April 2006

FSA Factsheet
Paying for long-term care

Financial Services Authority

This factsheet is for you if:

- you are thinking about how you might cope financially if you need help looking after yourself, especially in later life.

It explains:

- what 'long-term' care is;
- how the State might help; and
- how you can use financial products to help you pay for this care.

Plain Language Commission Clear English Standard Winning Document

As you get older, you might develop health problems that could make it difficult to cope with everyday tasks. So you might need help to stay in your own home or move into a care home.

The State may provide some help towards the cost of this care depending on your circumstances. There are also a number of financial products that can help you pay for long-term care.

This factsheet gives an outline of some of these financial products. But as these are very complex you should seek advice from an authorised financial adviser who has experience in this area. Then you can decide which, if any, might be suitable for you.

Alternatively, you may decide to pay for any care you need out of your own income and savings.

The FSA's consumer publications aim to give you general information to help you make financial decisions. The information does not constitute financial or other professional advice; for advice about your own circumstances, you should consult a professional adviser.

What is long-term care?

Long-term care refers to care you need for the foreseeable future, maybe as the result of permanent conditions such as arthritis, a stroke or dementia. It does not apply to care you need to recover from short illnesses or convalescence during such illnesses. Care could mean help with activities such as washing, dressing or eating in your own home or in a care home (residential or nursing).

How do you pay for long-term care?

If you need long-term care you should check with your local authority about the support they give. The social services department will make an assessment of your care needs. They will also assess your income and savings. If your income and savings are low, the local authority will pay in full or in part the costs of your long-term care.

You may also qualify for Disability Living Allowance if you are under 65 or Attendance Allowance if you are 65 or over. But the care component of neither Disability Living Allowance nor Attendance Allowance will be paid if the local authority helps with the cost of care. Also, although social security benefits are the same throughout the UK, other help provided by local authorities varies across different regions. And of course, State benefits can change from time to time. For where to get more information see *Useful contacts* on page 6.

If you don't qualify for financial help from the local authority, you will normally have to pay towards the cost of care out of your own income and savings (potentially even having to sell your own home to meet the costs).

You may consider releasing equity (money) from the value of your home by using a 'lifetime mortgage' or 'home reversion' scheme; but if you do, you should seek independent financial and legal advice. It would also be a good idea to contact the Department for Work and Pensions to find out if this would affect any social security benefits you are receiving. *These options are not covered in this factsheet, but see* Useful contacts *on page 6 for where to get information.*

What kind of long-term care insurance (LTCI) is available?

There are basically two types:

- **immediate care LTCI** – you buy this when you actually need care;
- **pre-funded LTCI** – you buy this in advance in case you need care in the future.

Why might you consider buying LTCI?

It is important to consider all the options available to you. This means getting professional advice from an authorised financial adviser (or a solicitor).

Three main reasons for buying a plan are:

- **To preserve your capital.** Paying for care out of capital is an open-ended commitment that could leave you with little or nothing to pass on to your family. And you could run out of capital in the meantime. Although you might need to use a significant amount of capital to buy a long-term care plan, this is a 'one-off' cost (though in certain circumstances you may be asked to pay more money – see page 4 under 'How do I pay for it?').

- **To ensure your partner has enough income.** If the State pays for your care it may be means tested. In such cases, it assumes that any joint income is split equally between you and your wife, husband or partner. This might leave your partner short of money if his or her outgoings remain broadly the same.

- **To give you greater choice about your care.** For example, your local authority is unlikely to agree to meet the full cost of a place in an expensive care home.

How much does long-term care cost?

Long-term care charges vary from one area to another and according to the type of care you need.

As a very rough guide, personal care provided in your own home might cost around £13 per hour. So, if you needed two hours help every day, it could cost £9,490 a year.

In 2005, average care home fees were roughly £19,500 a year for a residential home and £27,500 for a nursing home. But they can be significantly higher depending on location and care facilities.

How much cover do I need?

Long-term care insurance can be comparatively expensive. You don't always have to cover the whole cost of care – an average LTCI policy will typically cover 50% of the cost, with the rest coming from your income and State benefits.

A common approach is to estimate how much you could pay out of your income including any Attendance Allowance and other State benefits that you would expect to get. Compare this with the possible care home fees you might face, and use LTCI to meet the shortfall.

Planning for long-term care is a complex matter. Detailed analysis of your income, savings, capital and benefits needs to be made. You should seek advice from an authorised financial adviser before taking out any product to cover long-term care costs.

