The Role of INAs

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Policy Context

- In England, social care is funded according to a means-tested, ‘safety-net’ principle
- People with sufficient wealth are expected to meet the costs of care privately
- Those people whose savings/assets are above a fixed amount are expected to contribute their full income (less a small personal allowance c. £20 p.w. for care homes).
- The public purse makes up the shortfall against the costs of care
- People with care needs can also claim universal benefits such as Attendance Allowance that help with the costs of care.

Implications

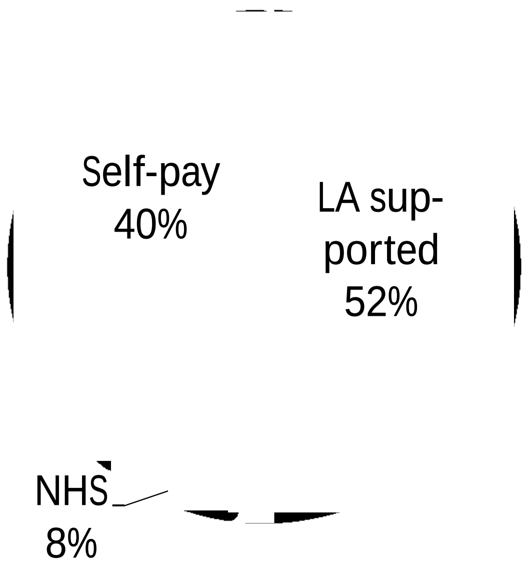
- This system means that many people end up paying the full costs of care (or a large chunk of the cost)
- Particular problems are
- (a) that people don't expect or prepare for this potential cost
- (b) there is significant uncertainty about the actual amount of care that any person will need.
  - Predicting actual individual costs at (say) 65 y.o. is difficult

Self-payers in the care system: the context

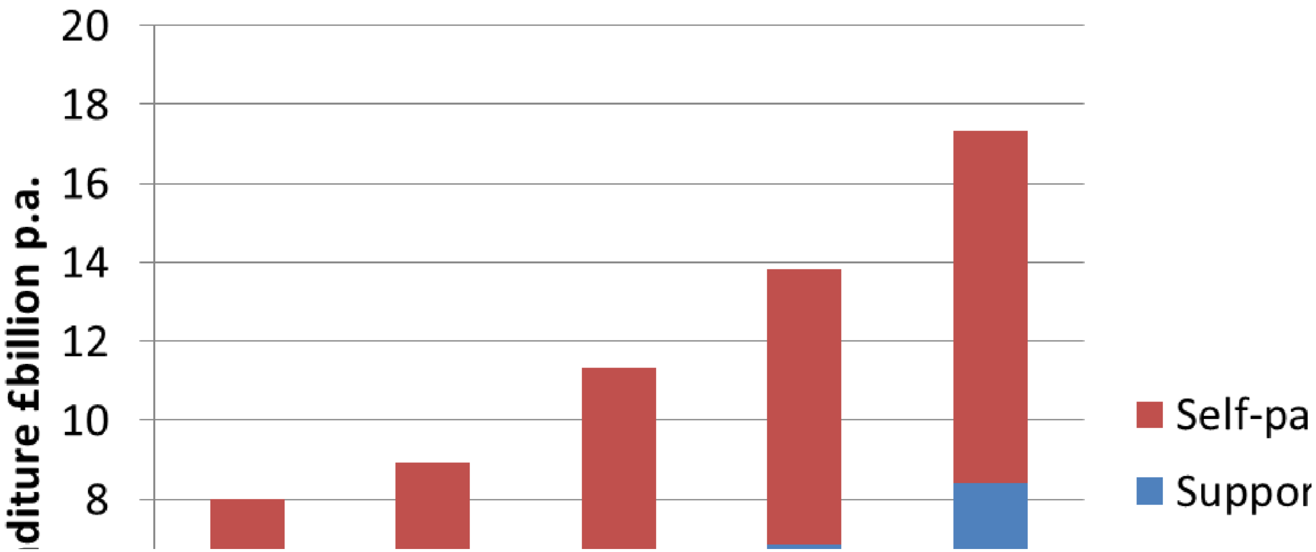
- People with assessable savings and assets of £23,250+ are not eligible for council support
  - Housing assets are counted unless a dependent relative also lives in the house
  - Most home-owners living alone would be self-payers
- Self-payers can claim AA
- A small number (c. 8%) are supported by the NHS

