

Q & A: Everything you need to know about paying for care in old age

Contents

Types of Care	[2]
Will I get help with my care fees?	[4]
How will the 'Care Cap' affect you?	[5-6]
How to pay for your care	[7-8]
Other questions to consider	[9]
Case studies	[10-12]



Introduction

As medical advances and healthier lifestyles lead to ever increasing life expectancy, more of us will find ourselves needing some form of care in later life.

Meeting the cost of this care can be extremely expensive. The average cost of residential care in the UK is estimated at £27,612 per year, rising to over £38,000 per year if nursing care is required, which costs an average of £15 per hour.

Excluding those people who are severely ill, the average time spent in care is four years. In fact, 1 in 8 people spend more than seven years in care.

It is therefore clear, that any prolonged period in care, for people who are self-funding, will get extremely expensive, with bills running into the hundreds of thousands of pounds not uncommon.

For some people, the State will help meet the cost of care and the Government is introducing a 'Care Cap' from April 2016, but many people will still end up paying significant sums from their own resources.

www.investmentsense.co.uk

Lace Market House, 54-56 High Pavement, Lace Market, Nottingham, NG1 1HW

01159 338 433

info@investmentsense.co.uk

Company Registration Number: 7050481

Registered in England and Wales

Registered office as above

Investment Sense Limited is an appointed representative of Sense Network Limited which is authorised and regulated by the Financial Conduct Authority

Without doubt, this time of life can be financially stressful for many people:

- Will there be enough money to pay for the type of care needed?
- Will the family home have to be sold?
- How will it reduce the amount of money you can leave to your loved ones?

These are just some of the questions we know people facing up to the thought of paying for care, will be worried about.

Whether you have not yet retired, have recently finished work, have been a pensioner for some time, or have parents who are facing the prospect of needing care, this guide will give you all the information you need, to make the right choices for you and your family.

Note

Where we have quoted costs these are based on the Laing and Buisson, Care of Elderly People, UK Market Survey, 2012/13.

Types of care

Depending on your requirements, there are a number of different types of care which could be applicable to you:

Care at home

Most people would prefer to stay in their own home and receive appropriate care for as long as possible.

Local authorities will try and support people staying in their home for as long as practically possible, but whilst this might cut down on the cost of residential care, nursing care can still be expensive.

Residential care

Residential care can be broken down into two separate categories:

- Personal care, where assistance is needed with tasks such as washing, dressing, feeding and getting around
- Nursing care, where the care needed requires more specialist attention from qualified nursing staff

Cost of care

Care at home

Whilst care delivered in your own home will undoubtedly be cheaper than residential care, the costs of nursing should not be underestimated. The actual cost will be down to a number of factors, including whether or not the care you receive is personal or domestic in nature and of course the number of hours of care you need.

The average cost of care in your own home is £15 per hour. Assuming care of two hours per day, seven days a week, you could be facing costs of £11,000 each year.

Live in care is even more expensive, starting at around £27,000 each year.

At the same time, don't forget the costs of running your home. Your mortgage might have been paid off many years ago, but you would still have to meet all your usual bills, from council tax to gas and electricity, food, to the cost of any repairs on your home, these all have to be paid for.

Residential care

As you would expect the cost of residential care is higher, than that of care in your own home. The amount you pay will vary according to which part of the country you live in and the type of care you need, but average fees in 2012/13 were:

- £27,612 per year for residential care
- Rising to £38,012 per year if nursing care is needed

Be careful of regional variations. The cost of care in the most expensive parts of the UK, such as London and the South-East, is well above the national average. Whereas in other areas, such as Northern Ireland and the North of England, the cost is likely to be lower.

Remember too, that care fees, like almost everything else, will rise each year. In fact over the past five years, fees have risen by an average of 3.5% each year; well above the rate of inflation.

Our website includes a [‘Care Fees Calculator’](#), which will show you how much you can expect to pay for your own personal circumstances. Click here to use the [‘Care Fees Calculator’](#) now.