What is the FSA's role?

We regulate the sales and advice process for LTCI products. This means that firms selling or advising on these products must be authorised by the FSA.

To find out whether a firm is authorised by the FSA, you should check the FSA Register. Contact the FSA Consumer Helpline on 0845 606 1234 or check the website at www.fsa.gov.uk/consumer (and follow the link to the Firm Check service).

How do the different types of LTCI compare?

	Immediate care LTCI	Pre-funded LTCI
When can I start it?	When you have been medically assessed as needing care.	Any age, but some have a minimum age of 40 or 50.
How does it work?	You buy an immediate care plan with a lump sum. This pays out a regular income for the rest of your life, which is used to pay for your care.	You take out an insurance policy that will pay out a regular sum if you need care. The money from the policy is tax free. With some policies, the insurance policy may be linked to an investment bond, which is intended to fund the premiums for the insurance policy. But these involve more investment risk and, in some cases, can also use up your capital. It is particularly important that you seek professional advice before buying such a policy.
How do I pay for it?	With a lump sum. The amount you pay varies depending on: ■ the amount of income you want; ■ whether you want the income to increase, for example, with inflation; ■ your age, sex; and ■ state of health.	Either regular monthly premiums or a single lump sum premium. In either case, the insurance company usually reviews the plan, say every five years, and the premiums may then rise – even if you've bought a single premium policy. Premiums depend on your age, sex and the amount of cover you choose.
When does it pay out?	To be eligible, you must already need care, either in your own home or in a care home. You will be assessed medically to determine how much you must pay for your chosen level of income.	It will pay out if you are no longer able to perform a certain number of activities of daily living (ADLs) without help, such as washing, dressing or feeding yourself, or if you become mentally incapacitated. Different insurers use different definitions, and you must usually fail either two or three ADLs. This will be determined through a medical assessment. Claims are not usually paid out until 13 weeks after you claim.
How long does it pay out for?	It normally pays out until you die or no longer need care.	Most policies pay out for as long as you need care (usually the rest of your life). But some may only pay out for a limited period, say three years, after which payments stop and then you have to pay for care yourself. This is agreed with you when you take out the policy.

	Immediate care LTCI	Pre-funded LTCI
What's not covered?	This type of plan is not available if you do not need care, but simply decide that you would prefer to live in a residential home.	Temporary problems, for example, if you need help for a few weeks following an operation. Or if, for example, your health problem is caused by alcohol or drug abuse, or due to attempted suicide, or if it relates to HIV or AIDS. Some mental conditions such as depression and schizophrenia are also usually excluded.
Some of the risks	You can't cancel the plan or get your lump sum back, except during the 'cooling-off' period immediately after you buy the plan. You could lose out on means-tested State benefits. Check what is available from your local authority first.	You might never need care, in which case you might feel your premiums have been wasted. Your regular premiums might rise following a review by the insurance company or, if you have paid a single premium, you might be asked for more money. Any money you get from the policy might affect the amount you can claim in means-tested State benefits.
What happens if I don't claim?	This type of plan is only available when you have been assessed as needing care.	With a straightforward insurance-only policy, you get nothing back. With an investment-linked policy, you receive the balance of the investment fund if you cash in the policy. But how much you get back will depend on how well the investment element has performed and how much the insurance premiums that it is intended to fund have increased – in some cases there could be nothing left.
What happens when I die?	The income stops and capital is not repaid unless you have chosen a plan which provides some death benefit (ie a lump sum paid to your estate).	The income usually stops. But some policies will pay out a lump sum to your estate if you die within the first few years of taking out the policy without actually claiming on it. Most pay nothing. With an investment-linked policy, the balance of the investment fund is paid to your estate (but see above).
Is inflation taken into account?	Most plans let you choose whether or not the money you get from the policy is fixed or increases by a set amount each year or in line with inflation. But the cost of care tends to rise faster than price inflation, largely because care is very labour intensive. So consider choosing a plan that increases in line with increases in earnings. It is important that you regularly review the amount you expect to get from your plan against the likely cost of care to ensure that you have sufficient cover.	

These are only two of the options available to you. You should seek professional advice from an authorised financial adviser before taking out any financial product to cover long-term care costs.

You may also find it a good idea to discuss your options and decisions with family or close friends so that they know the provision you have made for yourself and are in a position to help you, for example, in making a claim should this need arise.

