# DEPARTMENT OF HEALTH STEERING GROUP

Housing & Equity

28th June 2013

Housing and Finance Working Group

# EXECUTIVE SUMMARY

**Background**

- ONS data suggests that, at retirement, nearly half of all UK individual wealth is currently in residential property. The Housing & Finance Working Group examined how property assets can be utilised to pay for care, and focussed on:
  - How housing wealth can be used to pay for residential care
  - how housing wealth and the Universal Deferred Payment Scheme (UDPS) can work together.
  - how the advice system can support individuals to make the right decision for them

**Overarching themes**

- Advice offer – increase awareness for individuals to prepare for care; strengthen and clarify pathways for guidance and types of advice
- Industry enablement – remove friction from the system e.g. cultural barriers between private & public sector
- Coexistence of products – better integration e.g. between UDPS and equity release

**Key Findings**

- The Equity Release (ER) market has significantly developed in the last decade. It is widely used for a variety of purposes by individuals, including domiciliary care. However, ER products require the property is sold when an individual enters residential care; this currently excludes ER as a product to pay for residential care.
- Whilst ER can provide for domiciliary care, UDPS focuses on providing residential care and in principle the two do not directly compete. However to allow individuals flexibility to choose to have both products, both ER providers and local authorities need to work together to develop a common framework (e.g. Ensuring UDPS is not unduly declined if ER has already been used).
- Homeowners in care often need help to manage their property. This may also be crucial to prevent dilapidation if ER or UDPS has been used. Services which exist may not be accessible to people and there is a need for advocacy and co-ordination. Local authorities should work with industry and NGOs to develop this.
- Planning for long term care needs to become part of financial life-stage planning with people addressing the need to plan earlier. Wider communication and promotion on options for consumers, with pan industry and Government involvement, is required.
- A common advice framework is required, with regulated advice potentially required for all individuals (particularly self-funders) – with the local authority playing a key role. A consistent regulatory regime for all financial products being used to pay for care is also required.
- The nature of these issues requires a long term and sustainably policy and regulatory framework. As part of this, a favourable outcome of Solvency II debate is needed to ensure competitive ER products remain available.

# HOUSING AND FINANCE WORKING GROUP
## Participants and process

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

- Department of Health
- Department for Work & Pensions
- Scottish Widows
- Aviva
- Just Retirement
- Institute & Faculty of Actuaries
- Council of Mortgage Lenders
- ABI
- L&G
- Age UK
- Equity Release Council
- FCA
- Prudential
- SwissRe
- Zurich
- FriendsLife
- Partnership
- Bupa
- GenRe
- National Landlords Association
- ILC UK
- Cass Business School

3 sub-groups were established each with a different focus:

| Sub-group | Focus |
|---|---|
| Equity Release | How housing wealth can be used to pay for residential care. |
| UDPS | How equity release (ER) and the Universal Deferred Payment Scheme (UDPS) can work together |
| Advice | How the advice system can support individuals to make the right decision for them |

# CONTEXT

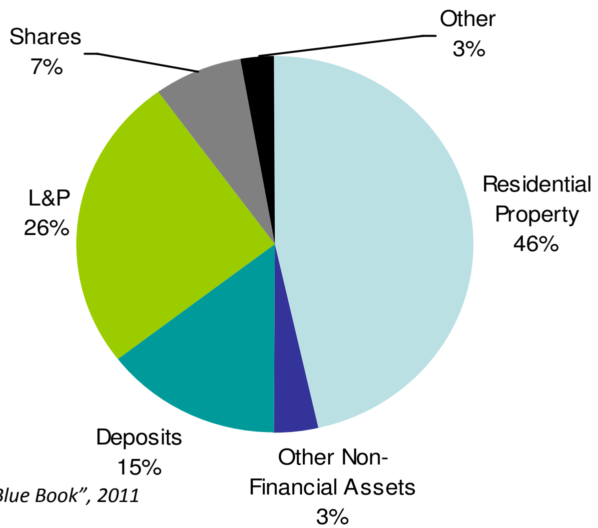
- The Government is proposing to cap the amount of care a person must pay for at £72k. This will not include room and board in residential care (assumed to cost £12k per annum), or discretionary top-up services.

- People on average live ~3 years in care. Few people can afford residential care without selling their home
  - 60% have less than £25k in savings (around 1 year in care)
  - 80% have less than £75k (around 3 years in care – the average stay)
  - 30,000 to 40,000 homes are sold each year to pay for care

- UDPS will allow people in residential care who are at risk of selling their home, to defer paying the care fees so they do not have to sell their home in their lifetime. Government will consult on detailed proposals including who qualifies, advice etc. This is likely to include some restrictions, e.g. people with more than £23,250 in savings would not initially qualify.

