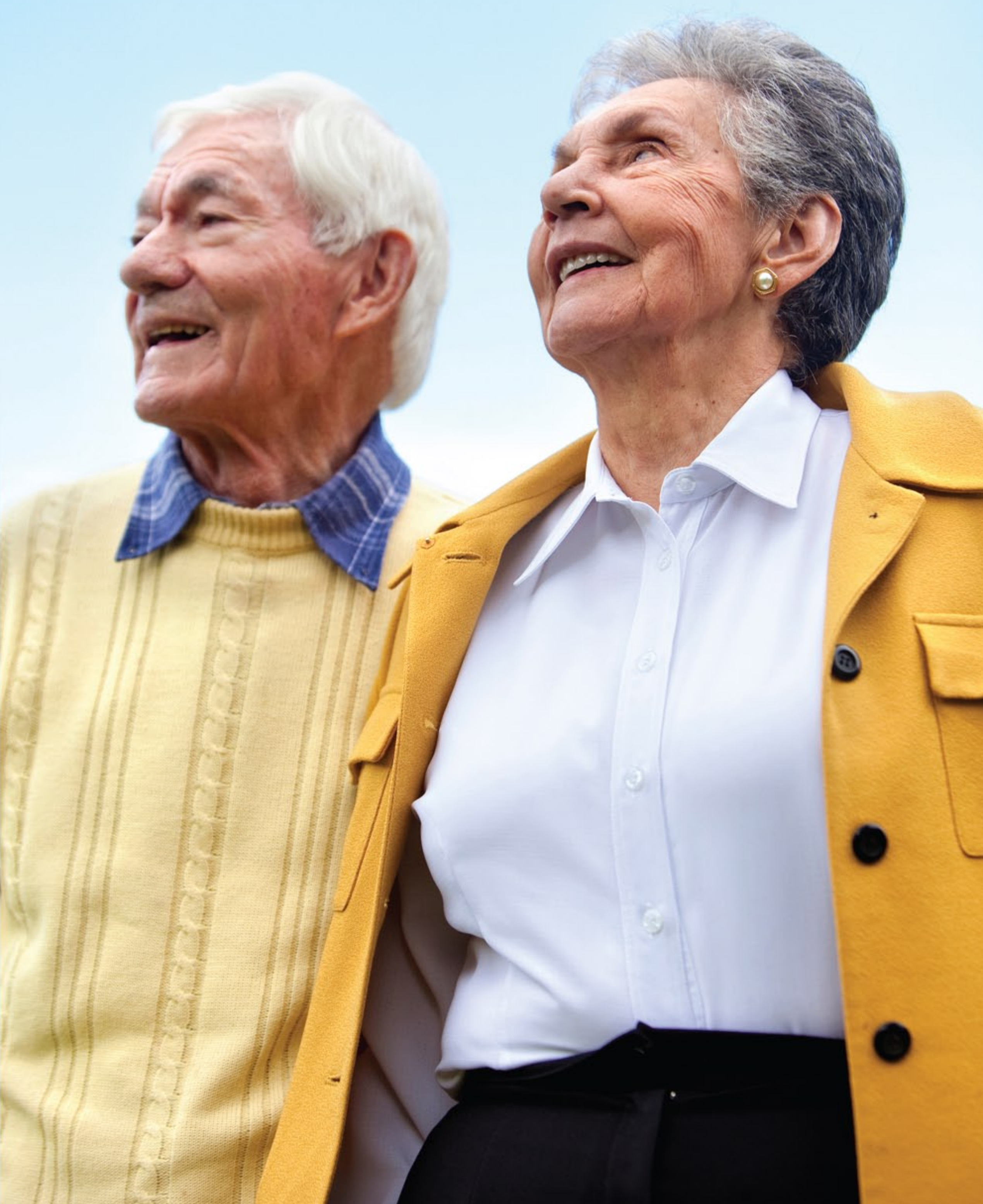
Funding care in old age

partnership



Contents

Please note: All benefits and allowances relate to the 2010/11 tax year unless otherwise stated.

