REVIEW OF CARE PRODUCTS – KEY MESSAGES

KEY MESSAGES FROM THE FINANCIAL SERVICES INDUSTRY

- The financial services industry can play an important role in helping people plan for their social care needs.

- It welcomes the Government's reform of social care. The industry particularly welcomes the concept of a partnership between the individual and State where the responsibility for care costs is shared, and the opportunities for behaviour change as more self-funders start to contact their local authority to start moving towards the cap.

- There are opportunities for financial advice and for financial products to help people pay for their care, building on the markets that already exist for retirement income products such as annuities and drawdown products, insurance, equity release and savings vehicles.

- Whilst pension initiatives (including automatic-enrolment) will mean people will have more choices at retirement, we also need a better understanding of care costs and funding choices. Low understanding and difficulty accessing financial advice are barriers preventing people from planning, and the industry from developing products that help to plan for care costs. We need a tiered approach to information and advice, which combines general financial information with regulated financial advice.

- This report highlights the work required from the Government and the industry to create the right environment for people to plan, and for products to succeed. The issues cut across awareness, advice, implementation of social care reform, a more favourable regime for products, and regulation of financial services.

- The report cannot make commitments on behalf of the industry about what products it will develop. This is a matter for individual firms to address. However, the report examines the types of products that may be viable, who they could help, and the key challenges that need to be addressed.

- Coordinated action will be needed between Government, regulators, the financial services industry and the care sector to achieve our shared goals - the industry is ready to work with all of these stakeholders going forward.

WHAT TYPES OF PLAN SHOULD PEOPLE MAKE FOR THEIR CARE

The population falls into three broad cohorts defined by how likely they are to need care, and how much opportunity they have had to plan ahead. Each of these groups has different financial priorities:

- People **entering care** (predominantly 75+) will need to make decisions (often quickly and under difficult circumstances) about how to pay for their care. They are likely to be retired and have few opportunities to accumulate new wealth, and therefore need to make the best use of their wealth (primarily their home). There is an established market of point of need products to help this group that could be increased by expanding the number of service users receiving regulated financial advice.

- The '**semi-retired**' **-** people at **retirement age** face key decisions about how to take retirement income from their pension that can affect their financial situation for the rest of their life - making the best decision is crucial. There could be more flexible options at retirement to help people plan for their care. This becomes more important as many people work beyond their retirement age. Once retired they need to consider how their income, savings and home could pay for care over the course of their retirement. This should include ensuring a trusted third party knows their wishes and can act on their behalf.

- People of **working age** are in the accumulation stage and, given the far-off prospect of long-term care, are likely to be more amenable to messages about saving more generally for a better quality of retirement. While consumers might benefit from pooling the risk of needing to go into care, the very long-term nature of the contract and the perceived likelihood of social, medical or fiscal change over that long term mean that the uncertainty is likely to put off most potential purchasers, especially those already not saving enough for their retirement.

Annex A provides more detail on these.

WHAT PRODUCTS CAN HELP WITH CARE COSTS?

- With 95% of people in care aged 65+ and retired, products need to leverage the assets people already have – mostly their **housing and pension wealth**.

- People will need to be **versatile** and draw on a number of resources at different life stages to contribute towards care costs. For example, retirement income from pensions could help with general living costs, while housing equity could be used to purchase an immediate needs annuity if someone goes into residential care. Rarely will there be a "silver bullet" product that meets all of one person's needs.

- The market for **pensions and insurance** could develop around the following offers:

  - Building on the **existing market** for care annuities which allow people peace of mind against outliving their assets as a result of high care costs, normally in residential care. The PSSRU has estimated that care annuities could benefit and would be affordable to 40% of self-funders in residential care.

  - Adding **further flexibility to existing products**. These can be retirement income products like capped drawdown, where higher GAD limits that recognise the decreased life expectancy of people with care needs allow more funds to be used to pay for care. We also see a role for flexible protection products, for instance in using a life insurance policy to pay off the loan from a deferred payment arrangement.

  - Exploring whether **products previously available** could be brought back given the right market conditions – e.g. disability-linked annuities which start as normal annuities but increase the individual's income when a triggering care need arises. There was also a market for protection products which cover care risks in addition to other risks (hybrid product) as well as products which initially cover traditional risks but can covert to covering care risks (conversion products).

  - In contrast, stand-alone care products bought early in life are unlikely to be in demand and are not likely to be developed in the near future.

  - More detailed product suggestions and information are at **Annex B**

- At retirement, nearly half of all UK individual wealth is currently held in residential property. Older people tend to be asset rich and income poor, with most of their wealth concentrated in the home. There are opportunities for them to use their **home to pay for care:**

  - The **Equity Release** market has significantly developed in the last decade and is able to assist with the cost of later life, including home adaptations and domiciliary care. It can also be used to purchase insurance such as care annuities, without the need to sell the home. There is potential for this market to grow and equity release should become a standard consideration for advisers and retirees thinking about retirement planning. A favourable outcome from the Solvency II debate is needed to ensure competitive products remain available.