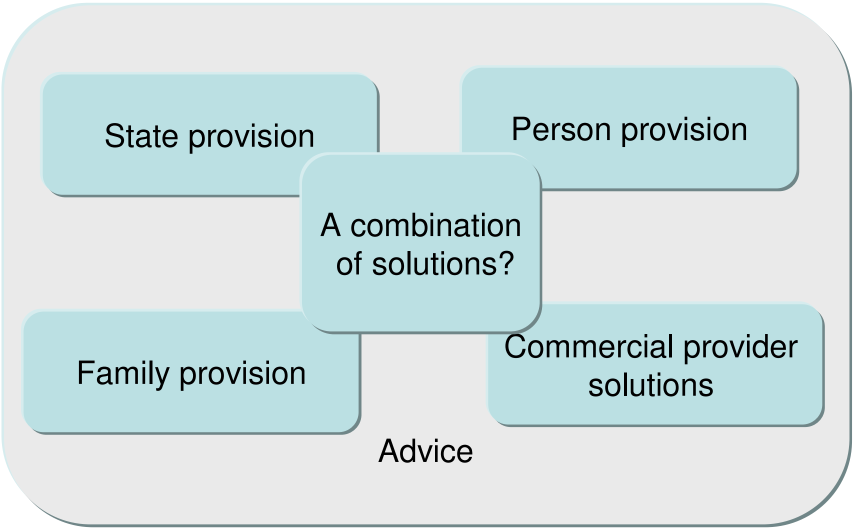
- Half of UK individual wealth is in the home – the challenge is to identify solutions which leverage the asset to create available funding for care. There are several possible providers of solutions

**Individual Wealth 2011: £8.6 trillion**




*Source: ONS "Blue Book", 2011*

**Providers of solutions**



# EQUITY RELEASE

Products are designed to meet different needs. Equity release has not been designed for residential care, although it can be used for domiciliary care

## Product Types

**Lump sum lifetime mortgages**

- Fixed interest rate product
- A one-off lump sum, with no repayments required until the client dies or moves into residential care (leaving the property unoccupied)

**Flexible lifetime mortgages**

- Fixed interest rate
- The provision of an initial lump sum payment
- The facility for customers to access a reserve (remaining 'loan to value') on demand.
- No repayments required until the client dies or moves into residential care (leaving the property unoccupied)
- Some products allow monthly interest payments with an option to revert to no-repayments at later date if circumstances change

**Home reversion**

•Products where a proportion of the home is actually purchased

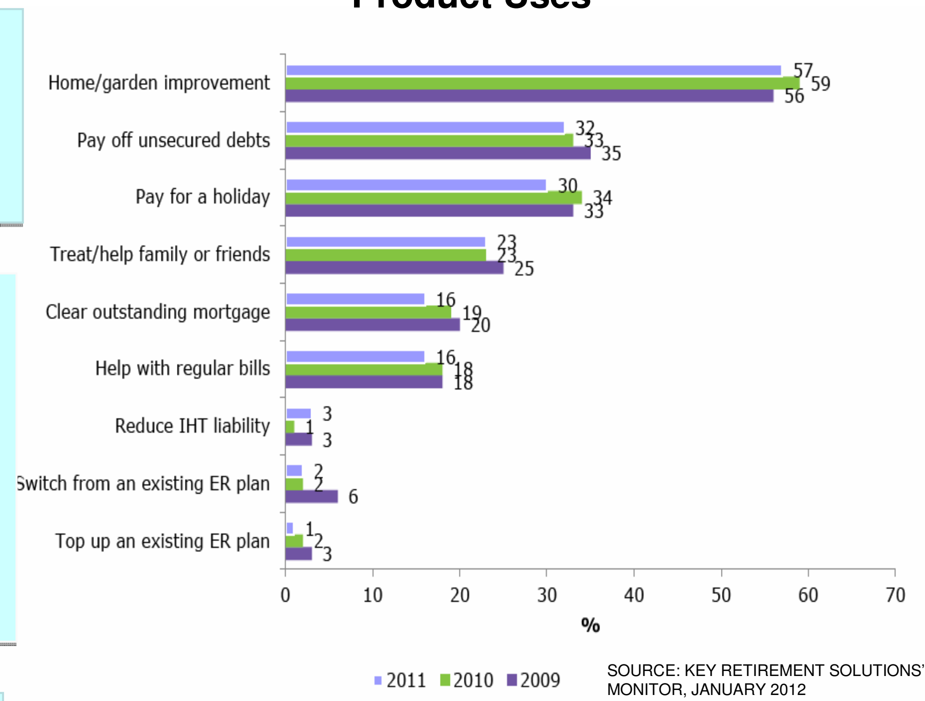
**Care Plan Payment Option**

•Enables individual to purchase an annuity to pay for the cost of care prior to property sale

