



Department
of Health



Association of British Insurers

SOCIAL CARE FUNDING: STATEMENT OF INTENT

The Department of Health ('the Department') and the Association of British Insurers on behalf of the insurance industry ('the industry') both want to help people plan and prepare for the costs of their long term care.

We want to work together to ensure people receive appropriate information and advice and to create the right conditions for a larger market in financial products. This will offer people greater choice about how they pay for care – whether it is at point of need or helping those to plan ahead for the possible need for care.

This statement sets out how we will work together in the coming months, alongside the implementation of the Care Bill.

Signed

Norman Lamb

Minister of State for Care and Support

Otto Thoresen

Director General, Association of British Insurers

Financial Products and long-term care

1. The Dilnot Commission found that although the industry already supports people to pay for their care costs (through products such as care annuities and more generally by providing retirement income) it had the potential to play a larger role and offer people more choice – if the conditions were right. The Commission pointed to possible developments in pensions, insurance and in the use of housing equity. Both the Department and the industry would welcome this.
2. In March 2013 the Department asked the major firms and trade associations in this field to undertake a review of how the market could develop. This reported back in July 2013 and is being published today.¹
3. The review identified that the financial products most likely to develop in the short term will leverage the assets people already have, specifically housing and pension wealth. These products could help people plan ahead for care, and would be in addition to the point of need annuities already available. Further, the industry does not expect there to be a single, comprehensive product solution but rather a range of products that can be used individually or in combination.
4. The products that are most likely to develop will:
 - a) Build on and extend the existing market for care annuities, which can provide peace of mind to people who go into residential care.
 - b) Add flexibility to existing products:
 - i. the ability for a retirement annuity to provide more income when someone needs care, with similar enhancements for income drawdown
 - ii. products that allow people to release their housing equity without actually needing to sell their home (i.e. equity release)
 - iii. for protection products such as health, life and illness cover to also include care coverage.
5. The review found that there is currently a lack of demand for products and that new products might initially reach only a small market. The review found that creating demand for products will be critical to a successful market. The two important elements to growing demand are better awareness and advice on care funding and financial solutions.
6. The review also highlighted the importance of stability in how care is funded for the industry and its customers due to the long-term nature of financial contracts and financial plans.
7. The Department welcomes the findings from the review and has agreed with the industry to work together on the key areas for action and further work highlighted in the review, set out below. These activities are expected to help people plan and to contribute to the development of the market. This work will include the relevant departments and stakeholders as required. The Department and the industry will review progress in the first half of 2014.

¹[https://www.gov.uk/government/publications?keywords=&publication_filter_option=all&topics\[\]=all&departments\[\]=department-of-health&official_document_status=all&world_locations\[\]=all&from_date=&to_date=](https://www.gov.uk/government/publications?keywords=&publication_filter_option=all&topics[]=all&departments[]=department-of-health&official_document_status=all&world_locations[]=all&from_date=&to_date=)

Helping people understand their options

8. We want to raise awareness of how care is funded, the financial support available, and how much people might need to pay for their care.
9. National and local government both have an important role in raising awareness, working alongside the voluntary and community sector, Money Advice Service and the financial services industry to achieve this objective.
10. The Department, in partnership with these organisations, will take a central role in designing and delivering an initiative to raise public awareness of the reforms in advance of 2015. The industry will support this initiative by considering how it can improve consumer understanding through provider communications, and providing advice to Government about the scope and content of the financial information provided.

