ABI

Prepare for Care

What does the planned social care reform mean for people funding their own care?

An ABI report based on research by the Pensions Policy Institute and in-house analysis of consumer needs and products to help people meet the costs of care

February 2023

Executive summary

How people pay for care, and how the state supports them, has been the subject of political debate for decades. This report looks at the needs of older people who use care and how financial solutions support them in the context of the reform for England announced in September 2021 and is intended to help guide future policy making in this area.

Paying for care in later life will always require a combination of public and private funding. This is because some people want to pay for services above and beyond what is provided by the state, and not everyone will be able to pay for their own care.

The insurance and long-term savings industry has an important role to play in the future of funding social care in later life. However, there are a number of barriers to expanding a private market for products and services to help people pay for care. For instance, people are often unaware of the costs that they would face and what the state provides to meet their needs. They also tend to be reluctant to think of themselves as needing care in the future and to prepare for it in advance. None of the barriers are insurmountable, but they are significant.

The ABI commissioned the Pensions Policy Institute (PPI) to analyse the impact of the reform on the costs to individuals in different financial circumstances. The research found that extending means-tested support – a key part of the Government's planned reform – would help more people meet the costs of care. However, it would also inadvertently create another barrier to further developing a private market for financial products to help people pay for care.

This is because two out of three people would have their means-tested support reduced automatically, if they received payment(s) from any care financial product. To address this, and to encourage the development of new products, we recommend that the payments from insurance products should be excluded from local authorities' financial assessments – a policy which we estimate to be fiscally neutral. We also recommend ways to make it easier to use a pension to pay for care. These changes would eliminate a key disincentive introduced by the reform for insurance products, and introduce a new incentive for using Defined Contribution pensions to pay for care. But these are only part of the major challenge presented by the lack of consumer demand for social care financial products.

To understand how our sector could support people to pay for care in future, this report:

- identifies the needs of people who use care services, based on surveys and views expressed by experts;
- examines existing options in the market – equity release, immediate needs annuities, savings, pensions and investments and life insurance with a care rider – to understand how they meet those needs;
- proposes policy solutions to ensure these products deliver on people's expectations and help them pay for the care they want in the location of their choice;
- identifies some innovative product ideas to meet the needs of consumers, such as care gap or top-up insurance, income protection for carers, and family insurance. The last two would allow adult children to cover some of the potential care costs of their parents or make it easier for them to temporarily care for their parents.
- highlights challenges and/or barriers which either affect all of these products, or are specific to particular products; and where possible, suggests policy solutions to address them.

Beyond technical barriers that need to be addressed to allow a market to develop, the Government needs to make the planned rules easy for people to understand and support people to plan in advance. The Government must also raise awareness of the need to prepare for costs in later life and support people in navigating the system. The Money and Pensions Service (MaPS) should have a key role in delivering the right guidance at the right time to people considering their care costs, and signposting them to relevant solutions and appropriate advisors. We welcome MaPS developing guidance on later life financial wellbeing. The insurance and long-term savings industry will continue to support MaPS in this endeavour.

Based on the PPI research, the analysis presented in this report and previous work undertaken by the ABI and its members, our recommendations are as follows.

Recommendations

Provide the right information and support

- The Department for Health and Social Care (DHSC) should work with stakeholders to develop a platform which provides clear, consumer-friendly and nationally consistent information that helps people navigate the system.
- DHSC should run an awareness campaign once the policy framework is settled and clear calls to action have been identified. This effort should successfully communicate people's responsibility for paying for their care costs, and the likely extent of those costs.
- The Money and Pensions Service (MaPS) should have a crucial role in answering people's questions and helping them navigate the system. We welcome MaPS developing guidance for later life issues including social care, and this needs sufficient resource. These information sources, and local authorities, should signpost to specialist financial advice.
- MaPS and providers should be allowed to go further than they currently can within financial advice rules, and tailor guidance to consumers, their circumstances and preferences to help them get to the right outcomes. The FCA's holistic review should reflect this need, and legislative changes will be needed to allow guidance to be personalised without the risk of it being considered advice.
- FCA should review COBS advice rules to ensure people can access the right advice.

Remove disincentives

- DHSC and the Treasury (HMT) should exclude payments (whether lump sums or income) arising from care insurance products from means-test assessments by local authorities.
- HMT should scrap or limit tax on pension withdrawals if funds are used for care related purposes (including if used for purchasing an Immediate Needs Annuity.
- DHSC and HMT should ensure there is a sustainable 'fair cost of care' which keeps top-ups in line with inflation.

Support unpaid carers

- The Department for Work and Pensions (DWP) should improve the process for claiming Carers Allowance, and graduating payments rather than carers receiving all or nothing.

Overall

- To bring together all these streams of work, we recommend that the Government set up a Cross Departmental Care Taskforce which can agree and implement a joined-up action plan and is independently led.

Introduction

To continue living a good life into older age, it is very common to need support due to a disability or illness, and that support will often include domiciliary or residential care. Local authorities financially support those who meet the eligible care needs criteria and the means-test. The reform of adult social care in England, announced by the Government in September 2021, promised more certainty around the future system for funding care, but also added layers of complexity.

We commissioned the Pensions Policy Institute (PPI) to research what the reform meant in practice. This included understanding the assets of current retirees and the projected assets of future retirees, and what the reforms would mean for using them to pay for care.

Using the PPI's findings and further research, we analysed consumer needs to understand how current and potential products could be used or developed to meet those needs. Our analysis also identifies solutions to address the barriers that are preventing new products from being developed.

The reform

In September 2021, the Government announced a plan for health and social care in England which would expand the means-tested support provided by Local Authorities and introduce a lifetime cap on personal care costs of £86,000. The threshold was for 2023, before the delay of the reform was announced.

