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Personal Care Savings Bonds

13 June 2013

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Welcome

Baroness Sally Greengross

Chief Executive
ILC-UK

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Personal Care Savings Bonds
- a new way of saving towards social care in later life

Professor Les Mayhew
Cass Business School
Faculty of Actuarial Science and Insurance

Why we should encourage personal saving

- An ageing population is a long term issue – there are no quick financial fixes
- Many previous attempts at reform have failed so no easy answers
- Latest reforms are welcome but do not of themselves bring in new money
- But they do seek to create a ‘space’ in which to encourage financial services to play a major role

Why else should we be concerned ……the demographics?

- The modal age of death is now 89 years, 10 more than in 1950; this will rise to 93 years by 2030 for both genders
- ONS estimates the population aged 75+ will double from 5m to 11m by 2050 and the number aged 85+ will go from 1.5m to over 5m
- The years spent in disability at the end of life is increasing with obvious financial and other consequences

Why personal care savings bonds?

- Most financial products are aimed at people with housing wealth, large personal savings or occupational pensions
- Generally it is assumed that poorer people will automatically fall back on to the state and have no incentive to save for their care
- The state shows no desire to fund all social care needs, only to provide a ‘safety net’
- A safety net is not a recipe for improving quality of care but simply one for ‘coping’

How would PCSBs work?

- Each bond has a nominal value of £1 and is entered into a monthly prize draw. Both the prize element and accumulated value are tax free
- Bonds will be normally be purchased out of taxed income, similar to Premium Bonds and lottery tickets
- They could be bought over the internet, by standing order, and from local post offices and shops

How would PCSBs work?

- Cash can only be withdrawn on being assessed as needing social care or on death
- If they die first, the value of the fund would transfer to the person's estate
- Fund values on death could be used to pay for funeral costs replacing some public expenditure out of the Social Fund
- Encashed bonds could be used in different ways by investors assuming a social care need is triggered and the fund redeemed

Setting the payment trigger

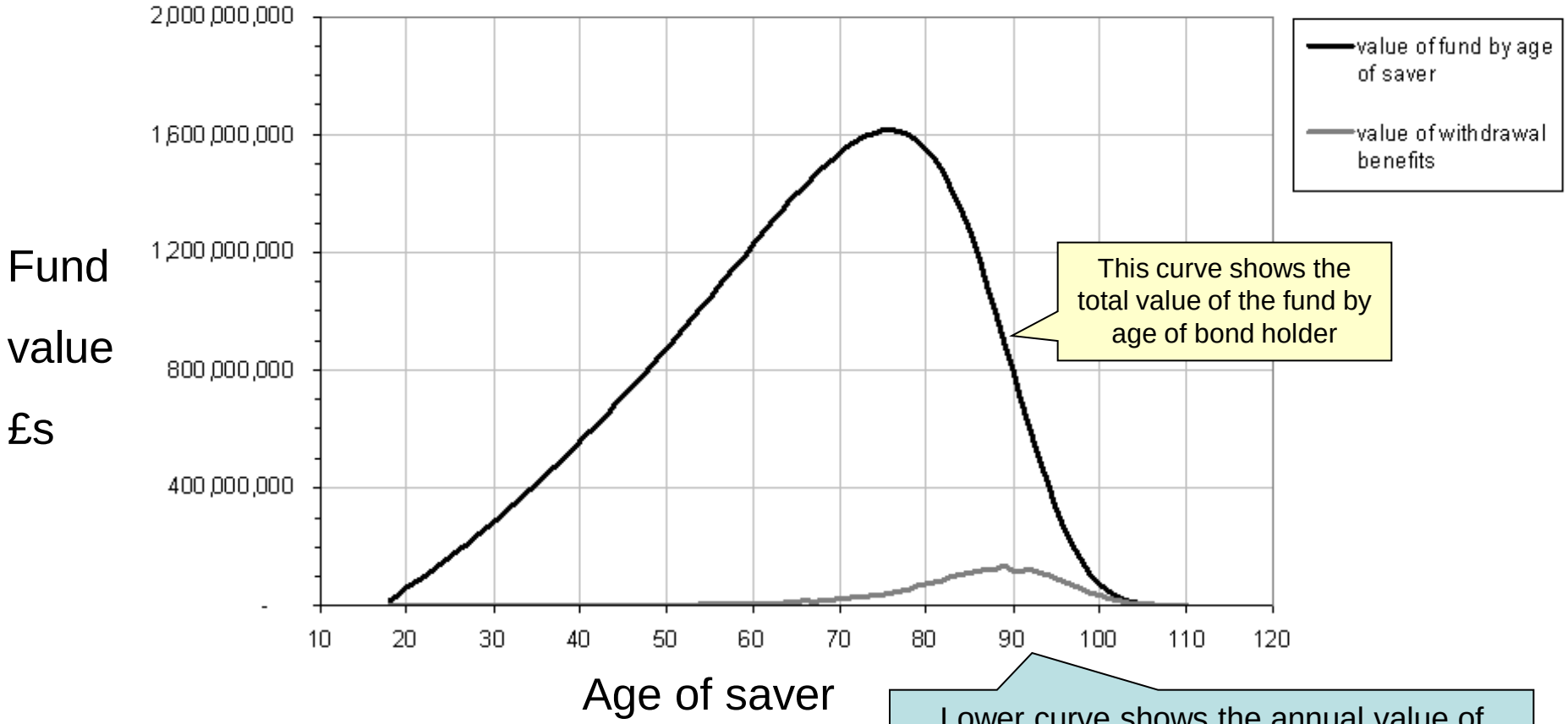
- Currently the assessment is made under the FAC's system which has four levels
- We are promised a new national assessment system which is fair and portable
- It may be possible to link to a different trigger such as entitlement to Attendance Allowance

Illustrative example

Variable	Parameters
Real investment return	3% p.a.
Equivalent rate of interest for prize pool	1% p.a.
Interest for investment return	2% p.a.
Assumed bonds bought per person per year	£100
Take up	25%
% of people who need care	20%

If 12m people purchased £100 worth of bonds on average each year the fund would grow in value to around £70bn after 70 years. This compares with the £43bn value of premium bonds which were introduced in 1956 and have remained popular ever since. If bond-holders re-invested the prize money the fund would be much bigger.

Chart showing the value of the fund by age



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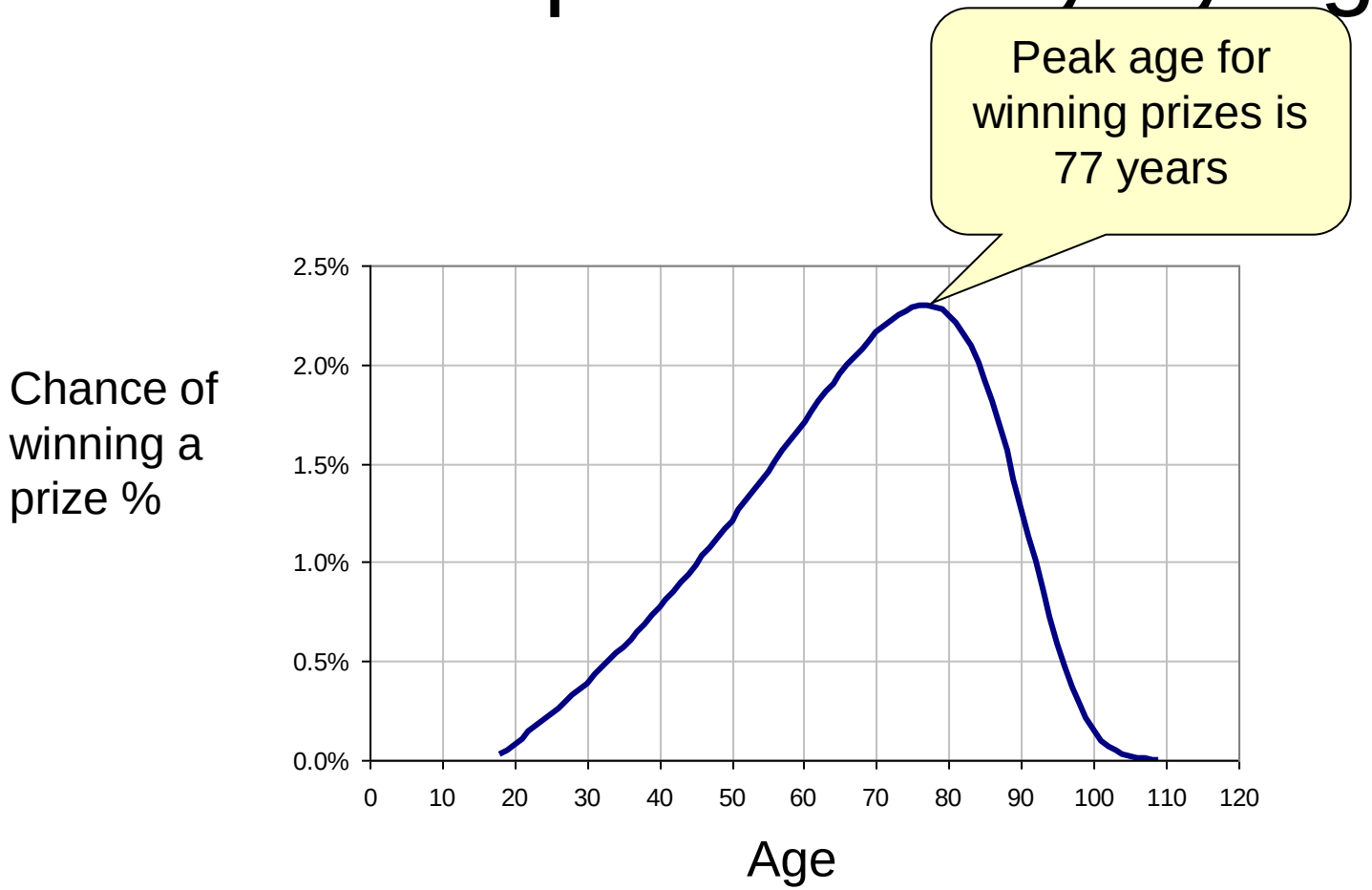
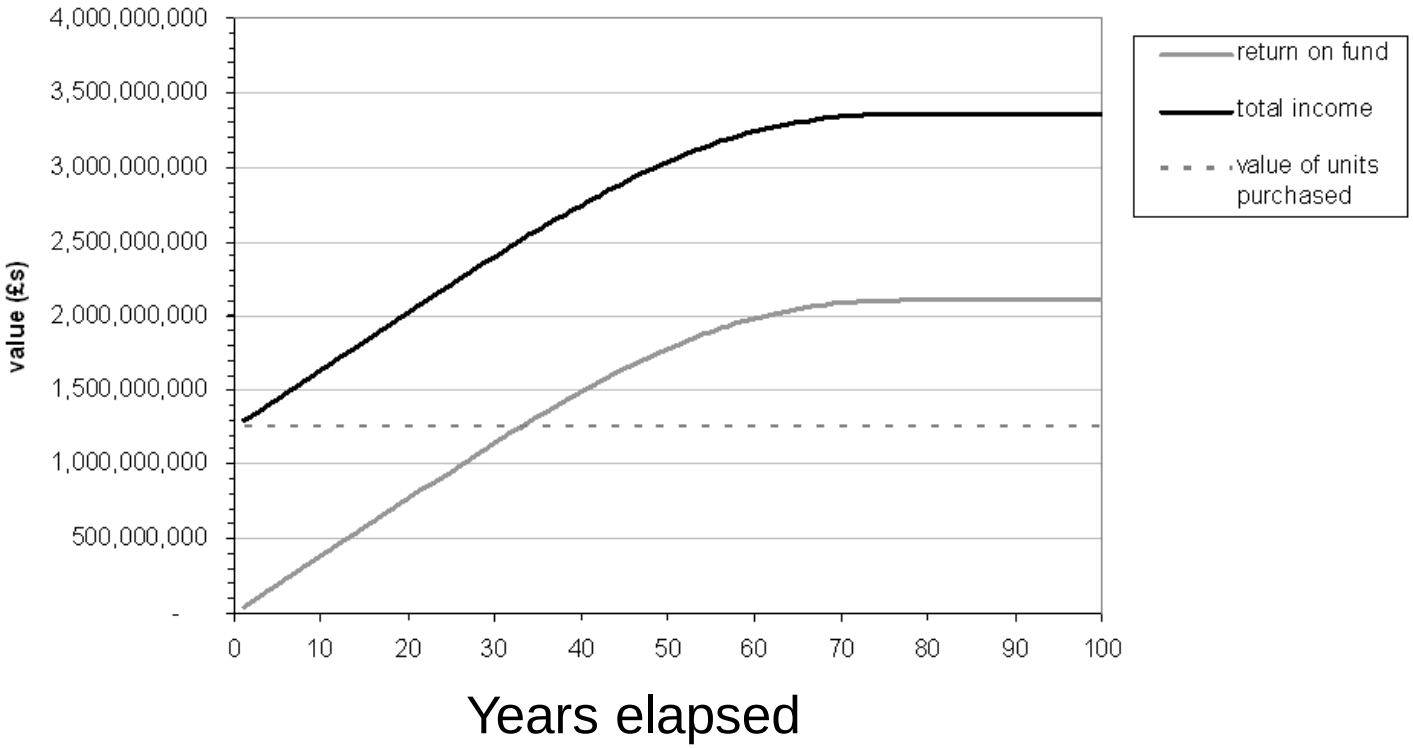
Distribution of prize money by age



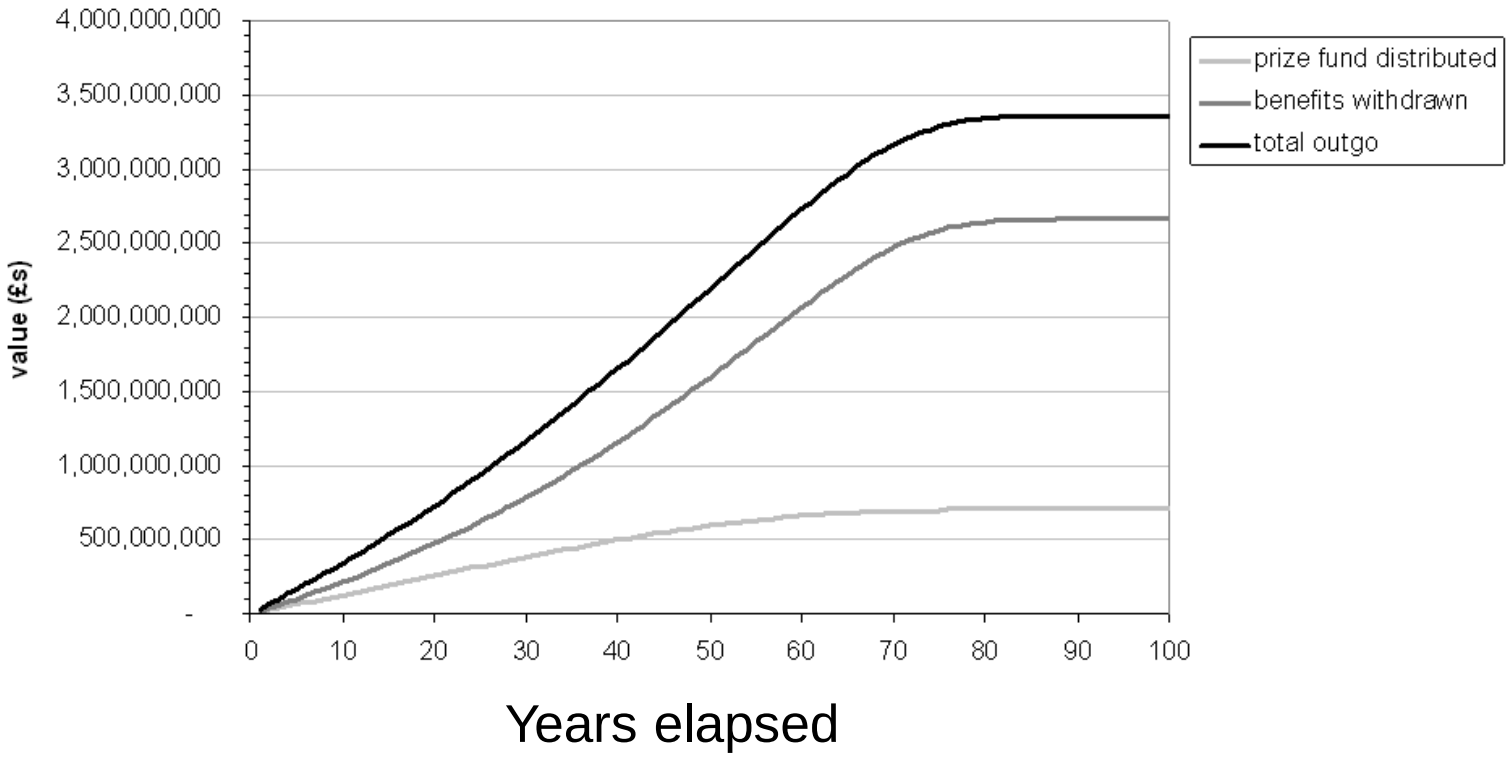
There are different options for structuring prizes the total value of which will be around £700m a year – this compares with a similar amount paid out on premium bonds. As structured here a 90-year old would be 162 times more likely than someone just starting out if they keep saving.

The build up phase of the fund



The charts shows the build up of the fund which consists of two elements - the return on the fund and new deposits. Fund income exceeds £3bn after 50 years and reaches maturity after 70 years.

Outgo



Outgo consists of withdrawals on needing care or upon death and prize money. Again the fund takes time to reach full maturity but will deliver £2bn a year in prizes and benefits after 45 years and nearly £3.5bn a year after 70 years.

Inflation

- The purchasing power of the pound goes down with inflation
- Protection is maintained by offering long run rates of interest that are above inflation
- However, there are advantages in keeping the nominal value of a PCSB at £1
- This does not appear to have affected the popularity premium bonds which are still valued at a pound

Means testing

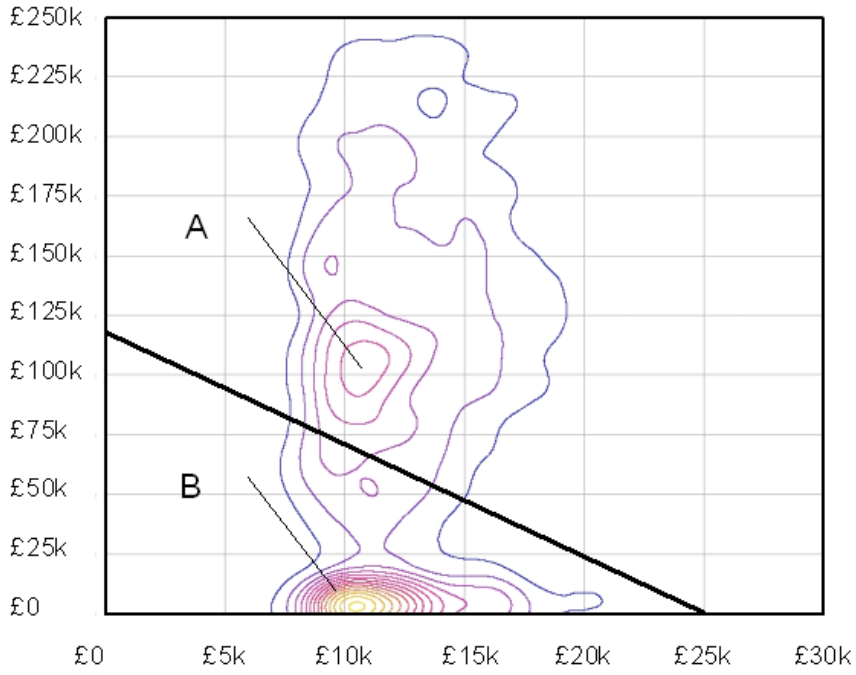
- Important that the product is simple and easy to understand
- Understandable concern if it is believed the money will be clawed back by means testing
- If treated as an asset for example the imputed value of the fund could be reduced by as much as £2,080 based on a fund of £10k

Who will buy care bonds?

- Any adult can buy PCSBs but they are designed for people on modest incomes and assets
- They are likely to include people that fall squarely in the means testing zone
- They could include carers, economically inactive, disabled and so on
- PCSBs could be gifted as with premium bonds to parents, friends and others
- Depending on how structured they could be also bought by wealthier people

Contour map of wealth in Britain today

Assets £s



Annual income (£000s)

This chart is an asset-income map of the 65+ population. Contours show that wealth is widespread but that there are two main concentrations of people: A and B. The solid line shows the boundary of the proposed means test threshold,

Key:

A: Modal income of around £12k and assets of £100k consisting mainly of housing wealth

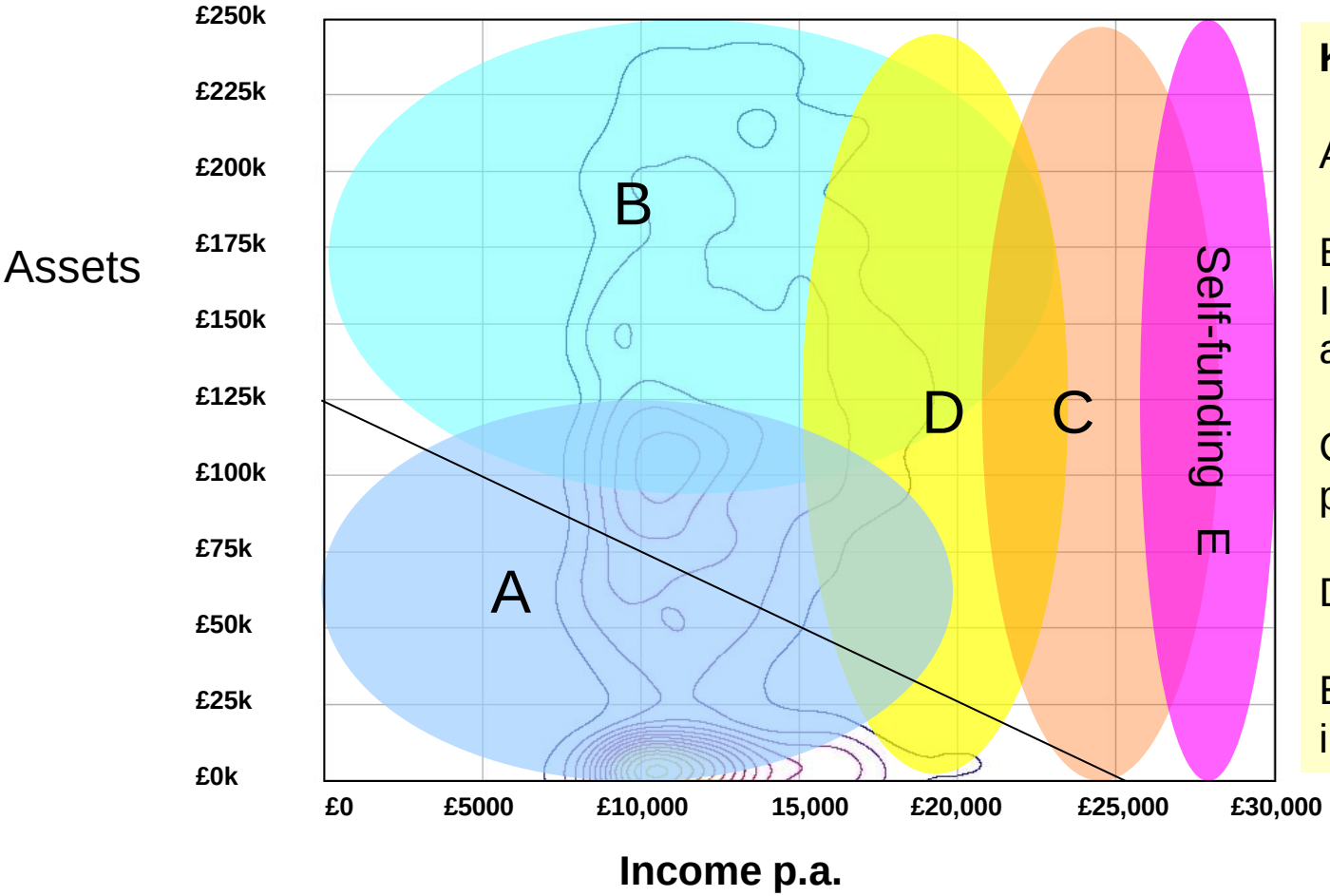
B: Modal income of around £10k with no housing wealth and only modest savings

Potential impact on competing LTC and other related products

- Administration costs of PCSBs are likely to be very low which will make them very competitive
- The lottery is not a competitor because it appeals for different reasons and stakes are forfeited
- Insurance is not a competitor as it is likely to be too expensive for most
- Equity release is designed for home owners and INAs for people of high net worth at the point of need
- Purchases of Premium Bonds may be affected and there could be some switching depending on prize structure and interest rate

What is the market?

Income-wealth map and product penetration map



Key

A= PCSBs

B= Equity release or Immediate needs annuities

C= Disability linked pension annuities

D= Insurance products

E= Self fund from income

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Percentage of 65+ population that could afford care from own assets and income

% people 65+ by band	Period
(i) 19.8%	One year or less
(ii) 2.1%	One to two years
(iii) 2.2%	Two to three years
(iv) 2.8%	Three to four years
(v) 3.1%	Four to five years
(vi) 69.9% (>5years)	More than five years

Bands (i) to (v) likely to qualify for state support ~ 31% of this age group would be in the core market or about 3.4m people rising to 5m by 2050. and 7m by 2060. Remainder would be aged under 65.

Adding another ‘tier’

Some suggestions

- Higher rates of interest for accounts with funds over a certain level
- Inheritance tax relief on amounts up to the care cap
- Possible links to wider scheme offering care fee reductions in participating care homes
- Buy ‘ten get one free’
- Bonuses for long term direct debit

Summary

- Affordable, simple, safe and secure for all
- Addresses the long term demographics
- Pays prizes as well as interest
- Money available at point of need
- Financial return increases with age of depositor
- Unused money goes into estate or pays for funerals
- Widely available on-line, post offices and other outlets
- Administratively cheap
- Tax efficient (preferred)
- Not means tested (preferred)
- Track record exists (e.g. premium bonds)
- Brings much new money into the social care system
- Good fit with personal budgets
- Market potentially counted in millions

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Discussion and Q&A

- If not PCSBs then what?
- How to make PCSBs bigger, better, sooner?
- Should PCSBs be exempt from means testing?
- Views on possible incentives to attract wealthier investors
- Views on methods of purchase
- Balance between interest rate and prize fund
- Practical issues (e.g. who should run it?)
- Next steps

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