

ABI response to the Health and Social Care Committee

Adult Social Care Reform: The Cost of Inaction

The UK insurance and long-term savings market and the ABI

The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world. We represent more than 300 firms within our membership, including most household names and specialist providers, providing peace of mind to customers across the UK.

We are a purpose-led organisation: Together, driving change to protect and build a thriving society. On behalf of our members, we work closely with the UK's governments, HM Treasury, regulators, consumer organisations and NGOs, to help ensure that our industry is trusted by customers, is invested in people and planet, and can drive growth and innovation through an effective market.

A productive and inclusive sector, our industry supports towns and cities across Britain in building a balanced and innovative economy, employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of £1.4 trillion, contribute £18.5 billion in taxes to the Government and support communities and businesses across the UK.

Our role

Our industry is well-placed to help customers plan and prepare for social care costs especially in later life, in order to have as much choice as possible in the future. Our members offer a variety of financial products, to help people who will have to self-fund all or part of their social care costs. They have a vast experience in helping people build savings over time, release equity from their property and protect themselves against unfortunate events, such as the financial consequences of both long-term and short-term disability, often with the support of financial advice. We believe people should have the freedom to choose how and where to get the support they need to lead fulfilling lives and be incentivised to plan in advance to be able to afford to make these choices should they need care.

Some of the financial products our members offer to help self-funders meet care costs include:

- **Care fees plans or immediate needs annuities** – these pay out a guaranteed income for life to help cover the cost of a customer's residential care fees in exchange for a one-off lump sum payment at the point where the customer goes into residential care.
- **Serious illness cover with later life care cover included** – when the serious illness cover term ends, any remaining cover is converted into a later life care cover which pays out a sum assured upon diagnosis of illnesses such as Alzheimer's, or frailty.
- **Pensions, investment and retirement income products** – the pension reforms introduced in 2015 allow customers to use their pension pots far more flexibly than in the past, which can help fund the costs of care, and pass it to dependants if it is not needed for care.
- **Equity release/lifetime mortgages** – allow customers to release some of the capital in their home to provide either a lump sum, a regular income or both, which can be used to meet social care costs

The cost of inaction

The cost of inaction is visible at different levels: on the individual, their family and those close to them, and the economy.

People need to have a clear, simple and long-term state offer (i.e. to understand what they would be entitled to from the state) in order to establish what liabilities they would face and to plan and prepare ahead. The lack of government policy and public awareness of what is, and is not, available means people are unable to plan ahead, and this has massive impacts on them and their family once they are faced with needing care. Their resulting inaction costs them

and their family, who are more than often unprepared. In fact, a 2019 ABI [research](#) report showed that nine out of ten over-65s had no plan to pay for social care.

Just Group's [report](#) 'Groundhog Day' states that 47% of over 45s said they are delaying making financial preparations for later-life care until government plans and policies are confirmed. The same report shows that more than half of over 45s say they are confused by government announcements on funding of residential care.

The sense of paralysis and confusion carries real consequences. It risks people being forced into decisions at a point of crisis, when they find themselves ill-prepared and grappling with unfamiliar, complex processes. The aforementioned report shows that 83% who have had to find care for a family member were shocked at how expensive care is. 75% found the process stressful.

A lack of adequate support and preparation has a great impact on people and their families. Caring responsibilities lead to major financial, emotional and practical challenges. With the Carers' Allowance being only £81.90/week with strict eligibility criteria, caring for someone also creates financial pressures. According to new [research](#) by Eurocare, unpaid care has a huge impact on mental health and on education and future life opportunities

In addition to the impact on individuals themselves, this lack of adequate support and preparedness can also have an impact on the economy: specifically, the labour market and skills and talent. According to the same Eurocare research, young adult carers in the UK are 38% less likely to have a degree than their peers who are not carers; those providing 35 hours care or more per week are 86% less likely to have a degree. Over seven million people – one in four employees – across the UK juggle work and unpaid care, according to [Carers UK](#) and 48% of unpaid carers said that they had to give up work because of their caring role, according to a Carers Trust's [survey](#).

The introduction of a clear and simple offer by the State would not be enough: any reform needs to include provision of information, guidance and awareness raising, to ensure people plan and prepare ahead for care. In addition to a lack of clarity of the State offer and policy uncertainty, people also naturally find it hard to think of themselves being in a position of needing social care; they often do not realise they have an insurable risk; and most people underestimate the cost of care and [assume](#) that it is freely provided in the same way as NHS healthcare. These barriers can start to be addressed by providing consistent, clear information and support to help people navigate the system and understand the appropriate financial options for their circumstances. This effort should be supported by an effective and impactful awareness campaign to ensure people know their responsibility for paying for their care costs and plan and prepare in advance.

We know that many people would not be able to afford to prepare for care and care-related costs in advance. That is why it is important that the care journey be inclusive: that the system works well for everybody and that people are actively supported to find, and encouraged to use relevant information, advice and guidance and can make the right decisions for them.

Our report [Prepare for Care](#) contains recommendations for how to provide the right information and support, how to remove disincentives for people preparing for care-associated costs and how to support unpaid carers. The report also looks at barriers and solutions to facilitate the development of a market of financial products that help people or their families when they need care.

For instance, we recommended that the Department of Health and Social Care launch a public information campaign, setting out what level of support people can expect and providing guidance on how to navigate the care system once the reform is settled. We have also proposed scraping or limiting tax on pension withdrawals if funds are used for care related purposes (including if used for purchasing an Immediate Needs Annuity).

We are keen to work with the government, Parliament and stakeholders to find the best ways to support people at different stages in the journey to and through care, and people with different financial means, and we appreciate this opportunity to provide written evidence to the Committee.

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