•Interest added to the loan; no negative equity guarantee; no early repayment penalties

•Property can be let

## Product Uses




SOURCE: KEY RETIREMENT SOLUTIONS' MARKET MONITOR, JANUARY 2012

This research does not explicitly ask whether ER is being used for domiciliary care – although a number of categories may include this (e.g. home improvement & help with regular bills)

# USING HOUSE WEALTH – ISSUES

- Current Equity Release (ER) products are not specifically designed for, or tasked with funding end of life residential care needs
- The lifespan of ER products is on average 20 years. ER products must be re-paid when an individual enters residential care (leaving the property unoccupied) or dies.
- There is still a lack of clarity on government and local authority policy and how ER and UDPS could co-exist (e.g. whether authorities will be able to extend deferred payments to cover domiciliary care will be decided following consultation).
- ER has historically been subject to criticism but the industry has worked to improve and dispel this negative perception. Some negativity remains in isolated areas, particularly where people are less well informed.
- Future changes in Government policy may mean products developed to meet future cost of care needs may become redundant or not fit for purpose. This could lead to a risk of mis-selling allegations and mean providers are wary of entering these types of market.
- Increasing issue of people retiring with debt; with the rise of interest only mortgages some elderly people will be in debt; with the increase in rental, rather than house purchase, over time the stock of owned homes will decline
- Engaging in complex financial transactions can be challenge for some individuals/families particularly if there is a crisis need. Advice is critical
- The wider use of house related wealth will be related to resolution of a number of factors - wider provision of advice about retirement planning and care planning, education and Government endorsement.
- A favourable outcome of Solvency II debate is needed to ensure competitive products remain available. The key weakness in the Solvency 2 rules arises in relation to the valuation of the Solvency 2 balance sheet. Equity release assets are not recognised as appropriate assets to back long-term liabilities

# USING HOUSE WEALTH – OPPORTUNITIES

**Future single solution using housing wealth  to fund retirement needs**

- For an increasing number of people ER is already a way to meet the cost of living and cover unforeseen expenses.
- ER already has a place for it in assisting with the cost of domiciliary care and adaptations to homes.
- ER should be a standard consideration for advisers and retirees when thinking about retirement planning.
- More positive government and regulator attitude towards ER may help expand the market.
- Process – getting the right people to right products through the advice chain.

**Modifications required for ER to be used to fund long term residential care**

- Products would need to be priced up to death in all cases, rather than death or LTC as currently – in theory, there is no reason why this could not be done as the data is available
- Providers would need to be comfortable with the extra risks created by the period in which the loan continued whilst the property is unoccupied – this would include dilapidation and insurance risk and any further risks created by the property being let/tenanted etc. NB Risk will likely be a bigger consideration in a Solvency II world
- Most importantly, there would have to be customer demand/benefit to do this before the product could be defined and the appetite for risk considered further.

**The need for communication**

- For housing wealth to be a successful solution to fund residential care, there is a need for all industry and governmental stakeholders to agree:
  - a communications strategy which spans the public, providers, public sector, care homes, advisers and other stakeholders
  - a clear simple statement of circumstances in which the state will/will not provide financial support
  - scenarios, decision trees and choices of solutions
  - advice pathways
  - where to get help

# UDPS – ISSUES EXPLORED

**Situation**

- From April 2015 all local authorities will offer deferred payments to people in residential care who are at risk of selling their home, allowing them to pay their care fees from their estate. This will allow time for decisions and to keep their home for longer.
- Government will consult on detailed proposals for who will qualify, what fees they can defer, information requirements, how properties are dealt with, and practical implementation. It may explore extending deferred payments to domiciliary care.
- Government wants people to have a good range of financial options to help pay for care – it therefore wants financial products and deferred payments to work well together so that people have choice and flexibility.
- Further work is likely to be needed for ER customers to be able to take out a deferred payment, based on some local authority attitudes to date and restrictions built into current equity release contracts.
- Homeowners receiving domiciliary or residential care may will also need support with adaptations, renovations, and maintaining, renting out or selling their home, and this should be developed alongside deferred payments.

