USING HOUSING WEALTH to FUND LONG TERM CARE

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Overview

- Institute and Faculty of Actuaries research
- Dilnot Commission recommendations
- Home equity and equity release
- No Negative Equity Guarantee (NNEG)
- GAVI Alliance and IFFIm
- PPP proposal
- The swap
- Conclusions and further research

Institute and Faculty of Actuaries (IFoA) Research

- Responding to the Dilnot Commission: Information Gathering Regarding Long Term Care in Ten Countries
- Norway – comprehensive system financed by state from taxation
- Germany – compulsory funded national insurance system to deliver universal care
- England – NHS pays for medically necessary expenses but self-funding of care costs, with limits (means-tested support to £23,250)

Certain Dilnot Commission Recommendations

- Lifetime contribution to adult social care costs, between £25,000 to £50,000
- Continue means-tested support for residential care but raise threshold to £100,000 (before support eliminated)
- Annual limit on general living costs, between £7,000 to £10,000
- There were many other recommendations but these are the ones relevant to this paper

Home Equity in UK: British Household Panel Survey 2005 Data

- 80% of household reference persons (HRP) 55 and over live in an owned home
- 65% of HRP 75 and over live in owned home
- Mean illiquid assets for HRP 55 and over exceeded £150,000
- Mean illiquid assets for HRP 75 and over exceeded £100,000
- Most illiquid assets are in property

Home Equity Release Products in the UK

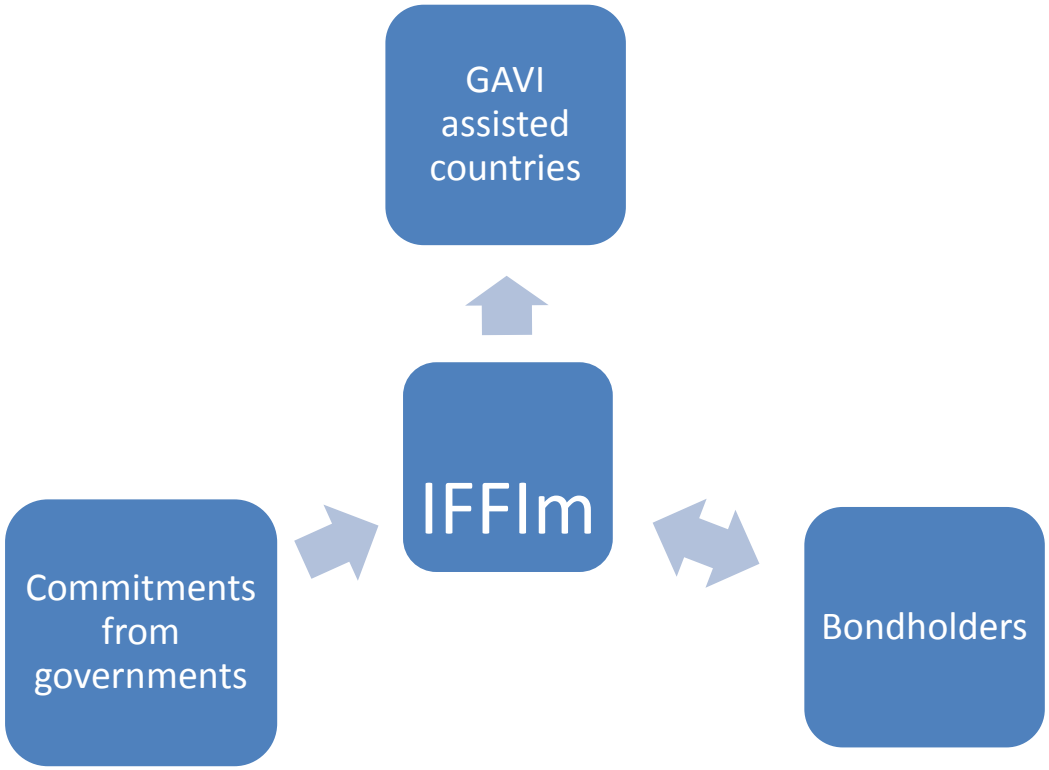
- Lifetime mortgage
- Home reversion
- Sale and leaseback – not regulated by the Financial Services Authority and not subject to Safe Home Income Plan (SHIP)
- SHIP requires members to provide NNEG
- Take up has been low