A further aspect of reform was the introduction of first party top-ups so that those who want services beyond eligible needs, such as a provider of choice, a better room or location, will be able to pay extra themselves to secure that. For instance, local authorities may offer to arrange a basic room in a care home at the local authority rate of £650/week. However, an individual might prefer a room with better facilities at a higher rate of £800/week. Under the new reform they would be able to pay the difference. Similarly, someone receiving care at home may want to have help with an extra shower a week, which they would be able to secure by paying a top-up. This is a break from current rules for residential care, under which only a third-party, such as an individual's family, is able to top-up on their behalf. If people are made aware of this change, it could become a primary motivation for people to make their own provision to cover care costs.

Key points on the delayed reform of charging rules: care cap and means-test support

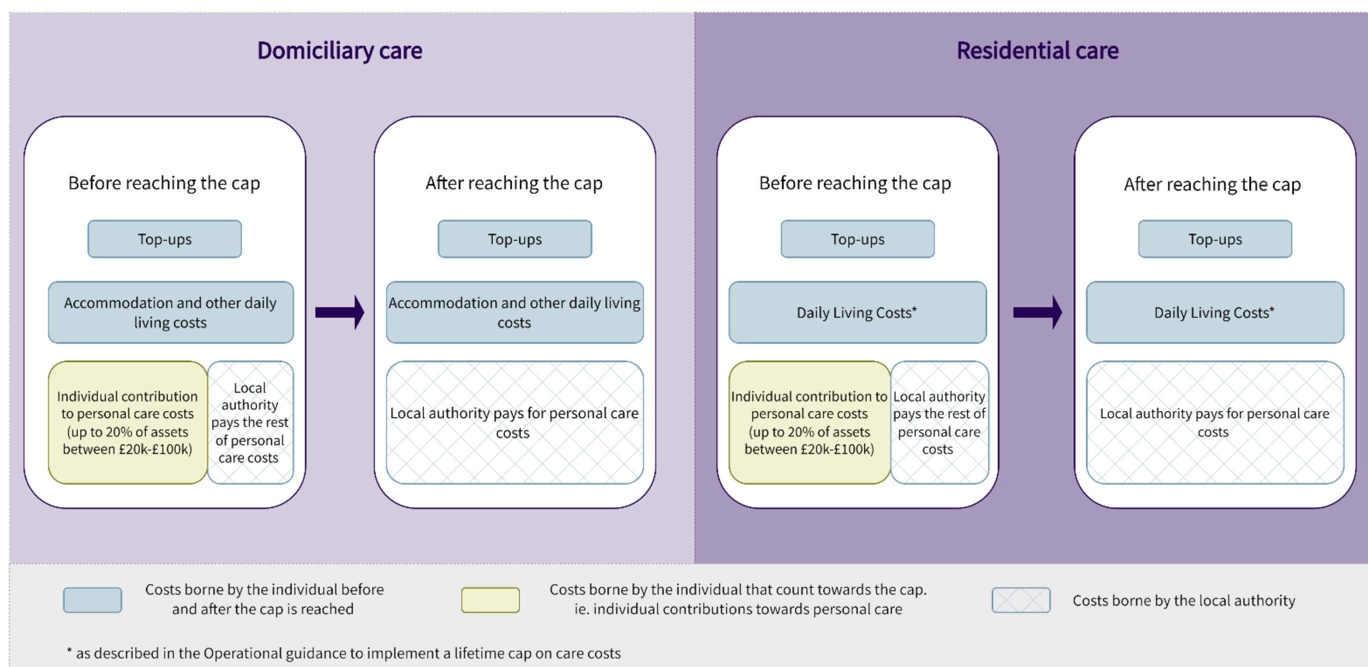
- Where an individual is deemed to have eligible needs according to their local authority, they can meter towards the cap and where they meet the means-test, they may receive local authority financial support.
- If they receive state support, they will always pay almost all of their income and may also pay a proportion from their assets according to the rules. A small proportion of their income is ringfenced for personal costs.[1]
- Under the delayed reform, people with less than £20,000 wealth will pay for their personal care from their income only.
- Those with assets between the Lower Capital Threshold (LCT) of £20,000 and Upper Capital Threshold (UCT) of £100,000 will pay no more than 20% per year from their assets between these thresholds. Those with assets over the UCT will be self-funders (the thresholds were for 2023, before the delay of the reform was announced).
- As is the case currently, the value of one's home continues to be disregarded if the person receives domiciliary care or if their spouse or partner lives in the property. The Government has also committed to review Deferred Payment Arrangements, whereby those entering residential care can use the value of their home to pay for care.
- Throughout the care journey, people will remain responsible for their accommodation and other daily costs.
- The care cap covers only the costs towards care that an individual pays for themselves. It does not include payments made by the local authority for people receiving means-tested support, which means those on lower income would take a long time to reach the cap, or would never reach the cap. Nor does it include the accommodation and other maintenance costs of those receiving domiciliary care, or Daily Living Costs (DLCs) of residential care. The DLCs, also described as "hotel costs", such as food and accommodation, are set at a notional £200 a week, although the actual costs may be higher.

