Summary

- The Council welcomes the opportunity to respond to this Health Select Committee inquiry on the Impact of the Comprehensive Spending Review on health and social care. The overall message the Equity Release Council would like to convey in relation to this consultation is the need to be clear on the role of local authorities in ensuring people are able to access independent advice, including regulated financial advice where appropriate when making decisions about how best to fund their social care needs. We believe that people should also be made aware of the potential role that equity release could play in funding social care needs for self-funders.

- We also welcome efforts to reform and improve health and social care services, particularly giving local authorities greater powers to raise funds to be spent exclusively on adult social care and an improved Social Care Fund. However, we are concerned that devolving health and social care services could lead to regional imbalances in the quality of care provided and fails to reflect the potential influence equity release could have on driving down the cost of funding long-term care.

About the Equity Release Council

1. The Equity Release Council is the industry body for the equity release sector. Built on the legacy of SHIP and celebrating its 25th anniversary this year, The Council represents over 400 members; namely, providers, qualified financial advisers, solicitors, surveyors, intermediaries and other industry professionals - each committed to The Council’s Statement of Principles that aims to ensure consumer protections and safeguards. In addition, the Equity Release Council works to boost consumer knowledge and increase awareness of equity release as a solution to financial challenges facing people over the age of 55 across the UK.

The role of equity release

2. Almost 80% of people aged 65-74 own their own homes. Estimates for the total level of equity in older people’s housing are as high as £1.4 trillion [source?]. This is a potentially vital source of funding for those who must pay for all or some of their care needs for the services that can make life easier for older people.

3. By using an equity release product, a home owner can release wealth tied up in their homes, which can then be used for a range of domiciliary care purposes including making necessary modifications to their property or purchasing social care or assistance around the home if they do not meet the necessary criteria for local authority support. This may enable many more people to live safely and comfortably in their own homes for longer and ensure those people do not have to prematurely go into residential care.

4. Our response will specifically address the following terms of reference:
Social care funding, including implications for quality and access to services, provider exit, funding mechanisms, increasing costs and the Care Act provisions;

Quality and access in health and social care including the cost and implications of new policy objectives such as 7 day services;

The rising costs of health and social care

5. In 2014 the Care Act received Royal Assent, introducing new methods to pay for care, particularly Deferred Payment Arrangements (DPAs), which would allow people to contribute towards the cost of their care. The Act set a £72,000 cap on the amount any individual would contribute to their care over their lifetime. However, the cap’s implementation was subsequently delayed from 2016 to 2020, leaving many people unsure of what they must pay for their social care needs, and continuing to face significant bills for the cost of their care.

6. Once the cap is introduced it is proposed that the capital limit for means-tested care costs will be set at £118,000, which it is hoped will enable more people to stay in their homes. However this figure only covers direct and not associated costs. Research from the Institute and Faculty of Actuaries suggests that just 8% of men and 15% of women only will have the opportunity to benefit from the cap.

7. Concurrently, the price of health and social care is rising. According to research conducted by The Council almost a third (32% ) of over-55s believe they will need long-term care later in life, while 38% believe that they would be unable to pay for it. Meanwhile 24% believe that their retirement income will cover all or most of the cost, but in reality the number of financially prepared people may be considerably fewer. The average cost of residential care, for example, is £28,367 per annum. However, when polled, over-55s estimated that the cost of residential care was just £16,027 - a £12,340, or 44%, shortfall. This gap illustrates a lack of understanding as to the actual costs of care.

8. The creation of a social care precept to give local authorities who are responsible for social care the ability to raise new funds will provide additional funding, but with the National Living Wage due to come into effect in April, 2016, efforts to increase funding need to be developed further. The precept will, according to Government estimates, raise by nearly £2 billion per year by 2019-2020, while from 2017, the Spending Review will make available further funds for local government to be included in an improved Better Care Fund. Nevertheless, this is not likely to make up the whole cost of care, or have a great impact on those self-funders who must pay for all or some of their care needs due to the fact that they have assets (which may include their home) above the £23,250 threshold.

9. However, even with these increases it is likely that there will continue to be considerable pressure on social care budgets.

10. Age UK’s recent Care in Crisis report showed that the number of people aged 65 and over grew by over one million between 2005/6 and 2012/13, with the number of people aged 85, and over rising by 30%. At the same time, estimates for the total level of equity in older people’s housing are as high as £1.4 trillion.
11. Equity release could play a significant role in funding care, particularly for those who need support within their own homes (equity release policies generally come to an end once people die or move into long-term residential care) but either are categorised as self-funders or fall below the needs criteria above which local authorities will provide support. We believe that there is a need for better coordination across government, and in particular for government departments to champion equity release and recognise its potential as an additional source of funding for social care later in life for self-funders.

12. One area where equity release could play a particular role is in funding vital home adaptions. Research carried out by The Council in 2014 revealed that seven out of ten homeowners aged 65+ want to stay in their current home during retirement, but just over a third (36%) believe they will be able to do so without making adaptions. These figures suggest that at least 2.8 million people are living in homes that require new investment to make them practical for later life. This may enable many more people to live safely and comfortably in their own homes for longer and ensure those people do not have to prematurely go into residential care.

13. However, given 6% of over-65s have no savings and some 20% have less than £10,000, many people would struggle to pay for adaptions to their homes. In this instance equity release can act as an important source of finance, enabling home owners to make necessary improvements.

Advice

14. We welcome the fact that local authorities are required to signpost people to regulated financial advice when considering taking out DPAs, but we do have some concerns that not all people will take up this advice. In our previous engagement on this topic, we have stressed the importance of ensuring that people take regulated financial advice independent of the local authority offering the payment. DPAs are complex financial arrangements with long-term consequences, which could impact a person’s financial position if the whole picture (current and future) of a person’s finances is not evaluated.

15. We would note that the previous Government had recognised the need for measures to raise consumer awareness of and demand for products to help meet care funding costs. This was formalised in an agreement with the insurance industry that would see a government-led awareness campaign to dovetail with the work of local authorities and help people understand their options for paying for care. For its part, the industry committed to develop new products to help people pay for care. Though the insurance industry has brought innovation and new products to market in this area, there has been no progress towards the promised campaign nor any alternative measures to grow awareness and stimulate demand.

16. The need for a campaign to raise awareness in this regard is clear. A YouGov survey of 2,000 UK adults commissioned by Just Retirement in December 2013 found nearly one third (32%) believed councils pay most of the cost of care, with individuals topping up the rest, while 40% thought individuals paid most with councils topping up the remainder. Only 12% thought the individual pays the entire cost. The survey also asked whether people would seek professional advice. When asked where individuals would go for information or advice on how best to pay for professional care, one in five (20%) chose their local council, a similar number (21%) chose a
Citizens Advice Bureau and almost a fifth (18%) said they would go to the NHS. When survey participants were told about their likely personal liability for future care costs, almost two thirds (63%) recognised the need for professional financial advice – demonstrating the need for an awareness campaign that clarifies the likely cost liabilities as well as directing consumers to sources of advice and information.

17. As the need for such a campaign remains - regardless of the Government's decision to delay the care cap, and indeed still more so because of it - the Council would welcome an update on plans to address this crucial gap.

Recommendations:

- We believe the Government must give greater consideration as to how equity release can be utilised to help people pay for home care – providing financial resources which can help people retain ownership of their home, and stay living in it for longer;

- Government, local authorities and other stakeholders should ensure that there are clear pathways for local authorities to use to help people who are seeking support on financing care services understand when they should access regulated financial advice, and how they should go about doing so.

22 January 2016