eldercare
SOLUTIONS

Paying for care

Important things you and your family should know

Contents

An introduction to care fees planning

One of the things that most people moving into a care home are concerned about is cost and what would happen if their savings should run out whilst they are in care. The uncertainty of not knowing exactly what the final bill will be can cause unnecessary worry for the whole family.

If you are having to meet long-term care costs yourself, or are arranging this for a relative, it is likely that you have been 'left to get on with it' and may have received no clear guidance about your funding options or the benefits that you may still be able to claim. It is even possible that you will have been misinformed about your entitlements, particularly if the family home is the main asset or if you are in need of complex and intense medical care.

Even if you know people who have had some experience of the care system, it is likely that their circumstances were slightly different to yours and so bespoke advice from a specialist is usually advisable.

Our Care Fees Advisers understand fully the situation that you are in and will be pleased to dispel any myths and arm you with the facts about your rights and your options. Drawing upon years of experience and knowledge in this area, they will explain clearly the care funding choices you have and direct you to the most appropriate solutions.

Whilst it is almost certainly best to speak to someone directly about your own specific situation, we appreciate that at this stage you may only be looking for some general guidance and so we hope that the information contained within this guide is of interest and relevance.

If needing care, what Government support can I expect?

If you have capital currently totalling in excess of £23,250 (in England) you will not qualify for assistance from your Local Authority until such time as your capital drops below this amount (or equivalent limit at the time). In this scenario, you will have to meet your care fees in full from income and capital.

Most savings and assets are included in the Local Authority financial assessment, but some confusion has surrounded the subject of whether or not a person's home is included. It is not included in the means test if:

- The spouse still resides in the home
- A relative over 60 resides in the property
- A disabled relative lives at the property
- A child under 16 lives in the property
- The person is in the first 12 weeks of needing permanent care
- The care is being provided on a temporary basis

Where a property is jointly owned with someone not mentioned in the above list, we recommend that you speak to one of our Care Fees Advisers about the way this has been assessed by the Local Authority as valuations of part-shares in a property are not always carried out correctly.

If you were to gift your property, perhaps to family, with the intention of it being excluded from the Local Authority financial assessment at a future date, you should be aware that there is no time limit for the Local Authority to look back and question the motive for the transfer. If you have heard of a '7-year rule' for gifting, this relates exclusively to Inheritance Tax planning.

"It's difficult making financial arrangements on somebody else's behalf but Eldercare were so patient throughout the process. I cannot fault our dealings with this Company...

Customer in Essex

I have heard that the system is changing?

Having already abandoned the introduction of a £72,000 Cap on care costs due to be implemented in April 2016, a further announcement by the Government stated that from October 2023 there would be a Lifetime Cap on care costs of £86,000. This has now been postponed to October 2025 and many think it may never happen.

Even if it does happen, it is important to note that it won't be the total cost of your care that will count towards the Cap. It will be a weekly amount set by the Local Authority after assessing your needs (called an 'Independent Personal Budget') and this could be considerably lower than you are actually paying, if you are a self-funder.

