

Almary Green

> Independent Financial Advisers

A GUIDE TO FUNDING LONG-TERM CARE

AND
ASSOCIATED FINANCIAL PLANNING ISSUES



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FUNDING LONG TERM CARE

Introduction

The prospect of spending long years in residential or nursing care is a daunting one to contemplate, and many of us choose to bury our heads in the sand and hope it will never happen. However, with improved life-saving techniques and better drugs available to treat serious illness, we're faced with longer life expectancy and a growing likelihood that we will eventually need care.

Responsibility for funding this care falls increasingly on the individual needing care.

Local Authorities are required by law to collect care fees from the individual if his or her assets are valued above a very basic threshold—currently just £19,500.

Even if you have less than £19,500, you will still be asked to contribute to your care fees until you have just £12,000 left.

Once permanent care is needed, we are faced with the very serious concern that the assets we have accumulated during our lifetimes will be eroded at such a rate that the day may come when the money runs out, we may have to move to a less expensive care home and we are left with nothing to leave to our heirs.

It is possible to secure your future well-being in the event of long-term care being needed, and to preserve much of your estate for the benefit of your loved ones. With careful planning—preferably many years before the need for care arises—the cost of any care you may need will be met without difficulty.

This guide will explain how your needs and circumstances are assessed, how care is funded, and the products and plans available to help you meet the costs without endangering your entire estate.



Don't let the security you have built for your family be decimated by crippling care home bills.

Cost of Care:

According to 2002 figures, the cost of providing non-nursing residential care in East Anglia is around £300 per week—almost £16,000 per year. The average cost of a home providing nursing care is over £430 per week—over £22,000 per year, although the NHS will contribute towards the cost of the nursing care element of the fee.

Should the NHS Pay for Your Care?

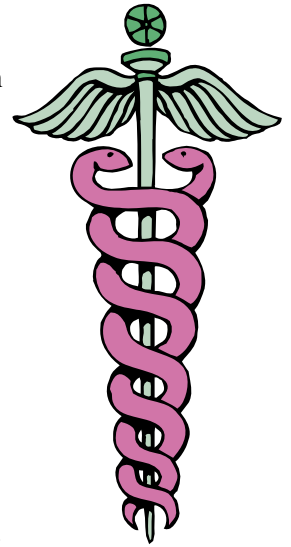
The NHS has a duty to provide continuing care for anyone who has a need for high level or frequent medical care. This has proved a controversial area, and there have been a number of cases reported recently in the press where those in care, or their families, are petitioning the NHS to refund the money they have spent on fees that they feel should, in fact, have been met by the NHS.

The current guidance suggests that individuals may be eligible for the funding if they have:

- Health care by a specialist nurse or therapist weekly or more;
- At least weekly visits by the doctor;
- Health care treatment which involved great skill at least weekly;
- A health problem which is unstable or unpredictable;
- Are terminally-ill and have rapidly-changing needs.

Our best advice is to **consult your GP** before beginning the process of looking for a care home. Advice about existing or past cases where you feel fees should have been covered by the NHS can be obtained from:

Continuing Care Programme Lead
Norfolk, Suffolk & Cambridgeshire Strategic Health Authority
Victoria House
Capital Park
Fulbourn
Cambridge
CB1 5XB



Assessment of Need

Your Local Authority social services department will assess your care needs. The care they recommend can vary from services provided in your own home, such as home help, to full nursing care in a residential home. If they recommend care in a care home, then you may be entitled to financial support from the Local Authority.

If you need regular assistance from health professionals and therefore require a place in a home providing nursing care, the NHS in England is responsible for meeting the cost of the nursing element, and this should be reflected in the fee you are quoted by the home concerned.

Once your need has been assessed, you are entitled to choose where you buy your care. In making that decision you should consider both private and local authority care providers and work out just how much you are going to need to spend.

This is the most critical point in the process. Get help from your Independent Financial Adviser before you commit to any long-term expenditure to finance your care.

