Teachers Financial Planning

Funding long-term care

An overview of some of the options available when paying for care.

Estate UPDATE

If you have parents who are fit and well, it's difficult to imagine that those active people who help out emotionally and physically (as well as financially in many cases) won't stay that way.

But fast forward 10 or 20 years and the time will come that they may need some help for themselves. Would you want them to come and live with you? Would your partner be happy with that? Would you be able to cope if their care requirements got more specialised?

However strong your desire to look after your loved ones at home, the reality is that many people have to move into a nursing or residential home.

Care homes can be costly and those with nursing are even more expensive. Depending on where you live, it can cost £1,000 a week without nursing, and around £1,200 a week with it. That's at least £52,000 a year that your parent(s) or you will have to find. If an individual has an ongoing medical condition they may be entitled to financial assistance or care provided by their local authority or via the NHS continuing healthcare service.

If your parents own a property or have some savings or investments, then the short answer is that, although there are some differences in Wales and Scotland, they will be expected to pay for their care.

Care cap

You may be wondering about the care cap that received a lot of publicity when it was announced.

This was going to be introduced in April 2016, capping the total cost of care (excluding 'hotel' costs) at £72,000, with the government picking up the tab for everything over and above that.

However, this has now been delayed to April 2020.

In the meantime, here is an outline of the options available.

Immediate needs care plans

These plans are an annuity contract. This is a type of insurance policy that provides a regular and guaranteed income to pay for care costs in exchange for an upfront lump sum investment.

The insurance company assesses how long they think the person will live, given their age, state of health and other factors. They will add the level of income needed into the equation, and then calculate the lump sum required to buy the level of income required to cover the shortfall between the individual's income and the costs of their care for the rest of their life.

Pros

- peace of mind of knowing that a regular income for life has been provided that can be used towards care costs, whatever happens
- the income stream will be guaranteed, although the cost of care can and probably will increase over time
- the cover can be indexed, at a cost, to increase over time, covering any care cost increases.

Cons

- once the annuity is taken out, the plan can't be cancelled if care is no longer needed
- if the person dies earlier than expected, you won't get any money back, except if extra has been paid at the start by adding a special capital protection clause
- the income from the plan is tax-free only if it is paid directly to the care provider.

Talk to us about the cost of care.

750 Mandarin Court Warrington
Cheshire WA1 1GG
08452 696990 info@teachersfp.co.uk

Funding long-term care

Home reversion plans

Home reversion plans are a type of equity-release scheme that lets people use some of the money that's tied up in their home.

All or part of the property is sold at less than its market value in return for a tax-free lump sum, a regular income, or both. The original owner stays on in the home as a tenant, paying little or no rent. When the home is eventually sold, the reversion company gets its share of the proceeds.

Pros

- releases a lump sum to pay for living costs
- no need to move home (until a permanent move into a care home)
- the equity released is tax-free if it is a person's main property.

Cons

- if a plan is ended early, the share sold will need to be bought-back at full market value which could be a lot more than the original owner sold it for
- not all home reversion plans are portable
- the reversion company's permission is usually required if someone else such as a relative, carer or new partner wants to move in
- entitlement to benefits may be affected.

Lifetime mortgages

Like a home reversion plan, a lifetime mortgage is a type of equity-release scheme that lets individuals use some of the equity from their home.

Money is borrowed against the value of the home and then repaid when the house is sold. The loan can either be taken as a lump sum or in amounts drawn down over a set period or for life.

Interest is charged on the loan, which is either paid, or more usually, allowed to roll up.

When the original owner dies or moves out, the home is sold and the money used to pay off the loan.

Pros

- the loan is repaid on death or the sale of the property
- potential to benefit from any future increases in the value of your property
- fixed interest rates
- when the house is eventually sold and the debt paid off, there may be money left over to provide some kind of inheritance
- the equity released is tax-free if it's an individual's main property.

Cons

- entitlement to benefits may be affected
- can be inflexible if circumstances change.

Investment bonds

Investment bonds are a form of single premium (lump sum) life insurance policy for investment purposes.

The life insurance company invests the lump sum in a range of funds until the policyholder either cashes the bond in or dies. The bond also includes a small amount of life insurance, and on death will pay out slightly more than the value of the fund.

Pros

- if the capital is maintained, investment bonds can generate the money needed to pay for care, and leave a lump sum to pass on to beneficiaries
- up to 5% of the original investment amount can be withdrawn each year without any immediate income tax liability
- the surrender value of investment bonds that include life cover will be disregarded from assessments for care cost eligibility, provided that the investment wasn't made with this intention.

Cons

- the money may be tied up for up to 5 years depending on the policy terms
- there may be penalties if the bond is cashed in early
- returns are not usually guaranteed and may not cover the cost of care
- bonds are not tax-free - the tax is simply deferred until the bond is cashed in.

Downsizing

The simplest and most cost-effective way to release money to pay for care is downsizing your home.

Pros

- complete freedom to make your own decisions about life
- retain financial independence
- frees up lump sum to spend or invest
- owner retains ownership.

Cons

- have to move home.

Get in touch

As you can see, funding long-term care is fraught with difficult decisions. There is no simple answer to what the best solution may be. The one thing that is certain is that the sooner you start thinking about it, the more options you have when the time comes.

Contact us to discuss funding care.