**Issues explored**

- Universal Deferred payments and equity release should not directly compete:

    UDPS only covers residential care, where people may need a DPA at short notice, and for a relatively short period.
    Equity release is often a suitable product for domiciliary care and is an area for potential growth.
    Equity release is not mainly available for residential care

    - However, we need to ensure people with existing charges (equity release or mortgages) can go on to have a deferred payment:

    Equity release contracts generally require the home to be sold once someone goes into residential care
    Local authorities have been reluctant to offer a deferred payment if someone has an outstanding equity release debt
    Mortgages have been less problematic but this may change as people retire with mortgage balances

- If deferred payments are to provide longer 'breathing space' for decisions then the terms will need to allow some flexibility to go on to use a financial product, such as a care annuity or equity release.
- Issues affecting support available to homeowners:

    Services (home repair, estate agents, lettings, conveyancing, etc) exist but may be hard for older people to access.
    There is a need for advocacy and a 'one stop shop' to co-ordinate services – support of this type is embryonic.
    Home insurance does not cover empty properties (e.g. if someone goes into residential care) and needs negotiation with the provider; coverage may be expensive or harder to obtain.
    Assist the homeowner (or family) in maximising the sale value of the property

# UDPS - OPPORTUNITIES

- Financial services and local authorities / government should work together on a framework to ensure deferred payments and financial products can work well together:
- Issues this could cover:
  - Information and advice pathways to help people consider their financial options in the round
  - Make sure people with a deferred payment can go on to choose other financial products, e.g. Immediate/Deferred Needs Annuity
  - Explore flexibility on the part of equity release providers if someone wants a long-term deferred payment (for example so a relative or tenant can occupy the property)
  - Explore and resolve local authority concerns about offering a deferral to someone with a prior equity release charge
  - Ensure mortgages remain compatible with deferred payments and work through any issues
  - Develop joined up approach e.g. for debt recovery, how home is dealt with, definitions of 'care need'
  - Access to home insurance once a homeowner goes into care
  - Could a pre-existing equity release debt transfer onto the balance of a deferred payment?
- There needs to be a common agenda in how we talk about housing wealth. Equity release and deferred payments both involve using housing wealth to pay for later life. There is an opportunity for joined-up communications to change social attitudes and make use of housing assets a more positive social norm.
- Support for Homeowners in domiciliary and residential care is needed but embryonic; there are roles for local authorities, financial services and NGOs
- Further work should go into:
  - Identifying good practice / services that already exist and how it can be made more mainstream
  - Tailoring services around the needs of older people with care needs,
  - Better linkages between LA outsourced advocacy partners and regulated financial advice to ensure people access the support they need
  - Involving a wider group of organizations and specialists in this field going forward
  - Exploring incentives to reduce the cost of advice

# ADVICE – ISSUES

**Situation**

- Currently, people may not get regulated financial advice, and therefore the financial products they need, even at the point of needing care.
  - If people don't have access to the right financial products, they may simply go without the preventative measures and/or care that they need, potentially resulting in greater care needs at a later date.
  - JRF undertook a pilot which showed that cultural differences between the public and private sectors was a significant barrier to local authorities referring people to regulated financial advisers to set up private sector financial products.

- People don't plan ahead for the possibility of needing care later in life.

- There is a complex interaction between private sector finance schemes and the UDPS which, unless resolved, need to be covered as part of the advice process to ensure good consumer outcomes.

**Issues explored**

- How to ensure that people get access to the services and financial products they need through regulated financial advice

- What can be done to make advice more approachable, accessible and affordable

- The role of advice in getting people to plan ahead

- The likely capacity in the advice system and whether this will be sufficient

- There are variety of sources of information , guidance and advice – not all are regulated, and there is no common code of conduct

# ADVICE – OPPORTUNITIES

- Planning for care needs to become part of financial life-stage planning with people addressing the need to ‘have a plan’ earlier.

| Life Stage | Working | Pre retirement | At/In Retirement | Needing care |
|---|---|---|---|---|
| **Age** | 40 - 64 | 65 | Over 65 | 87 average |
| **Number** | 17.3m | 554,000 in 2016 | 9.08m | Yearly admissions:<br>Dom ~ 80,000?<br>Res ~ 55,000 |
| **M/F** | 49/51 | 48/52 | | 20/80 (tbc) |
| **Own a home** | 74% | 79% | 71% | |

- Using the LA assessment as a focal point to refer care self-funders to regulated advice

  A strong referral to regulated advice will lead to better consumer outcomes and help stimulate demand.