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Seeking Assistance From Your Local Authority

Once your need for long-term care has been assessed and agreed, you may decide to ask your Local Authority to assist with the cost. The Local Authority will carry out an assessment of your capital and income to decide what assistance can be given. They will look at your savings and investments, your property and any income you may be receiving.

When assessing your **Capital**, the assessors will look at:

- Property or land (including your home in many circumstances—see overleaf). You may need to sell the property to fund your care, or, if that is not feasible, the Local Authority could place a legal charge on the property or land and claim back the amount owing when the property is eventually sold.
- Funds held in Bank, Building Society or National Savings Accounts
- Premium Bonds
- Stocks and Shares

When looking at your **Income**, they will consider:

- Your pension
- Invalidity Benefit
- Attendance Allowance/Disability Living Allowance (care component) if your stay in a home is permanent
- Widow/Widower's Pension
- Unemployment Benefit
- Severe Disablement Allowance
- Industrial Injury Benefits
- Income from Annuities
- Earnings from Employment or Ownership of a Business

There are some types of income that will not be taken into consideration:

- Disability Living Allowance (mobility component)
- War Widow's Special Payments
- Christmas Bonus
- Income from Savings (if income is paid into your account, it will count as part of your savings)
- Certain charitable or voluntary payments, which could be made by a relative, intended to pay for a special item not covered by your chosen home's fees
- Attendance Allowance or Disability Living Allowance (care component) if admission to the home is temporary.
- Money needed to meet home commitments—eg mortgage interest payments, water rates, etc.

If you have assets worth more than £19,500 held in your name (but see overleaf for how joint assets are handled), you will be required to pay the full cost of your care until your assets have dwindled down to that level.

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Means Testing—what it means in terms of the help you can get

Each Local Authority sets a **standard rate** for care in homes arranged by them—the maximum amount it will contribute to a care home place. You will be required to fund any costs charged by your chosen care home over and above this figure, irrespective of your financial position.

- If you have capital of your own above £19,500, you will be assessed as being able to pay this rate in full.
- If your capital is between £12,000 and £19,500, you will be expected to make some contribution from your capital as well as from your income. Every £250 or part of £250, of capital between £12,000 and £19,500 will be assessed as though you have an extra £1 per week income eg if you have £12,600 in capital, you'll be assessed as having an additional £3 per week income. This additional assessed income is known as **tariff income**.
- If your capital is worth less than £12,000 you shouldn't have to make a contribution from your capital, but you will still be expected to contribute from your income.

In calculating the amount to be contributed, the Local Authority has to allow you to retain a Personal Expenses Allowance of £17.50 per week. The remainder of your income will be used to contribute to your care fees.

Joint Assets

If you hold capital jointly with another person or people, your share will generally be deemed to be an equal portion of the capital, divided between the joint owners (but see below for how joint property is treated). It is worth considering dividing any joint bank or building society accounts so that each person holds their capital separately.

Your Home

If you own your home it is, of course, part of your capital. If you are single and living alone, then **the value of your house will be taken into consideration when assessing your capital** and it may be necessary to sell the property to meet your care fees bill. However, the Local Authority must ignore the value of your former home where it is occupied by one or more of the following:

- Your spouse or partner (ie someone you live with as if you were married)
- A relative who is aged 60 or over
- A relative who is under 60 but is incapacitated
- A child under the age of 16 whom you are liable to maintain
- A lone parent who is estranged or divorced from you



The Local Authority also has a measure of discretionary power and can ignore the value of your home if, for example, it is lived in by someone not falling in the above brackets but who has been helping to care for you or who has been living with you.

In many cases, however, the sale of the family home may not be enough to finance the entire period of care needed and the prospect of running out of cash can cause you undue stress as the years progress.

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Planning Ahead for Care Fees

It is possible to fund any future long term care through a range of insurance products. The plans available provide funding for the shortfall in your expected income at that stage in your life—ie as a top-up to your existing pension and income arrangements.