Help with financial decisions

11. We want individuals and their families to have the information and help they need to make financial plans and decisions about their care.
12. The Care Bill contains a mandatory requirement for local authorities to establish an information service to help people with financial decisions about their care. The service will need to provide good information on what people might need to pay for care, on the financial support that may be available, an overview of financial options (such as deferred payments and financial products) and how to access financial advice. The local authority should consider what type of information or advice might be beneficial to individuals depending on personal circumstances and help people understand how to access it. This would apply to both generic advice (such as from the Money Advice Service and Citizens Advice Bureau) as well as advice from regulated financial advisors.
13. The Department will work with local authorities, the voluntary and community sector, and financial services, regulators and advisors to develop more detailed proposals for the information service. Together the service should ensure that people receive the appropriate financial information and advice at the right time in a way that complements the advice they receive about care planning to enable them to make well-informed and considered decisions. It should recognise that paid for financial advice is suitable for some, but not all consumers, and that free, generic advice can be a useful alternative.
14. This work will also take account of other factors that affect financial and care planning such as appointment of a power of attorney and involve the relevant government departments and stakeholders.

Regulation of financial products and advice

15. We want to see good and proportionate regulation of care products and advice that provides sufficient protection to consumers while also allowing the industry to innovate and its customers to access products.
16. The Department and industry will work with the relevant departments (including HMT, HMRC, DWP and GAD) and the Financial Conduct Authority to explore further some of the conclusions drawn in the review.
17. The review found that success of a financial product market is strongly linked to customer understanding and access to available products. Financial advice can be shown to be a

factor in sales of financial products, we will therefore take an evidence based approach to explore:

- a) what advice people need and how they would like to access it, and in particular establishing whether or not there is sufficient evidence to suggest the regulatory rules about advising on long-term care insurance products require review; and
 - b) how the capacity and capability within the specialist care fees financial adviser market can keep pace with increasing demand and meet consumer needs.
18. Initial scoping through the Review has identified that allowing people to have more flexibility over when and how they take income from their retirement products could help them better plan for their care. We know that any work done would need to recognise that the tax rules and regulation that apply to retirement products may impact a range of different people in different circumstances. We will explore whether it would be right to consider any changes to the areas listed below:
- a) the rules for capped and flexible draw-down products;
 - b) the tax rules for some products, particularly disability-linked annuities and more generally annuity products; and
 - c) the rules around when products can be paid to specialist care providers.
19. The Government also recognises the importance of a final settlement on Solvency II which ensures the continued viability of the UK annuity and equity release markets. We will continue to work together to reach a positive outcome.

Ensuring the care system and financial products work well together

20. We want the new care funding system and financial products to work well alongside one another.
21. We believe that people who chose to financially prepare for their long term care should be able to realise better incentives than is currently the case. People with modest assets who choose to use a financial product to make provision for their care should be able to benefit from having done so as well as from state support. The Department, with industry, will consider financial services products when reviewing and developing new regulations on charging for care and financial support to help pay for care which will underpin the Care Bill.
22. The review also highlighted that a better understanding of processes could lead to more consistency between the care funding system and financial products. As such, we will also look at whether local authority and industry approaches to financial and care assessment can complement one another.
23. As the reforms come closer and as the market develops, the Department invites the industry to consider how to design or adapt products that work well alongside state support in the new system.

Developing the evidence base

24. We want to continue to improve our understanding of how the market will develop, how this will benefit people, and what action is needed to support it.
25. We will work together to develop a clear evidence base to underpin policy and the industry's assessment of market potential. This will include analysis of:
 - the affordability of financial products and financial advice and who in the population they can benefit - matters which will be critical to developing policy on advice, charging and regulation; and
 - the potential demand for different products and how consumers will respond to the funding reforms - matters which will be critical for the industry when considering whether to commit capital to the development of a new product.

Moving forward

26. The Care Bill represents a significant step in delivering a care and support system which promotes individual well-being and allows people to better plan and prepare for their long term care needs. The cap will mean that people will not face unlimited care costs but will instead have a clearer and more realistic amount towards which they can financially plan and provide for. It provides an opportunity for the financial services industry to fill this gap and develop financial solutions for meeting people's care costs.
27. We will develop our understanding of this demand and investigate how to create the right environment to allow existing financial products to evolve and new products to develop that will sit alongside core elements in the reforms, such as the Universal Deferred Payment Scheme.
28. We are completely committed to continuing to work together to help people better plan, prepare and save for their care costs. We will maintain a strong sense of collaboration in identifying different solutions for different people.