Other costs

Just as you will have other costs to meet, if you are cared for in your own home, the same is true if you are in residential care.

If you are paying for your own care, you should check what is and isn’t included in your fees. But on top of nursing and residential costs, you should expect to have to budget for items such as:

- Clothing and toiletries
- Trips and holidays
- Presents for family
- Telephone calls

If the Local Authority is paying for your care, you will be allowed a Personal Expenses Allowance to pay for items such as these.

Care assessments

Irrespective of your care requirements and who will meet the cost, your Local Authority has to carry out an assessment of your needs. This is known as a Section 47 Care Assessment and will help to confirm your care requirements and the best way in which they can be met.

At what can be a difficult time, it make sense to have a family member or close friend with you for this assessment.

Average Weekly Residential Care Home Fees around the UK



Average Weekly Residential Nursing Home Fees around the UK



Will I get help with my care fees?

Whilst there is some help from the State, Local Authorities and the NHS, it is extremely limited and generally subject to means testing.

The main means test imposes upper and lower limits on the assets, including savings, investments, property, etc, you can have if you are to qualify for financial assistance.

Different limits apply to the countries which make up the UK:

Country	Lower limit	Upper limit
England	£14,250	£23,250
Scotland	£15,500	£25,250
Wales	£23,750	£23,750
Northern Ireland	£14,250	£23,250

So, what does this mean for you?

- If you have assets below the lower limit, the cost of your care will be met in full by your Local Authority. Although a contribution may be required from you, if you are in receipt of certain state benefits or receive other income
- For people with assets in excess of the upper limit, you will have to self-fund your care
- If you have assets between the upper and lower limits, you will have to contribute £1 per week, for every £250 in assets above the lower limit

What assets are included?

Means testing includes most assets held in your name, more specifically:

- Money held in bank and building society accounts, including National Savings & Investments (NS&I)
- ISAs (Individual Savings Accounts) as well as other types of investments such as Unit Trusts or OEICS
- Directly held shares, gilts and corporate bonds
- Income from pensions, including the State Pension
- Property, including your own home (although there are occasions when this will be excluded, see later in this guide) as well as buy to let investments and land

Assets held jointly, will usually be split equally, before being included in the means test.

There are some assets and types of income which are excluded from the means testing, these include:

- Value of life insurance policies
- Certain compensation payments held in trust
- Some investment bonds, which contain an element of life insurance
- Residential property, subject to certain exclusions
- War Widows payments
- The mobility component of the Disability Living Allowance (DLA)

It is also likely that your Local Authority will take a close look at your financial affairs, to ensure you have not deliberately deprived yourself of assets. For example, by making large gifts, or transferring an asset's ownership into someone else's name, just before you need care.

A word about your home

Most people's main fear, when it comes to paying for care costs, is that they will lose their home, or indeed have to sell it whilst their partner is still alive.

There are some occasions when your home is excluded from the means testing:

- If your spouse, partner or other financial dependent continues to live in the home
- If a relative who is over 60 and disabled continues to live in the property
- If a minor, under the age of 18, and dependent upon the person going into care, continues to live in the property
- When a carer gave up their own home to live at the property of the person now going into care; this is at the discretion of the Local Authority

Local Authorities are becoming increasingly strict, over when they will include your home in the means test calculation. Many are constantly on the lookout for occasions when they believe people have tried to gift away, or change the ownership, of their home, to deliberately reduce the value of their assets.

Some people believe there is a seven year rule, similar to that which applies to Inheritance Tax, after which time the Local Authority has no power. This is however a myth and there is no limit on the length of time that a Local Authority can look back into your affairs.

