Welfare, insurance and social care futures

The issues of social care, welfare and insurance caught ur interest at several poit s during the year.

What a month for welfare reform and income protection

The world is changing. 70% of long-term absences are amongst employees of small or medium enterprises with 43% being people who work for employers with fewer than 50 staff; 60% of absences are accounted for by women and 57% of absences are amongst people under the age of 50.

And savings for a rainy day are very low. The latest MAS research (September 2016) found over 16 million people have savings under £100. Clearly income protection insurance (IP) and the welfare state are the only show in town for the vast majority of the UK population who are too ill to work.

But IP coverage is small. If you combine IP bought by individuals and employers for their employees there are about 3 million people covered.

By way of comparison, the Sergeant Review of Simple Products noted that a further 23.5 million adults could potentially benefit from Income Protection.

But IP is not just about financial support. Legal and General, has published statistics on those who returned to work in cases where early intervention rehabilitation was provided: 78% of all notified GIP claimants returned to work before the end of the deferred period and 83% did so within the first year of absence.

These figures are replicated for mental health and musculoskeletal claimants. Research shows that there is a £16.80 saving for every £1 spent with rehabilitation on group scheme claimants.

Meanwhile, welfare state provision is being scaled back. Currently, under Universal Credit, owner-occupiers with a mortgage must wait for a qualifying period of 9 months before they are entitled to any support for their mortgage payments.

In addition, no help is available if you (or your partner) have **any** earned income. This is in contrast with other elements of UC, where the intention is to make working worthwhile.

In the summer budget of 2015, the Government announced that, from April 2018, payments towards mortgage interest will be turned into a loan from the Government.

The loan will have to be repaid when the house is sold or on return to work. This policy remains unchanged following the Autumn Statement. As for generation rent, there are housing benefit restrictions which are set locally based on lower end rental costs.

These were also to have been capped from 2018 but this has now been postponed until 2019. Finally, Universal Credit deducts IP bought by individuals on a £ for £ basis

– including any provision for mortgages and rent even if that money were to be paid direct to the creditor.

This is unlike the situation for “earned income” where the taper will be improved from 65p/£ to 63p/£ from next year. A key aim of our report is to encourage a debate on the future of the interaction between IP and welfare benefits.

Green paper vs Autumn Statement

It was very encouraging that the day after our launch the DWP and DH launched their joint Green Paper on work, health and disability.
In it they set out their vision for the future. Four of the six elements of the vision complement our report very well. When an individual is in work they should have jobs that actively support and nurture health and wellbeing.

If at risk of long-term sickness absence they should encounter early action to stay in, or return to work. If out of work due to health or disability they should encounter the right support to secure work.

And if an individual is unable to work they should have access to rapid financial support.

Two publications well aligned. What could possibly go wrong?

We found out in the A**utumn statement on salary sacrifice. Gym membership and Group income protection (GIP) bought by choice through employers is to be taxed.**

Given this decision has been made now – bang in the middle of the Green Paper consultation process – indicates that the old problem of lack of joined up Government is as persistent as ever.

So what next? In my view the focus of discussion needs to focus on IP and what happens at claims stage on interaction with state benefits.

If we can show that change could be made a no cost to Government to encourage, rather than penalise, individuals for supporting themselves I still remain optimistic that we can make progress.

In addition, IP has a much greater chance of rapid growth with changing employment patterns towards more people in small companies that have less interest in GIP and the end of the “job for life” – as it is portable from one job to the next.

We will need to engage with a wide range of stakeholders during the Green Paper consultation period including across Government departments.
As for lobbying for tax relief, the Autumn Statement shows that this is a non-starter.

And worse still, for those who support auto-enrolment for GIP, it is difficult to see the case for an opt-out system for a taxed benefit.

Suddenly the difference between the treatment of pensions and GIP has become much more stark.

Written by Richard Walsh, SAMI Fellow and ***first published in Cover magazine, November 2016.*** *Also co-author, with Alan Woods, of a r****eport for the CII – "Building Resilient Households – the future of financial provision for those too ill to work".****, published January 18, 2017*

A fairer way to fund long-term care

For many years we have been anticipating a crisis in social care funding. Successive Governments have looked at the issue and then stepped back from any decision in the hope that we can muddle through.