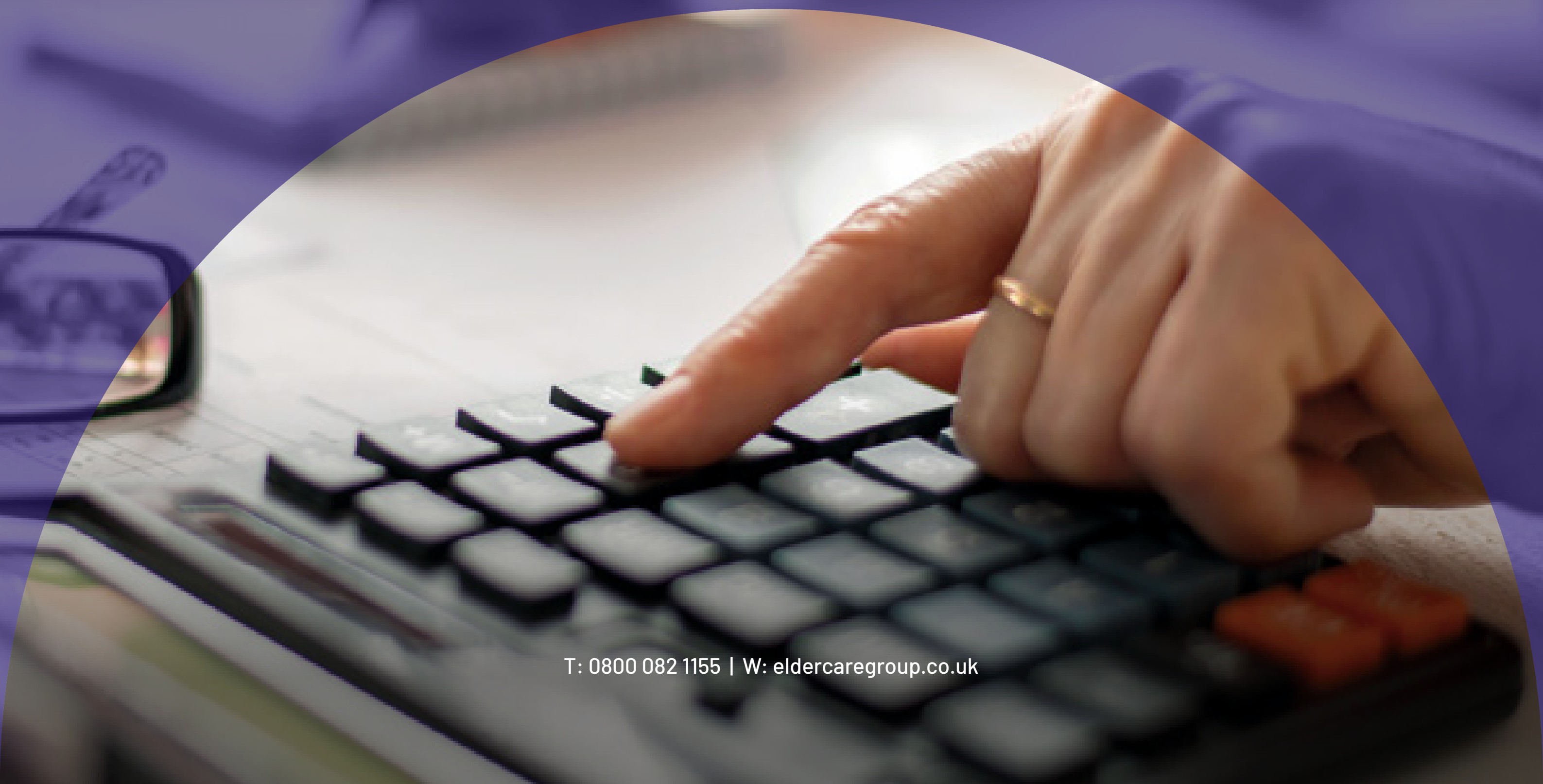
To make things worse, an assumption will be made that £200 of the Independent Personal Budget will be for 'hotel' costs, not care, and so this won't count towards the Cap either.

It is unlikely that any money spent on care between now and October 2025 will count towards the Cap.

By way of an example, if a self-funder has chosen a Care Home costing £1,400 per week, but the Local Authority set an IPB of £600 per week and deduct the £200 per week 'hotel' costs, only £400 of the £1,400 actually being paid by the individual will count towards their Cap.

Using these figures, it will take just over 4 years (from October 2025) to reach the Cap, by which time far more than £86,000 will have been spent. The only 'unknown' at this is the amount the Local Authority would actually set as your IPB. The higher the IPB, the sooner the Cap will be reached.

Please do get in touch for more information.



What are the 12-week Property Disregard and Deferred Loan?

As mentioned in the exemptions in a previous section, the Local Authority must disregard the value of your property for the first 12 weeks of you moving into a care home on a permanent basis, provided your other savings and capital total less than £23,250.

To qualify for this financial support, the Local Authority would first need to carry out a care needs assessment to establish and agree that you do actually need to move into a care home. If they do not think you need to move into a care home, they can refuse to make this contribution.

The Local Authority covering the area in which you currently reside is the one responsible for this, not the Local Authority for the area to which you are moving, if this is different.

