve the provision of care given to the elderly and provide funding to prevent the need to sell assets in order to afford care.

We do not propose that simply pumping funds in to the current system will provide a feasible long-term solution. Rather, lessons should be learned from other governments and systems, to develop a model better suited to cope with the expected increase in future demand.

However, we do believe that there is scope within the private sector, potentially for insurers, to provide products for people who anticipate this being an issue for themselves in the future. There is potential for an insurance solution to work hand-in-hand with evolving government policy to support those who wish to prepare for their future care and alleviate some of the pressure from the healthcare system.

Conclusion - continued

What next?

We see this project not as a complete review, but rather as a base to provide grounding to initiate change. There were many other areas of research and potential solutions that we were unable to incorporate within our review, such as improving health and medicines and the use of technology and big data.

Further research is clearly needed, and product development may be a complex process, however it is believed that there is a need for a product that will help people prepare for their later years and will be considered a part of responsible financial long-term planning. The government may also want to provide incentives or tax deductions to encourage the development and purchase of this product, as they often end up paying for care of those who can least afford it.

We have outlined some of the greater issues that are emerging and looked at some of the more immediate solutions and developments that may be available. It is our opinion that the current system should not merely be fixed but replaced entirely.

Whilst the debate will continue, we would like to see actions taken by the government and private sectors to bring about change.

Our team would welcome working with government agencies, think tanks, or private sector companies to help develop solutions to this broken system. We anticipate that reform of the care system may take many years and may not be perfect at the first attempt, however we are passionate to be a part of the solution and work with other partners who propose doing so.

We would like to finish by asking any of those who have read this to contact us. We would love to work with those interested and be a part of the change that is so greatly needed.

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