Other state help

There are a number of other smaller benefits and allowances available, these include:

- **Attendance Allowance** This benefit is available if you require help with very basic daily functions, such as bathing or eating. It is paid irrespective of whether you live at home or need residential care and is not means tested. There are two rates, the higher rate of £79.15 per week is paid if you need round the clock care, with the lower rate of £53 per week if you need part-time assistance
- **Registered Nursing Care Contribution** This benefit provides a contribution to your nursing care costs and is paid directly to the home where you live. The amount you qualify for depends on where you live in the UK
- **Personal Expenses Allowance** If you are having your fees paid for you, the Personal Expenses Allowance allows you to keep a small amount of your income, currently £23.90 per week (£24.50 in Wales), to spend on items for personal use

How will the 'Care Cap' affect you?

Many people fear that the cost of care could force them to sell their own home and mean they leave little or nothing on their death to their loved ones. In response to such fears the Government has announced a cap on care costs, to be set at £72,000.

But how does this work for you? Will it simply cap the costs you pay at £72,000? Will it stop you having to sell your home?

Need advice on paying for care?



Contact James today:

0115 933 8433

James.lee@investmentsense.co.uk

The reforms

There are three key parts to the reforms:

1. The introduction of a cap of £72,000 on eligible care costs, to be introduced in England from 2016. You should note this cap only applies to care costs and not the costs of accommodation in the care home
2. An increase in the means tested threshold from £23,250, in England, to £118,000 from April 2016
3. A deferred payment system, to be introduced from April 2015, which should stop you from having to sell your home during your lifetime to pay for the cost of care.

What do our clients say?

"A first class service from James. I was kept fully informed at all stages of the process."

"My wife and I were impressed by James Lee's professional yet personal attitude we appreciate his support and advice throughout."

How will the reforms affect you?

Despite the headlines, the cap of £72,000 doesn't simply mean your Local Authority will immediately start to pay your fees, once you have paid £72,000 towards the cost of your care.

The £72,000 cap only applies to the cost of care and crucially not to the amount you pay for accommodation in a care home. In other words, the cost of accommodation, food, heat and light, and other 'general living' costs are excluded from the £72,000 cap. Given average life expectancies for people in care it is highly likely many people's care bills will fall below the £72,000 overall cap.

In a further blow to those people calling for more fundamental reform, the cap only applies to the Local Authority rate of care costs, not what you are actually paying.

So, how does this work in practice?

The example below shows when a person funding their own care (ie. those with capital above £118,000 from 2016) could start to claim Local Authority help. As you can see, in practice this person would receive no help for a total of 297 weeks, equivalent to almost six years of care. Remember, you've only got a 1 in 8 chance of spending more than seven years in care



Who pays?	You
	Local Authority

	Weekly Cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Excess above the Local Authority Rate	£131	Despite the cap of £72,000 you will pay all actual care costs in excess of the Local Authority Rate										
Local Authority Rate less Living Costs	£242	You will pay your own care fees up to the cap of £72,000, in this example this means you will pay fees for the first 297 weeks of care						Your Local Authority only starts to pay for care after 297 weeks				
Living costs	£231	The cap of £72,000 only applies for care costs, you will therefore pay all your own living costs										
Total	£604											

The above is for illustrative purposes only and a 3% annual inflation rate has been applied to Local Authority and care costs, to arrive at assumed 2016 figures. This is broken down as follows:

- Care costs of £604 per week, which is the average cost of residential care in England and calculated from Laing & Buisson Care of Elderly People Market Survey 2012
- Average Local Authority procured cost for Residential Care in England: £473 per week. Source Laing & Buisson Annual Survey of UK Local Authority Baseline Fee Rates 2012/13.
- Living Costs (also known as Hotel Costs of £231 per week). As per Department of Health Policy Statement 11th February 2013, costs excluded from the cap
- Self-funder costs above the Local Authority rate of £131 per week, costs excluded from the the cap

In this example it is only Local Authority cost less Living Costs which count towards the cap, i.e. £473 - £231 = £242. So, the self-funder would need to fund 100% of their costs until the £72,000 cap is reached, which would take 297 weeks or 5.72 years at a total of £604 per week. Even after the cap has been reached they would still be liable for nearly 60% of their care costs.

How to pay for your care

How much will you need?

First things first, before you think about how you will pay for care, you need to calculate the cost.