Self-payers in the care system: scale

- Numbers:
  - Of the 316,000 residents over 65 in care homes in England in 2009/10…
  - … around 125,000 or 40% are self-payers
- Expenditure:
  - Annual self-pay expenditure is around £4.1bn
  - Public funding by councils on care homes is £3.5bn with another £1.4bn in care charges

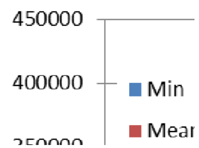


Projected care expenditure on care homes (excl NHS)



Costs of care: the potential for insurance

- Expected costs of care:
  - average £50,000
  - Nearly 20% will have costs >£100,000
  - Over 25% will have no cost
- i.e. uncertain and potentially catastrophic



Types of insurance

- Pre-paid
  - Insurance to cover the lifetime cost of care, combining the risk of needing any care and also the amount of care should a need arise.
  - Regular premiums paid from a (much) younger age
    - Preferably taken out a many years before potential need
  - Pays out once some objective level of need is established e.g. 3+ ADLs
  - Issues:
    - Risk myopia: low demand
    - Hard to predict uptake risk: cautious ‘over-’pricing

INAs

- Immediate needs
  - Insurance to cover the amount of care needed once a need is established
  - Generally involves a one-off premium
- Potential benefits:
  - Protects people against the cost implications of higher than expected care costs (‘catastrophic costs’)
    - i.e. peace of mind for risk averse people
  - Reduces the number of self-payers that might ‘spend-down’ their assets and therefore need state funding
- Potential issues:
  - Like all insurance it can be difficult for people to judge how much of a premium they are paying for peace of mind

