

The Care Fees Planning Guide

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Informed Choice
Independent Financial Advice

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About the author

Sandy Lowth is a very experienced Chartered Financial Planner and has been an IFA since 1995.

She is an Associate of the Personal Finance Society (APFS) and an Associate of the Institute of Financial Planning (AIFP) by examination. Sandy is one of a small number of Certified Financial Planner professionals in the UK.



Sandy holds the Advanced Financial Planning Certificate including the modules G80 and CF8 (Long Term Care) and ER1 (Equity Release).

Her main focus is working with clients with capital to invest for growth or income, who require not only initial advice but an ongoing review service. Sandy is a care fees planning specialist and is registered with Legal Support Services who provide legal and technical support on all aspects of advising older clients.

About Informed Choice

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Who should read this guide?

You should read this guide if...

- You are concerned that you will be unable to afford proper care in your old age
- You can afford to pay for care but would rather use your capital in other ways
- You would prefer your capital to remain in your family when you die
- You have parents or family members who fall into either of the above categories
- You are a trustee and you need to consider the implications of the Trustee Act 2000

Our aim in writing this guide was to explain long term care, how funding for the cost of care fees can be arranged and what that funding might cost. This guide is intended as an invitation to discuss long term care and care fees planning further.

Please note that the various figures described in this guide relate to the situation in England only. The rules, allowances and rates for Wales, Scotland and Northern Ireland may differ.

Introduction

Many of us are looking forward to a long and healthy retirement, but statistics show that 1 in 3 women and 1 in 5 men over the age of 65 will require some form of residential care.

People can now expect to live at least 20 to 30 years beyond their chosen retirement date. The longer we live, the more likely it is we will need help or specialist care in our later years.

Traditionally it has been the family that has provided for the long term care needs of the elderly. Demographic changes and the hectic pace of today's life now often prevent close relatives from providing this support.

Furthermore, people are keen to retain their independence and not to burden their children with their problems.

The 1993 Community Care Act made local authorities responsible for funding long term care. As a result, long term care is now needs and means tested. Those with assets in excess of £23,250 have to pay their own costs, which average £664 per week or £34,528 per year¹.

In reality, 60% of those in care have to pay their own costs; spending valuable capital that might have provided them with some of life's luxuries or would have been passed on to the next generation. It has been estimated that nearly 70,000 homes have to be sold each and every year to pay for long term care².

Three key requirements spring to mind following discussions with clients when planning for their long term care:

- Independence
- Dignity
- Peace of mind

And then the obvious question...how much is all this going to cost?!

¹ Laing & Buisson Care of the Elderly Mark Survey 2008

² Liberal Democrats, September 2001

You should seek professional independent financial advice if you are concerned about planning for the cost of long term care. A suitability qualified and experienced independent financial adviser will be able to explain to you all of the advantages and disadvantages of each of your options.

We do hope that you enjoy reading this guide and we hope that we can be of assistance to you in the future.

In this guide we hope that you will find the answers to some of the questions you have. If the answers are not in the guide then email us at hello@icl-ifa.co.uk and we will do our best to help you with your individual questions.

Background to Long Term Care

The need for long term care normally arises when a person becomes ill or mentally impaired, or suffers a disability, making them unable to perform activities of daily living, such as washing and dressing.

In the UK, families have tended to meet the majority of long term care costs but traditional values are changing.

Family units are becoming smaller. They tend to live further apart from each other and parents often do not wish to be a burden to their children. This means that people are now less dependent on family and friends, and have to consider help from other sources.

That could mean domiciliary or home help, residential care or care in a nursing home.

For just two hours help per day at home, the cost is likely to be in the region of £685 per month³. The average cost of care in a private nursing home is £664 per week or £34,528 per year⁴. The more expensive homes charge from £800 to £1,200 a week. It is clear, therefore, that it would not take long for even significant levels of assets to be spent, should the need for long term care persist.

The State is no longer able to provide for us from the cradle to the grave, and so most people have to contribute to the cost of their care or meet it in full.

In 1993 the Community Care Act divided the responsibility for providing medical care and long term care between the National Health Service (NHS) and the local authorities respectively. Each local authority has its own budget for care provision and is able to decide who qualifies for help.

Each year the government sets out a fee scale to outline the maximum level of help with fees for each type of care provided. Although the local authorities are not under any obligation to follow this scale, many do.

