Paying for care in old age

Getting on: planning for later life

Paying for care in later life is high on the list of many people’s financial worries, and the shifting sands of government policy have only added to the uncertainty.

Less than half of UK homeowners aged under 60 are confident they will have enough money to choose where they live and are cared for in old age, even if they sell their property.1 These concerns were exacerbated by proposals in the Conservative Manifesto that would have removed a ring-fence around family homes that currently exists when it comes to paying for the cost of care. Instead of the hoped-for cap on costs, many people would have had to pay for care costs from the value of their homes if other sources ran out. Though later abandoned, merely floating the idea has caused people to doubt the notion that the family home is sacrosanct.

Still — despite this uncertainty — we believe financial planning for old age needn’t be a source of anxiety. With the right guidance, a strategy can be put in place to prepare for the costs of care — while striking an appropriate balance with other aspirations, such as passing on wealth efficiently and enjoying life in retirement.

This TalkingPoints highlights issues to consider when planning for what Shakespeare called the ‘seventh age of man’. Rathbones Financial Planning team then shares best practice in making a later-life plan, as well as three case studies.

1) Later life can be a difficult issue to address
Thinking about old age can be stressful. Surveys suggest people are more fearful of being put in a care home than they are of death.2 Many senior citizens also worry about imposing on family and loved ones, with some reportedly requesting not to be treated if they become incapacitated specifically because they are concerned about becoming a financial burden.3

Media coverage of social care issues is hardly reassuring. Councils repeatedly warn of a crisis in social care, with rising expenses threatening to overwhelm strained budgets. Meanwhile, care homes are closing as providers say they can no longer make a profit. It’s important to acknowledge that later life is an emotive topic. Perhaps because of this, we find that some people tend to avoid the issue, while others over-provide for future care costs — to the detriment of other financial aspirations. Discussing the issues can help to form a plan that not only addresses realistic future needs, but also takes a weight off everyone’s mind.

2) Prepare for longer life, but recognise the trade-offs
Rising life expectancy is one of the great successes of the modern age. But it also presents financial challenges for individuals and communities. A 65-year-old in the UK can expect to live for about another two decades, on average.4

3) Needing care is common
Although there have been gains in life expectancy (between 2007 and 2014 women and men gained an extra 1.1 years and 1.4 years of life expectancy respectively),5 most people will still need care at some point in later life.

About 40% of people aged over 65 have a longstanding illness, a percentage that rises to almost 60% for the over 80s. As Age UK points out, “more of us are spending more time in later life with multiple long-term conditions and social care needs.”6

It is estimated that one in three women and one in four men will have long-term care needs.7 Longer lives and rising incidences of dementia are thought likely to increase these ratios in the future.

Key points
− The cost of care is rising, but for many still remains affordable. However, it’s important to take account of regional variations in care expenses.
− Increasing life expectancy and stresses in the social care system make it even more important to prepare financially for later life.
− An adviser can help balance the need to cover later life expenses with other aspirations, such as passing on wealth efficiently and enjoying life in retirement.

What is later-life planning?
Later-life planning addresses an individual’s current or future care needs owing to illness or infirmity. Care needs can range from one or two hours per week of help at home, to round-the-clock assistance in a residential facility.
4) Most people pay for care

Most people are likely to have to pay for social care – unlike NHS healthcare, which generally remains free. Though since rescinded, if policies similar to that introduced in the Conservative Manifesto were implemented, this number could increase.

Local authorities use means testing to determine who receives public funds. In England, individuals with savings and assets of more than £23,250 – including property – will probably have to pay care home fees in full. