

In July 2011, the Commission on Funding of Care and Support published its report, Fairer Care Funding. It made a number of recommendations but chief among these was that there should be a lifetime cap on care costs.

If such a recommendation were adopted, it would encourage a proliferation of new prefunded long-term care insurance products so that people could protect themselves against care costs.

This promises to be a tremendous opportunity for advisers to grow their business by arranging long-term care insurance for their clients.



Ben Heffer

Insight Analyst -
Life & Protection

bheffer@defaqto.com

Emerging opportunities in long-term care

There are already ways of addressing long-term care needs now, yet the evidence suggests that few recommendations are being made. The product market is poorly served, with just a handful of plans to choose from but if the long-term care market is to flourish greater commitment from the adviser community is required.

Current care system - establishing the need

According to Office for National Statistics, the population of the UK is ageing. In total, 17% of the population is aged 65 or over and 2% - some 1.4 million people - are 85 or over. Unfortunately many are not necessarily living healthy lives in old age and will need varying levels of care.

Research undertaken as part of the Dilnot Commission on Social Care reported that 50% of those over 65 would need to spend up to £20,000 on their care and 1 in 10 would need to spend in excess of £100,000.

The costs of staying in a nursing home are significant and vary considerably from region to region. According to figures from Laing & Buisson, costs range, on average, from almost £2,400 per month in Northern Ireland to as much as £3,700 per month in the Northern Home Counties; £3,000 per month is an average figure nationwide. Residential home costs are typically £800 per month cheaper.

There is much dissatisfaction with the current state provision for care. The extent to which care costs are met varies across the UK. The local authority, which is responsible for ensuring care is made available if it is required, conducts a means test to determine how much of it will be funded.

In England and Northern Ireland, people with assets over £23,250 will not qualify for help with care costs. Those with assets between £14,250 and £23,250 have to contribute £1 per week towards their costs for every £250 they have above £14,250. Different upper and lower limits of £23,500 and £14,500 apply in Scotland. In Wales an upper limit of £23,250 applies and there is no sliding scale. All this means that people with quite modest savings and most likely those that own their home, will have to fund their own care.



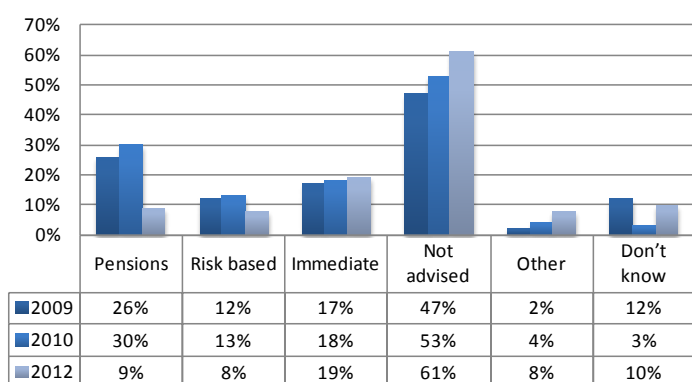
The government is currently considering how it can create a single new system to deal with the provision of care and a White Paper is due out in April. However, it will not deal with how to fund care, which is the subject of separate cross-party talks.

Long-term care planning

Long-term care insurance is a small and declining market. There are now just two main providers offering annuity-based immediate care products: Friends Life and Partnership.

However, the dearth of suitable insurance products in the market is not the only cause for concern.

How advisers are addressing the long-term care needs of their clients



■ Source: Defaqto IFA protection service satisfaction surveys, 2009 and 2010 (sample size: 500); Defaqto adviser survey, March 2012 (sample size 122)

Research undertaken by Defaqto among advisers in March 2012¹ found that 61% of respondents did not advise on long-term care at all. Just 8% of respondents said they recommended risk-based long-term care products; the fall from previous years may be attributed to the withdrawal of these products from the market. Most of those advising on long-term care are utilising immediate care plans to help their clients convert assets to pay for care fees. A slightly higher proportion (9%) said that they took the potential need for long-term care into account within their pension planning recommendations and a further 5% said they factored it into their clients' investment portfolios. On average, for those that do advise in this area, long-term care accounts for 5.6% of their business by volume.

The main reason given for not advising on long-term care protection was that respondents were not licensed or qualified to cover this topic. Recently, the FSA has clarified that advisers can still claim to be independent even if they do not give advice on long-term care. The regulator confirmed that advising on long-term care insurance requires a specialist qualification, but not a separate permission. It is expected however that IFAs should be in a position to refer clients to someone who can provide the appropriate advice if they cannot do so themselves.

Advisers therefore still have an obligation to investigate these needs and this represents an opportunity to grow their businesses either by advising themselves or by having a reciprocal arrangements with another firm.

¹ Defaqto online survey of 122 advisers who recommend protection products, completed in February 2012.