There are two main routes to providing this type of cover:

Route 1: Single Premium Insurance Plan

With this route, you make a single one-off investment to provide the future income needed to fund care. Before setting up the plan, the investor completes a health questionnaire and the premium required is set according to the health and age of the investor. The setting up of the plan involves two stages:

1. **The Bond**

The money you invest is used to purchase an investment bond. The investments made by the provider generate an income which increases the value of the fund.

2. **The Care Plan**

Withdrawals are made on a monthly basis from the fund to cover the premium payments needed to fund the care plan.

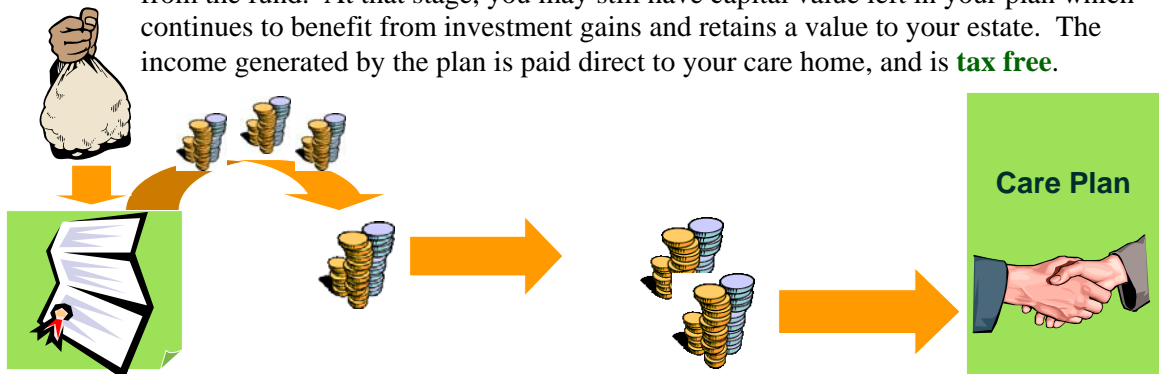
Once the initial investment has been made and the first premium paid, the investor is covered for the amount set out in his or her plan, should care be needed.

The primary advantage of this route is that the bond you purchase remains a valuable asset with a value to you and your heirs. The bond remains accessible—you can cash it in if needed (although you will no longer be covered by the plan once you have done so).

If you die without claiming against the care plan, your fund retains a value that can be passed on to your heirs. The value of the fund to your estate will be either the value of the investments at the time of your death or the value of your initial investment, whichever is the higher.

If you reach the age agreed between you and your insurer at the outset of the plan, usually 85 or 90, without claiming, no further premium withdrawals will be made from the fund. Cover continues nonetheless until either you need to take up care, or your death.

If you do go into care and the care plan is activated, premiums will cease to be withdrawn from the fund. At that stage, you may still have capital value left in your plan which continues to benefit from investment gains and retains a value to your estate. The income generated by the plan is paid direct to your care home, and is **tax free**.



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On the downside, there will be a gradual erosion of the value of the fund over time and if you live a long and healthy life without a need for care, your fund may be considerably reduced.

The care plan will set out the conditions under which you will be able to call on the plan to assist you with care costs. As a rule, your plan will stipulate how many of the “Activities of Daily Living” standards you need to have failed in order to claim assistance under the plan. There are 6 assessable ADLs:

- Washing
- Dressing
- Feeding
- Contenance
- Mobility
- Transfer from Bed to Chair

Route 2: Regular Premium Insurance

This is an alternative to the Investment Bond route and takes the form of a traditional insurance policy where regular premiums are paid direct to the insurer, generally either monthly or annually. On the plus side, cover is available to you from your very first premium, and the plan will be good value if you are unfortunate enough to make an early claim. Premiums cease as soon as you enter into care, and the plan provides the agreed top-up to your income for life.

However, this solution may work out to be an expensive option if you don't make a claim for a very long time, or if you never claim. As with other insurance policies, once paid, your premiums cannot be returned to you, and your plan retains no value for your heirs.

