A Wingate Financial Planning White Paper…

Funding for later life care provision

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When looking at later life planning and in particular care funding there are many different options available and working out which is appropriate can be difficult. There are various routes, some provided by the state. For those who are thinking about self-funding, there is often a concern over how long their funds may last and whether the consideration of care fee plans, which can help with the payment of fees, is worthwhile.

Essentially, when looking at care fees planning there are two broad categories that people fall into; these being **self-funders** or **fully funded.**

Fully Funded

Being eligible for fully funded care is rare and this is where the total care costs are met, in their entirety by the NHS, this is known as **NHS Continuing Healthcare**. It is targeted at people outside of hospital who have primary and ongoing healthcare needs. Eligibility for this package rest with the Clinical Commissioning Group. Due to the strict criteria, and conditions that need to be met, the reality is that most applicants for free NHS Continuing Care will not be successful with a claim. This could be paid irrespective as to the level of income and/or savings the applicant has. If the applicant does not have sufficient funds (as detailed below) it is likely they will qualify for full or some assistance but typically assets and income will be assessed by the Local Authority.

Self-funders

Broadly speaking, if there are savings or assets of more than £23,250 (in England) and are being assessed by the Local Authority as needing care, any costs will need to be personally fully funded. Typical fees in the South East can easily be £1,000 per week.

Source: LaingBuisson Care of Older People UK Market Report 30th edition 2019 *https://www.payingforcare.org/how-much-does-care-cost/*

There are several choices that should be considered, either as a standalone solution or as a combination of options. In addition, there are certain benefits and allowances available from the State which will merit investigation.

One allowance that will be worthy of investigation is the **Attendance Allowance**. This is available to those who have reached State Pension age and are present in the UK at the time of a claim. The allowance is a tax free, non-means tested benefit for individuals who suffer from an illness / disability with care and / or supervision needs. This benefit is paid at a lower and higher rate, being £59.70 per week (lower) and £89.15 per week (higher)*.

Another allowance to look at is NHS Funded Nursing Care. This is a weekly payment of £183.92 provided by the NHS to registered nursing homes, to support the provision of nursing care provided by a registered nurse. To qualify, the applicant must be in a registered nursing home and have nursing needs. This allowance is claimed by and paid straight to the nursing home. It makes sense to check whether the amount quoted for care is inclusive of the Funded Nursing Care Payment.

The appropriate approach to funding care fees will be based upon each individual's personal circumstances. Considerations may be affected by age, state of health, other sources of income (both secure and variable), as well as assets and savings that are available to fund the fees.

Once these have been investigated there are various options that can be considered, some of these have been highlighted below and are in no particular order.

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Funding out of income
Generally, speaking, this is the first area to consider. Regular streams of income will go some way towards meeting the care fees. Typical examples of income used for meeting fees will be State Pension, private and company pensions and government support such as the Attendance Allowance. In most instances there will remain a shortfall between this income and the fees payable and consideration needs to be given as to how this can be 'made up'.

Liquid Assets
The next step to consider is 'liquid assets', such as funds held in a bank account, and whether care fees can simply be paid out of these. The attraction of this approach is that it is simple to administer with a direct debit or standing order funding the fees on a regular basis. The downside of this approach is that savings will be eroded by the cost of living / inflation with interest rates standing at their current level. Cash savings offer minimal opportunity for the lump sum to increase in value or maintain purchasing power.

Downsize
This could be appropriate where one of a couple requires care but the other will still require somewhere to live. This could release some equity which could be put towards care fees.

Rent out the property
Often individuals wish to hold onto their home and renting the property may permit this option. Retaining the asset enables any uplift in the capital value of the home to be enjoyed and the rental income received can go towards the cost of any care fees. Possible downsides include the cost of updating the property for the rental market, any income may be assessable for income tax and fall within a Local Authority assessment. There are on-going costs to consider such as agent's fees and upkeep of the property.

Sell the property
Having considered renting, many individuals often take the decision to sell the property to assist with the funding of the care fees. Remember, that the value of the property is disregarded for any Local Authority Assessment whilst a qualified person remains iving in the property. On the assumption that the property is sold, it is likely to provide a significant lump sum to assist with the payment of the care fees. As explained below there are further options for this lump sum.

Invest
Investing a lump sum can be a suitable measure to help fund care fees. In isolation, unless a significant lump sum is invested, it is unlikely that the returns made on the investment will be enough to fund the annual care fees. Therefore, the fees are likely to have to be subsidised by regular encashments from the initial investment.

In addition, thought needs to be given to a suitable level of investment risk and the timeframe over which any investment is considered. It should be noted that the value of any investment can fall as well as rise, and if the capital growth and/or income is sufficient to cover care costs, and any future rises, the capital could be eroded

Equity Release
This is a way of raising money against the value of the home, these are referred to as **Lifetime Mortgages**. Often the debt on the property rolls up with interest and is repaid on death or sale. Again, it is worth remembering that the property may be disregarded as an asset where a partner or relative remains within the property. Until recently, equity release contracts generally needed to be repaid when an individual moved into care. However, this market is becoming increasingly flexible with providers being willing to allow equity release contracts to continue even where care is being received within a residential care home.