Whilst the only way of doing this accurately is to get exact fees from the home of your choice, our Long Term Care Calculator will provide you with an estimate of the likely costs you are facing.

You can use the Calculator by visiting: <http://www.investmentsense.co.uk/long-term-care-fees-calculator>

If you have assets below the lower limit, the Local Authority will meet the cost of your care. However, if you have assets above the upper limit, it is clear, even with the £72,000 care cap, you could still be left with a hefty bill. Finally, if you have assets between the upper and lower limit, you may have to make a contribution towards the cost of your care.

If you have to pay for some, or all of your care, there are a number of options open to you.

The first thing to do is to calculate how much you will need to pay, next deduct any on-going income which you can use to help meet this cost, for example:

- [State Pensions](#)
- [Other pension income](#)
- [State benefits which will continue](#)

You will then be left with an annual bill, i.e. the costs not covered by your income. It is this amount you will need to fund from your other assets, notwithstanding of course any Local Authority or State assistance.

Seven ways to pay for your care

There are seven ways you could use to pay for your care. However, for most people, the answer lies in a combination of two or three options

Savings If you have savings, perhaps held in a tax-free Cash ISA (Individual Savings Account), you could use the interest you receive to help pay for the cost of your care. Whilst this option carries no risk to your capital, with interest rates currently being so low, you may prefer to consider alternative options which may pay a higher return.

Invest to produce an income One alternative to using the interest from savings accounts is to consider investing, perhaps in a portfolio of funds to match the level of risk you are prepared to take.

Income could be taken monthly, quarterly, or annually, to help pay the shortfall in your cost of care. But remember, whilst you would hope to make a better return on your investments than any savings you hold, your capital is at risk and the value could rise as well as fall.

Immediate Needs Annuity / Care Fees Plan / Care Fees Annuity When you retired you may have bought an Annuity with your pension fund, this option works in a very similar way.

With an Immediate Needs Annuity, also known as a Care Fees Plan or Care Fees Annuity, you pay a lump sum to an insurance company who guarantees an income for the rest of your life, however long that is, to pay for your care.

The income is guaranteed and can be index linked in line with expected increases in the cost of care. Furthermore, if it is paid directly to the care home the income is tax-free.

The capital used to buy the plan is immediately outside of your estate for Inheritance Tax purposes, which might be a valuable additional benefit.

A Care Fees Plan is therefore a low risk option and guarantees to continue to pay income until you die. However, if you die sooner than expected you could receive less back than the original capital lump sum, although there are options which can help to offset this risk.

Selling your home If you live alone and need residential care, you could consider selling your home, to release capital, which could then be put into a savings account, invested or used to buy an Immediate Needs Annuity.

Letting your property The idea of selling your property might not appeal. Perhaps you feel that prices will rise over the next few years, or you may return to the property at some point in the future. You therefore could consider letting your property and using the income produced to help meet the cost of your care.

Other questions to consider

Whilst putting in place a comprehensive plan to pay for the costs of your care, there are a number of other areas which should be considered at the same time.

Making a Will

If you've not made a Will this should be addressed as a matter of urgency; it's the only way of ensuring your remaining assets, after you have paid for your care, are distributed exactly in accordance with your wishes.

Writing a Will correctly can also help to reduce any Inheritance Tax payable on your death.

Powers of Attorney

For many people dealing with the financial aspects of needing care can be hard to deal with at what is already a difficult time.

Unfortunately some people, with certain medical conditions, will ultimately be unable to make financial decisions without help.

It therefore makes sense to consider if now is the time to put in place a Power of Attorney, which gives a trusted individual, power to make financial decisions on your behalf.

There are two main options here, a Lasting Power of Attorney or an Enduring Power of Attorney and more details can be found in our Guide to Powers of Attorney.

Inheritance Tax mitigation

Put simply, Inheritance Tax is paid on the value of assets you leave above the £325,000 threshold, also known as a nil rate band. If your spouse or civil partner has died first, you can add the unused percentage of their nil rate band to your own allowance, effectively increasing the amount of money or assets you can leave without paying tax.

Any assets you leave above the nil rate band, will be taxed at a rate of 40%.

As you start to plan for the cost of care, now is the ideal time to look at ways of reducing your Inheritance Tax liability. These two areas need to be looked at in tandem; after all, if you successfully leave your estate intact after paying for care, you may have simply increased the amount of Inheritance Tax payable on your death.

Plan, plan, and plan some more

All of the steps outlined in this guide, will help you make the right decisions when you or a loved one needs to face up to paying for care. .

Whatever your personal circumstances you will need a coherent, considered strategy to weave your way through the maze that is care in later life and to work out exactly which of the options we have outlined are right for you.

An Independent Financial Adviser can be invaluable when it comes to helping you plan; it needs just this, planning, the more planning you do, the better the result will be.

Contact us for more information

Lace Market House, 54-56 High Pavement, Lace Market, Nottingham NG1 1HW

01159 338 433

www.investmentsense.co.uk

info@investmentsense.co.uk

What do our clients say?

"James was extremely helpful and professional throughout!"

"James had a very good way of explaining things to me, without causing confusion, as I've had in the past with other financial advisers."

Case Study 1

Please note this case study is not based on real life events and is intended to show how care can be paid for in a specific scenario. Before such a transaction is entered into we would recommend that advice is taken from a suitably qualified Independent Financial Adviser.

Paul, 82 and Mary, 77 have lived in their house in Derbyshire for 20 years. Paul, who worked as an engineer for all his life, was diagnosed with Parkinson's disease a number of years ago. His condition has now deteriorated to such an extent that it has been agreed residential nursing care is now needed.

Paul and Mary jointly own their home, which is valued at £150,000 and has no mortgage outstanding. In addition, they have £24,000 of savings in a jointly held building society account, plus small investments totalling £16,000.

Paul also receives pension income of £943 per month from his old employer's pension scheme and a State Pension.

Objectives

Paul and Mary are concerned the value of their home will mean Paul has to pay for his own care and that their house will have to be sold to help meet the cost.

They have no relatives who live close by and the thought of having to sell their home is distressing for Mary.

Being inexperienced in financial matters, Paul and Mary decide to see an Independent Financial Adviser (IFA), to clarify their situation and confirm the costs they will have to meet.

Options

The IFA meets with Paul and Mary and he's delighted to tell them that because Mary will continue to live in their home, the value will be disregarded from the Local Authority's financial assessment. However, he warns them that should Mary require care in years to come, their home may well have to be sold to meet the cost of care.

Furthermore, the adviser explains that only half of their savings and investments, £20,000, will be included within the assessment.

Paul's assets will therefore fall between the upper and lower limits of £23,250 and £14,250, which means most of his fees will be paid for by the Local Authority, although he will have to contribute £23 per week from his own income.

Whilst talking to Paul and Mary, their IFA also recommends their investments are reviewed, as well as considering other savings accounts which might provide a better rate of interest. He also suggests they look into applying for Attendance

Allowance, which might be available to them given Paul's deteriorating health.

What has been achieved?

After the meeting, both Paul and Mary feel relieved their initial fears have proved incorrect and they won't have to sell the home when Paul goes into care.

Given Mary's good health, they feel confident they will be able to leave their home to their children, as originally intended, without seeing the value eaten up by care fees.

They move forward by contacting the Local Authority to arrange an initial assessment, apply for Attendance Allowance and Mary meets again with the IFA to, review their savings and investments.

Case Study 2

Please note this case study is not based on real life events and is intended to show how care can be paid for in a specific scenario. Before such a transaction is entered into we would recommend that advice is taken from a suitably qualified Independent Financial Adviser.

Linda is 80, having been married for over 40 years, she was unfortunately widowed five years ago, but lives happily in a small flat in Poole.

Both Linda and her late husband had excellent jobs and as a result have been able to build up large assets, including a flat worth £500,000, plus savings of a further £650,000.