Under the planned reform, self-funders would also be able to secure care at local authority prices under Section 18 (3) of the Care Act 2014[1]. This aims to close the gap in prices between local authority rates and prices for self-funders, which is estimated at 41% for the same care packages.[2] This gap essentially means that self-funders are currently subsidising local authorities. There are concerns

[1] Section 18 (3) already applies to domiciliary care. Under the reform, this will now apply to residential care as well.
[2] Commons Levelling Up, Housing and Communities Committee, August 2022, Long-term funding of adult social care: https://committees.parliament.uk/publications/23319/documents/170008/default/

about the ability of local authorities to deliver this reform, known as *the Fair Cost of Care*, without sufficient funding, it may have the opposite effect of widening the gap. LaingBuisson analysis raised the possibility of top-ups increasing to several hundred pounds. [3]

Figure 1: How the new charging rules work for individuals under the means-test; i.e. with assets under £100,000; Source: PPI, 2022



The impact of the reform

The means-test

The increase in the means-tested thresholds will make more people eligible for local authority financial support and, as a result, they will keep more of their assets. The PPI research found that this would have very little impact on those who already receive means-tested support. For example, a person with £200/week income and with £15,000 assets entering a care home would be only £3/ week better off under the new reform. However, more support will be available for people with more assets. According to DHSC[4], "by 2031-32 around 115,000 additional people would be receiving state support with their care costs when considering the care population at any one time, 74,000 of whom would have reached the cap".

The effect of the care cap

The cap was intended to prevent some people from facing catastrophic care costs, especially those who require more care over a longer period of time. However, those who receive means-tested support take longer to reach it or are less likely to reach it at all, depending on their levels of income and savings.

Assuming a scenario in which **domiciliary care** costs £250/week[5], the PPI's research found that:

[3] LaingBuisson, Impact Assessment of the Implementation of Section 18(3) of The Care Act 2014 and Fair Cost of Care: https://www.countycouncilsnetwork.org.uk/new-analysis-warns-government-has-seriously-underestimated-the-costs-of-adult-social-care-charging-reforms/

[4] DHSC, 2022 Impact assessment: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1044903/adult-social-care-charging-reform-impact-assessment.pdf

[5] DHSC estimation of the average weekly cost of domiciliary care in England is £250 a week; this assumes around 13 and a half hours of care, 2022, Impact assessment: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1044903/adult-social-care-charging-reform-impact-assessment.pdf

- A self-funder could expect to reach the care cap after six years and eight months;
- An individual using domiciliary care and who receives means-tested support would take much longer. For example, someone with £25,000 in assets and £300 income/ week would reach the care cap after around 13 years and seven months.

Table 1: Domiciliary care: Progress to the cap at various levels of income and savings

[]	No savings	£25k savings	£50k savings	£100k savings	£150k savings
100	*	*	29y 1m	10y 5m	6y 8m
200	*	*	12y 3m	6y 5m	6y 8m
300	17y 5m	13y 7m	7y 3m	6y 5m	6y 8m
400	8y 5m	7y 6m	6y 8m	6y 8m	6y 8m
500	6y 8m	6y 8m	6y 8m	6y 8m	6y 8m

For **residential care**, the costs are higher, so the time to reach the cap is shorter. However, most people pass away in the first three years after entering residential care, with only 27% still in care after three years and only 12% after five years. The research found that:

- A self-funder paying residential care costs of £683/week[6] would reach the cap at around three years and six months after moving into care.
- Those who receive means-tested support would again take longer to reach the cap, with those on lower incomes and savings unlikely to ever reach it irrespective of how long they are in care. This is because they would contribute only small amounts towards their personal care.

Table 2: Residential care: Progress to the cap at various levels of income and savings

Income (£pw)	No savings	£25k savings	£50k savings	£100k savings	£150k savings	>£200k savings
100	*	*	*	*	*	3y 6m
200	*	*	*	*	5y 0m	3y 6m
300	*	20y 8m	13y 8m	6y 4m	3y 8m	3y 6m
400	10y 6m	9y 1m	6y 10m	4y 2m	3y 6m	3y 6m
500	6y 5m	5y 10m	4y 9m	3y 6m	3y 6m	3y 6m

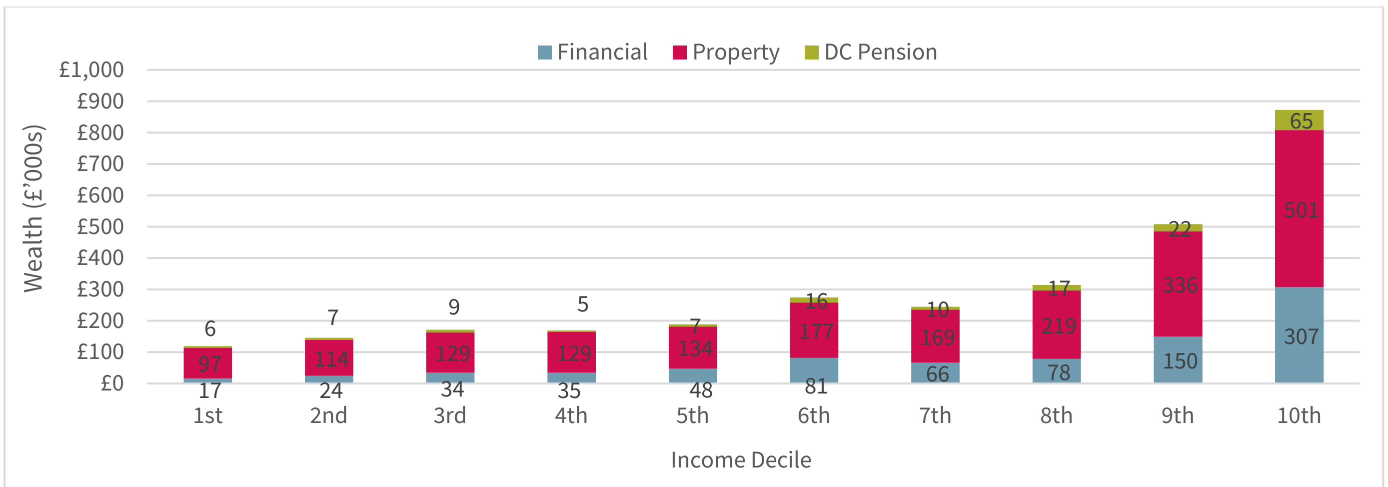
The wealth of current retirees

The PPI research found that housing forms the largest portion of wealth for more than 60% of current pensioners (Fig 2). If housing wealth was disregarded (for people receiving domiciliary care or whose spouse or partner lives in the property), only 20% of people would have assets over the Upper Capital Threshold (UCT) while 80% would be entitled to local authority support.