Your Local Authority will have a standard amount that they will be prepared to pay towards your care and, if this is less than the private fee charged by your chosen care home, the home may require a top-up payment. This can be made from the remaining savings you have, provided the amount of savings falls between £14,250 and £23,250.

“Excellent honest support that helped us, as a whole family, decide which options to take to fund my mother’s stay in a Care Home.

Customer in Hertfordshire

Under the 12-week disregard rule, your income will be taken into account by the Local Authority and so, broadly speaking, it is only the difference between your income and their standard contribution that will be paid by them. For example, let’s assume the fees at your chosen care home are £750 per week and you have assessable income of £200 per week.

If your Local Authority has a standard contribution of £400 per week, they will actually only contribute £200 per week and so the care home may expect a £350 per week top-up to be made. This money (i.e. the £200 per week contribution x 12 weeks) does not have to be repaid to the Local Authority.

“...I would recommend any family with a loved one entering a Care Home to call them. I can assure you it will be worth it. Without their specialist advice, it is highly unlikely that the best funding solution will be found.”

Customer in Norfolk

After the initial 12 weeks, if the property has still not been sold or you have decided not to sell it, the Local Authority may be able to lend you the money to pay for your care through a ‘deferred payments agreement’ or ‘deferred loan’ to be recovered when your property is eventually sold.

The loan can be for the full cost of care (not just the amount the Local Authority would typically pay for someone). They can charge you costs for setting up the loan and they will probably charge you interest. The rate they charge can’t be more than a government-approved standard rate, linked to the market gilt rate, which is published every six months, plus 0.15%.

They must allow you to keep a minimum amount of income each week called the Disposable Income Allowance (DIA). You can choose to contribute more towards the costs of your care and keep less than the DIA if you wish; however, the Local Authority can’t make you do this.

You may be thinking about renting your property out, rather than selling it, in which case you should seek advice to make sure you fully appreciate any tax implications of doing this, namely potential Capital Gains Tax and Income Tax on any rental revenue. There are many other factors to consider not least the issues of wear and tear and void periods whilst a tenant is found.

Is there any other financial help I may be entitled to?

Attendance Allowance is a non-means tested, tax-free state benefit which is payable to those over the age of 65, who have needed care for longer than six consecutive months.

Attendance Allowance can continue to be paid to you whilst you are in a care home, provided you are paying for the care yourself and are not funded by the Local Authority. Many people think that it stops when someone moves into care but this is not the case if you're a self-funder.

There are two rates – a lower rate, for those who need help during the day or the night and a higher rate, for those needing care during both the day and night. The current weekly figures are £68.10 for the lower rate and £101.75 for the higher rate and you can request a claim form by calling **0800 731 0122**.

What about free nursing care?

If you are assessed as needing nursing care in a nursing home or in your own home, as opposed to just needing personal care then, regardless of your financial situation, you will be entitled to receive either a contribution towards your care fees or to have the costs met fully by the NHS.

Currently, the Funded Nursing Care contribution (FNC) amounts to £219.71 per week for any resident assessed as having registered nursing care needs. By definition, this contribution does not apply to people in residential care homes that do not provide nursing care.

Each resident should be personally assessed by an NHS nurse (not the care home), at the time they enter a care home or are discharged from hospital. This assessment will determine whether they are eligible for NHS Continuing Healthcare (whereby their full care costs are met) or for the weekly FNC.

If you are assessed as needing continuing NHS healthcare, you do not have to pay any of the cost of your care. To be eligible, you must have a complex medical condition that requires a lot of care and support and/or very specialised nursing support.

The assessment should be repeated after the first three months and annually thereafter. It is possible that individuals will find themselves being moved between NHS Continuing Healthcare and the FNC after each assessment.

Who can make decisions for me if I am unable to?

It would be a sensible precaution to set up a Lasting Power of Attorney (LPA), as it is possible that, at some time in the future, you may not be able to look after your own affairs. In the event of becoming unable to cope, this document authorises one or more persons to act for you on your behalf. You can set up a Health and Welfare LPA and/or a Property and Financial Affairs LPA.

