

Long term Care

Many consider it to be good news that statistics reveal we now live longer, and can look forward to a longer retirement. However, the chances of remaining healthy and able throughout your retirement and into old age are unfortunately not so good.

The need for long term care is one of the greatest causes of concern for the elderly and their families. Concerns range from not being able to leave an inheritance to their family, to a realisation that they may not in fact be able to fund their care. Recent studies indicate that 40,000 homes are sold every year to pay for the costs of care and the average annual cost is £45,000 in a nursing home.

Local Authority Assessment

If an individual's assets are in excess of £23,250 there will be no contribution towards fees until the assets fall below this threshold, and if they fall between £14,250 and £23,250 only some financial assistance could be given, meaning that only the very poorest will receive assistance, and those with modest assets may find themselves bearing the total costs of care.

Allowances

Attendance Allowance is a State benefit paid to individuals who require care, which is not means tested and pays £71.40 at the higher rate, and is available to everyone over the State retirement age funding their own care costs. There is also a possibility that Registered Nurse Care Contribution can be claimed which is an additional payment from the NHS of £108.70 for those with usual care needs.

Financing Care- The Options

The Property

If keeping the property is a priority then consideration can be given to renting the home. The income can be used to cover the care fees while still allowing the property to stay in the family. However, this is not necessarily an easy solution; the rental income must cover the fees, taking into account periods where the property may be empty, and the income tax liability that will be payable. The responsibility of acting as landlord and completing tax returns is onerous and will lead to additional fees if professional assistance is required. There can also be the additional complication of creating a Capital Gains Tax liability if the property is subsequently sold having been rented for a period beforehand.

Savings & Investments

If the individual has savings then these will be used to assist in funding care. The options available include;

- Purchase an impaired life annuity.

This is a contract which exchanges a lump sum payment for an income for life, or a set number of years. These are medically underwritten and provide a higher level of income than a standard annuity. They carry the advantage of giving certainty and running no investment risk, and it is paid direct to the care home free of income tax. However, if the fees of the care home increase over and above the indexation of the annuity then there may be a shortfall, and if the individual dies in the early years then there may be a financial loss.

- Construct an investment portfolio

If there are sufficient funds an investment portfolio can provide capital growth, thereby assisting in funding the care fees. However, an individual may outlive the investment and any growth, there can be income tax and capital gains tax considerations, and management of the fund will carry professional fees. Furthermore, any such investment relies on investment performance which may be considered to be a risky option in a volatile worldwide economy.

- Regular premium contracts

These are monthly funded insurance contracts, which in the event of a claim would cover the cost of care for the remainder of the individual's lifetime. In order to make a successful claim claimants are required to be unable to carry out three of the six 'Activities of Daily Living'.

- Deferred annuity

An individual can pre-fund their care by purchasing a deferred annuity, which provides an income after a specified period.

Conclusion

The problem of funding is a growing concern. An increasingly aging population require care for longer, and with the reported deficit in the economy the State can ill afford to carry the financial burden without increasing hardship in other areas, such as the proposed deferment of the State pension age to 70. Any steps by the new government are likely to be controversial and there are no quick fixes making it essential for everyone to plan ahead and obtain expert professional advice.