IFoA Research Regarding NNEG Pricing

Valuation Assumptions	Range (based on initial loan)
0% forward rate with 11% volatility	20%-45%
1.5% forward rate with 11% volatility	12%-29%
1.5% forward rate with 14% volatility	14.6%-32.7%
1.5% forward rate with 17% volatility	17.1%-36.2%
Real world assumptions	1.8%-4.1%

- Suggest real world assumptions of 4.5% inflation with 4.75% discount rate

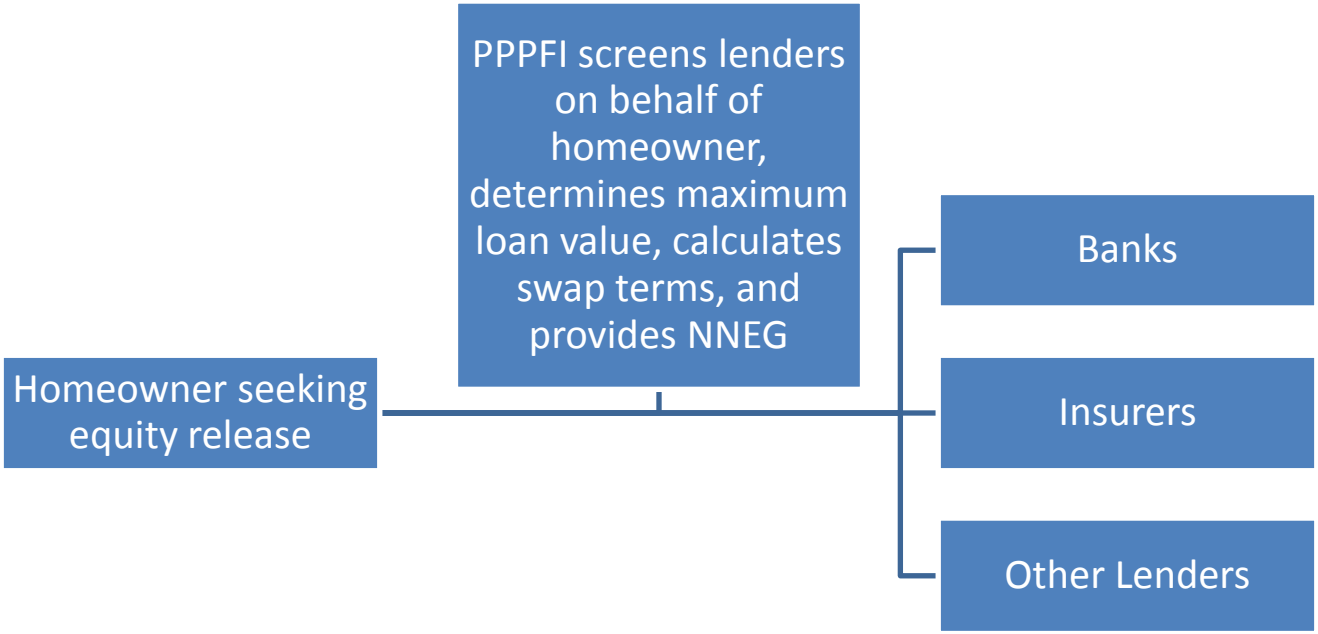
GAVI Alliance and the International Finance Facility for Immunisation