The Property and Financial Affairs LPA can authorise another person to sign papers and make decisions relating to particular matters or in relation to all dealings, depending on the degree of authority you wish to grant. A solicitor or qualified will-writer can draft precisely the type of power of attorney you require. Taking such action will remove the need for the complicated and possibly costly procedure of applying to the Court of Protection to administer your affairs.

Setting up a Lasting Power of Attorney is a matter that should be addressed now, even if there is no immediate need for its existence. If you wish to arrange this, our Care Fees Advisers will be able to put you in touch with someone who can assist you.

If a Lasting Power of Attorney has not been set up and a person no longer has mental capacity, an application will need to be made to the Court of Protection by a representative of that person to become their Deputy. It is essential that any Attorney or Court Appointed Deputy makes decisions that are in the best interests of the person that they are acting for and not the potential beneficiaries or other family members.

If you already have an old-style Enduring Power of Attorney (EPA) then, as long as it was set up correctly, it can still be used. It must be registered with the Court of Protection should you lose mental capacity and it can't be used during the registration process.

If I am paying for care, what happens if my money runs out?

Your Local Authority will have an obligation to fund your care once your capital reaches £23,250 provided that you meet their eligibility criteria.

However, they will have a maximum weekly amount that they are prepared to pay, which will be inclusive of most of your income. If your care home fees are higher than this, the care home might ask you to move to a smaller room or they could even insist on someone (usually a family member) making up the difference financially and ask you to leave if this is not possible. This is usually referred to as a 'third-party top-up'.

It is important to note that it is not the Local Authority who decides whether you can stay in a particular home or not if your money 'runs out' – it is the home themselves. You should therefore check the situation before accepting a private care home place. The care home contract should state exactly what happens if the private fee rate can no longer be paid but if this is not clear, please call us for guidance.

What options do I have if I am paying for my care?

As we have already identified, if your capital and savings push you above the means test threshold, you will generally be responsible for the funding of your own care fees.

However, with careful planning it may be possible to structure your finances in such a way that your care fees can be paid indefinitely and some of your capital protected, thereby ultimately passing on to your beneficiaries. You will, of course, already have some income that can go towards your fees and there may be some additional benefits that you can claim, as outlined earlier. It is likely, however, that there will still be a 'shortfall' which needs to be met each month. You have a number of choices in respect of how you make up this shortfall.

"Having contacted other 'specialists', I felt that Eldercare provided the clearest advice about Care Fees Annuities. The information was precise, balanced and I was not pushed to look at other financial products..."

Mr J Morse

"...I valued having a contact always available at the end of the phone with whom I could discuss my queries, which were dealt with in a compassionate and caring manner."

Mr J Morse

1) Paying directly from capital

This is the most common approach, although research suggests that this has more to do with lack of awareness of alternative funding methods than because it is the most suitable. In most cases there is the possibility of the capital running out.

It would not be the choice of most families that virtually all of the estate or capital is spent on care fees if this could be avoided.In the event that the care fees erode all of the estate then this could present difficulties with the care provider.

Some homes will continue to provide care and just accept the funding offered by the Local Authority, others will insist on the full private fee rate continuing to be paid or ask you to move to another home that will accept the lower rate.

As most people would prefer certainty and would also want to know that some of their capital was left intact to pass down the generations, meeting care costs on a 'pay-as-you-go' basis offers them little peace of mind.

2) Investing the capital

There is a vast array of investment vehicles available, offering a range of returns and carrying different degrees of risk.

If you have a significant amount of capital, then investing it wisely may produce the income required to meet the shortfall but in the current economic climate this is becoming a less viable option.

Unless the income generated is meeting the shortfall in full, some capital erosion will still occur. The risk is therefore that as the capital goes down each year and the care costs increase (usually) each year, you could still run out of money and become reliant on the Local Authority.

In the absence of a crystal ball, and without knowing for how long you will be in care, you will have no idea to what extent the capital will be eroded.

To give you an idea of how much capital would be needed to fund fees without using the capital itself, an amount of £250,000 invested would generate just £7,500 a year assuming it were possible to secure a 3% rate of return before tax.