This indicates that few have the means to pay for the whole cost themselves. The PPI research looked at the effect extra income or capital would have on current and future pensioners' care costs if they were to have care needs. It found that an insurance product could help them pay for care to meet needs beyond those recognised by local authorities as eligible. It also suggests being able to unlock value from property is key to getting the care people want, but that DC pensions are less likely to be a solution for many current retirees.

[6] The average local authority care home rate according to DHSC Impact Assessment, 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1044903/adult-social-care-charging-reform-impact-assessment.pdf

Figure 2: Wealth of current people aged over 65 by income decile and source (£'000) in 2018-2020; Source: PPI, 2022 based on ONS's Wealth and Assets Survey



Differences between generations already over 65

The Pensions Policy Institute's research also looked at the differences in wealth between younger and older pensioners to understand the extent to which different cohorts can afford to pay for care themselves or need state support. The research found that people aged between 65 and 79 have higher levels of wealth and are more likely to have some accessible defined contribution (DC) pension wealth. In contrast, people aged over 80 have modest levels of accessible pension wealth as they tend to have guaranteed pensions income (defined benefit (DB) pensions and/or annuities) already in payment. This means younger cohorts are more likely to be able to pay for top-ups, but that depends on how much of their pension they have used by the time they need care. Having some part of the pension available in drawdown or untouched, as opposed to guaranteed income, may be desirable for those who want to prepare for care costs in advance.

Changing wealth of future generations

The PPI research projected the future wealth of Generation X (those born between 1965 and 1979), as they could potentially be the target of hypothetical products paid for in advance, or would need to be saving now for care needs. This paints a slightly different picture to earlier generations' wealth. Generation X are expected to reach retirement with lower levels of DB income than current pensioners and more DC savings on average. Having DC pensions means savers have more easily accessible funds that they could use to top-up the care of their choice.

However, Generation X were found to be more likely to reach retirement in rented accommodation or with an outstanding mortgage. With housing being a key source of wealth, the increased proportion of renters means fewer people in Generation X can rely on accessing their housing wealth to get the care they may want, be that via equity release, deferred payment arrangements or selling. This means that other options, such as pensions, savings or insurance, may be more appropriate.

Overall, Generation X are projected to have lower levels of private pension and housing wealth than the current generation of pensioners, which means they are more likely to be reliant on state support if they need care.

The unintended consequences of the means-test

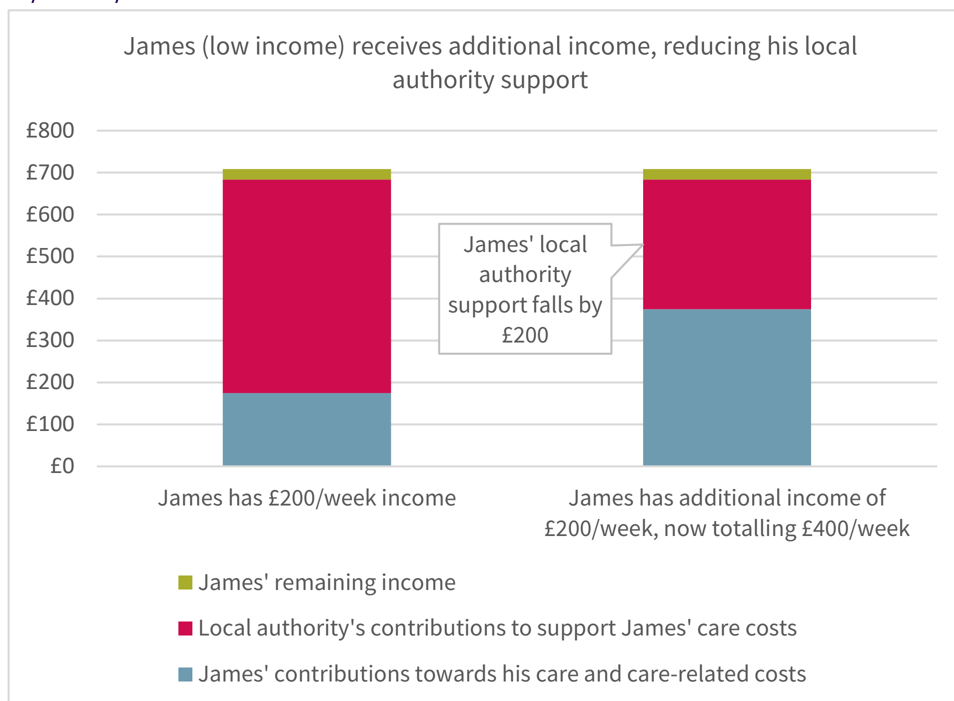
The research tested the impact of an insurance or long-term savings payout on people with different incomes and wealth. It found that the reform would create some unintended consequences which impact the scope and potential for product development. If people receive additional income or capital from an insurance payout (or from another source such as savings or inheritance), it may not leave them with more remaining income for personal expenses or extra cash to top-up for better care facilities. This is because the means-test will take this additional income or capital into account so it would merely replace some of what local authorities would have paid.

The extent to which people would see the benefit of the extra income or capital would depend on their income and wealth.

For instance, James, in Figure 3a, is on £200/week income, has £15,000 assets and needs residential care. He would be no better off personally from an additional income of £200/week. This is because without the additional income, the local authority pays £508 a week towards his care. With the additional income of £200/week, the local authority would decide, following a means-test assessment, that James can afford to pay more towards his care and therefore reduce their support towards his care costs to £308. This means that due to the means-test rules, the extra income simply replaces the local authority support he would have received.

