



Consumers and the Marketplace working group

Key findings & messages

Working group 1: Consumers and the marketplace

Participants and process

The working group established a broad membership and consisted of representatives from the following organisations:

- ABI
- AEGON
- Aviva
- BUPA
- Department of Work and Pensions
- Department of Health
- Grace Consulting
- ILC
- Legal & General
- PwC
- Swiss Re

Once membership had been established, a series of sub-groups were set up, each with a different focus.

No.	Focus area
1	Segmentation of consumers by age, wealth and care need and thinking through how financial solutions could map onto broad population segments.
2	Understanding what care costs and related needs these groups may have.
3	International experience with long-term care markets.
4	Customer attitudes to care costs and other demand side barriers.
5	Implications for policy on information and advice.

Executive summary (1/4)

	Key theme	Opportunities	Challenges
1	<p>The Long Term Care solution is complex</p> <p>Both long term care needs - and the new Government proposals that set out how to address these needs - are complex.</p> <p>Financial solutions differ depending on the cohort of consumer being considered.</p> <p>The UK consumer is unprepared and unaware of the challenges faced by Long Term Care cost.</p>	<ul style="list-style-type: none"> • To effect a step change in consumer behaviour and make planning for social care a social norm. • To discuss and drive positive debate wherever possible. • Engage family members in the debate. 	<ul style="list-style-type: none"> • We need to find a way to help people through the maze. • Health and financial services professionals need to understand each other. • Solutions need to be fit for purpose for each consumer group and each life stage. • The future needs of both the individual and their partner need to be considered. • The complexity of the legislation needs to be clarified for the customer and made easy to understand.
2	<p>We need a single overarching message for consumers</p> <p>There is the need for a single overarching message to be delivered to all stakeholders: 'have a plan for your long term care needs, including how to fund for them'.</p> <p>However information alone does not drive behaviour. Government endorsement would be required to ensure this behaviour becomes the social norm. Lower level information would then be tailored to meet the needs of different consumer segments. i.e. for each lifestage: working, imminent retirement, in retirement, at point of need.</p> <p>Consumer awareness needs to be built that the Local Authority should be their first point of contact for care questions.</p>	<ul style="list-style-type: none"> • Deliver information in relation to both care and financial needs through a single access point, such as Local Authority, similar to the way the existing GP structure works for medical needs. • Government, employers, product providers and distributors all have a role in delivering information at earlier life stages. • The plan needs to be accompanied by clear options for each life stage and set out the next steps such as who to talk to and when. 	<ul style="list-style-type: none"> • Challenging to compel consumers to make a plan and then follow through with it in the long term. • The key messages need to be sustained rather than be delivered in a one-off campaign. • Information needs to be tailored and conveyed simply.

Executive summary (2/4)

	Key theme	Opportunities	Challenges
3	<p>Regulated advice is important but should not be compulsory</p> <p>Regulated long term care advice should be accessible for those who want it however this advice should not be compulsory for everyone.</p> <p>Regulated advice may not be needed to start the journey into care planning however for some groups (e.g. Self funders), it may be beneficial.</p> <p>While it is important to increase the confidence and engagement of consumers, in some cases, the cost of advice may outweigh the benefits.</p>	<ul style="list-style-type: none"> Engage the FCA to ensure regulation is proportionate and the market is subject to suitable checks and balances. The advice model could include free initial advice upon referral from local authorities with fee based advice thereafter. All charges could be free from VAT. Tools could be introduced to help consumers and advisors navigate through the advice process (e.g. On-line care cost calculators). 	<ul style="list-style-type: none"> For certain products, regulated advice is required. Not all advisors currently have a licence to write LTC business. Further accreditation may be required. For people with simpler needs or limited assets, a self-guided system with no need to use an adviser may be more appropriate. The need for advice can be very different at different life stages and will often consider broader financial needs, not just LTC. In some cases advice will be given in relation to an event 40 years into the future. Need to ensure stakeholders are not penalised for trying to do the right thing relative to future changes in legislation.
4	<p>Existing products can be part of the solution</p> <p>Long term care funding solutions may be found within existing products, such as pension products. Using these products would encourage consumers to consider their wider retirement needs and use them to fund their 'life after work'.</p> <p>The consumer needs to be able to see the product as both having value and as being affordable.</p>	<ul style="list-style-type: none"> The supply model could potentially have a broader reach into the rest of the UK market. Pre-funding solutions may be suitable for consumers with longer term funding needs. 	<ul style="list-style-type: none"> People do not have a clear vehicle in mind to pay for LTC. Increased consumer awareness of solutions including products is required. Those needing care in the next 20 years are already retired and can only draw on existing assets. At the point of need, the needs often of those making the decision (the children wanting to maximise inheritance) can be at odds with the needs of the person entering care.

