GUIDE TO LONG TERM CARE

Increasing life expectancy ought to be a cause for celebration but, unfortunately, while many people are living longer, they are not necessarily doing so in good health. A retirement spent on cruise ships or golf courses is only the outcome for a lucky few as, on average, people can expect around a decade of poor health in retirement. As a result, long-term care is becoming an increasing and pressing need for many.

THE COST OF CARE

The costs of long-term care are significant and, for many years, have risen ahead of inflation. Although the Government is now taking steps to address the potentially ruinous costs of care, many people will still have to face funding a large proportion of these themselves.

The 2013/14 Laing & Buisson Care of Older People UK Market Report showed average care home fees in, for example, the North West of England standing at £24,960 a year while in the South East they are £33,332 a year. Being cared for at home is even more expensive, with full-time nursing care costing in excess of £100,000 per year. As such, paying for care can quickly eat into a lifetime's worth of savings.

Complicating matters further, many people going into care are 'emergency' admissions, leaving individuals and their relatives little time to plan ahead. Equally, it is often difficult to know how long an individual will remain in care.

HELP FROM THE STATE

Two years after the Dilnot Commission's report into long-term care costs in the UK in 2011, the then coalition Government outlined its plans for long-term care funding. The original Dilnot Commission was set up to try and bring about a system whereby people could have some certainty about their long-term care costs rather than necessarily being forced to sell the family home or hand over assets built up over a lifetime.

Those original Dilnot recommendations have been watered down. The Commission recommended a lifetime cap on long-term care costs of £35,000 to £50,000 but instead costs will be capped at £72,000 from April 2016. The Government's new measures also raise the level at which people can receive state assistance.

BEING ASSESSED FOR CARE

Although there are moves afoot to change the current system, for the time being the local authority is obliged to assess every individual who requires care. This means determining the extent of the care they require and the best place for that care to be provided, regardless of income. The assessment involves a home visit and forms the basis for all financial discussions.

This guide is intended to provide information only and reflects our understanding of at the time of writing. Before you make any decision, we suggest you take professional financial advice.

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EXPERT WEALTH MANAGEMENT

At the moment, only those with total personal assets – including the family home – of less than £23,250 receive any help from the Government. The new proposals suggest this should rise to £118,000 from 2016.

The Government has also recommended a ceiling for 'hotel' costs such as food and accommodation. From 2016 people in residential care are expected to pay a contribution of £12,000 yearly towards general living expenses with the state helping out after that.

FINANCIAL ASSESSMENT

When assessing an individual's 'personal assets', the local authority will look at most conventional sources of capital and income. Capital might include bank or building society accounts, national savings and premium bonds, stocks and shares and property. An individual's home may be ignored, however, if a dependant spouse or other family member is still living there. Income would include any state, occupational and/or personal pensions. Certain assets are disregarded, including the value of certain life policies and annuities, plus some compensation payments held in trust.

OTHER GOVERNMENT ALLOWANCES

Other allowances that may be available to individuals to support their care needs are:

Attendance allowance: This is a non-means tested benefit for pensioners who need help with basic tasks such as eating or washing.

Personal Expense Allowance: This is a weekly personal expense allowance restricted to those individuals whose personal assets are below the threshold for state help.

Registered nursing care contribution: This is paid directly to the nursing home and covers nursing care, rather than hotel costs. Care homes should be able to outline how it is accounted for in their fees.

WAYS TO HELP COVER THE COST

Care home costs often come suddenly and can be difficult to quantify over the long term, especially because it is not easy to predict how long an individual will spend in a home. While the average time is just two and a half years, around one-fifth of those people going into a care home will remain there for more than four years.

While the bill for the average person may therefore be some £50,000 to £60,000, expenditure could run into hundreds of thousands of pounds for others, potentially using up almost all of the capital built up over a lifetime.

Once private funding is exhausted, individuals will be reliant on state funding, which may not be as generous and they could therefore be forced to take a drop in the quality of their care.

That sounds bleak but there are ways to manage care funding in order to lessen the financial burden for an individual and their family. A financial adviser will be able to help guide people to the best options for their needs.

INDIVIDUAL ASSETS

It is important to ensure all an individual's sources of income are used to maximum effect. This will include state, company and personal pensions, income from investments and other savings. It may be that investments can be redeployed to generate a higher level of income – for example, moving away from a growth strategy to income-generating assets. It may also be possible to let out all or part of the family home to prevent it being sold. An individual may also have family members who could contribute to their fees.

SPECIFIC PRODUCTS

'Immediate care plans' – also known as 'immediate needs annuities' – act like conventional annuities in that policyholders pay a one-off lump sum in return for an income stream for life. However, they are adapted to the needs of long-term care so, if the income is paid to a care provider, it will be free of tax. They may also have flexibility if an individual moves out of care for any reason. For some people, it might also be appropriate to use schemes such as equity release to access some of the capital built up in their home; however, it is vital to seek expert advice before taking action.

POWER OF ATTORNEY

Once individuals reach the point of entering a care home, they are often not in a position prudently to manage their own finances. A Power of Attorney allows someone to make decisions on an individual's behalf and it is worth ensuring this is in place well before it is likely to be needed. It is important to consult a solicitor in this regard.