This booklet is a general guide for those considering long term care, and their families. The information should not be considered advice and it is highly recommended that the reader seeks advice from a professional adviser qualified in giving long term care funding advice.

Taking the stress out of paying for care

Understanding your funding options can help to make paying for care a little less daunting.

Meeting the cost of residential and nursing care in old age is a growing issue for many people in the UK. As life expectancy continues to lengthen, more of us can expect to require some form of long term care.

Whether you are a relative or someone who needs to plan for their own later years, the costs involved can be daunting to say the least. The average cost of residential care in the UK is now estimated at £24,908 a year. If nursing is also required, this can rise to £34,788 a year.[1]

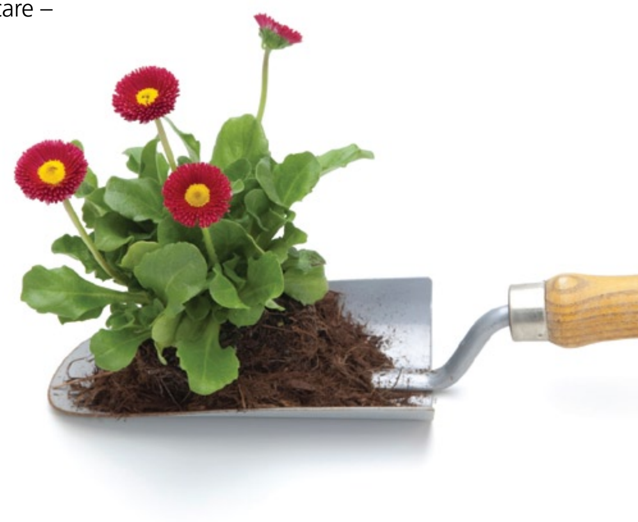
While the State can help with some costs, eligibility for help is limited and many people find themselves over the threshold at which state support is provided.

The subject of state funding of long term care has been receiving increased political and media attention, but any significant changes will take years to implement.

In the meantime, an increasing number of elderly people are therefore having to self-fund their care – but what financial products are available to help them do this?

In this guide, we hope to address all of the key issues for anyone who needs to think about paying for long term care – whether for themselves or a loved one.

We know going into care can be an emotional and difficult time. By showing that practical and affordable solutions are out there, we hope this guide can take some of the stress out of the process and help more people enjoy their later years.



1 Laing and Buisson, Care of Elderly People, UK Market Survey, 2009

1. What care can cost

Long term care costs are high and have been steadily rising year on year.

Care at home

Most of us would like to stay in our own homes – and local authorities try to enable this for as long as possible.

But care at home can still be costly. The average cost of home care is £17.30 an hour.[2] So just two hours of daily home care could amount to more than £12,600 a year – not taking account of higher rates for weekends and public holidays. If 24-hour care is required at home, costs could rise to more than £150,000 per year based on the above hourly rate.[3] In these circumstances, residential care is usually more cost-effective.

Residential care

The cost of residential care can vary hugely by location and depending on whether an individual requires nursing or not.

The table shows average regional weekly care home costs around the UK for 2009/10 – with and without nursing care.

On average an individual can expect to pay around £24,908 a year for a residential care home, rising to over £34,788 if nursing is required – although some care home residents pay as much as £78,000 a year.[2] Care home fees rose by 2.6% on average last year.

Being assessed for care

Whatever care an individual requires – and whether or not they can afford to pay for it – their local authority has an obligation to conduct an assessment (known as a Section 47 care assessment) to determine their needs and the most appropriate place for it. This will usually involve a home visit and it's good to have a family member or friend present to share what's discussed. All further discussions with the local authority will be based on these 'assessed needs'.

If care in a home is recommended, then the local authority also has a duty to help ensure suitable care is made available.

Other costs

Remember too that these are only the costs of residency and nursing. Costs that may still need to be met on top of a care home's bill might include:

- Clothing, toiletries and personal items
- Trips and treats
- Telephone calls

If care is fully funded by the local authority, individuals are allowed to retain a Personal Expense Allowance to cover items like these. When looking for a home it is important to ascertain what is included in the fees and what isn't.

Continuing care

Severely ill individuals may qualify for 'continuing care' as National Health Service patients. Continuing care is fully funded and is not means-tested. However, only the severest cases are eligible.