  In turn this will help drive participation from the private sector, more competition, innovation and consumer choice.

  There need to be strong processes in place to overcome natural cultural divisions between the public and private sectors for this to work.

  Regulated financial advice could be more affordable if more people had an Lasting Power of Attorney (LPA) in place

  - Developing a standard financial ‘advice offer’ is likely to make it more approachable and accessible

    The existing Later Life Accreditation process works well and could be at the core of the ‘offer’

    Incentives could include allowing (some) financial advice fees for care to count towards the cap

- Regulated financial advice is essential for people using their home equity with financial products to pay for care, but better outcomes could be achieved by removing some of the friction between public and private sector products – for example, by allowing the UPDS to take over existing ER schemes.

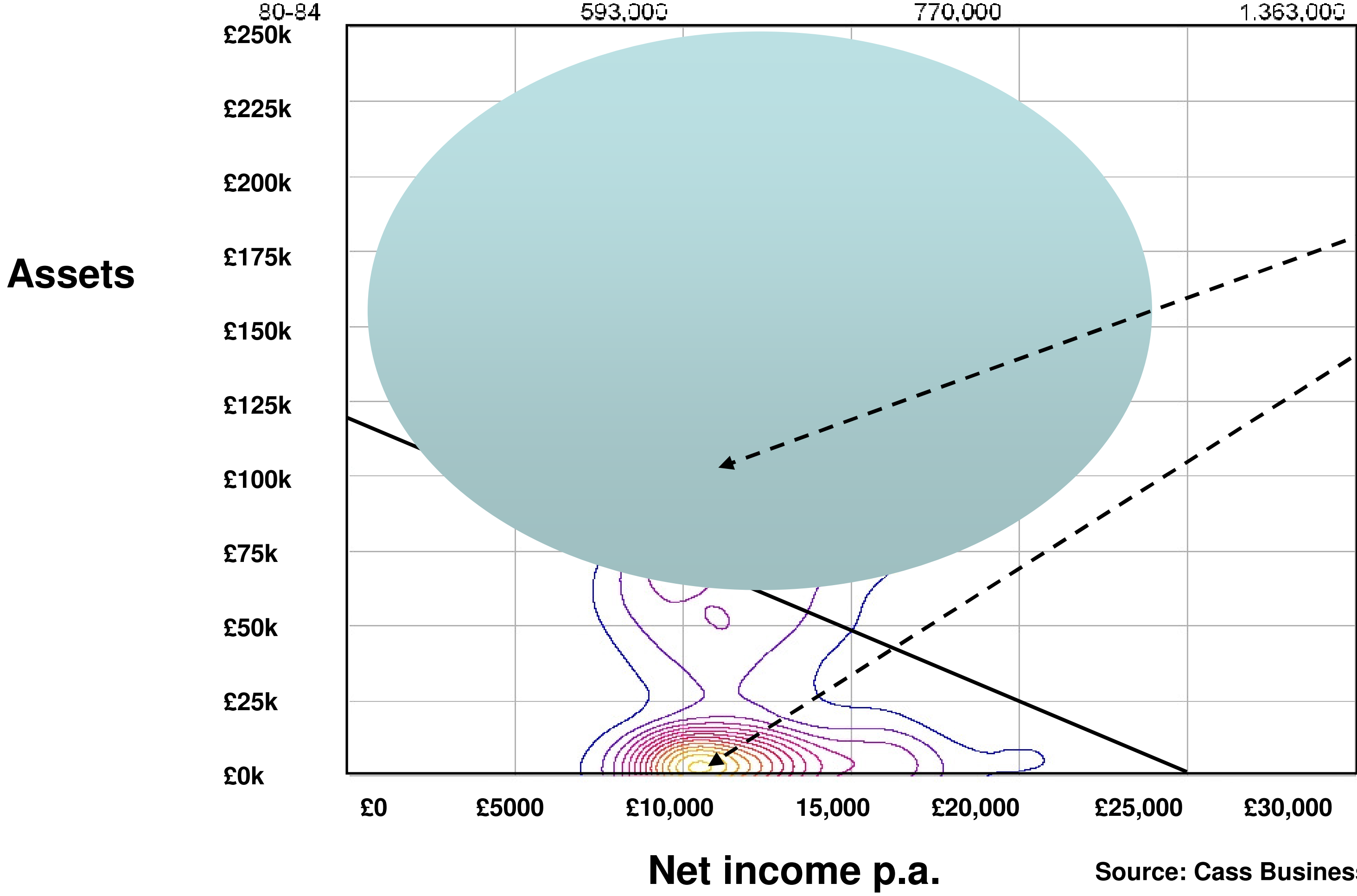
- The number of Society of Later Life Advisors (SOLLA) accredited advisers looks set to increase to around 1,000 by the end of 2015. This should be sufficient to satisfy demand for the normal flow into care but the transition will need to be managed.

