Orchid Financial Services Ltd

Funding long-term care

Preparing for long-term care needs in your family.

Planning for the costs of long-term care can seem a difficult task, and an easy one to put off – especially if your family members don't need any support at present.

However, important choices about how you'll support your family's future care needs shouldn't be left to the last minute.

Thinking about your options well in advance will make it easier to decide, and should put you in a better position to handle the cost if and when the time arrives.

With average care home fees in 2016/17 at £600 a week for a room in a residential home, or £841 a week for a room in a nursing home according to estimates by consumer watchdog Which?, planning how care will be funded is understandably a concern for many people.

Planning ahead

The cost of long-term care will depend on the type of care required and the amount of time it is needed for.

You could begin by considering who in your family is likely to require long-term care in the future, taking into account any existing health conditions, as well as unhealthy or risky lifestyles.

Of course, it's hard to make predictions with much certainty based on these factors. If in doubt, it's better to overestimate the amount you'll need to save rather than to underestimate it.

From here, you can plan the amount of time it will take to build up the savings needed, and look at the options available.

Social care

While medical care is funded by the NHS, most people will need to pay for some or all of their own social care.

Funding for social care is means-tested, so individuals requiring care will have to cover the costs themselves beyond a certain cut-off point.

Anyone living in England or Northern Ireland in 2018/19 with income and capital over £23,250 will need to fund their own social care fees. For Scotland, this limit is £27,250, and for Wales it's £24,000 (or £40,000 if the individual is in a care home).

This does not include property value unless the homeowner moves permanently into a care home.

As many people will need to self-fund, it's important to start planning for these costs sooner rather than later.

Healthcare

Individuals in England, Wales and Northern Ireland with certain medical needs could qualify for free NHS continuing healthcare.

This will usually be the case if a person has a disability or complex medical problem requiring long-term care.

A team of healthcare professionals will assess whether the individual is eligible for continuing healthcare, taking into account the severity of their needs across a range of areas.

The assessment for this cover is strict, so not all health conditions will qualify. The type of cover available will also vary depending on the region you live in.

In Scotland, this scheme was replaced by Hospital-Based Complex Clinical Care in 2015.

Benefits for care needs

Individuals with a disability or mobility issues may be able to claim certain benefits to fund care.

The attendance allowance and personal independence payment are available to anyone with qualifying health needs, regardless of income.

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Insurance

Before you start looking into new ways to pay for care, it's worth checking whether the costs can be claimed on an existing insurance policy.

While there are currently no insurers that offer policies specifically for long-term care, it's possible that a member of your family could have taken one out previously.

Some health insurance policies may also be able to help cover costs.

Options for self-funding care

Even taking into account the allowances that may be available, the reality for many people is they or their family will have to cover most of their care costs.

Here are some options you could consider.

Care plans

Immediate care plans are a type of annuity which provide guaranteed income for life in exchange for a lump sum payment. The income is tax-free if paid directly to a care provider.

The cost of a plan will depend on a person's age, health and required level of income.

The main advantage of a care plan is the peace of mind provided by a guaranteed income.

On the other hand, it can't be cancelled once it is taken out, which could cost you if circumstances change and the funding is no longer needed.

Your plans could also be affected by increases to the cost of care over time, as payments from the annuity are fixed.

To prepare for this, the payments can be indexed to rise over time – but this will come at an extra cost.

It's also possible to arrange a **deferred care plan** if the funding is not required immediately.

Investment bonds

Medium to long-term investment bonds can be one way to help fund care as they are designed for capital growth and long-term returns.

The key benefit of these is that as long as the investment bond is taken out before the individual needs care, the value usually won't affect means tests for care funding.

With investment bonds, a life insurance company is paid a lump sum. The company then invests this money in a range of funds until the policyholder cashes the bond in or dies.

The bond includes a small amount of life insurance, and will pay out slightly more than the value of the fund – usually 1%.

With investment bonds, you'll normally need to tie up your money in the bond for at least 5 years and there may be penalties if you cash them in early.

Returns are not usually guaranteed, and as with any investment, the value of your bonds can fall as well as rise.

Equity release

Equity release schemes like **home reversion** or **lifetime mortgages** are a way to fund care for a person who wants to stay in their own home.

These work by accessing some of the value in their home to provide a lump sum or regular income. The money must be repaid later on, when the house is sold.

Equity release is a major decision that could impact an individual's tax situation and benefits.

Be sure to consider your other options, and always seek expert advice before committing to an equity release agreement.

Downsizing

It could be that the individual in need of care would benefit from the more straightforward option of selling their home to buy a smaller, less expensive one.

This could provide the extra income needed to fund care, at the same time as offering control and independence, as they will still own their home.

It might also have the advantage of making the home easier to maintain and more accessible.

Other options

You should consider all of the options available to you before making any decisions about funding care.

Some potential methods for raising money include:

- renting out your home or a spare room
- cashing in savings and shares
- selling valuable items.

Getting advice will help you to make the best decision for you and your family. We can help you to assess your options and create a plan for funding the costs of care.

Contact us to discuss funding long-term care.

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