Last week's decision to encourage councils to increase council tax to put more money in the system means we have finally reached a "tipping point". But is this really the right way to address the problem?

Council tax has moved from being a low level tax with significant central funding to one which, increasingly, is actually a local tax which many families find is a significant amount and is set in and extremely regressive way.

This is because it is based on a proxy for asset value which does not differentiate between those who actually hold the assets (home owners and landlords) and what tenants pay is based on the proxy value of a house which they do not own. In addition, support for those on low incomes has reduced.

The Money Advice Trust's Stop The Knock campaign revealed that 1.27m debts were passed to bailiffs by local authorities in 2014/15 for council tax arrears, an increase of 16% over a two-year period. Since 2013, most English councils have introduced minimum payments for people who were previously exempt.

On average, these families are required to pay £171 in council tax per year. Hundreds of thousands of people have ended up in court, forced to pay £150 in fees and administrative costs, causing the debt to spiral.

Council tax is one of the few debts where failure to pay can result in imprisonment. Without a root and branch reform of local taxation to make it more clearly related to capital and income, increasing council tax is possibly the worst way of getting more money in the system for social care.

So what should the Government have done? It depends on what you are trying to achieve. One option would have been to return to their Manifesto commitment to introduce the Dilnot recommendations.

The Government proposed a much higher upper limit of £118,000 to allow more generous treatment of the assets held in the home and a higher savings limit.

In addition there is the cap (excluding living costs) of £72,000 such that once this cap is reached no further costs. except living costs, would be incurred. The Government shelved this because of costs but the decision on council tax shows that they accept the need for more resources.

The problem with the Dilnot recommendations is that they only result in more money in the system if individuals save, or insure themselves, such that they have more resources than they would have done if they hadn't saved or insured. Any why would they do that if it is offset £ for £ through the way means testing operates.
Also last week, a new ILC report "Means Testing Social Care in England" by Professor Les Mayhew, suggests some possible solutions to the conundrums of inequality of treatment between assets and income and encouraging savings for long term care.

The report takes the view that it is a general principle that income and assets should serve a common purpose and be regarded as interchangeable as far as paying for care is concerned. And that a system of financial support in which assets receive more favourable treatment than income will tend to favour those whose wealth is skewed towards assets.

Not only is this unfair, but it will increase the effect of people seeking to gain an advantage on the State by shifting wealth between income and assets.

Without going into the detail of the calculations, let's take three individuals.

Under his preferred solution if person A has £66,667 of savings and £5,000 income; or Person B, with £50,000 of savings and £10,000 income; or Person C with £33,333 of savings and £15,000 each of them can afford 3.33 years of care and each therefore receives the same level of support from the State, (i.e. £8,333).

Yet under the Dilnot solution, the levels of support would change. A receives £9,669, B receives £8,136 and C, who has fewer savings than either A or B, gets only £6,603. So having more wealth in assets than in income becomes advantageous.

The asymmetric treatment of people with the same ability to pay for a given package of care creates an anomaly if we are seeking to introduce a system which strikes a fair balance between individuals of similar means faced with the same care costs.

Beyond that, while the means test offers an important safety net, it deters people from saving for care, and so potentially crowds out new sources of finance.
To address this the report calls for incentives to set aside money for care in the knowledge that it would not be simply taken away by an equivalent reduction in State support on a £ for £ basis.

The report is sceptical about insurance solutions, but I can see that a kind of critical illness product with a lump sum payout could have an element of the payout disregarded for means testing on admission to a defined level of care in a similar way to the disregards on savings that are contained in the report.

The Mayhew report is a valuable contribution to the debate on the future funding of long-term care and the current "quick fix" of rising council tax is unfair and regressive.

I think the report is also very interesting in thinking about the broader issue of what would be a fair way of setting what is now becoming a local tax without central funding; with a fairer balance between those who actually hold assets (and their actual value) and levels of income.
Written by Richard Walsh, SAMI Fellow and ***first published in Cover magazine, December 2016.*** *February 1, 2017*

How should families protect themselves under the new Bereavement Benefits system?

