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Financing long-term care

An introduction to the long-term care market and the main strategies for funding.

Life expectancy in the UK is projected to rise from the 2012 average of 80 years for men and 83 for women, to 86 for men and 88 for women by 2030.

This increased life expectancy means that many of us should start to consider financial planning for long-term care for loved ones and eventually for ourselves.

While many people are able to effectively plan for retirement, there is often a lack of understanding of the effect that long-term care costs will have on a person's financial position.

The long-term care market

The long-term care market encompasses low level care such as cleaning, shopping and general support in the home, to higher intensity care including medical care in a specialised care home.

Long-term care is currently provided by councils, private healthcare providers, charities and local health authorities. The types of institutional care available in the UK include part-time residential care, full-time residential care homes, nursing homes and long stay hospital provision.

All of these healthcare options must be paid for by someone, be that the government or the individual.

The current funding model for long-term care is generally accepted to be outdated and does not do enough to support people on limited or reduced incomes. It is also dependent on the assumption that families will assist with payment for long-term care.

Since the amount and intensity of care that may be needed by an individual cannot be fully known ahead of time, it can be difficult to estimate how much care will cost.

We can assist you with financial planning.

Insurance

Purchasing an insurance policy for potential long-term care needs is a simple way to ensure that some self-funding for care is available.

Long-term care insurance for you or a family member can cover the cost of assistance in the home, or residential care in a nursing or care home.

Individuals who have long-term, chronic health conditions which mean they cannot carry out simple tasks around their home should consider purchasing long-term care insurance as soon as they are diagnosed.

Long-term care plans

There are a number of long-term care plans currently available to individuals in the UK.

Some of the most popular are:

Immediate needs annuities

These pay a guaranteed income for life to assist with payment for long-term care needs.

This is in exchange for a one-off payment if someone has immediate care needs.

Enhanced annuities

Individuals can purchase these using their pension if they have a health problem, are a smoker, overweight or have a long-term illness. Individual prices are set by medical underwriters following a full examination of each case. Individuals who have conditions such as Parkinson's disease or who have had an organ transplant are eligible for an enhanced annuity.

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Equity release plans

These give individuals the scope and capacity to obtain a cash lump sum as a loan secured on their home.

Savings and investments

If an individual is working they can save for future care using investment or saving products such as deposit accounts, national savings accounts, ISAs, and contributing to a pension.

Downsizing

If you own a property you could release money to pay for care.

A primary benefit of a care plan is that it provides the security of knowing that an individual will receive payments for life.

However, there is a risk that if the person in care dies early, the capital used to buy an annuity may not be returned. Equity release is also a significant step that requires careful consideration and planning.

Contact us to talk about your care needs.

Points to consider

There are a number of points that should be considered when preparing for long-term care financial planning.

The most important point is likely to be working out who in the family is most likely to require long-term care at some point and when to start planning financially for this.

This is easily predicted if someone has a pre-existing health condition or illness or has an unhealthy or risky lifestyle. Planning is more difficult if your family members are generally healthy and have a sensible lifestyle.

The time period that care is likely to be required for and what sort of care is also an important consideration.

While it may not be possible to be wholly accurate it is sensible to over-estimate the time, healthcare needs and the funding required. This leads onto considering the amount of time which may be required to pay into any long-term health care plan.

Local funding

There are differences in funding provision for long-term care between England, Wales, Scotland and Northern Ireland.

The capital limits for care funding in England and Northern Ireland in 2016 are:

- if someone has less than £14,250 in savings and capital they are entitled to maximum support
- if they have between £14,250 - £23,250 they must pay £1 per £250 of their savings per week.

They will also need to contribute all of their income apart from their personal expenses allowance. If they have capital above £23,250 they are liable to pay for all of their care.

The means test is due to change from April 2020. From April 2020 the lower figure is due to increase to £17,000. The upper limit will also increase to £118,000.

In Scotland the system is very similar except the lower limit is £16,250 and the upper limit is £26,250. People over 65 are also assessed to determine whether they require care in a care home and are eligible to claim personal care and nursing care payments which contribute to the cost of the services they receive.

There is a single limit of £24,000 in Wales. If an individual has savings above this sum they will have to pay all their care home fees. Below this they do not have to contribute from their savings but will from their income.

Self-funding

If an individual has to fund their own care there are a number of benefits they may be entitled to.

The personal independence payment has replaced the disabled living allowance and anyone who has issues with mobility or carrying out everyday tasks may claim it.

Attendance allowance is based on the level of care you need. You may be entitled to it if you are 65 or over and need help with personal care because if illness or disability. It is tax-free and not affected by savings.

Council tax reductions and exemptions may also be applicable if someone is receiving specific benefits.

Everyone of retirement age is entitled to the state pension and pension credits.

We can help you plan for long-term care.