For most people, this method of funding therefore also carries a degree of uncertainty and risk.

3) Care fees annuities

Purchasing a care fees annuity (sometimes referred to as an immediate needs annuity) is a genuine alternative to meeting care costs directly from capital or investments.

These are plans which have been specifically designed to take into account the age and state of health of an elderly person who requires personal or nursing care. In this respect they differ completely from standard annuities, such as those used to provide pension income.

The care fees annuity is purchased from an Insurance Company with a one-off lump sum payment (usually from your investments, savings or property sale proceeds), which is non refundable unless some form of capital protection is included. The income paid out by the Insurance Company is then paid for the rest of your life, leaving your remaining capital 'ring-fenced' from future care costs. The income is tax-free.

This type of policy offers a guaranteed method of meeting the fees for life, although the risk they carry is that capital could be lost if you do not need care for as long as the Insurance Company had predicted, unless you choose to add some level of capital protection or buy the plan with a deferred start date as described on the next page.

Any money spent on the care fees annuity will immediately reduce your estate for the purposes of any Inheritance Tax calculation. The amount of income paid out each year can remain the same or it can increase by a fixed percentage, or even by the rate of inflation – you choose. If you move care homes, the plan simply moves with you.

There are a variety of options available with a care fees annuity enabling it to be highly tailored to your needs.

4) A combination option

The final option might be to simply 'insure' part of the fees shortfall using the care fees annuity and then use an appropriate investment vehicle to generate the income for the balance.

Again, there needs to be a reasonable amount of capital available to make this work and it is imperative that the split is correct, otherwise the capital part could still be eroded leaving the plan income insufficient on its own to cover the care costs.

If you buy a care fees annuity and deplete all remaining capital it is unlikely that you would qualify for any Local Authority support as income is taken into account not just capital. This could therefore be a very risky strategy in certain situations.

Please note that financial planning advice relating to care fees funding is a highly specialised area and can only be given by financial advisers with the appropriate qualification (CF8) and ideally by those who, in addition, have obtained a Later Life Adviser Accreditation.

In our view, however, the experience of your adviser is the most important credential to check for together with seeing positive feedback from the adviser's other clients.

What would a care fees annuity cost?

The cost would depend on your specific circumstances. There is no standard rate. Your age, your state of health and the amount of money that you require from the plan are all factors that will influence the price.

We always recommend that you use as much of your pension or other income as possible to pay towards your fees so that the income you require from the plan is kept to a minimum. The older you are or the more dependent you are on others for your care, the lower the cost of the care fees annuity and conversely the younger you are or the more independent you are, the higher the cost.

It's always best to obtain fully underwritten quotes whereby medical information is obtained from your GP and your care needs are confirmed by your care home or care agency; no medical examination is required. Making decisions about the viability of a care fees annuity based on 'guesstimates' could mean the wrong decisions are made.

What about making provision for rises in care costs?

You can either include some form of indexation within the care fees annuity (at additional cost) or if you have a reasonable amount of capital left over after purchasing the plan, you can consider using this to cover potential fee increases.

What happens to the money on death?

You can pay extra and have anything between 25% and 75% of the capital returned to your estate on death (less any money already paid out to the care provider).

Alternatively, you can purchase a care fees annuity on a 'deferred' start date basis which means that you still buy the plan now but defer the date the income starts paying out from. This makes the plan much cheaper to buy but still offers financial protection in the event of longevity. For example, if an immediate care fees annuity were to cost £100,000 for a £20,000 annual level income then a 3-year deferred care fees annuity may only cost £40,000, saving the estate an initial outlay of £60,000. You would still have to cover the £20,000 shortfall yourself for each year of the deferred period (plus any fee increases) so, by the beginning of year 4 the total cost would still have been £100,000, but in the event of early death, some of the 'self-pay' money will be in the estate and not lost to the Insurance Company.

What happens next?

If a care fees annuity sounds like it could be a feasible funding solution for you, please give us a call and we can guide you through the next steps.

If, when you call us, you are able to tell us the following information, then we will be able to give you a good indication whether a care fees annuity is likely to be affordable for you. That way you don't waste your time applying for underwritten quotes if it is unlikely to be.