From April 2017 the Government is changing the rules on bereavement support for new claimants.

Existing ones will carry on under the previous regime. Under the old system there were three benefits. These are now combined into one “bereavement support payment”.

First there was a lump sum of £2,000 provided that you were under pension age and your spouse, or civil partner, had paid NI contributions on earnings equal to 25 times the lower earnings limit in any one year.

Although if they died as a result of an industrial accident then that was not required. Under the new system a family without children will get £2,500 and one with children will get £3,500.

This is a significant improvement although it is still below the cost of many funerals. And of course, it does not contribute towards any debts, such as paying off a mortgage. Life and critical illness insurance remains essential cover for such circumstances. It may however reduce the amount of basic cover needed under low-cost funeral plans.

Second there was bereavement allowance for those with no children. It was only payable if you were 45 years old, or older and was payable for 52 weeks.
The amount you got was dependent on the amount your partner had paid into the state pension and also on your age. It was taxable and offset against any contributory benefits you might be entitled to, for example contributory based JSA. At 45 you could get up to £33.77 a week but you would then have your JSA reduced by that amount.

Under the new system you would get £100 per month payable for 18 months and it is not taxable or offset against contributory benefits. So overall, another improvement on the current situation.

Finally we move to the sting in the tail, widowed parents allowance (for those with children).

This was payable if you had dependent children or your partner was pregnant until children ceased to be dependent. The amount was based on your partner’s contributions to the state pension up to an amount of £112.55 a week. It was taxable but you would be entitled to child tax credits.

As with bereavement allowance it would be offset against other contributory benefits. Under the new system, it is £350 per month and is payable in full if your partner has paid NI contributions for a full year. It is not taxed and not offset against other benefits. However it is only payable for 18 months. For families with children this is a very significant reduction in state support.

So what should families do to protect themselves under the new arrangements?
The solution is family income benefit insurance.

This insurance currently has a tiny market. It pays out for the term of the policy based on the income of the deceased partner. For two income households it is essential to purchase a policy that covers each life individually.

The interactions with universal credit mean that, assuming the surviving partner continues to work, such a family will have little or no entitlement to benefit after the 18-month period.

I think the changes offer an opportunity for increased sales and innovation in the family income benefit market.

The abolition of support for families after 18 months means that serious consideration should be given to making FIB a rider to life/CI insurance sold as a standard part of protecting your family, rather than as a stand- alone niche product. Costs should also be low.

Even as a stand-alone product is it usually cheaper than term life.

Written by Richard Walsh, SAMI Fellow and ***first published in Cover magazine, January 2017****., February 23, 2017*

The Many Futures of Life Insurance

There is only one past but there are many futures. Which one of the many possible futures develop is impossible to predict for certain but that should not stop us from speculating. Besides, the best way to predict the future is to invent it. So, what can we invent, or at least prompt into being?

We are in a time of great disruption and I could pick several drivers of that but in this blog I am going to concentrate on just three: demographics, consumer expectations and evolving technology.

Demographics

There is significant societal change under way. According to the UN population growth is set to reach 11 billion by the end of the century. There is growing wealth, and not just in the West. The proportion of society classified as middle class is growing across the globe; the Brookings Institution estimates that there are 1.8 billion in the middle class, which will grow to 3.2 billion by the end of the decade. By 2030, Asia will be the home of 3 billion middle class people. It would be 10 times more than North America and five times more than Europe. The Middle Classes are responsible for the greatest consumption of financial services. Insurance products, particularly health, accident, illness, replacement income etc. are predominantly the province of the middle classes.

The shape of society is changing too; we are all getting older. One third of babies born in the UK today are expected to live to 100 with the global number of centenarians projected to increase 10-fold between 2010 and 2050. An older generation will require a different set of insurance products, both protection and wealth related, than a younger one.

We also have increasing urbanisation. In 2007, for the first time in our entire human history the tipping point was reached when more people lived in cities than outside. This brings burdens in exposure to greater pollution, more demand for social services and the greater threat of spreading pandemics.