2 Laing and Buisson, Care of Elderly People, UK Market Survey, 2009
3 Live-in care cost estimates by Partnership

What care can cost continued

Average weekly care home fees around the UK

Area	Residential Care Homes 2009/10	Care Homes with Nursing 2009/10
London	£561	£801
Northern Home Counties	£582	£855
Southern Home Counties	£537	£767
East Anglia	£482	£635
South West	£496	£730
West Midlands	£444	£618
East Midlands	£448	£582
North West	£419	£618
Yorkshire and Humber	£423	£597
North	£451	£555
Wales	£419	£589
Scotland	£482	£608
Northern Ireland	£407	£556

Source: Laing and Buisson, Care of Elderly People, UK Market Survey, 2009

2. Help from the State

Local authorities and the NHS can help with the cost of care – but support is limited.

Whether a person requires care at home or in residence, the State can provide help with the cost within strict limits.

Qualifying for support

State assistance with the cost of old-age care is means-tested – primarily by imposing upper and lower capital limits on the value of a person's savings, property and other assets.

In England, for example, if an individual's assets including any property have a total value of less than £14,250, care bills will be paid in full by the State.

If personal assets exceed £23,250, an individual will normally be expected to pay for their own care in full. (Different upper and lower capital limits apply in Scotland, Wales and Northern Ireland. See table opposite for more information).

A reducing scale of support applies between £14,250 and £23,250, based on the person contributing £1 a week for every £250 in assets over £14,250.
So, someone with assets of £18,000 would be expected to contribute £15 a week (£3,750 ÷ £250 x £1 = £15) towards care.

Financial assessment

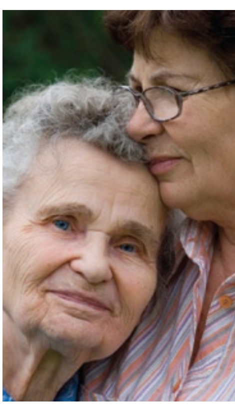
Local authority means-testing will look to include most capital and savings held in an individual's name, including:

- Bank and building society accounts;
- National Savings and Premium Bonds;
- Stocks, shares and investment products;
- Income from State, personal and occupational pensions;
- Property and land (less any mortgage).

Jointly-held savings and assets will be usually divided by two to calculate an individual's share.

Some assets are disregarded by the means test, including:

- Surrender value of life policies/annuities;
- Some compensation payments held in trust or by the courts;
- Some investment bonds with a life assurance element (check with provider);
- Property that continues to be inhabited by a partner, dependant or certain other parties.



Mind the gap

Even if an individual falls below the lower capital limit – and therefore qualifies for full help with fees – there can still be a gap between a care home's fees and the maximum the local authority is willing to pay for that standard of care.

For families this can mean a difficult decision to fund the shortfall or move a relative to a cheaper nursing home. In some cases, it may be possible to claim there were no other suitable homes available within the local authority's price limits. If this is upheld, the local authority may pay the full amount, but there are no guarantees.

Help from the State continued

Some forms of income will also be disregarded from the means test including War Widows special payments, the mobility component of the Disability Living Allowance and – within certain limits – spouse/partner payments from a private or occupational pension.

The local authority will assume that income from benefits such as the Pension Credit is being fully claimed, so it is important that all relevant benefits are taken up.

Authorities may also want look at recent transactions to check that a person hasn't deliberately deprived themselves of capital to qualify for care support – for example transferring a property into the name of a family member, or investing capital in an investment bond at very short notice.

Reviewing qualification

These rules are stringent and mean that many people won't get any state help with the cost of care. But a person's assets can be reassessed over time. Once assets fall below the upper capital limit, the authorities will start to help with funding.

Other benefits and allowances

A number of other benefits and allowances are available to help those requiring care:

Attendance Allowance:

A non means-tested, tax-free benefit for over-65s needing help with basic functions such as bathing or eating whether at home or in care. There are two rates: 'higher' for care around the clock and 'lower' for part-time assistance. The current weekly rates are £47.80 lower rate and £71.40 higher rate.

