Long term care insurance

Andy Couchman

After years of the pre-funded long term care insurance (LTCI) looking to be as dead as the proverbial dodo, there are at last signs of life emerging and a growing belief that it's not actually dead after all.

A few months ago, VitalityLife launched its Lifestylecare Cover plan, which was the first of an expected line of insurers offering a LTCI lump sum benefit add-on to their whole life propositions. Both AIG Life and Zurich Life were strongly rumoured to be close behind. As at the beginning of July 2015 we are still waiting for new entrants to join the ever-innovative Vitality, but there's a good chance they will do so, not least because – unlike previous generation pre-funded plans – there is a good case that such products may just appeal enough to the grey haired group of people for whom long term care will be a personal issue within a generation.

Although the new product type doesn't yet have an established generic name (long term care add-on to whole life is a bit of a mouthful) it is already an established product in the USA. There, life insurance combination plans have established a small but significant presence. In 2012 for example, some 86,000 combination plans were sold according to industry body LIMRA. For comparison, that compares to 233,000 standalone LTCI plans.

Why this product and why now? Simply that, from next year the Government (broadly following the Dilnot Commission's recommendations) is introducing a lifetime care cap. In other words, the Government will help families avoid the awful situation where an elderly relative's estate is eaten up with paying for care costs whereas a similarly prudent individual who either has their care paid for by the state (through NHS continuing care for example) or who dies before needing care, leaves a much bigger estate to their beneficiaries.

Of course the State guarantee is neither that simple nor that comprehensive, but it does open up an important planning option. That is, an insurance policy can be bought to provide a lump sum on needing care that takes the individual up to the new cap. Whereas 90s style pre-funded plans provided a regular monthly benefit from diagnosis until death, this new style plan could provide a simpler and less expensive lump sum benefit (insured individuals often lived longer than the stats suggested they would, partly perhaps because they knew they had no financial worries if they 'survived too long', so premium rates and claims experience were both too uncomfortable for the market to bear).

It's still early days but advisers have a shiny new product solution they can talk about – even if the jury is still out on how good that solution will turn out to be in practice.

In looking at LTCI issues I wanted to start by looking at the policy issues. Baroness Sally Greengross is one of the greatest advocates for older people and her views are invaluable, so I started by asking her whether she thought LTC would be back on the political agenda. Bear in mind that she was speaking (as were all our correspondents) a few weeks before the May election:

> *"For sure - many have argued that the Dilnot- based cap and care fees funding structures introduced by the Coalition Government are not at all progressive, as they are specifically*

designed to preserve an individual's property assets and do little to help folk without such assets, and, owing to regional care cost differences, many will never reach the cap. Thus we think a future Government will need to revisit the issue, particularly around the operation of the local authority benefit assessment eligibility criteria and subsequent deferred payment schemes."

And what was the position of insurance-based solutions?:

"Despite the expectations pre- funded long term care insurance (LTCI) products have not emerged in the post-Dilnot landscape and the recent pension reforms have given the industry a lot else to think about in the annuity space. Enhanced and immediate need annuities (INAs) are now in the spotlight and for LTCI, the emergence of some sort of contextual product suite from working-age income protection and/or critical illness insurance, either as standalone or group based schemes, is a possibility."

So how did she see things developing from here so far as the protection insurance space is concerned?:

"We think we will see a lot of activity in the pensions and care information/guidance/advice space as more creative ways emerge of getting the attention of these hard to reach groups. Going back to my first answer, Government has a key role to play here in terms of holding the ring between the industry and voluntary agencies, who may be the first point of call for those who need the advice and support. Clear avenues for both consumer protection and redress will be key."

Finally, I asked Baroness Greengross where she saw LTCI in five years' time?:

"It will not be much different to what we have now- INAs will still play a major role in LTC funding with equity release, and possibly drawn down pension assets, playing a supportive role where applicable. Hopefully the key role of IFAs here will be much more clearly defined and understood."

I then put similar questions to Janet Davies of Symponia. Symponia is a dedicated care fees planning group that along with other key organisations such as the Society of Later Life Advisers (SOLLA), is looking to offer people not just a route into getting good advice but is also determined to ensure very high standards apply across the market. As an aside, as a judge of the Health Insurance Daily Awards since they started, I have never failed to be impressed with the quality of entries from long term care advisers. Symponia typifies that ethic.

