

## **Written evidence submitted by The Institute and Faculty of Actuaries (ASC0105)**

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Health and Social Care Select Committee inquiry into Adult Social Care Reform: The Cost of Inaction. This response is by members of the IFoA Social Care Working Party and is written in the public interest.

Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insights and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and to plan for the future.

The Social Care Working Party is a team of volunteer members of the IFoA. With expertise in financial modelling, risk analysis and long-term planning, we are well poised to offer a unique perspective to the adult social care funding debate.

### **Reason for Submitting Evidence**

We are submitting evidence to the House of Commons inquiry on “Adult Social Care Reform: The Cost of Inaction” because we recognise the critical need for a robust systems and evidence-based approach in addressing the ongoing challenges in adult social care. Our experience positions us to provide valuable insights into:

- The financial implications of the cost of adult social care, including its ripple effects on the NHS, local authorities, and the wider economy
- The importance of integrating private and public funded care to ensure equitable and sustainable care provision for both older and working-age individuals with care needs
- The range of funding mechanisms pertinent to the unique demographic and social economic landscape

As such, our evidence aims to highlight how a more strategic approach to reform, underpinned by actuarial expertise, can better quantify the costs of inaction, identify missed opportunities, and inform more effective policy decisions for the future.

## Summary

- Over recent years, the IFoA members have produced a number of research outputs on the sustainability of adult social care funding, in particular cost implications for self-funders, the balance between state and personal finance, and international comparison on how adult social care is funded in advanced economies.
- Some of the costs of inaction on adult-social care reform are quantifiable, such as avoidable hospital admission, delayed discharges from hospital. Other costs are qualitative in nature, such as reactive spending on long-term care needs, and the public lack of awareness on the costs of social care to the individual and the state.
- Funding for social care can be significantly improved through a better understanding of the financial implications associated with the evolving care needs of an aging population. However, the lack of data to model the duration and intensity of care required remains a critical barrier to reforming adult social care funding. Addressing this data gap is essential to developing sustainable and equitable funding solutions.
- Investing in social care reforms today would mitigate future costs associated with demographic ageing and escalating care needs

### Q1 How much is inaction on adult social care reform costing the NHS and local authorities, and what impact does this have on patients and the public?

#### Costs to the NHS

Over the course of 917 days from 8 June to 12 December 2019, delayed discharges from hospital to social care, due to lack of social care support at home and in the community, cost the NHS £587m (Lacobucci, 2019). This implies that the costs to the NHS of inaction on adult social care reform include:

- Increased avoidable hospital admissions from incidents, such as falls, that could be prevented or managed through social care intervention at home or in nursing homes.
- Longer hospital stays due to lack of short-term transition care that is especially designed to help patients recover after a hospital stay, whether it be in their homes, community or nursing homes.
- Delayed discharge from hospital because of bed shortages in residential or nursing homes and/or unsuitable facilities in homes.

#### Costs to Local Authorities

The Care Act states that, “*the ambition is for local authorities to influence and drive the pace of change for their whole market, leading to a sustainable and diverse range of care and support providers, continuously improving quality and choice, and delivering better, innovative and cost-effective outcomes that promote the wellbeing of people who need care and support*” (Department of Health, 2014: para. 4.2).

Should inaction on adult social care reform prevail, local authorities face the following costs:

- Drawing on 64 qualitative interviews (that included self-funders, local authority stakeholders and provider organisations), Henwood et al. (2022) found that “*self-funders are still largely bystanders to local authority market shaping strategies*”. This lack of engagement with self-funders in the wider market, exacerbated by stringent means testing, stifles innovation aimed at maximising choice and control for users of services.
- Local authorities have tight budgets for social care, so they tend to be reactive in spending, prioritising urgent needs over preventative interventions. This inevitable concentration on core statutory services is coupled with cutback on other helpful services, for example domiciliary care services that support independent living. As a result, it becomes harder to achieve goals like reducing the need for long-term care, whatever the declared policy objectives. This, in turn, means increased spend in the long run due to missed opportunities to reverse or slow early onset of mild or moderate care needs.
- Shortage or lack of funding results in deeply unattractive rates of pay which in turn contribute to instability of the social care market through high staff turnover. This instability is amplified by a falling number of nursing home beds (Henwood et al. 2022).
- Post Brexit anxieties and resistance to immigration require local authorities to rethink what shape the workforce will take to ensure adequate supply of staff.