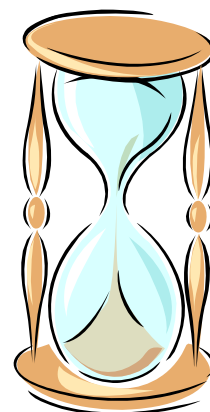
Immediate Care Plans—the ideal solution if you need care now?

Immediate Care Plans are aimed at those whose need for care funding is more imminent and for whom it is too late to plan ahead. They are typically taken up by those who are about to go into a care home, or who are already resident in a home and who are concerned about their future ability to fund the fees involved.

The plan is bought for a cash purchase price—often funded by the sale of your home or assets—and provides a top-up to your pension to cover the expected shortfall between your income and the care fees—for life. The added bonus of the plan is that the income generated by the plan is tax-free, provided it is paid direct to the care home.

When looking at the feasibility of this type of plan, you should first consider:

- If the NHS should be funding your care
- What affect the plan income will have on your entitlement to social service benefits and allowances



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There are three basic steps to taking up this type of plan:

1. You complete a confidential health questionnaire
2. We obtain quotations for you via Medical Direct—an independent body funded by the Insurance Industry.
3. Together we work out which plan best meets your needs.

The plan will guarantee regular, tax-free payments to your care home for life, at a level set out in the plan. The plan will often incorporate inflation-proofing measures, and your care home may well agree to peg any increase in their fees to no more than inflation, if you sign up for a long-term deal with them.



However, you should bear in mind that Immediate Care Plans are generally **irrevocable**—once you have purchased the plan, your cash is gone. It is possible to build in some capital protection to cover your investment in the event of your early death, but this will, inevitably, put up the cost of the plan.

Much like buying an annuity (what you buy with your pension fund to provide an income for life in retirement), the choice of Care Plan is a serious, fundamental decision which will have an impact on your well-being and happiness. **We strongly recommend that you take advice from an Independent Financial Adviser before committing yourself to any irrevocable course of action.**

Help for Non-Residential Care

Most care plans will also include funding the provision of non-residential care. This can include therapy, home help, meals or assistive devices (eg walking sticks and stairlifts). Make sure the plan you select allows for the supply of these, particularly if it is important to you to stay in your own home as long as possible.

Care Counselling

There is an additional valuable benefit that comes with the purchase of a care plan. Insurance companies employ **Care Counsellors** to help their plan holders get the best possible care.

The Counsellor will help you work out what care is most suitable for your needs, put you in touch with sources of support and help—such as Charity Groups for fellow sufferers of your medical condition—and will make the arrangements for you to be transferred to your chosen care home, if that is what is needed.

This facility can be a huge benefit for you and your family at a time when you are all under a great deal of stress and are faced with a confusing array of choices and decisions to be made.

Once the placement has been made, your Care Counsellor will keep in regular contact with you and your family to ensure that the arrangements are working well and that no further help is needed.

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Tax Issues

If you were to generate sufficient income through your capital to fund your care home fees, you would very probably be liable to pay income tax. Care plans replace that need for income, and you could see a substantial tax saving.

Converting assets to cash may also bring a capital gains tax liability and we recommend that you get good tax planning advice to keep your tax bill as low as possible. You should also give careful thought to the future inheritance tax bill facing your heirs—there are ways to keep this to a minimum and a tax planning adviser will help you plan the structure of your estate for the benefit of everyone involved.

Don't be forced to move to a cheaper care home once your capital has run out. Make sure that your planning includes paying what it costs to stay in your chosen home, whether it is privately or local authority run.

Almary Green Independent Financial Advisers

Based in Norwich's newest premier professional district, Meridian Business Park, Almary Green Investments Ltd provides independent financial advice and support to businesses and individuals throughout East Anglia and beyond. Their advisers have a collective depth of experience extending over many years and they are specialists in advising both individuals and businesses on how to prepare for a prosperous future.

Almary Green's aim is to offer a genuine good deal to its clients by taking a reduced commission on pensions and investments, preferring to pass the resultant savings onto the client minimising the effect of charges on their investments—and in many cases reducing them to nil.



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