Dilnot explained

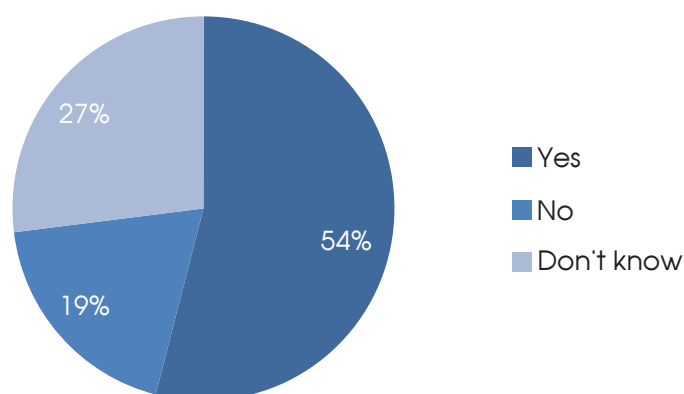
The Commission on Funding of Care and Support under the chairmanship of Andrew Dilnot published its report, *Fairer Care Funding* in July 2011. The commission found that while most people understand that they need to make a contribution towards the costs of their care in later life, there is poor choice in terms of available products and the cost is unknown so it is difficult to plan. The commission made 10 main recommendations, three of which present the insurance industry with potential opportunities. It is surprising then that adviser response has been lukewarm. In our research, only 20% of respondents said that they approved of the Dilnot proposals and 61% admitted to having not read it.

Lifetime cap

A lifetime cap on care costs payable by the individual is proposed. The preferred figure is £35,000, which is the amount someone in long-term care would be responsible for, after which, the government would fund care.

Such a cap represents a real opportunity to develop insurance-based products to help people plan ahead to cover their liability where, currently, the risk is open ended. With the introduction of a cap, the extent of the risk would be known. If this proposal is accepted we can reasonably expect to see new risk-based long-term care products being introduced that are competitive and saleable. Advisers share this view. In our survey 54% believed that the lifetime cap would be a positive development.

Adviser views on whether the proposed lifetime cap would encourage more people to consider long-term care planning



Source: Defaqto adviser survey, March 2012 (sample size: 122)

Among the reasons given was that a lifetime cap on costs would encourage more people to consider long-term care protection because the costs would be quantifiable. Consumers would therefore have a clearer target and cover would be potentially more affordable than that required to cover the current open-ended liability.

However, just short of a fifth of advisers (19%) said they did not believe a cap would help encourage long-term business. These advisers reported that typically people do not care about the subject, do not want to plan, are apathetic and just live for today. This may be true in some quarters; however, the Dilnot research found that people would like to be able to plan with more certainty. Many advisers said that some people do not believe it will happen to them and if it does the state will provide. This is clearly contrary to the facts and it is incumbent on advisers to disabuse clients of this notion.

A close-up photograph of a person's hand resting on the spokes of a bicycle wheel. The image is tinted with a blue color. The hand is positioned on the right side of the frame, with fingers slightly curled. The bicycle wheel and spokes are visible on the left and bottom. The background is blurred.

IO There are two principal opportunities: the potential for new business on the back of products made possible by Dilnot; and the impetus that the debate creates to talk to clients. OI

More favourable means test

Dilnot proposes that those who cannot afford to make a personal contribution towards their care costs should still be covered by the state, subject to a means test, but recommends that the threshold should be raised to £100,000. This means that people in long-term care will be able to keep more of their assets. This in itself will help encourage people to make their own provision. There is no greater disincentive to saving than the prospect of having your own provision discounted against state provision when it comes to claim. In our research a number of respondents cited estate/asset preservation as a positive attribute of the Dilnot proposals.

Contribution towards living costs

The commission proposed that people in residential care would have to make a contribution to their general living costs of up to £10,000 a year. However, knowing what these costs are in advance enables people to plan with greater confidence and financial advisers can help people quantify their potential liability.

Business opportunities

There is a definite need for long-term care planning. Research by Ageas in 2011 showed that only 1% of people own cover that will protect them against long-term care costs.

Additionally, according to research by the Association of British Insurers in January 2012, 66% of people know that long-term care is not free like

the NHS. Also, 65% believe that it is worth planning for long-term care costs. This is fertile ground for discussion with clients.

The current system for long-term care provision is arbitrary and in many people's view unfair. Typically people want to pass on an inheritance to their families and do not see why their savings should be eroded by long-term care costs when others who have not built up wealth have their care costs paid for them.