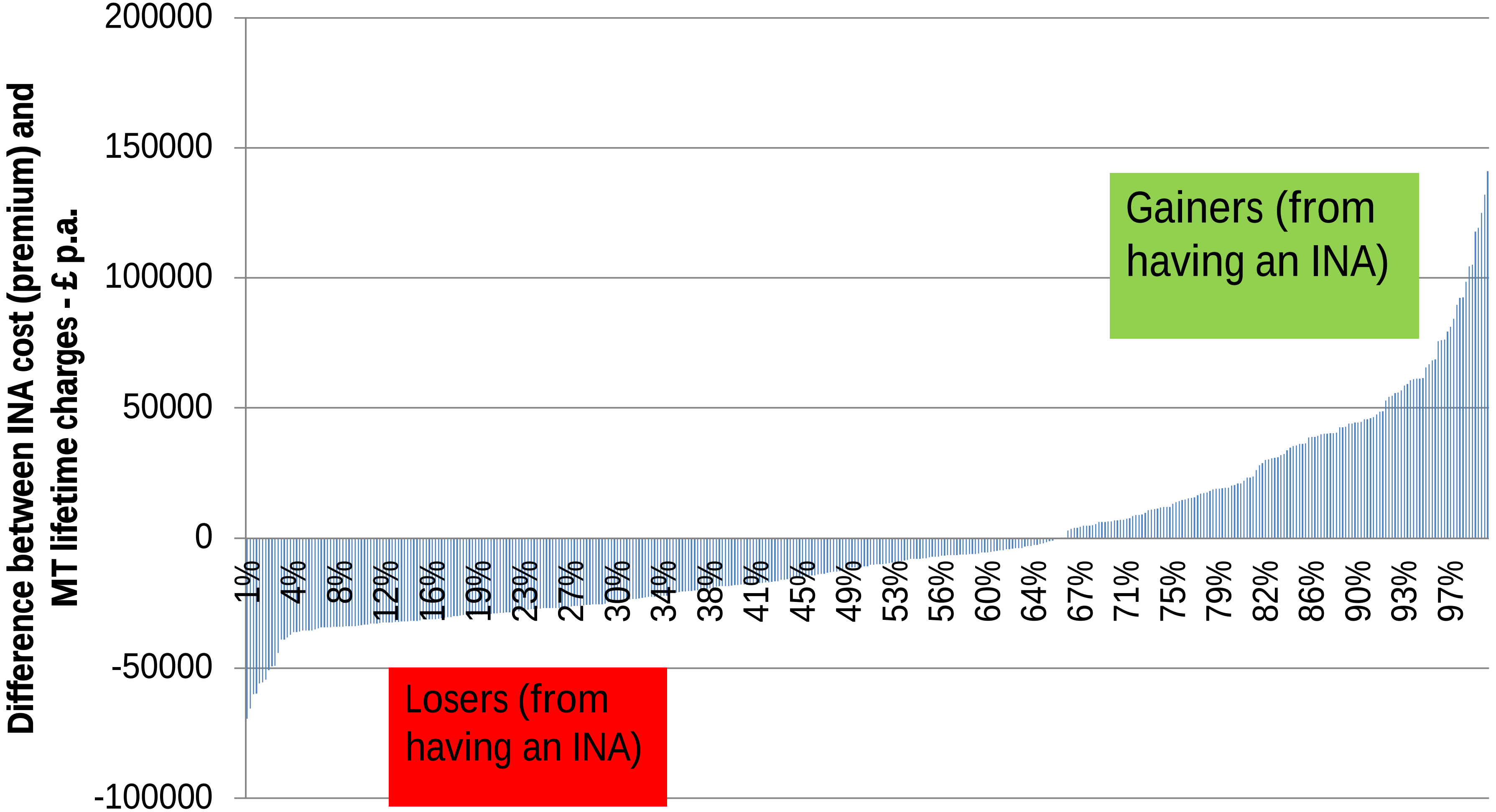
Modelling INAs

- Used PSSRU dynamic microsimulation model of social care for older people
  - can be used to simulate a wide range of policy scenarios as they would affect a representative sample of older people in England (drawn from the British Household Panel Survey).
- Assume the current funding system is unchanged
- INA premium is set at expected cost of care for new care home residents
  - Average length of stay 2.4 years = £69,000 cost
- Determine potential number of INA beneficiaries that pass two tests:
  - Affordability test: people can *at least* afford the premium (averaging £69,000) plus a £23,000 buffer
  - Net benefit test: After allowing for a ‘peace-of-mind’ payment, that residents would not expect to be worse off financially with an INA than if they paid for care out-of-pocket in the current system

Results

- In the main scenario around 45,000 self-payers would pass the affordability and net benefit tests
- Their average premium is the average cost of their care: £69,000
- If potential INA recipients did *not* take an INA and paid out-of-pocket then they could expect care charges averaging £66,000
  - This is lower than the premium/cost because some long stayers would spend-down and receive state support.
- So these people would satisfy the net benefit test if they would be willing to pay a peace-of-mind premium
  - This peace-of-mind premium averages £3000 (but is higher for people closer to the threshold of the affordability test).
- Of course, there is a big difference between the potential number and the actual take-up of INAs.
  - Many factors will affect actual take-up

Insurance: after the event, some gainers, some losers...



The implications for take-up of voluntary insurance?

- The benefit of insurance in social care - for people who face large and highly variable care costs that they – appear significant
- Important constraining factors:
  - People's perception of their need for care (risk myopia)
  - trust that pre-paid insurance will pay out
  - Little experience of this kind of insurance in England (some health insurance and critical illness insurance, but small scale)
  - How 'risk averse' people actually are
  - How much it costs to provide insurance
  - The interplay between private insurance benefits and the safety net of the state system

The implications for take-up of voluntary insurance? (cont.)

- The INA market is less affected by risk myopia and trust issues but the other factors are still relevant
- With different configurations of the public funding system, the potential is there for greater take-up
  - In France there are 3m voluntary LTCI policies

For more information see ...

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