Teachers
Financial Planning

Long-term care

As is the case with many elements of financial planning, funding long-term care is something we generally prefer not to think about.

The unfortunate reality is that many people will need long-term care as they get older, so planning for this eventuality can help to put your mind at rest and make the ordeal easier.

Funding long-term care

In his March 2013 Budget speech, the Chancellor George Osborne announced that the Government will introduce a cap of £72,000 on 'reasonable care costs' for the elderly. Social care costs over and above this amount will be met by the Government. The Government is also extending the residential care means test so that there will be greater access to financial support for social care.

However, these changes will not come into effect until 2016. So how are long-term care costs met now?

How much do care homes cost?

The actual cost will depend entirely on your circumstances. Factors that will make a difference include:

- The type and level of care you need
- The location and style of care home
- The size of your room
- The level of service required.

A survey this year revealed that the average cost of residential care is £596 a week, while nursing care rises to £764 a week. These costs can soon add up and eat into any savings that you have.

Local authority or private funding?

The first thing to establish is whether you could be eligible for a contribution towards the cost of long-term care from your local authority or the NHS.

The amount provided by the state will depend on your income, the value of your assets and savings and whether you live in England, Scotland or Wales.

Means testing

A means test helps local authorities to calculate how much you should contribute towards your care. Your regular income such as pensions, benefits and earnings will be taken into account along with your capital, which includes savings, investments, land, property and business assets.

The following table provides an outline of the rules around receiving assistance for long-term care costs. Investments, land, property and business assets are all included in the term 'assets and savings' but your home is not, provided your stay in a care home is temporary or your former home is occupied by your partner, a dependent relative or a separated partner who is a lone parent.

Region	Local authority or trust helps to pay for care costs if you have assets and savings of	Your local authority will pay for the cost of your care if your savings and assets are less than
England	£23,250	£14,250
Scotland	£25,250	£15,500
Wales	£23,750	£23,750

You may still contribute some of your income.

In England assets valued at less than £14,250 are ignored by the means test but, if you have assets worth between £14,250 and £23,250, £1 a week will be subtracted from the contributions you receive for every £250 you have over £14,250.

The above varies depending on the region you are in.

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Reviewing your means

If your capital falls below the limits listed, the amount you have to contribute to the cost of your care may change. Most local authorities will only review your means annually, so it is worth monitoring these levels yourself.

Self-funding

If you are funding the cost of your own long-term care you are what is known as a 'self-funder'. It is important to understand your options as a self-funder and to plan carefully to make the best decision for your circumstances.

Seeking professional advice is vital. Long-term care is a specialist area and you will need to find an adviser that specialises in self-financing for long-term care costs.

When it comes to self-funding there are several options, including:

Using your investments

A specialist adviser will be able to help you review your investment portfolio and advise on whether a restructure could help you to produce a steady stream of income to pay for your care.

Doing so could prevent your capital from being eroded, although the value of investments may fall as well as rise.

Using your property

Releasing equity from your home could help you to self-fund your long-term care. You can use the money to fund care directly or to buy an annuity that will then pay out an income to help cover care fees.

There are two main types of equity release scheme:

1. Lifetime mortgages

You take out a loan against the value of your property. Interest is added to the loan.

2. Home reversion

Some or all of the property is sold to a home reversion provider in return for a cash lump sum and a rent-free - or lower than market rate - lifetime lease.

Equity release is a complex area and it is important that you discuss its suitability with your financial adviser.

Long-term care annuities

Immediate-need-care fee payment plans, or immediate care plans, are a type of annuity contract. They work as a type of insurance policy offering a regular income in exchange for an upfront lump sum investment.

Such care fee payment plans are designed to cover the shortfall between your income and your care plan costs for the rest of your life. The cost is based on how much income you need and the insurance company's assessment of how long you will need it for.

As long as the annuity is paid directly to the care provider it is tax free.

Seek specialist advice

Whatever route you choose for self-funding your long-term care, you will need to be confident that it is the right choice for you. Running out of funds can soon become a reality if costs increase year on year.

A specialist long-term care adviser can help to ensure you find a funding solution that is:

- Suited to your specific needs
- In line with your financial goals and attitude to risk
- Affordable and sustainable.

Your adviser will be able to explain all the costs and risks associated with each option as well as offer advice on aspects such as trusts and power of attorney.

Your financial adviser will be able to help and advise when it comes to planning for long-term care needs. Please contact us to find out more.

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.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. The value of investments can fall as well as rise and you may not get back the full amount you originally invested.

Your home may be repossessed if you do not keep up repayments on your mortgage. Equity release may involve a lifetime mortgage or a home reversion plan. To understand the features and risks, ask for a personalised illustration. Equity release is not right for everyone. It may affect your entitlement to state benefits and will reduce the value of your estate.