Registered Nursing Care Contribution:

A contribution towards nursing care costs paid directly to the nursing home. It is important to discuss with a home how the RNCC is accounted for in their fees. The level of RNCC varies across the UK.

Personal Care (Scotland only):

As well as receiving a contribution towards nursing care, self-funders in care homes in Scotland can also receive a weekly payment towards their personal care – currently £156. If a resident receives Personal Care, they are no longer eligible to receive Attendance Allowance.

Personal Expense Allowance:

Individuals who have their care fees paid by the State are allowed to keep a small allowance from their pensions for their own personal use. This Personal Expense Allowance is currently £22.30 (£22.50 in Wales).

Capital limits for care funding 2010/11

	England	Scotland	Wales	Northern Ireland
If a person's assets are more than the upper limit, they must pay for their care in full				
Upper limit	£23,250	£22,750	£22,000	£23,250
Lower limit	£14,250	£14,000	£22,000	£14,250
If a person's assets are less than the lower limit, their care will be paid in full by the local authority				

3. Funding and your home

Whether or not property will exclude you from help with care costs depends on who lives in it.

Anyone with assets worth over £23,250, including property (£22,750 in Scotland and £22,000 in Wales), is expected to meet the cost of care in full. Consequently owning your home is one of the major reasons why people fail to qualify for support with the cost of care in old age.

The authorities are wise to people attempting to rid themselves of property to reduce the value of their assets, and may ask detailed questions about current and past property ownership. Strategies such as bequeathing a property to offspring or putting it in trust may be viewed as a deliberate attempt to deprive yourself of capital and such assets may still be included in the means test at the local authority's discretion.

When property is disregarded

A property can be excluded from the means test if it continues to be the home of someone else. This can include:

- a spouse or partner;
- a relative who is over 60 or disabled;
- a minor under 16 who is dependent on the person in care;
- a separated lone partner with responsibility for a minor;
- in some circumstances, someone who gave up their own home to look after the person now going into care.

The 12-week property disregard

Even if it is agreed that a property must be sold to help with the cost of care, homeowners can be given a little breathing space.

Provided other assets fall below the upper capital limit, the local authority should pay care home fees for up to 12 weeks to allow time to sell the property. Under this arrangement, the authorities will also take the individual's pension income, apart from the current Personal Expense Allowance. It is worth noting that they will usually only pay up to their published limits – which may not cover the fees in the chosen care home. It will then be up to the individual to cover any shortfall.

Deferred payments agreement

If the property still isn't sold after 12 weeks, the local authority can continue to pay the fees under a deferred payments agreement and will look to recoup these costs when the property is eventually sold or the resident dies.

Top Tip

If a property is held by a couple as tenants-in-common rather than a joint tenancy, each half can be passed on to someone else – e.g. offspring – rather than each other. This may enable half the property value to be taken out of the means test after the first death. The rules are not hard and fast so speak to a solicitor.

Funding and your home continued

Using property to fund care

There are a number of ways in which property could be used to help fund care.

Equity release – as long as someone is still resident at the property, this enables funds to be released while still allowing the home to be retained.

Rental – letting out property could deliver a regular income stream but owners need to be sure the net income after bills and management costs will be enough to cover care bills.

Other schemes – some Immediate Care Plans may allow borrowing against the property in order to buy the plan.

Top Tip

If a deferred payment arrangement is agreed, keep reviewing the care costs owed against the current market value of the property, as the accrued debt can quickly mount up.

Case Study

Brian & Jean

Brian and Jean are 81 and 75 respectively and have lived in their bungalow in Hampshire for 16 years.

Brian, a retired engineer, was diagnosed with motor neurone disease four years ago and it has been agreed that residential nursing care would be most appropriate.

Apart from their home, which has a market value of £143,000, Jean and Brian have £24,000 in building society savings, £16,000 in investments and Brian receives a pension of £943 a month from his former employer.

The bungalow is disregarded from Brian's financial assessment as Jean continues to live in it. Half their savings and investments are allocated to Brian, giving him assets of £20,000.

