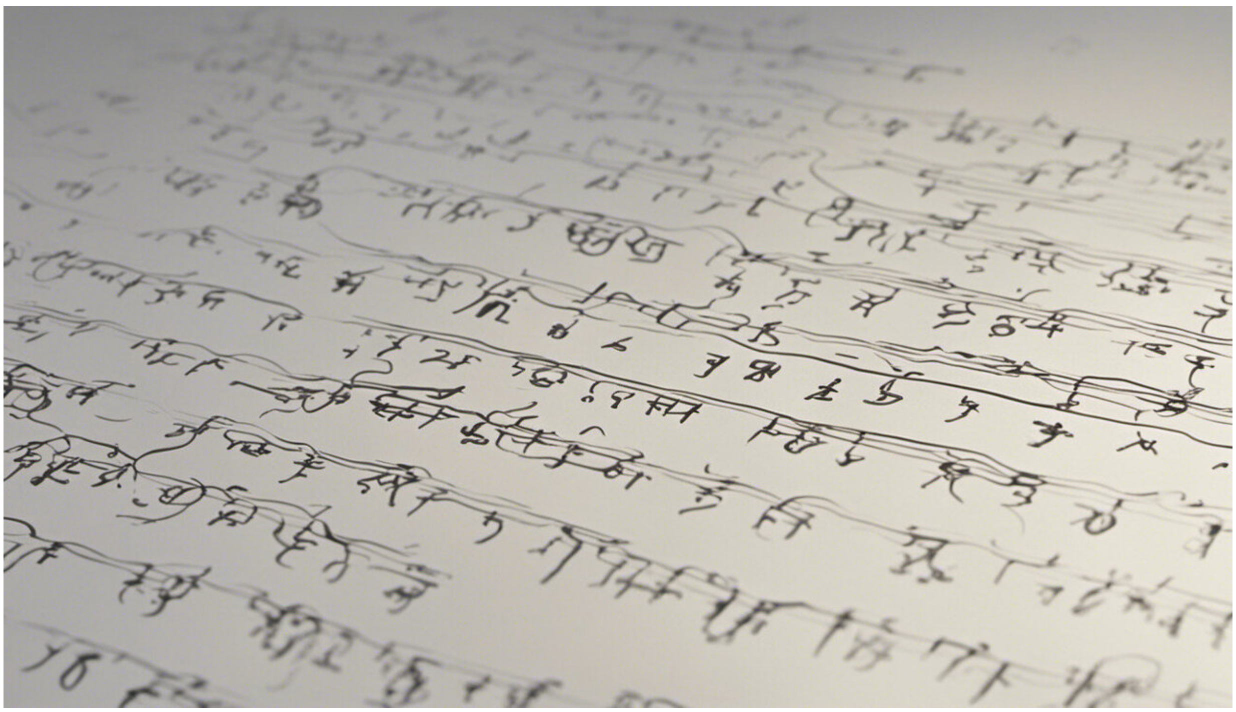
Disability-linked annuity product to address the issue of caring for an aging population

January 24 2017, by George Wigmore



Credit: AI-generated image (disclaimer)

Experts from Cass Business School have devised a new insurance product which could help people save for care by providing contributions towards future home or residential nursing care costs.

This disability-linked annuity product could help address the issue of the increasingly ageing UK population at a time where local authority social care budgets continue to be squeezed and the thresholds for receiving State support have been tightened.

With the dramatic increase expected in the number of older people requiring care, and the tightening of public funding, individuals will be increasingly expected to contribute to, and plan for, their own care in later life.

In England and Wales, for example, the population aged 75+ will increase from 4.65m to 10.4m between now and 2050, opening up the potential for massive increases in care provision whether State or privately funded.

In this new paper, the Cass academics investigated different ways in which individuals can purchase this product with the goal of minimising the impact on their living standards, hence making the purchase of the product more palatable.

Professor Les Mayhew, co-author of the paper and a Professor of Statistics at Cass Business School, said:

"History shows us that people are very reluctant to save for their care to the extent that there are no longer any providers of pre-funded long-term care insurance products in the UK to help address this problem.

"However, this is changing. People are increasingly becoming aware that they will need to pay for their own care and that the costs are potentially very large and unpredictable. Our research is aimed at providing a solution that will allow people to pay guaranteed premiums in a flexible manner, without unduly impacting on their standard of living, which will generate benefits that will contribute to future care costs and offer some inheritance protection."

The product devised by the researchers pays two levels of benefits based on the level of disability of the policyholder. The first level would be an annuity payable if the individual becomes moderately incapacitated. A higher level of annuity would be payable if the individual becomes severely incapacitated. No benefit would be payable while the policyholder is in reasonably good health (which is the state of health that they would need to be in at the point they are buying the product).

Determinants of the policyholder's state of health could, for example, be linked to the failures of a set number of Activities of Daily Living (ADLs), such as being unable to dress or feed oneself. The "moderate" state could therefore equate to the policyholder requiring care at home, whereas the "severe" state could equate to the policyholder needing nursing or residential care. The benefit amounts will therefore be designed to approximately cover the associated costs.

By designing a product which pays no annuity benefits while the policyholder is in good health the researchers minimise the cost of the product by only focusing on the care cost needs.

As well as the traditional methods of purchasing insurance out of income and savings, this product can also be purchased by making use of assets such as residential property.

This flexibility would allow individuals to have control over the timing of their payments to fit around their lifestyle. Some people will be more attracted to particular payment methods than others and a framework is presented which segments people according to individual circumstances. This would provide a variety of ways in which individuals can purchase a long-term care insurance product with the goal of minimising the impact on their living standards.

Professor Ben Rickayzen, a co-author of the paper and Head of the

Faculty of Actuarial Science and Insurance at Cass Business School, said:

"While local authority social care budgets continue to be squeezed and the thresholds for receiving State support have been tightened there has been continued silence from the Government on this incredibly important issue.

"In the UK, the average pension pot is relatively small restricting the ability to pay upfront premiums, but many people have housing wealth which could be an alternative source of funds. As a result, while our product does not make the thought of needing long-term care any more pleasant, we believe that both the benefit structure of the product and the flexibility of the payment methods make the purchase of cover more attractive."

Provided by City University London