Do you expect the whole of life CI type product to take-off?

"To be honest, and I apologise in advance, not really. Adding riders to existing old-style CI products can on the one hand be seen as laudable – bringing a sort of short-term solution to a few clients. Whereas it could also be argued that if the product providers can't be bothered to research and produce newer dedicated and standalone care fees planning products, then why should advisers and clients buy them?"

Do you expect to see other pre-funded solutions develop before 2016?

"It's a really tricky question for which there can be two answers. If you interpret 'pre-funded solutions' as people taking a pragmatic responsibility for their own care destiny then yes, bespoke solutions will of course exist - both now and well beyond 2016.

If only people took the subject matter more seriously, stopped bleating about it and accepted that it just might happen, then a myriad of financial products (not just protection) can be slotted into the mix perfectly with overall control returning to advisers and their clients.

If however, the Government, advisers and clients absolve their own responsibilities and sit back to wait for a magical array of shiny new products to emerge then everyone will be disappointed. Pre-funded insurance type products aren't viable and/or sustainable, not just because of the reviewability but the care cap means that products will have to be so many things to so many people - unicorn sightings will be more likely."

Any other comments about the issues and trends in LTCI planning?

"There is a marked lack of joined up thinking by everyone here. We've just witnessed the first steps of a pensions freedom never expected or imagined but glaring obvious is the omission of any consideration for future care in the majority of cases.

It really will be catastrophic if people don't invest in the time now to explore what will happen if they need care in the future….. investigating something doesn't mean it will happen but taking the bull by the horns and addressing the situation now, whilst they are younger with the luxury of time and energy on their sides really will help to allay the fears of the future.

'At Retirement' is the time to sort out powers of attorney, wills and other specific later life issues. Pensions are only part of the story."

Where will LTCI be in five years' time?

"Unless there is dramatic change in attitude nothing will have altered and it will be exactly where it is now. Non-care oriented advisers will still be rolling their eyes when the subject is mentioned with clients will be praying that it will never happens to them.

Self-funding residents now will still be self-funding in 2020, those not taking advice will still plough through significant sums of money and unless the whole of the financial services professional have a real paradigm shift the wonderful world of care fees planning with will be available to the few.

So, it's not that the products themselves need to take off, far more fundamental to the success of any care fees planning initiative is for people – all the people to start to treat the subject with the respect and reverence that it deserves.

Planning for and the funding of care in later life has to be seen as just another life cycle and until it does it will continue to be the very large elephant in the room."

Next, to get a provider's view I turned to Brian Fisher, LTC marketing manager at Friends Life – one of the original pioneers of LTCI back in the 90s (when incidentally, Brian and I worked together for a time) along, coincidentally, with Friends' new owner Aviva (back when the two were called PPP lifetime care and Commercial Union respectively):

Will the new Government do more on LTC issues?

> *"I think as the population ages, successive Governments will be compelled to 'do more' for those requiring care. But of course 'do more' does not necessarily mean more money. Social care and the NHS need to be much better joined up in practice. It's already started, it's true, but it still has a long way to go before the theory is universally evident in practice. Government must continue to make the public increasingly more aware of their responsibilities towards making their own arrangements for meeting care needs in later life. The real activity will come from local authorities as they come under greater pressure to be more cost effective they will do more to ensure that self-funders get the advice they need to ensure they don't end up back at the local authority having spent their estate."*

Do you expect the whole of life CI type product to take-off?

> *"I've always thought that this is a no brainer – of course only likely to be purchased by those with an IHT liability as the public won't buy it if it's just for care. I'm with many of the opinion that there won't be a single solution for funding future care – there will be a number of different products that each have their own market but where some form of care option can be added. Clearly though, we need the regulators to understand that you don't need the LTC qualification to sell a protection product to a 35 year old – although it should be essential at the point where clients exercise that option."*

Any other comments about the issues and trends in LTCI planning?

> *"At least you haven't asked me what I think of the Care Act!.... I really do think they need to look at it again though. The issue of those in wealthy areas benefiting financially whilst those in poorer areas would have to live with a substantial care need for an inordinate amount of time before they get anything is just disproportionately unfair…..*
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> *The number of SOLLA members is growing rapidly as more financial advisers experience the ageing of their client bank and realise that the subject of care is important to their clients – but something they don't like talking about. Eventually Local Authorities will be referring to suitably accredited financial advisers and everyone will benefit enormously.*
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> *The Government needs to continue the information campaign promised in the proposals for a number of years – society (that's families) needs to start talking about care and not ignore it. Only then will consumers understand that they should do something."*

Where will LTCI be in five years' time?

> *"Well, the market in immediate care plans (don't mention the 'A' word!) will continue to grow and there will be some emergence of the sort of products I mentioned above. But I think it will be ten years at least before the message really gets through to the public. …. And I'd bet that the care cap will have changed by then….hopefully to something that makes more sense and is easier to understand!"*

Finally, I sought the views of Scor Global Life SE – UK branch's CEO Roy Chappell, and his colleague Mark Flint (head of impaired annuity at Scor). Two heads being better than one and all that! Scor is not only a major UK reinsurer but its French background is interesting because France is one of the larger LTCI markets in the world, so I was particularly keen to get Scor's views.

Do you expect the whole of life CI type product to take-off?

> *"Not in the foreseeable future. It suffers two crucial problems: First, it is really hard to sell – asking the buyer to understand a financially/medically complex product and, more importantly, to contemplate a potential very unpleasant future remains as hard today as it ever was. For most normal folk, with modest enough incomes, asking them to commit a chunk of that cash in front of other priorities like retirement savings, paying of debt, etc is close to impossible. And finally, most of those people who can afford it can also afford not to have it!"*

Do you expect to other pre-funded solutions develop before 2016?

> *"No – I don't think it will happen that quickly, if at all. Advisors and insurers are going to spend a few years working through the options for longevity cover and I think they will see more options to innovate in the annuity solutions area (i.e. solutions needed long before the LTC phase) ahead of LTC."*

Any other comments about the issues and trends in LTCI planning?

> *"Funding LTC is clearly a big issue that the private sector ought to play a part in. People currently aged 45 to 65 are now becoming the first generation to see their parents i) live long and ii) need long term care. So there may be increased demand. But demand will be limited because pension provision is the priority and is underfunded and because the complex, unpredictable mess of State provision mitigates against insurers and advisors designing and selling products. Ultimately, I see the LTC issue as more of a question for society and Government that for us as insurers – perhaps some way down the line when the state burden gets to a level where it creaks sufficiently we may see some element of compulsion to save for LTC needs, perhaps as part of the auto-enrolment process. "*

Where will LTCI be in five years' time?

> *"Sadly, much as it is now."*

So, perhaps a bit of an anti-climax to this chapter – or is it just being realistic? Roy's view certainly contrasted with the youthful (hah!) enthusiasm many of us had in the early 90s about the LTCI space (was it really almost 25 years ago?). Back then the logic was so simple – an ageing population, more affluent older people, sharply growing care needs, a Government keen to minimise the (financial) help it could give and insurers keen to establish a new product line that would fit perfectly with their more established protection insurance lines.

Where did it all go wrong? Perhaps what we failed to see back then was that our solutions were too expensive (or at least perceived to be), we were naive to believe that claims costs would simply mirror national care experience and we overestimated people's interest in funding for something that the majority of them would not have to face anyway.

But have we now gone too far the other way? Certainly, there is little appetite among insurers to develop costly (to get to market) new solutions and little interest in developing existing solutions much beyond their niches. Too many still remember the cost of LTCI to insurers back in the 90s – did anyone actually not lose money? It all went very wrong back then, for reasons some of which should have been obvious and some of which took too many by surprise. But, just as we can learn from the past, those cheery fundamentals are just as valid now as they were a generation ago. The population is further ageing, affluence is further increasing and we have the tools at our disposal to develop practical financial and other help to individuals and families who need it.

That surely spells out an opportunity - but it's one that some insurers will only be taken to screaming and shouting. If someone somewhere can make it appear to work though, I remain convinced that LTCI has a future stronger than its recent past. Will VitalityHealth's new product pave the way for more pioneering new solutions? Or is it just another false dawn? I hope not the latter, but perhaps next year's review will enable us to answer that question a little more definitively.