Executive summary (3/4)

	Key theme	Opportunities	Challenges
5	<p>Private sector offerings and government incentives are required to stimulate demand</p> <p>International markets frequently use private sector long term care offerings to complement available public sector coverage. This approach is often coupled with initiatives to promote demand.</p>	<ul style="list-style-type: none"> • Mechanisms that stimulate demand (e.g. Tax credits, Opt-out, educational programmes) can be part of the solution. • A detailed programme of co-operative working between private and public sector would be needed. 	<ul style="list-style-type: none"> • Challenging for industry brands to lead such debates. Government and regulators are needed to stimulate demand. • Long term product solutions need long term stability in Government policy. • A longer-term practical solution might be to emulate countries that have a degree of compulsion (coupled with tax/NI credits).
6	<p>Consumers can pay a range of costs to receive ‘good quality care’</p> <p>The cost of ‘good quality care’ can vary markedly within a specific region. Some consumers pay higher prices for better surroundings rather than better care. However there is not a clear enough measurement of care standards to enable consumers to make an informed care choice.</p>	<ul style="list-style-type: none"> • Enhanced transparency of care costs to help inform consumers. • Care Quality Commission (CQC) reports could be enhanced to look at social environments as well as care standards. Consumer confidence in care standards could be enhanced by making these more like Ofsted reports. 	<ul style="list-style-type: none"> • With greater transparency in care costs, consumers will have more visibility of what Local Authorities pay for care. Potential self-funders may then choose to enter care at a cheaper price via Local Authorities which would impact the private care market. • Means testing may lead to some informed consumers selling assets to enable them to benefit from the means testing.
7	<p>Further analysis is required in some areas to understand the potential size of the long term care market</p> <p>Our work has highlighted areas where further work would be required.</p>	<ul style="list-style-type: none"> • Understand linkages with the other workstream proposals. • Consumer research to test consumer demand for potential product to understand the potential size of market. • Need to research how consumers prefer to access advice and information. • Understand the customer journey as it exists and where we can make improvements quickly and effectively – who exactly is involved (family, solicitors, estate agents etc). 	<ul style="list-style-type: none"> • Understand how changing demographics may impact the size of target consumer groups (e.g. Impact of longevity, divorce rates). • Today’s research may not accurately predict future behaviours (e.g. how will care needs develop when the baby boomer generation starts to enter care.) • Analysis to ensure the adviser community is capable of absorbing any proposed increase in demand in this sector.

Executive summary (4/4)

What factors would help create demand and a growing market for care products?

Public sector

- Stable Government policy
- A clear statement of public sector provision
- A powerful overarching message
- Tailored information, simply conveyed
- Financial and lifestyle incentives (e.g. Tax deductions, opt-in)

Private financial sector

- Innovative product solutions
- Access to regulated financial advice
- Healthcare & financial services partnerships
- Encouraging access to group schemes

Private care sector

- Increased transparency around care costs
- Increase in care standards
- Clear communication of care standard ratings (e.g. similar to Ofsted reports)
- Personal advice about care choices and costs

Consumers

- Personal responsibility for having a financial plan
- Engaging family members in the debate
- Changes in societal attitudes

(1) Segmentation of consumers & financial solutions

Key findings and messages

Long term care needs and therefore financial solutions differ depending on the cohort of consumer being considered.

- At one extreme, those needing care in the next 20 years are today already retired and care costs will need to be met from assets they already have.
- At the other, today's pre-retirees will need care in c50 years' time and so pre-funding could be a solution.

A summary of cohorts and considerations is included as an appendix.

We need a single message to bridge the differing consumer needs and resonates across all consumer groups: "have a financial plan for your long term care needs". This message would have to be endorsed by Government with the aspiration that this behaviour would become the social norm.

There is a need for this information to be delivered from a single access point such as Local Authority in a similar way that GPs are the first point of contact for medical needs.

Further work is required to understand how changing demographics may impact how to effectively communicate this message. Women currently occupy 80% [tbc] of residential home places and longevity trends could increase this proportion further. Other factors such as divorce rates may also impact the relative size of consumer cohorts.