³ BNA, November 1999

⁴ Laing & Buisson Care of Elderly People Market Survey, 2008

What about State benefits?

An important State benefit for people receiving care is Attendance Allowance. This is a non-means tested and tax-free benefit which is payable to all individuals over 65 years old who have needed care for longer than six consecutive months. Care in this case is defined as help required with essential daily tasks.

There are two rates of Attendance Allowance - a lower rate for people needing help during either the day or night, or a higher rate for people who need help during both day and night. The lower rate is currently paid at £47.80 per week and the higher rate at £71.40 per week.

Nursing care contribution

If an individual is assessed as needing nursing care in a nursing home they can receive an additional nursing care allowance known as the Registered Nursing Care Contribution (RNCC). This is another non-means tested and tax-free benefit and in England it is paid at a rate of £108.70 per week.

A less common form of State benefit is Continuing Care which is an NHS contribution to the cost of care. Specific conditions must be met to qualify for Continuing Care, such as the individual being unstable or unpredictable and needing constant 24 hour care.

Some questions to ask yourself

- Who do you know that is receiving or giving care?
- What is the cost of their care?
- If you were to need care over a sustained period, could you afford it?
- Why have you saved during your life?
- How important is it to you to be able to pass wealth on to your family?
- How important is it to you that you have the ability and financial freedom to choose how you should be looked after in ill health?

Means testing

Unless people make their own arrangements for care, their local authority would apply a means test to determine the level of funding an individual can afford.

Anyone with savings of more than £23,250 (possibly including the value of their home) is expected to make their own arrangements and pay the full cost of their care.

People with assets of between £14,250 and £23,250 would receive some assistance after the local authority had taken account of all their income and 'tariff income' on savings. Tariff income assumes that each £250 of capital between £14,250 and £23,250 would provide £1 of income.

For people with assets of less than £14,250, the local authority would expect them to give up all income, except for £22.30 per week, which could be used to pay for luxuries. The local authority would then make up the difference between the income available and the fees required.

When taking account of assets, a local authority would include their home, cash, bank and building society accounts, National Savings, investments, stocks and shares, overseas property, trust property to which the individual is beneficially entitled, and business interests.

Where assets are jointly owned between husband and wife, their local authority would deem each spouse to own the assets equally. Husband and wife have a legal obligation to look after each other, and whilst a local authority cannot investigate the assets owned by a spouse not requiring care, they can ask that spouse to make a reasonable contribution to the cost of care.

If an individual fails to support their spouse, the local authority could bring proceedings in a Magistrates Court for a reasonable contribution to be determined.

It is only when the value of assets falls below £23,250 where the local authority has an obligation to assist. It is not generally realised that local authorities can and do take a charge on a person's property, to enable them to sell the property when the claimant dies to pay for the services they had provided for that person.

Over just a few years this charge could erode a claimant's assets quite significantly, leaving much less to pass on to their heirs.

The risk of losing the family home and wealth to fund for care in older age is far greater than the threat of inheritance tax (IHT), which is charged at 40% on assets in excess of the nil rate band of £325,000 on death. A local authority can take into account 100% of everything over £23,250 – and do so during a person's lifetime.

Some facts and figures

- Over 37% of people between 65 and 74 and 47% of those aged over 75 have a long standing illness that limits their daily activity
- In 1997 the average male life expectancy was 74.6 but average expectancy of life without limiting long-standing illness was only 66.9 years. For women, the average life expectancy was 79.6 years and without illness 68.7 years
- Each year about 100,000 people suffer a first stroke and of those 90,000 are over retirement age. At any time there are 300,000 people who have had a stroke which has left them with severe disability
- Of those aged over 80, 20% suffer from senile dementia
- Over 8 million people in the UK have arthritis
- One person in four will need long term care during their lives

In spite of these facts, less than one person in five expects to contribute to the cost of long term care in old age. Independent research commissioned by PPP Lifetime Care discovered that 50% of older women expect to need long term care in the future. In reality, over 60% of those currently in care have to meet their own costs. Currently 700,000 homes a year have to be sold to meet those costs.

For those concerned about maintaining their independence in old age and about preserving their wealth as an inheritance for their families, long term care planning should be a crucial part of their financial planning.

There are some basic steps that should be considered such as equalising assets between spouses, in addition to making long term care provision.

Property and Long Term Care

If you have total assets in excess of the upper capital limit (currently £23,250 in England) then, as we have explained earlier in this guide, you will be expected to fully fund the cost of your care, in most circumstances.