  - The Government's **Universal Deferred Payments** scheme is aimed at people in residential care and will allow them to defer paying their care fees so they do not have to sell their home in their lifetime. This does not directly compete with equity release but the two will need to work well together on a level regulatory playing field – there are recommendations on this below.

  - Homeowners in care often need **help to manage their property** (to be adapted, maintained, rented or sold depending on circumstances). Services which already exist may not be accessible or tailored to the needs of people in care. Advocacy and co-ordination is needed but help of this type is currently embryonic.

HOW CAN WE CREATE THE RIGHT ENVIRONMENT FOR THE MARKET TO WORK?

The following conditions are needed to create consumer demand for products to make provision for care, and for these to operate effectively in the care and support system.

1. Building understanding

- Long-term care needs - and the new Government proposals - are complex. Consumers are unaware of long-term care costs and under equipped to plan. We need to **increase public understanding** of how care is funded, what care really costs, the options people have, and the importance of planning. Understanding is an essential pre-condition for demand.

- Policy solutions designed to help ‘nudge’ people towards the right behaviour will be fundamental. A Government-led **public information initiative** explaining how the system works and what the individual’s responsibilities are would ensure this understanding becomes widespread, and that the behaviour to ‘have a plan for your long-term care needs’ becomes the social norm - this should be supported by stakeholders including local authorities, the care sector, and business.

- The public information initiative should have an overarching message focussed on planning for long-term care. However, it will need to **tailor messages** to the needs of different customer segments (working, retiring, needing care) and provide actionable information.

- Work is needed on **information pathways** for each life stage, to identify critical moments and opportunities to communicate with people, and who the appropriate messenger is. For example, retirement, when claiming benefits, or using public services are all potential touch points.

2. Helping people access good financial advice

- **Regulated long-term care advice** should be accessible for those who want it. This could lead to better consumer outcomes and help stimulate demand for products.

- Using the Local Authority assessment as a focal point to **refer care self-funders** to financial advice will mean they have help when it is most essential. The advice should be holistic to ensure people are aware of all of their options.

- This advice should be weighted towards those most likely to benefit – self-funders whose asset mix and liability for care costs means they face the most complex decisions and have the most to gain from advice. For those, the Local Authority should provide a strong nudge towards taking advice.

- Some advisers provide **free initial advice** upon referral from Local Authorities (with fee-based advice thereafter) to encourage people to take this up, and to support the less well off. This model could be built upon, and industry discussions are already underway to scope how this would work.

- We need to consider what support is needed to ensure that there are **sufficient qualified and practicing advisers** to help people who want to access holistic financial advice, and that **qualifications are set at the appropriate level**.

3. Implementation of Care Reform will affect how the market develops

- Above all the **State offer needs to remain stable** (i.e. minimal, predictable changes) over the long-term so that people can understand what they need to pay, and financial services can develop solutions. This means aiming for maximum cross-party consensus.

- There is currently little incentive for people of modest means to protect themselves because means-tested support means they will be no better off. It is worthwhile exploring whether disincentives can be removed by **excluding specialised care products (in full or part) from means testing**.

- It will be hard to make products dovetail completely with the State offer due to various differences in the assessments, eligibility criteria, treatment of carers, and the possibly unpredictable movement of the cap. We need to work together to understand what alignment is achievable, but also accept that **some products may not dovetail** and action to mitigate customer misunderstanding in this area.

- Policymakers, regulators and the industry should collaborate to remove barriers wherever possible and the role of financial products should be considered as Government develops the legislation and guidance supporting the care system, including developing a new framework for assessing eligibility in due course.

- All parties should develop a framework to ensure the **Universal Deferred Payment Scheme and financial products work well together**. This needs to ensure in particular that people who choose Equity Release can go on to have a deferred payment agreement. Access to financial advice will also support choice.

4. Development of Products and Regulation

- The **FCA, HMT** and **HMRC** should play a more prominent role in policy discussions about how financial products can help with paying for care, and the FCA in particular should seek to regulate with the grain of social policy. The importance of the FCA being involved from the start is underlined by their new powers to intervene in product development.

- There are particular concerns that affect appetite to enter the market:
    - Acting in good faith to develop products may result in adverse and/or retrospective regulatory action by the FCA if the products do not accurately reflect the State offer, or if this happens to change. It is therefore critical that the FCA is closely involved in the policy discussions on social care and financial services products.
    - The risk that regulatory rules may themselves change, as happened for example with HMRC rules relating to disability linked annuities, as this made products non-viable.

- The industry Working Groups suggest a number of **specific changes to regulation** to allow innovation by providers, and to improve incentives to invest in care. For example, further clarifying DLA tax treatment, protection products distribution issues, making assets held in drawdown more accessible for care, and taxation of product benefits. See the Pension and Insurance Working Group's report (slides 14 and 15 for detailed issue analysis and recommendations).

5. There is a need for further research to understand demand

- Consumer research is needed to test consumer demand for potential products, and to understand the potential size of the market. This is necessary for product providers to satisfy the FCA that they have developed their products appropriately, and this consumer testing is best completed when more of the details of the State offer are settled.

- Government and industry need to understand how consumers prefer to access information and advice, and have a clear picture of the customer journey as it exists so that opportunities for improvements can be identified.