# WEALTH & INCOME MAP – IN RETIREMENT

**For the next 20 years, almost everyone needing later life care is today already retired and will need to use the assets they already have**

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**

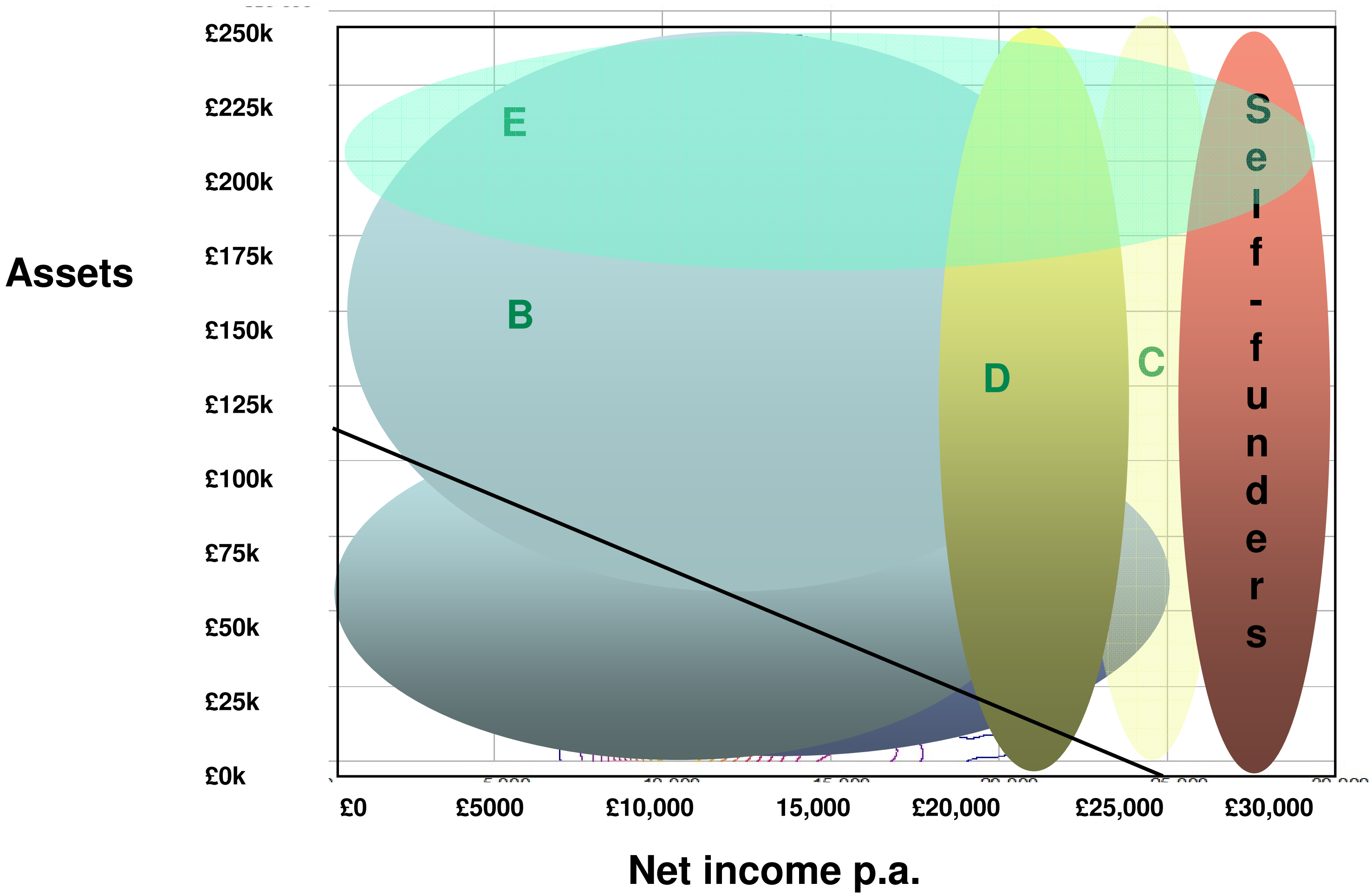
**The black solid diagonal line shows the indicative boundary for means-tested state support for residential care.**