(2) Understanding care costs

Key findings and messages

Care varies from a few hours of care at home to high need residential care. Only 1 in 5 in need of care move to a care home. There is a large disparity within regions as to the cost of good quality care:

Example range of weekly residential care costs

Care / Region	Low	High
Residential Elderly Frail (North)	£380	£1,015
Nursing* Elderly Frail (Midlands)	£441	£1,000
Residential Dementia (Home Counties)	£595	£1,400

We do not believe that there is a clear enough method of measurement of good practice in care. Standards need to be communicated in a way that people understand. Without confidence in standards people are less likely to engage.

Financial solutions could include: Savings and insurance linked to existing products, early entry to become the norm, contributions to care costs according to means and expectations and plans which pay towards care if required but still retain value if care not needed.

Information requirements include: Clear government guide to care funding allowances, strong messages about requirement for care and financial provision, personal advice about care choices. There is a need to research how consumers prefer to access advice and information.

(3) International experience with LTC markets

Key findings and messages

Typically, private Long Term Care insurance arrangements develop around a country's public Long Term Care system – complementing available public coverage, or providing benefits where there is not public coverage.

- In Germany, private LTC insurance offers substitute cover to the population who opts out of the public LTC insurance
- In the United States, most buyers of private LTC insurance are not eligible for Medicaid
- Private LTC insurance can also offer complementary coverage for the portion of the cost not covered under universal public plans (France, Belgium, Japan and Germany)
- In Singapore, the Eldershield system auto-enrols 40-69 year olds into privately managed schemes. The product offered is a lifetime guaranteed annuity.

A wide range of private LTC coverage arrangements with varying eligibility rules, benefit triggers and benefits paid can be found in OECD countries.

Two main products have emerged, a reimbursement model designed in line with private health insurance arrangements, and the indemnity model designed in line with annuity contracts.

If consumers are going to pre-plan for care, a change in behaviour is required. There needs to be sufficient consumer demand to enable a market place to exist and to incentivise new suppliers to enter the market. Mechanisms to enable demand include:

- Compulsion, opt-in or opt-out
- Education and communication plan of what the state provides
- Encouraging cheaper products such as group arrangements
- Tax incentives

(4) Implications for policy on info and advice

Key findings and messages

Evidence suggests that information alone does not drive behaviour. Giving consumers information alone does not necessarily lead to them making rational, informed decisions.

For information to be effective, it needs to be complemented with another mechanism that links it to consumer demand (e.g. some sort of compulsion on behalf of the consumer).

- For example, auto-enrolment is designed to harness decision making inertia rather than to encourage individuals to make a conscious decision to start saving.

Information needs to be clear and transparent and written in plain, jargon-free language that the consumer can understand.

There is a need to provide tiered information. While some consumers take information at face value, others will want to understand more detail before making a choice.

It is not clear where consumers think Long Term Care 'belongs' (i.e. within the workplace or the healthcare sector) and so work would be required to understand these attitudes.

While regulated financial advice is a good and useful thing, it is not always necessary when saving for retirement or at retirement. The cost of advice may outweigh the benefits where needs are not material.

(5) Customer attitudes to care costs

Key findings and messages

Consumer awareness of the problems faced by Long Term Care costs is low. Only 20% of over 75s are 'very worried about how they will fund Long Term Care costs. This message is consistent across social groups.*

Long Term Care is not a subject that is discussed by families. Only 20% of over 75s have discussed Long Term Care with their families and for pre-retirees, this drops to 10%.*

Consumers believe the State should fund care costs up to a point but that this should be supplemented by private sector offerings. The Government is trusted to provide an acceptable level of cover.

There is no clear vehicle that people have in their minds of paying for Long Term Care. Consumers are relying on a mixture of State support, pension income, personal savings and sale of property to finance their care.

The situation is exacerbated by a paucity of advice around LTC. A recent Sesame Bankhall survey suggested only 19% of advisers said they had the necessary licence to write Long Term Care business.**

If demand is created then there needs to be sufficient information and quality of advice out there to help consumers and/or their dependents make the right choices.