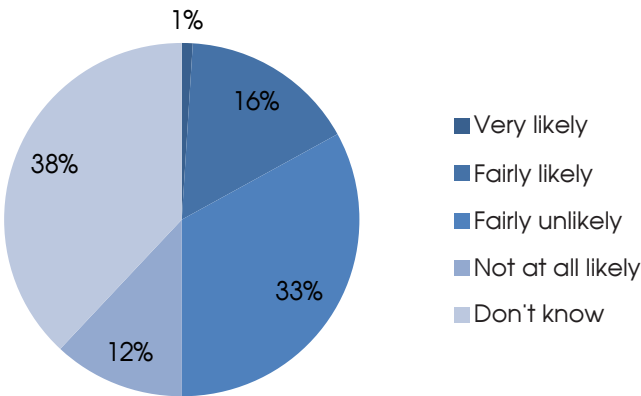
There are two principal opportunities relating to long-term care: the potential for new business on the back of products made possible by the adoption of Dilnot; and the impetus that the debate creates here and now to talk to clients about the issue.

The jury is still out on whether Dilnot will be adopted and while it would make good political sense for the government to seize the current opportunity to solve the care conundrum, it still represents an element of public spending that the UK can ill afford at present. The cost of implementing these proposals would be in the region of £2bn. While this represents just 1/400th of public spending, it is still a large sum of money. There is a broad cross-party consensus to address this issue, but some detractors disagree with the Dilnot proposals, believing them to be regressive on the grounds that they protect wealth.



In our research, we asked advisers how likely they felt it was that Dilnot will be adopted. Only 17% said it was likely; most didn't know or believed it to be unlikely.

Adviser views on how likely it is that the Dilnot Commission's proposals will be adopted



Source: Defaqto adviser survey, March 2012

The here and now

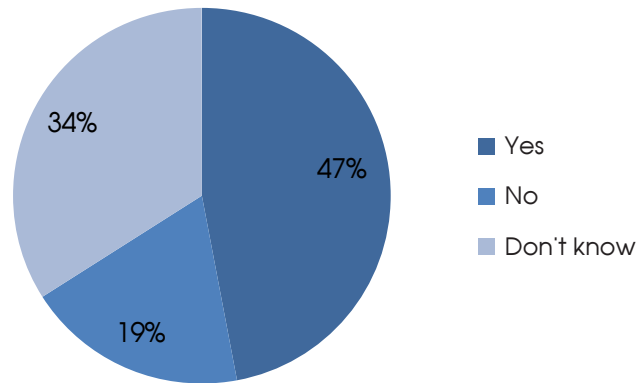
Whether Dilnot is adopted is to some extent academic; the need still exists and increased awareness of long-term care issues is a positive for advisers. In our research a number of respondents mentioned the increase in general awareness that the introduction of a cap might create and the current debate helps to flag up the issue of long-term care.

Asked if the introduction of a cap would encourage them to talk more to clients about long-term care, almost half of advisers in our survey said it would.

Some of those who said it would not cited the age of their clients as a barrier. However, in the Ageas research, the majority of those who said they owned cover for long-term care were in the age range 18-34. So, it appears to be a myth that only older people are interested in long-term care.

Of course, many people fail to plan when they are younger and so much long-term care work undertaken by advisers may be related to realising assets to pay for immediate needs.

Adviser views on whether the introduction of a lifetime cap encourage them to talk more to clients about long-term care



Source: Defaqto adviser survey, March 2012

Financial advisers have the skills to take a holistic view of the client's circumstances taking into account their other needs in their recommendations. The integration with other protection products, their savings strategy and pensions planning is essential and cannot be delivered effectively by narrow advice channels.

Inheritance tax (IHT) planning also goes hand in hand with strategies for long-term care. Where assets are being set aside for potential long-term care purposes, IHT planning is essential because in the event that money is not used, it may not be protected from IHT. Again, professional advisers are well placed to add value in this area.

In our research, a key reason given as to why advisers might not want to talk to clients about long-term care is that they are 'not licensed or qualified to advise on the subject.' The Financial Services Authority has confirmed that no separate permissions are required for long-term care advice, but that a separate qualification is required.

Advisers could do well by achieving the additional qualification so that they can realise the opportunities that talking to clients about long-term care can bring.

Conclusion

If the government adopts Dilnot or similar proposals, it stands to open up the product market and offer clear product sales opportunities for advisers. However, that is not really the issue. The need exists here and now and advisers are uniquely placed to add value.

Greater commitment from the adviser community could really make a difference to people's financial wellbeing should care costs become an issue.

About Defaqto

We are an independent financial research and software company. We specialise in collecting, researching and analysing financial products and funds.

Since 1994 we have built the largest, whole of market, financial product database and become one of the leading providers of financial product and funds data in the UK. We now cover 35,000 products across banking, life, pensions, investments and general insurance. The data underpins our software packages, web services and consultancy.

Our insight supports all layers of the financial services sector including product providers, intermediaries, brokers, web aggregators and the public sector.

Talk to us in confidence about how we can support your business through our bespoke consultancy services on **0808 100 804**.