### **Impacts on Patients and the Public**

Age UK (2024) estimates that 2 million older people in England are now living with some unmet need for social care. As such, inaction on adult social care reform has the following effects on patients and the public.

- Worsening health outcomes for individuals due to delayed access or lack of access to restorative care that is tailored to everyone’s unique needs and aimed at mitigating complications and loss of independence.
- Poor quality of life, particularly for very old people aged over 80, due to lack of access to the support needed to help them to continue living independently in their own homes for longer. Age UK (2024) found that more than one in four are living with some unmet need for social care.
- Services that aren’t tailored to the needs of those who need them because of lack of innovation. This is because there is so little flexibility in the system that investment/ innovation is difficult, and the building stock is increasingly unfit for purpose.

Furthermore, the lack of reform of social care and information on how the system works has created uncertainty among the general public. The Just Group Care Report 2024 shows that 57% of people surveyed thought it was difficult to find information on care; 75% of people surveyed thought the care system is very complex; and 66% of people surveyed were surprised by how little financial support is provided by the State. The confusion and lack of awareness among the general public means that the general public are typically not making provision for potential care costs in later life, and this means that they are more likely to need financial support by local authorities in later life.

## **Q2 What NHS and local authority service reforms are not happening as a result of adult social care pressures, and what benefits are patients and the public missing out on?**

Adult social care pressures are impacting the implementation of Integrated Care Systems (ICSs) which aim to provide seamless, coordinated support across health and social care. Without adequate social care policy provisions, the integration agenda remains incomplete, reducing opportunities for shared resources, improved service delivery, and streamlined patient journeys.

Digital transformation of health and social care is a great initiative that will help streamline and improve the operational efficiency of service providers. However, without data that enables modelling of the likelihood of needing care and the length of time needing care, determining the appropriate funding model will continue to be problematic, further hampering innovation in insurance to cater for the costs of social care for different income/wealth segments in the society. Without this type of data being made publicly available, it will also be challenging to make the general public aware of their potential care costs in later life, which is needed to enable them to make adequate financial plans for their retirement.

The lack of reforms or early engagement from government and awareness campaigns around how social care works represents a missed opportunity to engage with self-funders in the wider market, who would otherwise not approach their local authorities. As such, market-shaping strategies might not reflect their needs.

Pressures on funding have slowed reforms aimed at upskilling adult social care workforce, adopting new technologies, and introducing innovative solutions that could enhance service quality and efficiency.

## **Q3 What is the cost of inaction to individuals and how might people's lives change with action on adult social care reform?**

### **Cost of inaction to individuals**

Currently, individuals with more than £23,250 (upper capital limit) in savings do not qualify for help to pay for care costs (NHS, 2022). The threshold (lower capital limit) below which individuals are entitled to fully funded public care is £14,250 (Department of Health, 2024). Therefore, inaction on adult social care reform has the following implications:

- Noting that previous social care reform aimed to increase the upper capital limit to £100,000, delayed revision means that more people need to make their own arrangements for care.
- The public's poor understanding of the social care system implies that the true cost of care is largely unknown to many and therefore inadequately planned for (Dixon, J. et al. 2022).
- Informal carers lose income and experience adverse effects on health and well-being because of lack of access to social care provisions that would make it possible for them to have short periods of rest to rejuvenate.
- In the absence of a vibrant and robust market, individuals lack clarity about the optimal funding mechanisms, especially in the case of home ownership.

- There is a concern about intergenerational fairness as younger people contend with the possibility of paying higher taxes to fund the costs of social care.

### **How people's lives might change with action on adult social care reform**

- Enhancing the public's understanding of the social care system will improve the level and quality of public debate concerning potential reforms (Dixon, J. et al. 2022).
- Because of growing public support for cost sharing (Curtice et al., 2022), social care reform could consider integrating public and private funding to include one (or more) solution(s) for those already in retirement or with care needs, and one (or more) for the working population with potential future care needs.
- At the risk of increasing disincentives to save for those with lower levels of assets, a more generous means test would widen access to the publicly funded care.
- Investment in a diverse range of care would strengthen the provider market and avail more choice to individuals, helping them to maintain autonomy for as long as possible. This inevitably reduces anxiety and stress.
- Formalising social care would provide respite and practical support for carers, helping them to balance caregiving with employment and personal needs, thereby improving their well-being.
- Addressing existing barriers to innovation in insurance and savings-based products, particularly for those who can self-fund, would influence the pace of change, leading to a sustainable system.