With all the additional money going towards his increased contribution, James would also be left with the same personal expenses allowance of £25/week. This means he would be unable to pay more for top-ups unless he dips into his £15,000 savings.

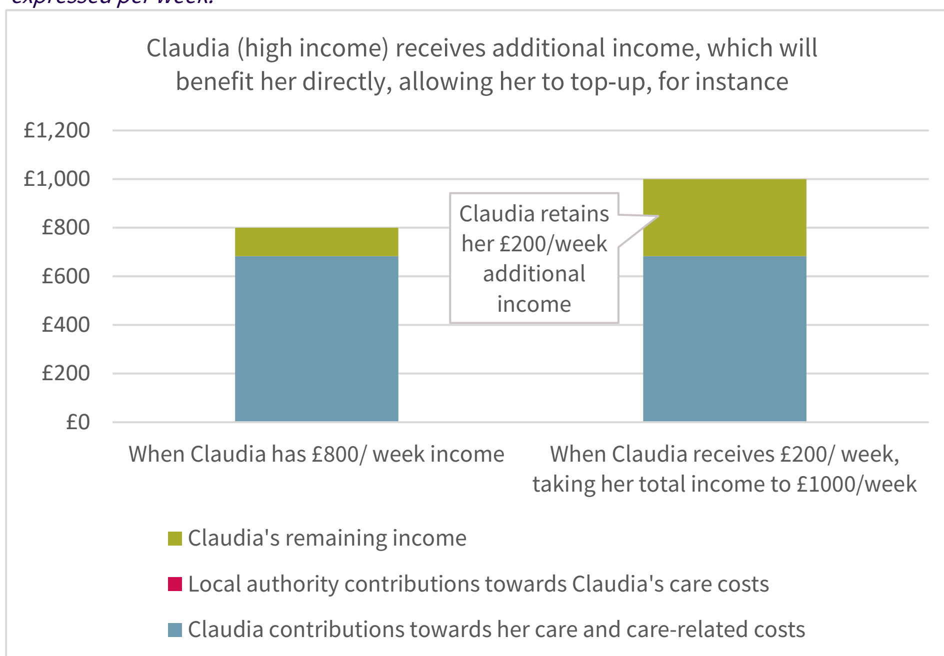
Figure 3a: The impact of additional income on the finances of individuals of different levels of income. The costs include the daily living costs (DLC). Monetary values in the charts are expressed per week.



This is not the case for those on higher incomes. Claudia, in Figure 3b, is also going into residential care. She has an income of £800/week and the same level of assets as James (£15,000). She does not receive any local authority support. If she receives an additional £200/week, that money will personally benefit her, for instance by allowing her to top-up.

In between these extreme examples where the consumer would fully benefit from an insurance payout or not at all, there are people on low-to-medium and medium-to-high incomes who will see variable reductions of the additional income. A similar picture emerges for people who had bought a product which provides a lump sum when care needs arise.

Figure 3b: The impact of additional income on the finances of individuals of different levels of income. The costs include the daily living costs (DLC). Monetary values in the charts are expressed per week.



What this means for potential care products

As shown above, if a hypothetical insurance product or long-term savings product pays out a stream of income or a lump sum when an individual needs care, the local authority reduces the financial support that the individual would otherwise have been eligible for. Some of the insurance payout would in effect be deducted by local authorities.

The table below (Fig 4) maps out the financial benefit from the payout value after the local authority deduction. It looks at two product payout scenarios: a £75,000 lump sum and a weekly £100 income. It shows what proportion of people would enjoy different

degrees of net financial benefit, from the full value of the payout to less than a third. For instance, James in the example above is one of the 60% of current pensioners that would enjoy the benefit of less than a third of an insurance payout in the form of income. Claudia is one of the 37% of pensioners that would enjoy the full value of the payout.

Figure 4: Proportion of people benefiting from income and lump sum products after five years in residential care; Source: PPI

	What proportion of people receive the corresponding net financial improvement from £75k lump sum		What proportion of people receive the corresponding net financial improvement £100 a week income	
Financial benefit derived from payout after the local authority reduction is taken into account	Current pensioners	Generation X	Current pensioners	Generation X
Less than a third of payout	11%	24%	60%	68%
Between a third and two thirds of payout	46%	40%	2%	3%
Over two thirds of payout	43%	35%	38%	29%
Full value	37%	28%	37%	29%

The more a person benefits from means-tested support, the more of their insurance payout they would lose. The only people who fully benefit from the payout will be those who would not fall under the means-test for their entire care journey. Mapping that onto the wealth distribution of current retirees shows that only just over a third would see the full benefit of income or capital.
For Generation X, this reduces to 28-29%. Two-thirds of Generation X pensioners would see the benefit of the payout reduced by two thirds or more. However, providers and advisers would only want to sell and advise on this type of product if they were certain, at the point of advice and purchase, that the customer would fully benefit from it. That would mean the adviser predicting with certainty that the customer's income and assets would allow them to be self-funders for the entirety of the care journey, so that the benefit they would get from a product payout would not be reduced by means-testing.

Establishing years or even decades in advance whether a customer would fit into this category is difficult, if not impossible.
Only a very small group of people, consisting mainly of high-asset individuals, would almost certainly benefit 100% from the payout and could therefore be safely recommended such a product.

The risk of customers only partially benefiting from a product raises serious regulatory concerns. It would undermine the product's objectives and would very likely fail regulatory tests of 'fair value', including under the Financial Conduct Authority's new Consumer Duty. Detriment to customers would also be damaging to the public's trust in the sector.