This capital limit includes the value of your property, so if you own a property in England you are very likely to have total assets in excess of the upper capital limit. Property ownership is one of the main reasons you will be expected to fully fund the cost of your own long term care.

The relevant local authority will look closely at past and present ownership of the property. If you have put your home into a trust or given your property to children, this could be viewed as a deliberate deprivation of assets. If this is decided to have been the case, the local authority will include the value of the property in their means testing anyway, regardless of current ownership.

There remain certain circumstances where the value of your property will be disregarded by the local authority, if someone else lives there. Some examples include your spouse or partner, a relative over age 60 or who is disabled. A disregard of a property is also available for a minor (under age 16) who is dependent on the person in care or a carer who has given up their own home to provide care.

If it is agreed that a property needs to be sold to fund care fees, the local authority can offer a twelve week disregard period that allows the family time to sell the property. Provided that assets fall below the upper capital limit during this disregard period, the local authority should pay care fees.

If the property remains unsold after twelve weeks, the local authority can continue to pay care fees under what is known as a deferred payment agreement. All monies loaned from the local authority under this deferred payment agreement have to be repaid when the property is sold or when the person needing care dies. It is important to keep this debt under review, as it can mount up quickly.

It is also important to understand that the local authority will only pay care fees up to their agreed limit. This may not cover the cost of care in a preferred home. They will also take into consideration all pension income received by the resident, apart from the personal expenses allowance of £22.30 per week.

Funding care fees with your property

It may be possible to fund the payment of care fees without resorting to the sale of your property.

If someone remains resident in the property, then equity release is an option to consider. Capital could be released to fund the care and the property retained. It is important to seek expert independent financial advice and legal advice when considering the equity release option, to ensure that you and your beneficiaries understand all of the risks involved.

It is also possible to rent out a property to provide a regular income to pay care fees. However, you will have to factor in the costs of maintaining the property and paying a letting agent whilst the property is let. There is also the risk of 'void' periods where you have no tenants and therefore no rental income.

Other schemes are also available, with the aim of enabling you to retain property ownership but release capital or income to pay care fees. Some immediate care plans may allow borrowing against the value of your property in order to purchase an immediate care annuity. You should seek independent financial advice from a care fees planning specialist if you are considering this option.

Asset deprivation

Local authorities will investigate whether assets or income have been given away, or sold at less than their market value, in order to qualify for a benefit.

If such a gift or sale is proven, an attempt will be made to recover them.

If assets are transferred within six months of needing care, the local authority has powers to recover these assets directly from the recipient or, they can count them as notional capital and treat them as if they had never been given away.

If assets were given away more than six months before needing care, they can still be regarded as notional capital depending on the motivation of the person who made the gift. At this stage, however, the local authority cannot go back to the recipient, but has a right to claim it from the donor. For assessment purpose the assets will still form part of that individual's capital.

However, if it can be demonstrated that the gift was made for other reasons such as inheritance tax planning, the capital gift or assignment should be disregarded.

To ensure that care can be provided without loss of independence and perhaps without a reduced standard of living, long term care provision can be made.

Long term care can be funded in a number of ways.

For those who are planning in advance, insurance is available which can be paid by regular premiums or a single lump sum payment. This is often the cheapest way but if a claim were not made there would be no return from the policy. In this respect it is just like a home or car insurance policy.

Alternatively, a lump sum investment can be made that would allow the capital to be used for other purposes should long term care not be required. If long term care were required, the capital could be used for that purpose. As the cost of long term care would probably be many more times than the amount invested, future care fees would have to be secured at a relatively low cost.

For those already in care or about to need care, immediate long term care plans are available. In exchange for a lump sum, an income stream for life can be purchased and this is calculated as the shortfall between the fees required and any pension or investment income already available.

Whilst this is more expensive than pre-funding for the cost of long term care, it would enable the care recipient to ring-fence the cost of care and perhaps ensure that there is capital left over for luxuries or to pass onto beneficiaries.

Some plans offer a facility whereby some of the capital outlay can be repaid on the care recipient's death.

Pre-funded long term care plans

Important note: This type of product is not currently available in the UK market, although it might become available again in the future. You should check with your independent financial adviser to confirm the availability of a pre-funded long term care plan.

These long term care plans would pay the agreed benefit on the policyholder being unable to carry out certain activities of daily living. The benefit could be paid directly to a nursing home or residential home, or to the plan holder to pay for a carer in their own home.