### **Q4 Where in the system is the cost of inaction on adult social care reform being borne the most?**

Tight budgets within local authorities often result in individuals with moderate needs being excluded from receiving support. This exclusion shifts the responsibility to families and carers, placing additional pressure on them and increasing the strain on the NHS as it picks up the consequences of unmet care needs.

Many people requiring care are forced to use personal savings or sell their assets to fund the services they need. Without meaningful reforms, this trend is likely to continue, leaving more individuals at risk of poverty in later life as their financial resources are depleted.

Delayed or inadequate care often leads to deteriorating health, a loss of dignity, and a significant reduction in quality of life for those in need. These outcomes not only affect individuals but also place further strain on the broader care and health systems.

A failure to invest in preventive measures today results in higher costs for more intensive care in the future. This creates a cycle of inefficiency, where resources are consumed reacting to crises rather than proactively addressing care needs early to reduce long-term demands.

### **Q5 What contribution does adult social care make to the economy and HM Treasury and how might this change with action on reform?**

**Current contributions:**

- **Income tax and National insurance revenues:** (1) The adult social care sector is a significant employer, with over 1.5 million workers in the UK (Skills for Care workforce intelligence report, October 2023). It provides jobs in care homes, domiciliary care, and administrative roles. (2) By supporting individuals with care needs, the sector indirectly enables family members to remain in or return to the workforce, reducing economic inactivity
- **Value Added Tax Contributions:** Spending on adult social care supports businesses providing care-related services, including private care providers, suppliers of equipment, and training organisations.

#### **Costs of the current system:**

- **Housing and wealth:** the current system lacks the incentives to make individuals plan for their social care needs. This leads to older people, their families and carers facing difficult decisions at time when they are in need of support. Individuals who are income poor with housing wealth who may live long in need for care would deplete their assets.
- **Missed economic productivity:** Informal carers often reduce work hours, or leave employment entirely, representing lost economic productivity and reduced tax contributions.

#### **The likely impact of reforms**

Reforming the social care system would likely lead to increased demand for skilled care professionals, creating numerous job opportunities and contributing to economic growth. This expansion of the workforce would not only strengthen the care sector but also provide stable employment in communities across the country.

By reducing the burden on informal carers, reforms would allow more individuals to remain economically active. This could lead to increased tax revenues and a reduction in dependence on state benefits, further bolstering the economy while enhancing the well-being of carers.

Reformed social care services could also stabilise local economies, particularly in areas where the care sector plays a significant role. Strengthening these services would help communities thrive and create a more sustainable foundation for economic resilience.

A robust social care system would alleviate pressure on the NHS by addressing care needs more effectively at the community level. This could free up valuable NHS resources for other priorities, improving the efficiency and effectiveness of the broader healthcare system.

Investing in social care reforms today would help mitigate the future costs associated with demographic ageing and escalating care needs. By acting now, the system could be better equipped to manage these challenges, creating a more sustainable and equitable model for the years ahead.

**Q6 To what extent are the costs of inaction on adult social care reform considered by the Government when evaluating policies, including within the Budget and Spending Reviews? How should these costs be assessed and evaluated?**

The costs of inaction on adult social care reform appear to be underconsidered by the Government when evaluating policies, budgets, and spending reviews. Evidence suggests that, while there is recognition of the pressures on the system, this recognition often translates into short-term funding interventions rather than a comprehensive evaluation of long-term impacts (The Actuary April 2023 and IFoA adult social care roundtable July 2024).

To fully understand the implications of inaction and inform better decision-making, the Government should:

- Adopt a more holistic and structured approach to cost evaluation.
- Develop models comparing the financial, social, and economic outcomes of inaction versus reform over a 5, 10, and 20-year horizon.
- Account for demographic changes, including an ageing population and increased demand for services, including changes in healthy life expectancy and the time spent in later life with medical and care needs.
- Incorporate input from stakeholders, including care providers, service users, actuaries and community organisations, to ensure a comprehensive view.
- Publish the methodologies and assumptions used in these evaluations to foster public and stakeholder confidence.
- Consider the sustainability of the existing pay-as-you-go funding model.

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