This means Brian falls below the current £23,250 threshold for care support and will receive some funding from his local authority. As his assets exceed £14,250, he must contribute £23 a week towards his own care.

*Any resemblance to actual persons is purely coincidental

4. How to cover the cost

It is important to explore all the financial options.

Given the costs and the potential length of time care will be required, it is unfortunate that some people run out of money – using up all of their savings and the proceeds from the house sale.

This will mean that the person has to rely on the local authority to fund their care and, with increasing budgetary pressures, there are no guarantees the local authority will be able to maintain the same payment levels. Unless the family is able to make up the difference, this can result in compromises having to be made regarding, for example, size or outlook of the room. In addition, of course, using up all money to pay for care means that there is no legacy to leave to loved ones.

However, with some financial planning it can be possible to ensure that care can be funded for as long as required, whilst safeguarding as much capital as possible.

It is important that professional advice is sought before making a decision – speak to a financial adviser qualified in giving long term care advice.

Some of the ways people pay for domiciliary or residential long term care are:

Own Income

Some people may receive sufficient income from pensions and existing savings and investments or rental income from their home to pay for their care.

Family Contribution

In many cases, a person's family will be able to cover the cost for them.

If neither of these are an option, a person will need to raise money either by accessing savings or investments, releasing money from their home via an equity release plan or selling the home.

Once they have the money, they will need to decide how to invest it to pay for their care.

Our experience shows that the average stay in a care home by a self-funder is around four years but a big problem is that no-one can predict exactly how long care will be required. There is, for example, a 1 in 8 probability of living in care for over seven years. So any financial solution ideally needs to be able to provide funds indefinitely.

Savings Accounts

This includes deposit accounts, ISAs and National Savings.

Very low risk but as a result people will have to hope that interest is sufficient and that their capital isn't eroded too quickly.

Investments

There are many possibilities here from bonds to shares. However, the most profitable are usually the highest risk and there is no guarantee that values won't fall.

How to cover the cost continued

Immediate Care Plans

These are specialist annuity-based plans which, in return for a one-off lump sum payment, pay a guaranteed income for as long as the policyholder lives. If income is paid direct to the care provider, it is free from tax. (Tax treatment depends on individual circumstances and may be subject to change.)

Care fees can increase over time due to inflation. To help protect the investment against the effects of inflation the following can also be considered for an additional payment:

Escalating benefits – the income can be increased by a set rate per annum.

Retail Price Index (RPI) – linking a care plan to the RPI would mean that the payments received would be based on movements in the RPI. This, however, could mean your income would be reduced if the RPI went down.

The main benefit of care plans is that they provide payments for life. However, this must be balanced against the risk that if the person in care dies early, the capital used to buy the care plan may not be returned.

Some care plans will return a percentage of the one-off payment if you die within six months of taking the plan.

For an additional payment you may be able to take out a capital protection insurance that will protect most of the money you pay if you die early.

5. Handling someone else's affairs

Forward planning is essential to ensure that loved ones have the power to make decisions on your behalf.

Going into care is not a process that many elderly people can manage alone. In many cases, an individual may be too frail or mentally incapacitated to make the decision themselves.

Even if someone is in good health today, it is advisable to plan for the future so that a trusted party has the power to make decisions on their behalf, if the need arises.

Lasting Power of Attorney (LPA)

Setting up a Lasting Power of Attorney (LPA) gives someone authority to handle another person's affairs if they are mentally or physically unable to do so themselves.

There are two types of LPA:

Property & Affairs LPA: enables the appointee to make decisions about how the person's money is spent and their property and affairs are handled.

Personal Welfare LPA: covers healthcare and welfare, including medical treatment and where a person lives.

An LPA can be set up with the help of a solicitor. To be valid, it needs to be registered with the Office of the Public Guardian, which will involve a fee but this can be done later, when the LPA is required.

Enduring Power of Attorney (EPA)

Lasting Powers of Attorney were introduced in 2007 to replace Enduring Powers of Attorney (EPAs). The key difference between the two is that EPAs are not registered and did not cover personal welfare.

It is still possible to register an EPA, provided it was signed before 1 October 2007 and to set up a Personal Welfare LPA to run alongside it.

