How do I securely cover the cost of a care home?

If you have savings and assets in excess of £23,250 (England) and are moving into a care home, you will have to pay your own fees as you are classified as a ‘self-funder’.

Fees for a care home in the south east can be eye watering, as much as £1,200 per week*, or more, that’s over £62,500 per year. What’s worse, the cost will increase each year and almost certainly more than the cost of living. With the average stay in a care home being 26 months** (2 years and 2 months), the care costs outlined above means that you would have spent £135,400 approximately. If we take an extreme, the longest resident in a BUPA care home was in there for 20 years, that’s fees in excess of £1m.

How then can ‘self-funders’ budget for the uncertainty of future care costs whilst introducing certainty? The first steps are to add up all your streams of regular (secure) income which can go towards the cost of the care fees, examples being State Pension, private pensions, benefits such as Attendance Allowance and Funded Nursing Care. Once established, this will give you the funding gap that needs to be found each week to pay your fees.

There are a number of ways or combination of options to pay your fees but only one approach will provide certainty that the fees will be paid for your lifetime. This is known as a care fees annuity or immediate needs annuity and involves giving up control of a sum of money (capital) in return for an income for life.

These plans are individually underwritten taking into account your health, interest rates and the provider’s experience of life expectancy. There are two types of care fees annuities, an annuity that will commence immediately or the option to defer an annuity. As the name suggests, a deferred care fees annuity will commence after an agreed time i.e. after 12 months, this approach reduces the initial cost, the initial lump sum required to achieve a desired level of income. The care fees annuity is paid directly to the care provider gross, so free of tax.

It can be argued, that a care fees annuity will provide peace of mind if the income gap in care costs has now been bridged. Assuming your need for care remains constant and fees do not increase above the set level of escalation within the care fees annuity contract , you should not run out of money allowing you to remain in your chosen home for life.

The downside of course is that your stay may be considerably less than the average and you will have passed control of your capital to an insurance company, losing your capital. This concern can be addressed by adding guaranteed periods or other options to protect your initial payment should early death occur.

If you would like to discuss how care fees annuities could help address your care cost worries please contact me for an initial discussion/ meeting.

*source Laing Buisson – 2017 – 2018
** source www.parliament.uk