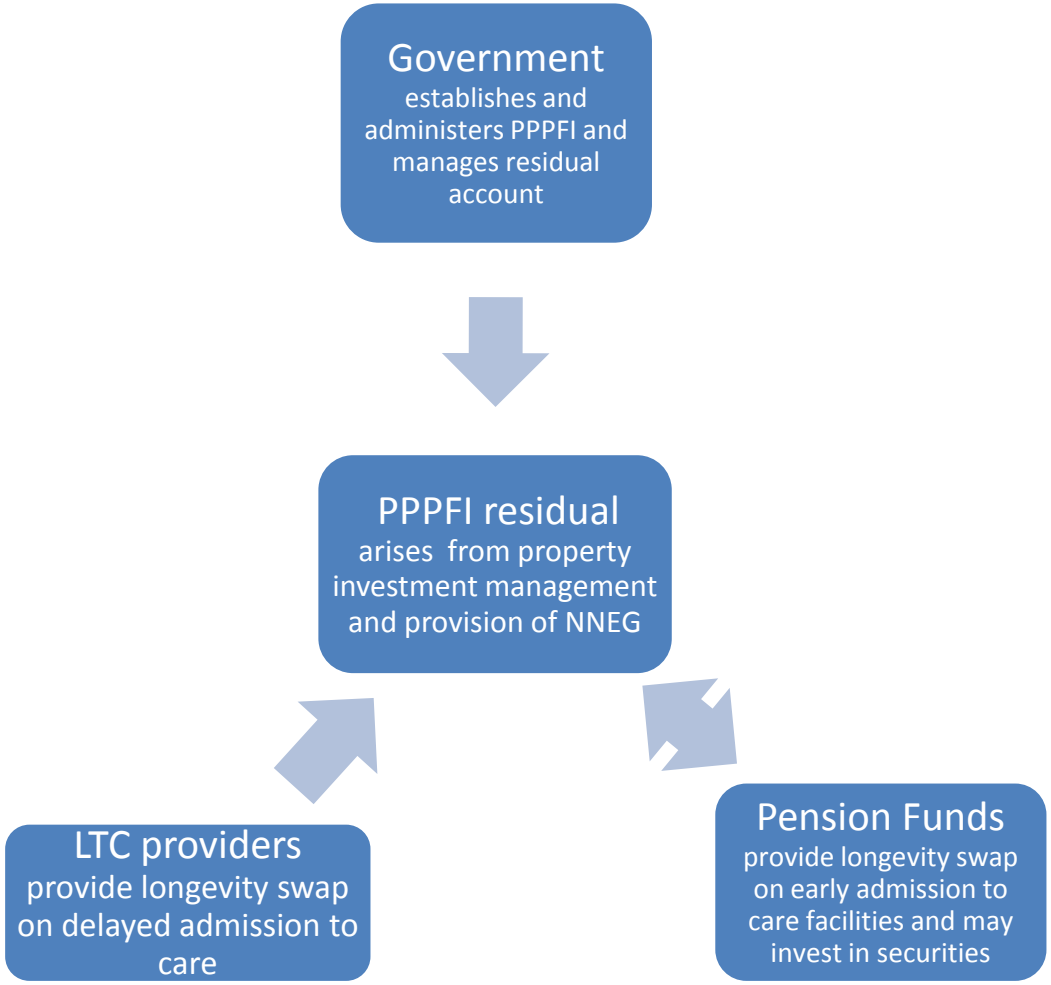
Context of the Proposal

- Home owners requiring care would like to have immediate access to their equity without selling the home
- They would like a more attractively priced home equity release product
- NNEG is priced conservatively

Role of PPPFI in Arranging Home Equity Loans



PPPFI Residual Swap Commitment and Securitisation



Assessment of the Proposal - 1

- Dilnot recommendations should reduce variability of care expenditures, facilitating NNEG pricing
- PPPFI (not private sector) more appropriate NNEG provider
- New security created – attractive for long term investors
- Might be considered a socially responsible investment and priced accordingly
- May add to social housing stock

Assessment of the Proposal - 2

- Swap is an approximate not a perfect hedge
- Pension funds pay when care home entry is sooner than expected (balancing longevity)
- LTC providers pay when care home entry is delayed ("squaring the morbidity curve")
- Paper provides sensitivity analysis – but NNEG risk greatly reduced when loan structured as advance plus income and priced as house price inflation plus fixed spread

Further Research

- Government action with respect to Dilnot Commission still not known
- Better data required to price NNEG accurately
- Securitisations and swap pricing
- Impact of creation of PPPFI on markets, including market for social housing
- Extension or adaptation of proposal for other countries

Conclusions

- Dilnot recommendations , if adopted, would limit exposure for self-funding of care costs
- Home-equity release plans appear expensive, largely due to NNEG
- PPPFI more appropriate than private sector entity to bear the NNEG risk
- A number of socially desirable benefits will be produced (more competitive markets, new securities, better NNEG pricing, more social housing)