Appointing LPAs

Power of attorney should be arranged well before it is required as the individual in question must still be capable of being fully involved in the decision.

It is advisable to appoint at least two people over 18 to hold LPAs on your behalf. Someone cannot hold a Property & Affairs LPA if they are bankrupt.

What if...

...there's no LPA?

Arranging Lasting Power of Attorney is the only way to ensure your loved ones will handle your affairs when you can no longer do so. If a person is suddenly mentally incapacitated and an LPA is not in place, an application will need to be made to the Court of Protection by a representative of the person (relative, close friend or solicitor) aged 18 or over to become their Deputy. Once appointed, the Deputy will be legally responsible for:

– Finances

– Property

– Healthcare

– Personal welfare

6. Your questions answered

Our parents own their home jointly and have around £30,000 in savings. My father needs to go into nursing care but my mother wants to remain at home. Can we be forced to sell the property to pay for Dad's care?

No. So long as your mother continues to live in it, the property won't be included in the means test for care funding. However, half of their joint savings will be. With £15,000 in assets, your father is above the lower capital limit of £14,250 and will be expected to make a contribution of £3 a week towards the cost of his care.

My widowed father needs to go into care now. He doesn't qualify for means-testing but the property slump means it may take months to sell his bungalow to help with costs. What can we do?

The local authority should disregard the property from the cost of care for the first 12 weeks. If the property is still not sold after this time, the authorities can still continue to pay costs but will look to recoup these against the proceeds from the property when it is finally sold. Make sure your father claims Attendance Allowance to help with the cost of care. Some care plans can allow borrowing against the property.

Can we put our house in trust for our children to avoid a forced sale in the event that we need to go into care?

Putting property in trust for future generations is a complex issue not simply because of care costs but because the Inland Revenue is keen to prevent people trying to avoid inheritance tax so legal advice is essential. Under the means test, your local authority may ask about your property ownership over some years. If it deems property was placed in trust deliberately to take it out of the means test, it may still be included. Plus, the means test upper threshold is low (currently £23,250) so other assets could disqualify you from support in any case.

We have paid for my mother to be in a nursing home for three years. Her condition has now deteriorated and she requires round-the-clock care. Can we get any more support?

You can ask that your mother is reassessed by the NHS. If she is in need of 24-hour nursing, the NHS should pay for all of this as 'continuing care'. If this was the situation for some time, then some of your fees may be refunded.

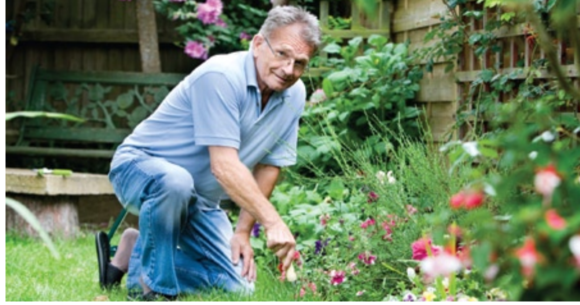
I have special dietary requirements, but the only care home that can meet these costs more than my local authority is willing to pay.

If you argue successfully that the home is the only one available locally that meets your assessed needs, the council should meet the full cost, assuming you fall below the £14,250 means-test lower threshold. If the authority still refuses but you have set your heart on this home, you or your family will have to meet the shortfall.

My sister and I have lived together for 20 years and are now in our early 80s. What will happen to our property if one or both of us needs to go into care?

The property will be disregarded from the care funding means test when the first of you goes into care. If the second needs care, the value of the property can then be included. If the property then needs to be sold to help with the cost of fees, the local authority may help with funding until the property is sold. Should you both need to go into care at the same time, half the property's value will be allocated to each of you for the means test.

Your questions answered continued



My parents own their home and have £80,000 in savings. Will they get any financial help with the cost of care?

Their assets put them well above the threshold of £23,250 per person at which help is given with funding care. However, if they need help with basic daily tasks such as bathing and dressing they can claim for the Attendance Allowance – worth up to £71.40 a week. If they require nursing, they will receive a Registered Nursing Care Contribution (RNCC). It's important to discuss with care homes how the RNCC is accounted for in their fees.