Complaints

If you have a complaint, you should first contact the firm that sold you the plan, or the insurance company.

If you are unhappy with the firm's response, you can take your complaint to the Financial Ombudsman Service. The firm will explain the process.

Useful contacts

0845 phone numbers will be charged at the local rate based on current network charges from BT landlines. Charges for calls from mobile numbers and other networks may vary.

For information about State help with long-term care, contact the social services department of your local authority. See the phone book under the entry for your local authority or ask at a public library.

For information about Attendance Allowance and Disability Living Allowance:

Department for Work and Pensions (DWP)
Benefit Enquiry Line
Victoria House, 9th Floor
Ormskirk Road
Preston, Lancashire PR1 2QP
Tel: 0800 88 22 00
Email: Bel-Customer-Services@dwp.gsi.gov.uk
Website: www.dwp.gov.uk

For information about social security benefits, contact your social security office or Jobcentre Plus. Details are in your phone book.
Website: www.dwp.gov.uk

For free factsheets about long-term care:

Age Concern
Freepost (SWB 30375)
Ashburton
Devon TQ13 7ZZ
Tel: 0800 00 99 66 (freephone)
Website: www.ace.org.uk

Help the Aged
207-221 Pentonville Road
London N1 9UZ
E-mail (for leaflets): info@helptheaged.org.uk
Tel: 020 7278 1114
Website: www.helptheaged.org.uk

Association of British Insurers
51 Gresham Street
London EC2V 7HQ
Tel: 020 7600 3333
E-mail: info@abi.org.uk
Website: www.abi.org.uk

For information and help on lifetime mortgages and home reversion schemes:

The Home Improvement Trust
7 Mansfield Road
Nottingham NG1 3FB
Tel: 0115 934 9511
E-mail: info@hitrust.org
Website: www.improvementtrust.fsbusiness.co.uk

Age Concern
Freepost (SWB 30375)
Ashburton
Devon TQ13 7ZZ
Tel: 0800 00 99 66 (freephone)
Website: www.ace.org.uk

Help the Aged
207-221 Pentonville Road
London N1 9UZ
E-mail (for leaflets): info@helptheaged.org.uk
Tel: 020 7278 1114
Website: www.helptheaged.org.uk

Council of Mortgage Lenders
3 Savile Row
London W1S 3PB
Tel: 020 7437 0075
Fax: 020 7734 6317
Website: www.cml.org.uk

Safe Home Income Plans (SHIP)
PO Box 516
Preston Central
PR2 2XQ
Tel: 0870 241 6060
E-mail: info@ship-ltd.org
Website: www.ship-ltd.org

For advice and information on care homes:

Counsel and Care
Twyman House
16 Bonny Street
London NW1 9PG
Tel: 0845 300 7585
E-mail: advice@counselandcare.org.uk
Website: www.counselandcare.org.uk

To find a financial adviser:

IFA Promotion
Tel: 0800 085 3250
Website: www.unbiased.co.uk
Provides details of three independent financial advisers in your local area.

The Personal Finance Society
Website: thepfs.org/findanadviser
This website can help you find advisers in your local area who have passed at least three financial planning examinations.

Further help and information

The FSA produces a range of booklets and factsheets. You can get them free from our helpline on 0845 606 1234 or download them from our website on www.fsa.gov.uk/consumer

The following is just a sample.

- FSA guide to financial advice
- Raising money from your home
- Retiring soon? What you need to do about your pensions
- FSA guide to pensions 3: Annuities and income withdrawal

The Financial Services Authority (FSA) is the independent watchdog set up by government to regulate financial services and protect your rights.

We produce a range of user-friendly factsheets and booklets which are available from our website and helpline.

If, after reading this factsheet, you have any general queries, our helpline will try to clarify things for you.

We can tell you if a firm is authorised and help you if you have a complaint and don't know who to contact. But as the regulator, we can't recommend firms or advisers, or tell you whether a particular product or investment is right for you.

If you would like this factsheet in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.

Our website, www.fsa.gov.uk/consumer, aims to help you understand financial services and get a fair deal.

Use the site to:

- shop around with our comparative tables – including mortgages, pensions and ISAs;
- check a firm is authorised by the FSA, or is the agent of an authorised firm. If they are not authorised you will not have access to complaints procedures and compensation schemes if things go wrong.
- order any of our wide range of consumer publications;
- report any misleading financial advertising;
- see explanations of financial products in plain English;
- read recent alerts that we have issued.