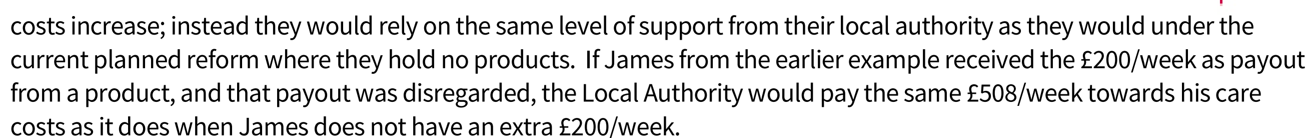
The unintended disincentive created by the new means-testing rules would affect a range of products, which we set out below.

How to address disincentives

To address these challenges and help expand the potential market to people of medium financial means, **we recommend that the Government exclude (or disregard) from the means-test any payouts from insurance products that cover the need for long-term care**.

Our initial analysis is that excluding such payouts from the means-test is likely to have little or no impact on Government expenditure. The same proportion of people would rely on local authority support whether or not payouts are excluded from the means-test assessment. This is because:

- People who self-fund their entire care journey don't rely on local authority support whether or not the payout is excluded. The disregard would only have given them and their advisors certainty at the point of advice and purchase of the product that if their income and wealth ends up dipping below the means-test threshold, the payout would not be deducted.
- People who need local authority support would not buy products under the current planned reforms, and providers would not offer them, precisely because of the means-test, as set out in the previous section. If the payout was excluded, people who bought these products and receive a payout would not see their contribution towards their care



costs increase; instead they would rely on the same level of support from their local authority as they would under the current planned reform where they hold no products. If James from the earlier example received the £200/week as payout from a product, and that payout was disregarded, the Local Authority would pay the same £508/week towards his care costs as it does when James does not have an extra £200/week.

Disregarding payouts from the means-test would remove the disincentive for people to take out products, and for product providers to offer them. The fiscal outcome is the same and the customer outcome is improved. We do not recommend excluding all pensions and savings products, as this would begin to negate the means test, which seems unrealistic in the delayed reform. Instead, we set out in the Products section other ways to remove disincentives to use a pension to pay for care.

How to address other barriers

It is important to note that there are other important factors that hold people back from preparing for future social care costs that also need addressing. Some of the strongest drivers are behavioural and explain the lack of demand in this market.

- People naturally find it hard to think of themselves being in a position of needing social care, often do not realise they have an insurable risk, and as a result most do not make any plans to pay for care;[7]
- Most people underestimate the cost of care[8] and many assume that it is freely provided in the same way as NHS healthcare[9].
- The complexity of the care system can deter people from planning ahead. People cannot easily understand what they would be entitled to and what they need to provide for themselves.
- People have been delaying making financial plans until there is clarity over the Government's reform proposals[10], which also shows the importance of policy stability as a factor that influences decision making.

These barriers can start to be addressed by providing consistent, clear information and support to help people navigate the system and understand the appropriate financial options for their circumstances. This effort should be supported by an effective and impactful awareness campaign to ensure people know their responsibility for paying for their care costs and plan and prepare in advance.

Other challenges have continued to confront insurers and long-term saving providers when working to develop a private market for products to help people pay for social care costs. Predicting how many people will need care for how long involves predicting medical progress and longevity. The nature of the risk is also complex due to individual family arrangements, policy changes, and interaction with other policy areas, especially housing. There are also economic and social changes that will determine whether people will prioritise paying privately for care if they can afford to do so, which assets they have and how they accumulate, and the extent to which they are looked after by formal services such as paid carers, or their families. Although these are not fundamental barriers, they remain limiting factors.

Consumer needs

In this section, we identify the needs of people with care needs and of their families, the extent to which current products meet them and any potential products that could do so.

The analysis below is based on research from Social Care Future and the Social Care Institute for Excellence (SCIE) as well as analysis by stakeholders, including Age UK and Carers UK. Evidently, needs do not equal demand for products, but they are an important consideration in designing any products.

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[7] ABI, 2019, Nine out of ten over-65s have no plan to pay for social care, new research reveals; https://www.abi.org.uk/news/news-articles/2019/06/nine-out-of-ten-over-65s-have-no-plan-to-pay-for-social-care-new-research-reveals/
[8] Just, 2021 'Social Care – The policy vacuum' https://www.justgroupplc.co.uk/~/media/Files/J/JRMS-IR/news-doc/2021/just-1045-care-report-2021- v8-spreads.pdf
[9] Ipsos, 2017, Public perceptions of austerity, social care and personal data sharing: https://www.ipsos.com/en-uk/public-perceptions-austerity-social-care-and-personal-data
[10] Just, 2021 'Social Care – The policy vacuum' https://www.justgroupplc.co.uk/~/media/Files/J/JRMS-IR/news-doc/2021/just-1045-care-report-2021- v8-spreads.pdf