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Another option is a **home reversion** scheme, which is where all or part of your property is sold at less than its market value in return for a tax-free lump sum, a regular income, or both. Under the terms of the sale agreement the applicant can stay on in the **home**, paying no rent. The principal downside of this option is the capital value of the home, excepting the initial payment, is no longer available and any potential upside in the value in the home is not accessible.

Deferred Payment Agreement

A deferred payment agreement is an arrangement with the local authority that lets people use the value of their homes to help pay care home costs.

If you're eligible, the council will help to pay your care home bills on your behalf. You can delay repaying the council until you choose to sell your home, or until after your death.

To take part in a deferred payment scheme:

- you should have savings and capital of less than a certain amount, not including the value of your home (in England this is £23,250) – funding arrangements are different in Scotland, Wales and Northern Ireland, so check with your local authority.
- you should be a homeowner or have another asset that the local authority can use as security.
- there should be no-one else living in the property who needs to stay there, such as a spouse, partner, dependent child, a relative aged over 60, or someone who is sick or disabled.
- you should be in, or planning to be in, a care home for the long-term – you won't be able to take out a deferred payment agreement for temporary stays in care.

** NOTE: Figures as of tax year 2020-21*

The Insured Route – Care Fees Plan(s)

A Care Fees Plan uses a lump sum to generate a secure stream of income for the care of the recipient's lifetime. All annuities are individually underwritten to arrive at the cost of covering the care fees, so the rate obtained is very different to under a conventional pension annuity. The Care Plan affords peace of mind or an assurance that funds will not run out to meet the agreed level of fees.

The trade-off is that a lump sum is required to secure the arrangement and in the event of early death, there is no rebate. Some level of guarantee can be included within the arrangement in the event of early death, but this will increase the cost.

Prefunded contracts

Whilst rare it is worth checking for the possibility of existing prefunded care policies which may have been set up in the past and will go some way to covering the cost of long-term care.

Sometimes these plans may be an "add on" to more conventional policies an example being single premium investment bonds. These plans are uncommon but will be potentially valuable if available.

As you will have noted from this there are many different areas to consider and more than one option may be used. It is important to consider all of these, whilst many will be discounted, it is imperative a full financial review is undertaken. Generally, the starting point is State Benefits but sometimes these can take a while to come through and therefore there may be a time period when this shortfall will need to be funded.

One solution to help in the decision is the construction of a cash flow plan. This will help demonstrate the sustainability of any funds by building in a forecast of both income and expenditure. This is an area where Wingate are able to assist.

If you are looking at care fees for a relative, or are concerned about your own position, at Wingate we have specialist advisers who deal in this area. If you would like to have an initial discussion, please contact your regular adviser who will put you in contact with the relevant person.

How Wingate can help with planning for long-term care

Two of our Chartered Financial Planners are fully accredited members of the Society of Later Life Advisers (SOLLA).

Peter Magliocco
Chartered Financial Planner

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Office: 01883 332261
peter.magliocco@wingatefp.com

Peter is a Chartered Financial Planner, and a member of the Personal Finance Society, which is the UK's leading professional body for financial advisers. Peter also holds the Society of Later Life Advisers (SOLLA) accreditation.

Peter's background is in the retirement market having started his advisory career in 1996 with a specialist retirement financial planning firm. Peter joined us in June 2014 having followed this firm through its transition to Alexander Forbes Financial Services and most recently JLT Wealth Management Ltd, providing financial solutions for his client's needs.

Peter lives in Caterham with his wife and daughter. In his spare time, he enjoys cycling and music.

Matthew Bond
Chartered Financial Planner

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matthew.bond@wingatefp.com

Matthew is a Chartered Financial Planner and a member of the Personal Finance Society, the UK's professional body for financial advisers. This represents his commitment to high standards in knowledge, professional development and ethical behaviour.

Matthew joined us in March 2016 and has over 20 years experience within the financial services industry, working for both product providers and adviser firms. Matthew deals with a broad range of clients, with a focus on saving for and at retirement.

Matthew lives in Purley and enjoys spending time with his two children, as well as going to the football and is seen (fairly!) regularly at the gym.

How can you help us?

We are very aware that this is likely to be an emotional time for you with important decisions that need to be made around finances and the best type of care for your loved one.

We aim to provide clear advice so that those involved can make informed decisions, in the knowledge that the individual needing care has the resources to meet the cost of their fees indefinitely and importantly in an environment of choice.

We can navigate you through the care options available and assist you in making an informed and tailored decision.

What is the first step to establish if you can help us?

The first step is for us to have an initial conversation and then if appropriate have an initial exploratory meeting, the costs of which are borne by us.

During this initial meeting we would usually cover the following:

- Background – your / the person requiring care story along with your goals and objectives
- Potential allowances and assistance available from the State
- The options available and the considerations around these
- The role and responsibility of the Local Authority
- The legal power to act for the person needing care – Powers of Attorney / Court of Protection
- Agree how to move forward

We understand that if you are sorting out the finances and care for a relative or friend you may feel concerned about this responsibility; we are here to provide our friendly expert advice to ease those concerns.

The next step

As mentioned the cost of an initial chat and any exploratory meeting is borne by us so if you feel that we could help please contact either Matt or Peter on **01883 332261**.

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