My sister and I like the idea of buying a care plan to pay for our mother's care bills but are concerned it is money wasted if she dies soon afterwards.

Some care plans will automatically return some capital if the person dies in the first six months. After that you can insure for return of some capital on death by buying capital protection.

We have sold my father's house to help with his nursing home costs. Are the proceeds still liable to inheritance tax?

If the capital is simply held in his bank account then it will be included in his estate for inheritance tax purposes on death. If the capital is used to purchase an annuity to fund care, then it will be 'lifted' out of his estate. If inheritance tax is a major concern for the family, speak to an accountant or IFA who specialises in estate planning.

I want to use income from some of my investments to help pay for my father's care. If he is the beneficiary, who will the income be taxed on?

If the investments are in your name, they will continue to be taxed at your rate of income tax. It may be possible to set up a trust, naming your father as beneficiary of income but this may mean losing rights to the assets. Trusts can be complex so it's advisable to talk to a solicitor. Also, be aware that any income or capital you pay to your father may be included in the means test for care funding.

Is an annuity-based care plan guaranteed to cover care costs?

No – you will be told the annual income it is guaranteed to pay out so you can match this against a care home's fees. Should fees rise in the future there may be a shortfall. However, care homes may be open to negotiation, knowing they are assured of the annuity income. Care plans can offer inflation-proofing or annual increases to help address rising fees.

Can income from an annuity-based care plan be used to fund care at home?

Yes – income can be used at any stage to fund either residential or home-based care. Note that if income is paid direct to a registered care provider it is tax-free, so discuss the best arrangement with whoever is providing care and the annuity company or a financial adviser. If care is required, be sure to claim Attendance Allowance which is tax-free and not means-tested.

My mother is quite wealthy. Is her local authority under any obligation help her find the right kind of care?

Yes – the local authority has a duty to assess her care needs and ensure she has access to suitable care, even if she funds it.

Information and advice

Information on long term care and choosing a care home or domiciliary care provider

Age UK
www.ageuk.org.uk

www.carehome.co.uk has the most comprehensive database of UK care homes.

The Care Quality Commission provides details and quality ratings for care services and care homes.
www.cqc.org.uk
Tel: 03000 61 61 61

Benefits & allowance entitlements

Citizens Advice
www.citizensadvice.org.uk

Department for Work and Pensions
www.dwp.gov.uk
Tel: 0800 882 200

Directgov
www.direct.gov.uk
Tel: 0800 882 200

Getting a care assessment

For an assessment of care needs, contact the local authority's Adult Social Care department (NB must be the local authority for the person needing care).

Support for carers

Carers UK provides information and advice for those looking after a relative and campaigns for change.
www.carersuk.org
Tel: 0808 808 7777

Equity release

Safe Home Income Plans provides a list of member companies that adhere to its code of conduct and can provide information and factsheets.
www.ship-ltd.org
Tel: 0844 669 7085

Financial and investment advice

The Society of Later Life Advisers (SOLLA) or Symponia can assist you in finding a qualified financial adviser who understands financial needs in later life.
www.societyoflaterlifeadvisers.co.uk
Tel: 0845 303 2929
www.symponia.co.uk
Tel: 01789 774595

Inheritance tax, trusts & estate planning

To discuss tax liabilities on death or putting assets in trust, speak to a qualified solicitor who is a member of the Society of Trust and Estate Practitioners (STEP).
www.step.org Tel: 020 7340 0500
or Solicitors for the Elderly
www.solicitorsfortheelderly.com
Tel: 0870 067 0282

Lasting Power of Attorney

To find a solicitor to help arrange Lasting Power of Attorney (LPA), contact the Law Society or Solicitors for the Elderly (details above).

www.lawsociety.org.uk
Tel: 020 724 2122
www.lawscot.org.uk for Scotland
Tel: 0131 226 7411

For information on registering an LPA contact the Office of the Public Guardian.
www.publicguardian.gov.uk
Tel: 0845 3302 900
www.publicguardian-scotland.gov.uk
Tel: 01324 678 300

About Partnership

Partnership is a leading provider of care fee payment plans.

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