The activities of daily living (ADL's) include:

- Washing – being able to keep oneself clean
- Dressing – being able to dress oneself
- Feeding – being able to eat food that has been prepared
- Transferring – one's ability to transfer from a bed to a chair and vice versa
- Mobility – being able to move freely around ones home
- Continence – the ability to maintain personal hygiene
- Mental impairment – such as Alzheimer's

Payment of benefit could be triggered on the failure to be able to meet one, two or three of the above items. The failure of fewer ADL's would increase the cost of the long term care plan, because the benefits would become payable sooner and potentially for longer.

Benefit for Assistive Devices is also paid on the failure of an agreed number of ADL's.

Apart from the monetary benefits, the care plan would also give the care recipient and their family access to a care support service that would provide support and guidance through all of the issues surrounding their long term care needs.

Immediate long term care plans

Where immediate benefit is required because treatment is imminent or because a person is already in receipt of long term care, then the usual remedy is for that person (or their close family) to buy an immediate care fees annuity to cover the cost of long term care.

The benefit is usually paid directly to a residential or nursing home. Income payments can escalate each year to coincide with the care providers annual review date. Such plans ensure that fees can be met for the remainder of the annuitant's life, giving peace of mind all round.

Each case is assessed according to the condition of the care recipient, their life expectancy, the type of care and benefit required. For a relatively small additional cost, death benefit can also be included to ensure that there would be some return of capital should the annuitant die in the early years.

The cost of long term care provision

The cost of a long term care plan is dependent on a number of factors. These include:

- Your age
- Your state of health at the time the policy starts
- The amount of long term care provision required
- How soon the benefits need to be paid
- Whether level or escalating benefits are selected

The costs of these plans vary between the different providers and the only way to obtain an accurate quotation is to go through the underwriting process.

Whilst indicative quotations are available from the providers of immediate care plans, they tend to differ massively when compared to the final fully underwritten premium.

Do speak to us to start the underwriting process and determine the actual cost of an immediate care plan based on your personal circumstances and objectives.

Alternative options

Care fees plans are not the only way to meet the cost of care fees.

When working with clients in this advice area we always consider the full range of options and these will include using savings to pay for care fees or investing capital with the aim of generating sufficient income to pay the fees.

Savings

Using existing savings to pay for care fees is the simplest and lowest risk option to consider outside of an immediate care plan.

The main risk associated with this option is that the money will eventually run out. This can result in the person requiring care having to move to a poorer quality care home in the future.

In this current low-interest rate environment the return from cash savings is potentially unattractive for many and lower interest rates accelerate the erosion of capital.

As part of the care fees planning reports we construct for clients, we have built a model to illustrate how long cash savings are likely to last and this can then be discussed in the context of likely life expectancy and what would happen if funds ran out.

Investments

Investing capital to generate income to pay care fees involves exposing money to a higher degree of risk in the hope of achieving greater returns and making the capital last for longer. A popular investment option for care fees planning is the insurance Investment Bond which enables tax-deferred capital withdrawals to be made instead of taxable income.

What is important is for all of the options to be considered in light of the individual circumstances and objectives. No two people are the same and therefore no single care fees planning solution is always suitable.

Lasting power of attorney

When considering care fees planning, an important first step is to think about putting in place a Lasting Power of Attorney (LPA). These were introduced in October 2007 as a replacement for the Enduring Power of Attorney (EPA).

There are two types of LPA to consider – the Personal Welfare LPA and the Property and Affairs LPA. Both are important, but it is the latter which enables your nominated Attorney to make decisions on your behalf regarding your financial matters.

A Lasting Power of Attorney has a wider scope than the old Enduring Power of Attorney. Whilst it is an important legal measure to consider, it can have serious ramifications.

You should seek professional legal advice from a competent solicitor on this subject. Do let us know if you would like us to introduce you to one of our professional connections who will be able to assist you.

Summary

I hope you have found this guide helpful.

If you are considering the financial planning needs for somebody close to you entering care, we would love to hear from you.

Please call Sandy on 01737 222387, or alternatively you can speak to the Informed Choice head office team on 01483 274566 who will assist you with your initial enquiry.

In addition to work with clients throughout the UK, we also work closely with other IFA firms to provide specialist care fees planning advice to their clients and with solicitors who may have clients with care fees planning requirements.