*Mintel: Consumers and Planning for Long-term Care – UK December 2012

**Aviva commissioned research

Appendix: Segmentation of consumers by age, wealth and care need

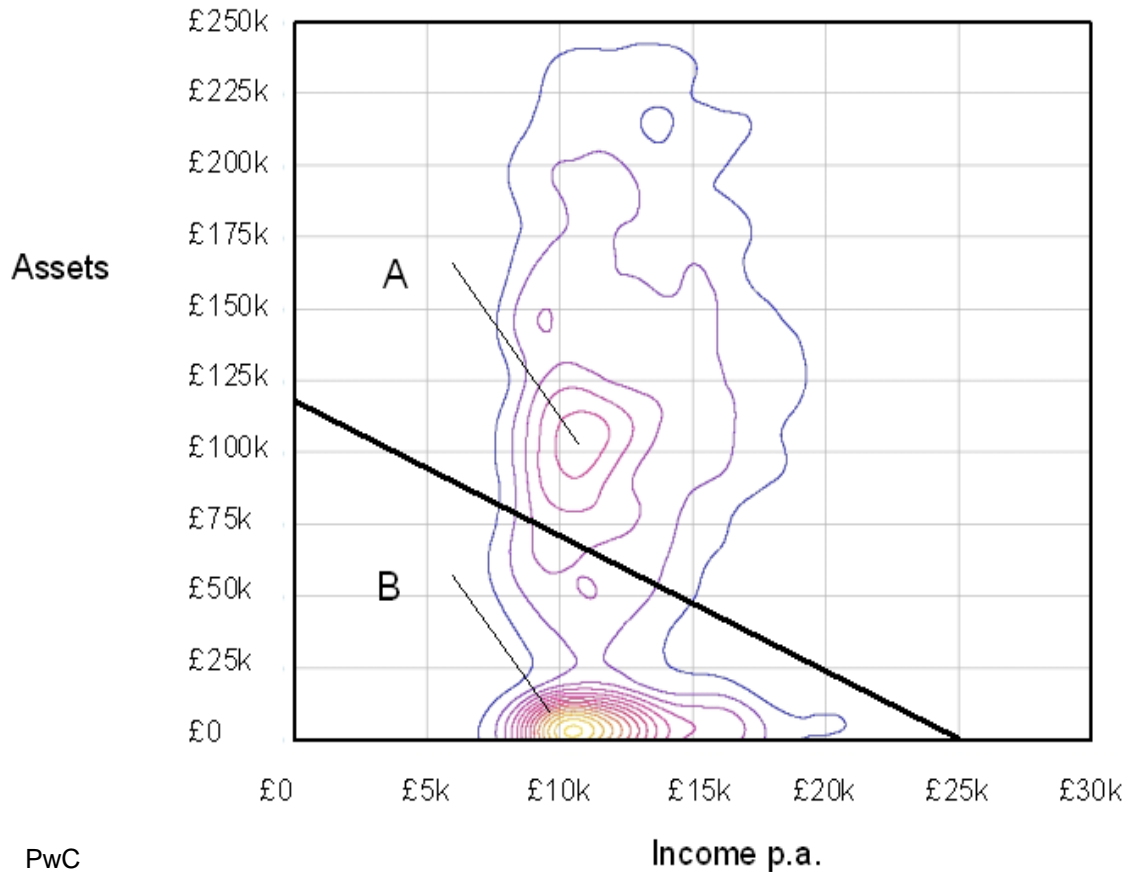
(1) Working age	(2) Imminent retirement
<p>Population Age: 40-64 Population: 17.3m Male/Female split: 49/51% % homeowners: 74%</p>	<p>Population Age: 65 Population: 554k in 2016 Male/Female split: 48/52% % homeowners: 79%</p>
<p>Have a retirement plan People have realistic expectations about their pension and wider retirement needs including care Understand the options and how these could change the future Don't give up – follow the plan</p>	<p>Understand and prepare for the choices ahead... People approach this as a household Focus on options in detail and what these mean, especially in later retirement and for a partner Have realistic expectations about retirement (e.g. life expectancy) and care (e.g. likelihood and cost)</p>
<p>Options Increase pensions/ ISA's savings Pay off mortgage/debt Defer/phase retirement Consider using your home as an income generating asset Equity release (note: different generational attitudes to using property – see Just Retirement report)</p>	<p>Options Tax free cash and pensions – how to choose the right product & get the best deal Utilise flexibility of income drawdown Defer/phase retirement Property choices – downsize, move or, for homeowners, equity release</p>
<p>Messengers Central & Local Government, employers, FS industry</p>	<p>Messengers Government, employers, FS industry, family</p>
<p>Opportunities New social norms for people to save and pay off as much debt as they can (however we need to be realistic - people won't just 'do' this) Build on auto-enrolment (i.e. the step is to save 'adequately' not at the minimum) Parents need care, opportunity to nudge children Allow conversion options on insurance products (or accelerated death benefits?) PwC</p>	<p>Opportunities Employer led retirement help (perhaps with FS industry support) Entitlement to State pension as an information point Healthy & wealthy (maybe self-funders - £200k + surplus pension income) – DLAs</p>