The societal changes mean that new demands are growing for a new range of insurance products in the wider Life sector. Health, longevity, support for illness and disability, time out of work and a wider range of assets to grow and protect mean that the Life industry will have massive opportunities to create products that serve this new range of demands. The way in which these products are structured, delivered and serviced will have to change to keep pace with rapidly evolving consumer demands; and this will bring a range of threats to accompany those opportunities. New, consumer and service-oriented businesses will be able to invade the Life insurance sector with innovative modes of engagement and collaboration that insurers have traditionally shied away from or stumbled over.

Consumer Expectations

Consumers have got used to a world in which always-on, direct access to personalised service is seen as normal, not something they should be grateful for. Consumer demands – for accessibility, transparency, responsiveness – will form a baseline for expectations for insurance products and services. Where traditional insurers are unable to meet these demands, new companies will step into the life insurance value chain with supplementary services that enhance and even obscure the older, more traditional insurance business models of engagement. If insurers are not to lose out on new revenue streams and value components they will have to compete, form alliances with or buy these new organisations.

Technology is an obvious participant and driver in this process. It's common knowledge now that we all have far more power in our smartphones than the whole of NASA had when it sent men to the moon. That massive rise in capacity creates an almost unimaginable, exponential rise in capability. The Digital phenomenon will enable and drive capacity and expectations. The general insurance sector is already making use of personalised, real-time data to create dynamic policy premium calculations with such wonders as telematics in cars that can detect driving habits as well as distance and the type of roads used. The rise of personalised digital devices that can record health and activity measures will be used by life and health insurers to create innovative protection products that can take into account more and more detailed aspects of an individual's personal circumstances. Insurers may be able to underwrite individually based on thousands of variables.

Life, disability and health products will be able to take advantage of a range of immediately accessible on-line services and mobile apps that bring the consumer directly in contact with the service provider, be that the insurer itself, one of its agents or collaborators, or the third-party service providers that the insurance pays for, such as home helps, physiotherapists, doctors etc. The consumer will expect these and the insurer – if it wants to stay in the game – will either provide them or facilitate them, becoming the hub for the delivery of services arising from a claim.

Brave New World

So, which future will we see evolving? As I said, we cannot be certain – at least of the detail, which remains a little blurred – but the broad sweep of history unfolding before us is coming into focus.
In my view the characteristics of this new world, brave or timid, will include the following:

- We will see much greater commoditisation and transparency, alongside increasing personalisation.
- There will be tighter margins driving business models to control costs with automation, digitisation, prevention through wellness programmes and incentives.
- Insurers will develop new products for 'seniors' and other affinity groups will arise – self-selecting niche groups which negotiate terms for their members.
- We will see more flexible products; the GI sector may lead but Life will follow with looser subscription based products whose coverage fluctuates according to changing circumstances.
- There will be a heavy reliance on data and analytics with much greater automation and use of algorithms.

I have avoided the Brexit Elephant in the room. No doubt the deals that are negotiated will bring all sorts of challenges: over passporting rights, data protection equivalence, solvency parity, etc. It makes the future, at least in the UK even more uncertain, but that is a topic for another day.

One thing we can be sure of is that change is the only constant. As the philosopher Heraclitus said as long ago as the 4th century BC, *"No man ever steps in the same river twice".*

Written by Graham Newman, SAMI Associate and Independent Insurance consultant, May 10, 2017

Moving the Financial Resilience debate forwards

Now that the dust has settled after the consultations on the Green Paper and the new single financial guidance body (SFGB) it is time to look forward to how we can make progress towards making the households of the UK resilient in the event of sickness absence.

The facts are stark. 1.8 million people are off work sick for more than 4 weeks in any given year; 70% of longer term absence is in those employed by SMEs and 60% of absence is accounted for by women.

Yet 2016 MAS research shows that over 16 million people have savings under £100 and only around 3 million people are covered by IP bought by themselves or their employer. The scope for growing this market is huge.

So what next. First we need the Government to set up a high profile task force to support increased household resilience and make people aware of the options that are open to them.

The task force should be broad based and besides government it should include MAS (and the SFGB when it comes into being); employers; distributors; the FCA; charities; health and rehabilitation providers and NHS commissioners and insurers.

The creation of such a task force would fit well with the SFGB if the new body were to be given a statutory objective to improve household resilience against income shocks.