Linda has a State Pension and receives £6,300 per year; in addition she gets a private pension of £12,000 per year, paid by her former employer. Both of these figures are after income tax has been deducted.

Linda has two children, who have long since 'flown the nest' and are now making their own way in the world.

A couple of years ago Linda had a stroke. Whilst she has tried to live at home, using a combination of family, friends and a visiting nurse to care for her, she has become increasingly frail. It has now become clear she needs more specialist, round the clock, care.

Following her husband's death Linda made a Will and put in place a suitable Power of Attorney. However she is still concerned about how she will pay for her care fees, which she estimates to be about £40,000 per year (Source: www.investmentsense.co.uk/long-term-care-fees-calculator). Especially as she will receive no help from the Local Authority as her assets are well above the upper limit where support is provided.

Objectives

Linda's children are very clear that she is to receive the best possible care and have identified the home where they would like her to live.

Linda however, is also keen that she arranges her financial affairs as efficiently as possible, so that the maximum amount of money is left to her children, despite the fact they are no longer financially dependent.

Linda has calculated that in addition to the £40,000 care fees, she will need an extra £3,000 per year to pay for personal items and buy her children birthday and Christmas presents.

To help provide some much needed clarity, Linda arranges a meeting between herself, her children and her existing Independent Financial Adviser (IFA) to decide on how best to arrange her finances.

Options

At the start of the meeting Linda's IFA confirms her suspicions; she will receive no help from the Local Authority. Although, she might be entitled to Attendance Allowance, which could give her between £53 and £79.15 per week.

Linda's IFA confirms her requirement of £43,000 per year and explains that £18,300 will of course be provided by the existing pensions, both of which are index linked. The shortfall is therefore £24,700 per year.

Linda's IFA then talks her through the options she has with the property, namely to sell or rent it out. Linda has already decided that she will sell the property, as she doesn't want the headache of becoming a landlord. Assuming the property sold for its current value, and after allowing for costs, the IFA suggests the sale should realise approximately £480,000, giving Linda total assets of £1,113,000, with which to meet the income shortfall of £24,700.

Linda's IFA explains that she has two main options:

1. Investing the £1,113,000 and using some of the interest or income it creates to pay for the cost of care
2. Buy an Immediate Needs Annuity, also known as a Care Fees Plan or Care Fees Annuity, which the IFA estimates will cost £XXX

The four of them discuss the pros and cons of each option and decide the Immediate Needs Annuity is more appropriate, because:

- Linda doesn't want to expose her capital to risk and would prefer to hold it all in cash deposits, rather than invest it in assets which could fluctuate in value
- As interest rates are so low Linda's IFA explains she is unlikely to generate a sufficient gross return, i.e. before tax, from savings accounts, to provide enough income to meet the care fees
- Using an Immediate Needs Annuity is a relatively simple solution, which can build in annual increases to cover the cost of any rise in fees. It also guarantees to pay an income for as long as she lives
- The income from the Immediate Needs Annuity will be paid directly to the care home and will therefore be free from Income Tax
- Linda is happy that there will be sufficient capital left to leave to her children when she ultimately dies

It is also agreed that Linda's IFA will review her existing savings to ensure she is receiving as much interest as possible and she is taking advantage of every possible tax-efficient option, such as Cash ISAs and certain National Savings & Investments products.

Finally, Linda agrees to meet again with her IFA, once the house has been sold and the Immediate Needs Annuity has been bought, to discuss ways of reducing her Inheritance Tax liability.

What has been achieved?

Following the advice from her IFA, a number of things have been achieved:

- Barring any unexpectedly large rise in the cost of care, Linda's care fees are guaranteed to be met between now and her death
- Her children will still inherit the majority of her estate, subject of course to any Inheritance Tax due
- Her savings will not have been exposed to more risk than Linda is comfortable with in an effort to pay her care fees

**Are you concerned
about paying for care?**



Contact James today:
0115 933 8433
James.lee@investmentsense.co.uk