FINANCE UPDATES

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RMB FINANCIAL MANAGEMENT

LONG-TERM CARE FUNDING

Building your savings for later life care.

Paying for long-term care is not cheap, and the burden first falls on private individuals.

Ros Altman – the former pensions minister – described the nation as "sleepwalking into a social care crisis", and already the costs borne privately are staggering. One newspaper last year reported that the latest annual bill for privately funded care was £10.9 billion.

The state does little to support anyone with a modicum of savings, so whether you plan for it or not, the assets you've accumulated will come under pressure when the need for social care arises.

WHY EVERYONE NEEDS TO PLAN

The numbers are simple – stark, even. If you have savings of £23,250 or more, you will not receive any financial support when going into a care home.

The value of your home is not taken into account if a dependent relative is living there, or you are receiving care there. In other circumstances it is counted as part of your wealth.

If you are not familiar with them, the basic costs of care are a real eye-opener.

Having a carer live with you can cost anywhere from £650 to £1,200 per week. A room in a care home may start at around £600 per week, and in a nursing home from £850 per week. But depending on where you live and your needs it could be considerably more. These costs are rising each year at a rate significantly higher than inflation.

PLANNING FOR CARE HOME COSTS

There are no dedicated care home saving or investment plans. Some have called for a social care ISA, but this has not been forthcoming. And it appears impossible to price long-term insurance solutions for something with so many variables and so much risk.

So your planning will most likely utilise familiar vehicles: bank accounts, ISAs, pensions and property.

When you are at the point of going into a care home, one or two insurance solutions become available – more on that later.

SAVINGS AND INVESTMENTS

ISAs and pensions will be considered in most long-term savings strategies because of the tax advantages they bring, and care home funding is no exception.

Pensions have a natural affinity, because they are intended to provide income in retirement – when you are most likely to require social care at some point.

In return for locking your money away, pensions come with attractive tax benefits, including tax relief on the way in, tax-free growth and a tax-free lump sum of 25% of the value on retirement. There are of course many restrictions and tax rules to understand, which we can help you with.

So when building a pot for the future, your money is really turbo-charged in a pension. If it is a company pension scheme, you will have the added benefit of employer contributions. And you can go on contributing and benefiting from tax relief right up to age 75, depending on your circumstances.

When it's time to use the money, this can either be done by selling your investments and purchasing an annuity, or through income drawdown where the pension remains invested and you take an income from it.

ISAs are simpler and you are not tied in for any length of time. You and your partner each have a £20,000 allowance each year, so you can certainly build up quite a fund over time.

With both pensions and ISAs your investment choices will be crucial to your long-term success. It is important to align these to your attitude to risk, objectives and timeframe among other things. Again, we can help you optimise this.

USING YOUR PROPERTY

Property certainly comes into the equation too when considering care home funding. Indeed, without other plans in place, it may do so by default. With planning you can retain control.

The council would not evict your partner or a dependant should they remain living in a property while you went into care. But they may hold it as collateral should you need council funding and recoup their costs against the property further down the line. This is called a deferred payment agreement.

For some this may be perfectly acceptable, but many people want to pass a house onto the next generation in one form or other, not see its value swallowed by a black hole of care costs.

One practical solution is to plan on downsizing. Our needs change over the course of a lifetime, and when a large family home may once have been necessary, it may be a burden later in life.

You may find that downsizing to something more manageable frees up all the cash you require to pay for your social care, whilst giving you and your partner an appropriate home for your later years.

Another solution is to rent out your property when it is time to go into a care home. This will allow you to retain the capital value, which may continue to grow, whilst gaining an income to fund care home costs.

Bear in mind that this may introduce a level of complexity into your life that is too much at a time when you are winding down: the chance of the property being vacant and not generating income, the property maintenance and admin, and tax among other concerns.

One thought that may cross your mind is to pass the property to offspring as a gift before you go into care. This is a risky strategy to rely on, however, as the council may well consider it a deliberate deprivation of assets and refuse to cover care costs. It's not known how far back they would look to make this judgement.

Aside from your primary residence, you may have a property portfolio on which you intend to rely: selling some of it off at the right time or simply relying on the rental income may be all that is required to meet your objectives.

INSURANCE SOLUTIONS

There may be no long-term insurance plans that can protect against care home costs, but there are some providers that offer what is called an immediate needs annuity or immediate care plan.

These are solutions that can be used at the point of needing to go into a care home, assuming you have a capital sum to purchase them. The provider will guarantee to pay the care home costs for as long as necessary. It gives you peace of mind that you will never run out of money to fund your own care.

To qualify for such a plan, you must be medically assessed as needing care and have a limited life expectancy.

If you don't use such a plan, you will need to ensure that the savings and investments you have built up are invested wisely so that they do not run out prematurely.

If this happened, the state would step in if your relatives can't, but you may be moved to a cheaper property.

We can help you build and manage a care home funding pot.

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

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