Consumer needs
A. **Be able to afford top-ups to get better care** According to the Social Care Future inquiry, those needing care often lack control over their care packages and can be placed in one-size-fits-all institutions. Respondents also noted that their needs were often underplayed in local authority assessments due to a lack of resources. For example, in 2019, one in seven people aged 65+ were struggling without the help they depended on to carry out essential everyday activities.[11] For people to have more choice about where and how they live and get the level of care they themselves decide they need, they will have to top-up. A range of products can help to cover the costs of top-ups from equity release to insurance and long-term savings products.
B. **Mitigate and delay the need to go into residential care and enable their independence at home** A survey by SCIE[12] found that remaining independent and being able to stay in their home were the most important things for people over 65. However, Social Care Future's inquiry also found that people did not always have a choice over where and with whom they live. Delaying the need to go into residential care and allowing more independent living would not only address this need, but also give people receiving care the best chance to maintain connections with their community - another key need - as well as mitigating the onset of increased care needs and corresponding higher costs.
C. **Afford to give unpaid care or have a member of your family give unpaid care** Some people may prefer or need to have care given by their loved ones, rather than arrange for a paid carer or a care provider. This may also be their loved ones' preference. However, caring responsibilities lead to major financial, emotional and practical challenges.[13] With the Carers' Allowance being only £3,500/year with strict eligibility criteria, caring for someone also creates financial pressures. According to research from Carers Trust, the top three things that would make a difference to unpaid carers are: more money, better support for the person they care for and a break from providing care. Income protection for carers and family care insurance are two of the product ideas that could make a difference to carers.
D. **Minimise care costs** About 1 in 4 people think the cost of care and accommodation is one of the most important things if they need care or support.[14] As the PPI report shows, the means-tested system, along with the cap and the new planned right to secure residential care at local authority prices (Section 18(3)) to residential care could reduce self-funders' costs. Products that pool risk, such as a protection policy, or those that help delay the move to residential care, which is more expensive than domiciliary care, are likely to minimise the costs.
E. **Certainty about the quality of care and care-related costs** According to SCIE, older people need high quality, personalised care and continuity when it comes to their care. That is why having certainty over the costs through the entirety of the care journey is important. The most relevant product to address this need is the immediate needs annuity.

[11] Age UK, 2019 'The number of older people with some unmet need for care now stands at 1.5 million': https://www.ageuk.org.uk/latest-press/articles/2018/july-2018/new-analysis-shows-number-of-older-people-with-unmet-care-needs-soars-to-record-high/
[12] SCIE, 2021, Population survey of the 'Role of housing in the future of care and support' https://www.scie.org.uk/files/housing/role-of-housing/survey-slides.pdf
[13] Over seven million people – one in four employees – across the UK juggle work and unpaid care, and 48% of unpaid carers said that they had to give up work because of their caring role.
[14] Asked to select five options out of a list of things that they would find most important if they needed care or support, 26% of people surveyed picked the cost of care and accommodation, which put costs to eighth place in the ranking together with being able to pursue hobbies and interests according to the SCIE survey above. This reflects the fact that the cost is a worry albeit not as important as having access to internet, phone and technology (51%), having their own belongings and home comforts (38%) and living near family and friends (37%). However, it may have ranked higher as a concern if more people were aware of the costs of social care. According to Just, 2021 ' Social care – The policy vacuum' , 77% were shocked at how expensive care was. This may be an indication that the need to minimise costs would feature higher for those facing them.

F. **Maximise the inheritance or gifting to younger generations**

Asset depletion and the eventuality of having to sell one's home to pay for the cost of care have attracted much political debate in the recent years. In 2019/20, 4% of UK deaths resulted in an inheritance tax charge[15], and a survey of professional financial planners reported that nearly half of their clients had already given or aspired to give money as a living inheritance.[16] Therefore, managing inheritance and gifting to the younger generation are likely to be a need or preference for a section of the population, most likely those with substantial assets to bequeath. A range of products address these needs, depending on preferences and circumstances, including life insurance that covers care and equity release.

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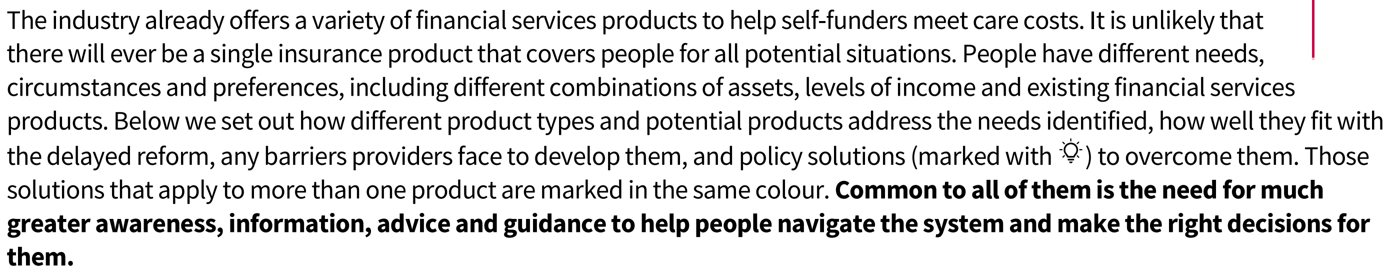
[15] HMRC, 2022, Inheritance Tax statistics: https://www.gov.uk/government/statistics/inheritance-tax-statistics-commentary/inheritance-tax-statistics-commentary

[16] Just, 2021 'Social Care – The policy vacuum' https://www.justgroupplc.co.uk/~/media/Files/J/JRMS-IR/news-doc/2021/just-1045-care-report-2021- v8-spreads.pdf



Products

The industry already offers a variety of financial services products to help self-funders meet care costs. It is unlikely that there will ever be a single insurance product that covers people for all potential situations. People have different needs, circumstances and preferences, including different combinations of assets, levels of income and existing financial services products. Below we set out how different product types and potential products address the needs identified, how well they fit with the delayed reform, any barriers providers face to develop them, and policy solutions (marked with) to overcome them. Those solutions that apply to more than one product are marked in the same colour. **Common to all of them is the need for much greater awareness, information, advice and guidance to help people navigate the system and make the right decisions for them.**

Equity release

Equity release can provide funds to pay for extra domiciliary care or to make home adaptations, allowing people to have a better quality of life and live longer in their home. With housing being the biggest current source of wealth as shown in the PPI research, this product is key in the mix of options. 62% of those over 65 own their homes outright. Typically, customers need to sell if entering residential care; individual firms could choose to review this product feature, and would need to take into account customer vulnerabilities and capacity, as well as managing empty property or tenants, and the impact on risk and price. One barrier to this product is that someone who had entered into such an agreement before their financial assessment by local authorities could be seen as having withdrawn funds as capital.