- What are the care fees?
- What guaranteed income is already in place (typically pensions and Attendance Allowance)?
- Broadly, what financial assets are there?
- It doesn't matter if you don't know the exact amounts – an estimate will do.

Why use Eldercare Solutions?

When it comes to financial products, we are usually told to 'shop around' but if you are considering buying a Care Fees Annuity, you don't need to. All our Advisers are accredited by the Society of Later Life Advisers (SOLLA) and can get you quotes from all Insurance Companies offering these plans – currently four.

Two of these Companies have only recently launched their care fees annuities and chose Eldercare Solutions to be their launch partner. At the time of writing, some advisory firms/brokers do not have access to quotes from all four Insurance Companies – we do.

There is no cost or obligation for us carrying out the research for you and we will write a Care Fees Funding Report for you once we have all underwritten quotes.

Even if you decide, after receiving your Report, that the care fees annuity is not for you, the document should have served as a useful family discussion document and as evidence that you researched all funding options. This is an important factor if you are acting in a legal capacity as an Attorney or Deputy. All quotes will be inclusive of our arrangement fee which is only payable if you make a purchase.

Case Study

Mr Jacobs got in touch with one of our Care Fees Advisers a few months after his 92 year-old mother had moved into a care home. She had suffered a stroke which left her unable to cope in her own home any longer. He was already becoming concerned at the alarming rate at which his mother's capital was being eroded, especially with interest rates being quite low.

At the time that we first spoke with the family we were able to establish the following facts:

- Mrs Jacobs' savings (predominantly the proceeds of her property sale) totalled £250,000.
- She had a total net annual income of just under £23,000 but the care home fees, including a small personal spending allowance, were £950 per week – just under £49,500 per year.
- On paper, this left Mrs Jacobs with an annual shortfall (the gap between her income and the fees) of about £26,500.

After fully assessing the situation and researching the various options available, we were able to put some alternative funding solutions to the Jacobs family.

As a result, they decided to purchase a care fees annuity at a cost of just under £108,000 in order to 'ringfence' the other £142,000. The plan guaranteed to pay £26,500 (tax-free) every year for the rest of Mrs Jacobs' life. Rather than include indexation within the plan, the family decided to meet any fee increases from interest on the capital that was left over.

The family accepted that they were, in a sense, taking a financial gamble, but the financial certainty and peace of mind achieved and the reassurance that Mrs Jacobs' money would never run out seemed to them to make this a risk worth taking.

We had offered the family the option of buying a 2-year deferred plan at a cost of £56,000. This would have meant them having to cover the £26,500 shortfall themselves in years 1 and 2 with the plan paying out thereafter for the rest of Mrs Jacobs' life. This would have resulted in a total overall cost including the plan of £109,000 (only slightly more than taking the immediate plan option) but, if Mrs Jacobs were to have died soon after buying the plan, less money would have been lost to the Insurance Company. Loss of capital was not, in this family's case, of concern so the immediate option was chosen.

Mrs Jacobs and her situation are real, but her name has been changed for use in this case study, which is for illustrative purposes only. Please don't be put off if your circumstances do not 'fit' this case study. Our clients' circumstances are very varied and so a different solution may be appropriate for you.

About Eldercare

We are one of the UK's leading sources of regulated financial advice for individuals having to decide how best to meet long-term care costs. Every single member of staff holds the CF8 qualification.

Our award-winning service has been accessed by families for over fifteen years and we are extremely proud of our reputation, experience and knowledge within this specialist area.

We help hundreds of people every year in the same position as you. We can help you make sense of the complex issues involved and we will act with sensitivity and understanding.

"Having my mother suddenly need to be in a Care Home was a shock to the system and the cost implications left us very concerned what the long-term position was going to be. Thankfully I was put in touch with Eldercare who helped guide us through the options. Now that we have a financial plan (and therefore a permanent solution) in place, I can rest easily."

Mr Davies

Next steps

If you would like advice about the various options that you have for paying for care, please call us on: **0800 082 1155**

We would be happy to explain the next steps, our charging structure and respond to any of your questions that remain unanswered.

Get in touch

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