This should include those who are just about managing now plus others who are managing now but would not be able to do so when an income shock hits them. Analysis of data from LV= shows a third of IIP polices are held by people earning below the national average, with 60% being held by basic rate tax-payers. This belies the myth that IP is only suitable for rich people.

The Government and the SFGB need to take pro-active and concerted action to achieve a step-change in resilience through national leadership to bring together the many agencies, businesses and third sector organisations that can play a role and to use their independence and authority to communicate the need for people to plan for income shocks, to signpost them to services and provide information and tools to help the public understand the risk and how to plan for it.

The Green Paper was right to seek views on how to increase take up of group income protection but they must also embrace IIP because even if coverage of Group Income Protection is extended it still will not always reach important groups such as the self-employed.

Second we have some important technical issues that need to be addressed. For many ordinary families, the benefits system cannot cover all their commitments.
Millions have mortgages or rental commitments beyond what the benefits system can cover, or other commitments/expenses which cannot be catered for in a taxpayer - funded system.
But the New Policy Institute (NPI) report illustrates how the new rules coming in for Universal Credit treat many people with IIP less favourably than the system they replace.

Families with children and people who rent are hit particularly hard as the ‘disregards’ and ‘tapers’ which help them in the legacy system are being withdrawn. This interaction is not a minor or theoretical issue.

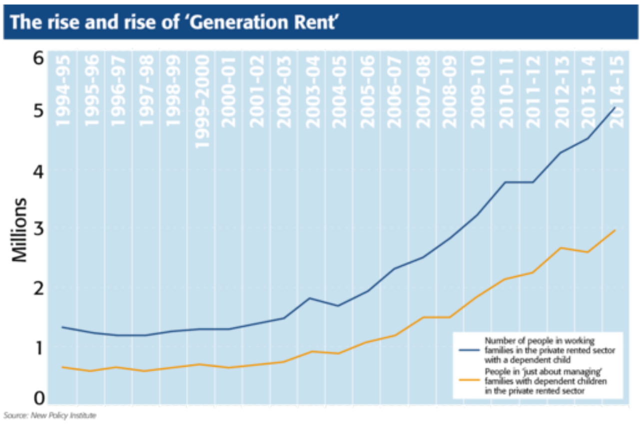
As the State withdraws from paying any benefits to cover mortgage interest, any element of an insurance pay-out used to cover mortgage payments should be completely disregarded in the benefits system.

It seems irrational and self-defeating to remove the existing disregard for such payouts and treat them as available towards ordinary living costs.

A similar approach could also be applied to tenants. For example, any element of insurance which covers their ‘’excess rent” could be fully disregarded by the benefits system. (By ‘’excess rent” I mean the amount of rent that can’t be allowed by the benefits system because it exceeds a local or national cap).

Another option might be for people to be able to ‘’opt out” of drawing any state support for housing and in exchange the State would disregard any insurance payout they receive to cover their rent.

The graph below which was included in the NPI report shows the huge growth in generation rent following a long period of stability.



Finally a taper and partial disregard on insurance payouts to meet living (as opposed to housing) costs should be introduced.

A logical starting point here would be for the ‘’earned income” taper and work allowances to apply to Income Protection in the same way as they do to Group Income Protection.

The reality is that both IIP and GIP involve putting aside a small amount of earned income to make prudent provision for future loss of earnings. In the case of GIP, this is facilitated by the employer whereas IIP is set up by the individual.
There seems no equitable reason why the latter course (which is the only route available to the self-employed and millions of other workers whose employers do not offer GIP) should be treated as less worthy than the former.

There may also be advantage in offering a specific new disregard on Income Protection payouts.

This would give a very clear message that it pays to make prudent provision – a message that is all the more important in the IIP setting as it requires the individual to make an active purchasing decision.

And for low income households a very simple basic policy which provides a fully disregarded sum would be extremely cheap and have significant impact on their wellbeing.

Later this year we can expect to see legislation to create the SFBG and a White Paper, with detailed proposals taking account responses to the consultations. I do hope we can look forward to some good news.

Written by Richard Walsh, SAMI Fellow and ***first published in Cover magazine, March 2017.*** *May 17, 2017*