Capital accessed via equity release at any time before the financial assessment should not be included in the financial assessment by the local authority as long as the housing disregard applies.

Care fees plans / immediate needs annuities (INAs)

INAs are sold at the point of need and provide a guaranteed stream of payments for life to cover the cost of care in exchange for a lump sum. They offer greater certainty about the quality of care and care related costs. INAs also largely limit the costs of care to the lump sum used for buying them, and consequently, enable inheritance or gifting. These products are not investment products and therefore present no investment risk to the purchaser or their family. Concerns that the lack of funding for the Fair Cost of Care policy would lead to much higher top-ups mean that the annuity provided may not cover the entire cost of care determined at the point of sale.

INAs could be made more accessible by making pension withdrawals tax-efficient.

Government should ensure there is a sustainable 'Fair Cost of Care' which keeps top-ups in line with inflation.

Pensions

DC pensions provide an easily accessible source of wealth for meeting care costs. However, separate PPI analysis suggests only a small minority of people will have pension savings at a level that could also help meet their care costs[17]. It is hard to predict in advance how big someone's DC pension will be in their 80s – the most prevalent age for going into residential care. Nevertheless, pensions are a growing source of wealth and can be used for top-ups. Pension allowances rules represent a limitation to building up adequate pensions, especially if they need to cover care costs.

The current taxation rules for pension withdrawals can make pensions an unattractive route to pay for care, especially if larger withdrawals are made, which can be taxed at 40% or even 45%. People are only likely to leave money in a pension to pay for care if the tax treatment on death remains as it is, and this should be taken into account in any wider pension tax changes.

Scrap or limit tax on pension withdrawals if funds are used for care related purposes (including if used for purchasing an INA). In practice, this would mean (1) amending pension tax rules to enable an INA to be bought from a pension; and (2) instead of being taxed as a single lump sum, the payments to the care provider would be taxed as income at the customer's marginal rate (or not taxed at all).

[17] PPI 2021 'What is an adequate retirement income?' https://www.pensionspolicyinstitute.org.uk/media/3828/20210609-ppi-adequate-retirement-income-report.pdf

Family care insurance

This product does not currently exist. It would enable family members to pay premiums directly to receive a lump sum or income if, for instance, their parents need care. This would overcome people's reluctance to consider their own care and its costs; and would pool the risk, helping manage the costs if the parent eventually does need care. The lump sum or income could enable family members to provide unpaid care, or to meet the care costs and top-ups, as well as maximising their own inheritance or gifting. The Law Commission previously explored updating the legislation on insurable interest, which requires that someone gains a benefit from the preservation of what they are insuring, or to suffer a disadvantage should it be lost or damaged. For instance, one can buy property insurance for their own house, but not for their neighbour's house. Given that this has not progressed, insurers will decide what they believe to be acceptable and in the interests of customers and the family member needing care.

Income protection for carers

Products that insure people who may need to provide care, either through a payout, some respite periodically, and/ or external support, would help alleviate the great pressure on unpaid carers. They could be offered via the workplace, as part of an income protection.
One challenge is the claim trigger, as it would need to be proven by the insured that they do need to provide care to that person. One easy link would be the Carers' Allowance, but its strict eligibility would mean many struggling unpaid carers would not benefit from it.

Improve the process for claiming Carers' Allowance, and graduating payments rather than it being an 'all or nothing' benefit.

Savings and Investments

These can help people top-up and get the care they want, make the necessary home adaptations to mitigate and delay the need to enter residential care and allow people to live more independently. They also represent a safety net for those who need to care for a loved one, where they may miss out on income or state support. However, having extra savings (or a lump sum), as the PPI research shows, has less effect on those with lower means.

No suggested policy solutions due to small population who would benefit.

Whole of life policies with care rider

These products provide an early lump sum if a care need arises. They require wealth and the desire to pass it on. They can be used for top-ups, adaptations to prevent or delay residential care, and can maximise inheritance and gifting. Some products like this already exist, but there are only limited sales. They interact unfavourably with the more generous means-test, as shown in the PPI research. Without any payout disregards, providers will need to ensure their products would pass the FCA 'fair value' test even for those unlikely to ever fall under the means-test.

Exclude lump sum (or income) paid by care insurance products from means-test.

Ensure inheritance tax rules do not unintentionally prevent an automatic option for early release of the sum assured if care needs arise.

Care Gap or top-up insurance

This type of product would help pay specifically for care that is unmet by local authorities, either for needs that are not recognised as eligible, or for top-ups for more comfortable care arrangements or a preferred location or services. It could be provided as a lump sum, which could help pay for adaptations to live independently at home, but could also be in the form of income. As they would focus on covering top-ups, it would be important that top-ups grow steadily in line with inflation, especially if they are paid as an income stream.

Exclude lump sum (or income) paid by care insurance products from means-test.

Government should ensure there is a sustainable 'Fair Cost of Care' which keeps top-ups in line with inflation.

Continuation of, or as part of, protection insurance

This would be an option, either in continuation of a critical illness, income protection or life assurance policy or part of it, and could insure against the risk of disability in later life or against inability to perform a number of activities of daily living. The payout could be either in the form of a lump sum or income and would help people afford top-ups or home adaptation. Similar to the whole of life policy with a care rider, this product pools the risk; however, it faces the same obstacle of the interaction with the means-test support.

Exclude lump sum (or income) paid by care insurance products from means-test.

The UK insurance and long-term savings market and the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy,employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

The UK insurance and long-term savings industry manages investments of over £1.9 trillion, contributes over £16bn in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.