Financial Planning for Privately Funded Residents

These days many elderly people taking up permanent residence in a care home own their homes but have been relying on state benefits for much of their income. Such people are usually termed 'asset rich - income poor'. Their house can represent the major part of their wealth, and it is this value which sets them to be ineligible for local authority contributions to care fees. However, an elderly person cannot be forced to sell their house - it may just be, for them, the only practical way to convert the asset into cash unless they can secure a "Deferred Payment Arrangement" [interest-free loan] with the local authority. It may be the wish of the elderly person to bequeath the maximum possible to family and this objective may be thwarted if the whole of their wealth is exposed to use for care fees. Other people may also have extensive cash, investments, and occupational pension income which usually prompts them to seek professional financial advice since they have a greater range of options open to them, and social care services are limited to giving advice only about local authority schemes. When selecting an Independent Financial Adviser [IFA], make sure the adviser is an expert on long-term care fees and benefits - and from November 2006 is required to have passed an exam called CF8. In addition, any funding scheme also needs careful analysis to consider tax and inheritance issues.

There are a number of different ways that people use to fund long term care. For example;

- The simplest is to sell the house at the end of the initial 12 week period and use the cash to pay the care fees.

- A mortgage could be raised to provide the cash required to pay the fees, and the property rented to family or a third party whose rent could pay the mortgage.

- A third party could occupy the property, paying enough rent to cover the care fees [and maintenance bills].

The uncertainty with all the above schemes, and others, is that they may not generate enough cash to fund the care home fees for as long as is necessary. If all the cash reduces to the "upper limit" [£23,000] then social care services would be involved and the resident may need to move to another care home.

Some insurance companies offer financial products which can help. Two popular schemes are:-

- "Single Premium Annuity"

An "immediate care" single premium annuity can be purchased from an insurance company on entering a care home or if already in residence. The property would normally be sold to raise the premium, which is a single payment. The annuity would be designed to provide the monthly income required to supplement the basic state benefits to meet the care fees. As such annuities guarantee income for life, the remaining assets would not be used for fees and can therefore be invested and bequeathed with confidence. Furthermore, it is standard practice for the insurance company to pay the benefits direct to the care home thus reducing personal tax liability. Annuities can be purchased with indexation 'built-in' so that future increases in care fees are covered. Premium quotations from various insurance companies can vary widely, even for the same individual, and it is essential to shop around to get the best quote. There are currently at least three providers of this type of annuity — AXA-PPP Lifetime, LV=(Liverpool Victoria) and Partnership Assurance.

- Single premium "Whole of Life Policy" (Investment Bond)

A cash sum is used to buy a policy. The policy would have an open term. A maximum of 10% of the initial value is available for withdrawal each year (on a monthly basis) to help pay fees. The policy could refund the whole of the original premium if it still has a value on death even though the original value has eroded. The withdrawals are effectively tax-exempt for basic rate tax payers. Such a scheme would be put together by a specialist IFA.

These are sophisticated products and require professional advice. With both of these schemes the elderly person is still eligible for the basic retirement pension and also DLA or the Attendance Allowance which is non-means tested and non-taxable.
Attendance Allowance is the single most unclaimed benefit - even though the higher rate is currently worth £70.35 per week! All long-term self-funding residents of a care home should qualify for AA.

If your circumstances are similar to those described above, you may wish to seek independent financial advice as early as possible in the initial 12 week period of residential care.