Appendix: Segmentation of consumers by age, wealth and care need

(3) In-retirement	(4) At the point of needing care
<p>Population Age: Over 65-84 Population: 9.08m Male/Female split: 47 % / 53% % homeowners: 75%</p>	<p>Population Age: 87 on average Population: yearly admissions c80k domestic and 55k residential Male/Female split: 38% / 62% % homeowners: 60-70%</p>
<p>Have a care plan Understand and prepare for the care and associated financial choices ahead – domicile and residential Know how best <u>you personally</u> would meet the cost of your care from <u>your existing pension income and assets</u> (even if it's the least bad) Ensure a trusted third party understands your wishes and has the authority to act on them</p>	<p>Focus on key care and financial choices ahead Ensure everyone knows that the entry point is via their local authority Local authority gives information to everyone about how to get help and advice about care needs and also basic financial help and/or regulated financial advice All self-funders (including everyone considering a DPA) are <u>referred to</u> regulated financial advice. (Note: pensions experience shows that information alone does not overcome 'decision inertia' – so this referral process needs to be very strong)</p>
<p>Plan elements Know how much you will need to pay for care and how much of this can be met out of income Decide which assets to use to meet any remaining balance – cash, property and other investments How would you use your home – sell, DPA or private finance scheme? How would you close any remaining gap – take out insurance? Involve the family – including power of attorney, living will etc</p>	<p>Plan elements Maximise income – e.g. claim all allowances & use first for accommodation and care costs Decide which assessable assets to use to meet any balance – property, cash, and investments If assessable and required, decide how to use your home – sell, DPA or private finance scheme? How best to invest (e.g. proceeds from a home sale) with regulated financial advice – e.g. an immediate needs annuity (INA)</p>
<p>Messengers Government, FS industry, GPs?</p>	<p>Messengers Central and Local Government, FS industry, voluntary sector, MAS</p>
<p>Opportunities MAS (or alternative) care-planning tool Visits to GPs/application for Attendance Allowance to nudge towards Power of Attorney</p>	<p>Opportunities Use the national assessment requirement to create a well understood care pathway Get the children to make their own care plan</p>

Appendix: Distribution of people and wealth in the retired population (age 65+)

Age Group	Males	Females	TOTAL
65-69	1,435,000	1,531,000	2,966,000
70-74	1,120,000	1,238,000	2,358,000
75-79	829,000	976,000	1,805,000
80-84	593,000	770,000	1,363,000



This chart is an asset-income map of the 65+ population. Contours show two main concentrations of people:

- A. Income around £12k and assets of £100k (mainly housing)
- B. Income around £10k with no housing wealth and little savings

The line shows the rough boundary of the proposed care means test threshold.

Appendix: Cost of ‘Good Quality Care’

Type of Care	Range of Pricing	Price per week (unless otherwise stated)			
		North	Midlands	South	Home Counties
Care at Home	Low (per hour)	£11.79	£12.50	£12.32	£11.40
	High (per hour)	£18.70	£17.95	£21.00	£21.00
Live-In Care	Low	£625	£625	£625	£625
	High	£1,200	£1,200	£1,200	£1,200
Residential EF	Low	£380	£480	£400	£575
	High	£1,015	£994	£1,389	£1,400
Residential Dementia	Low	£434	£550	£560	£595
	High	£1,015	£950	£1,179	£1,400
Nursing* EF	Low	£580	£441	£600	£710
	High	£954	£1,000	£1,141	£1,291
Nursing* Dementia	Low	£441	£441	£660	£541
	High	£900	£1,046	£1,179	£1,396

*Nursing costs are shown net of the NHS-Funded Nursing Care Contribution, currently £109.79 per week in England (funding rates vary in Scotland, Wales & Northern Ireland)

Source: Grace Consulting survey of care fees across England, May 2013

NB. Care providers selected all offer high quality care

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