**The pale blue zone shows the market for people to use their home equity to pay for care.**

**Source: Cass Business School/ILC-UK**

# ILLUSTRATIVE PRODUCT MAP

**Illustrative product map and markets for long term care products**




**Key:**

**A Personal Care Savings Bonds**

**B Equity Release**

**C Disability Linked Annuities**

**D Insurance products**

**E Immediate Needs Annuities**

**The black solid diagonal line shows the indicative boundary for means-tested state support for residential care.**

**Source: Cass Business School/ILC-UK**

# SUMMARY OF PROPOSALS

| PROPOSAL | REQUIRED FOR SUCCESS | GOVT/LA SUPPORT NEEDED |
|---|---|---|
| Consider further product development of equity release to explore & consider suitability for all care needs | ▪ Research on current use of ER for domiciliary care<br>▪ Explore barriers & costs to make ER available for residential care | |
| Ensure more effective integration between ER and UDPS | ▪ Clarify how UDPS takes account of prior ER charges<br>▪ UDPS Consultation on domiciliary care to take account of implications for financial services | Joint working with state and industry |
| Services for homeowners to manage their property while in residential care | ▪ Access to services to adapt, maintain, insure, sell and rent homes | Working party involving authorities, NGOs and relevant services |
| Wider communication and promotion of housing wealth as an option to meet domiciliary and residential care needs | ▪ Pan–industry initiative<br>▪ Communication of housing wealth alongside other options | Government endorsement |
| Development of an Advisory & Guidance Framework covering Life-stages, Advisers and Hand-offs to include education, guidance, and regulated advice | ▪ Key Stakeholder initiative working<br>▪ Consensus to map all participants and touchpoints | Government and Regulatory participation |
| Assess the capacity of the regulated advice market for care - Adviser capacity and qualifications levels | ▪Pan–industry initiative | Regulatory endorsement |
| Extend regulation or codes of conduct to non regulated advisers/providers of guidance and a consistent application of regulation for all products which provide solutions for long term care (including UDPS) | ▪ Consistent advice regime for all financial products being used to pay for care<br>▪ Pan industry and regulatory co-operation | Regulatory participation |

# APPENDIX: NEED SCENARIOS

## Needs and solutions are different depending on circumstances

| Scenario | Other Assets | Home owner | Domiciliary/ Residential | Partner at Home | UDPS available? | Examples of possible solutions |
|---|---|---|---|---|---|---|
| 1 | Y | | | | | • Use other assets (until spend at which point person falls into one of the other categories) |
| 2 | N | N | | | | • No assets to exploit – person will need to rely on the state to provide their care. |
| 3 | N | Y | Domiciliary | | No* | • The person will not be required to use their home to pay for care and the state will provide a basic level of support.<br>• If the person has a mortgage this could potentially be extended to pay for care or adaptations.<br>• Equity Release could be used to top up personal income or to pay for care or adaptations. |
| 5 | N | Y | Residential | Y | No* | • The person will not be required to use their home to pay for care and the state will provide a basic level of support.<br>• If the person has a mortgage this could potentially be extended to pay for care or adaptations.<br>• Equity release could be used to top up personal income or to pay for additional care. |
| 6 | N | Y | Residential | N | Yes | • The person is liable to use the value in their home to pay for care because neither they or a spouse / dependent live there<br>• The UDPS will allow them to defer their care and accommodation fees during their lifetime<br>• Equity release could be used to finance the purchase of a care annuity to provide insurance benefits<br>• Option exists of renting out the home to help pay for care |

*Government has indicated it may consult on allowing authorities to offer deferred payments for domiciliary care

# APPENDIX: SOLVENCY II

## Solvency 2 may inadvertently discourage insurers from investing in equity release products

- Towers Watson recently published a report on the European equity release market, and the impact of Solvency 2:

  Equity release products written by insurers are fixed interest assets. The ability for insurers to match their long-term liabilities with these products, together with the natural hedge provided where insurers are exposed to the risk of increased life expectancy, mean that equity release products would help insurers to meet some of the aims of better risk management inherent in the Solvency 2 regulations.

  The key weakness in the Solvency 2 rules arises in relation to the valuation of the Solvency 2 balance sheet. Equity release assets are not recognised as appropriate assets to back long-term liabilities. In particular, they are not permitted as assets in the calculation of the Matching Adjustment. The Matching Adjustment is an adjustment that can be applied (in certain circumstances) to the discount rate used when calculating the value of liabilities.

  “s a result there is a danger that Solvency 2 may inadvertently discourage insurers from investing in equity release products.”

# APPENDIX: ER & UDPS

## There are a number of issues to be worked through and consulted on around how ER and UDPS could be aligned

- Current ER product design/terms and UDPS appear to be mutually exclusive – ER product ends when the person needs residential care and UDPS starts at this point.
- Most ER contracts provide a grace period of 12 months in which the property should be sold at the end of the term – with flexibility this could be utilised to cover average duration UDPS (1.5 years)
- Providers would need to be comfortable with insurance and dilapidation risk if UDPS extends beyond this point or further factors, such as letting, were introduced
- Providers should not be at risk of consenting to a UDPS being secured as a second charge on the property. Gaining consent could be streamlined by SLAs being agreed between LAs and Providers.
- Biggest issue to overcome for LAs is potential lack of equity remaining in the property because of roll-up of compound interest from ER product reaching maximum exposure at point customer needs care
- Definition of what constitutes residential care may need to be aligned between UDPS and ER to avoid inconsistent assessments. Providers would need to be comfortable with a standardised approach.

**How can ER and UDPS co-exist?**

| | **ER** | **UDPS** |
|---|---|---|
| **Domiciliary care** | **Suitable** | **?** |
| **Residential care** | **?** | **Suitable** |

# APPENDIX: OTHER POSSIBLE EQUITY RELATED SOLUTIONS

- Other potential solutions surround exchanging the value of the property for another financial solution e.g. loan, annuity
- Solutions around renting the home (by a number of possible parties) may be possible but are complex to implement
- The challenge is to identify solutions which leverage the asset to create income and/or incur the minimum cost

| | |
|---|---|
| **State**<br><br>- UDPS<br>- Uses person's Life policy early/or on death to pay off Universal Payment Scheme | **Person provision**<br><br>- Sells home to pay for care<br>- Rents out home<br>- Takes out loan against value of the house |
| **Family provision**<br><br>- Family rent out the person's home to pay for care/ and or take out a 'mortgage to let'<br>- Family live in the person's home and pay rent to fund care<br>- Family live in the person's home and rent their own home to pay for care | **Commercial provider solution**<br><br>- Equity release<br>- Use property value for an annuity<br>- Financial provider buys/rents home and sub-lets |

# Appendix: Segmentation of consumers by age, wealth and care need (1)

**(1) PRE-RETIREMENT**

**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

**Options**

Max out pensions/ISA's

Pay off mortgage/debt

Defer/phase retirement

Equity release (note: different generational attitudes to using property – see Just Retirement report)

**Messengers**

Central & Local Government, employers, FS industry

**Opportunities**

New social norms for people to save and pay off as much debt as they can

Building on auto-enrolment

Parents need care, opportunity to nudge children

Allow conversion options on insurance products

**(2) IMMINENT RETIREMENT**

**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)

**Options**

Tax free cash and pensions – how to choose the right product & get the best deal

Defer/phase retirement

Property choices – downsize, move or, for homeowners, equity release

**Messengers**

Government, employers, FS industry, family

**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

Source: ILC-UK

# Appendix: Segmentation of consumers by age, wealth and care need (2)

**(3) IN-RETIREMENT**

**Have a care plan**

Understand and prepare for the care and associated financial choices ahead

Know how best you personally would meet the cost of your care from your existing pension income and assets (even if it's the least bad)

Ensure a trusted third party understands your wishes and has the authority to act on them

**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

**Messengers**

Government, FS industry (eg pension annuity customers), GPs?

**Opportunities**

MAS care-planning tool?

Visits to GPs/application for Attendance Allowance to nudge towards Power of Attorney

**(4) AT THE POINT OF NEEDING CARE**

**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 referred to regulated financial advice. (Note: pensions experience shows that information alone does not overcome 'decision inertia' – so this referral process needs to be very strong)

**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)

**Messengers**

Central and Local Government, FS industry, voluntary sector, MAS

**Opportunities**

Use the national assessment requirement to create a well understood care pathway

Get the children to make their own care plan

Source: ILC-UK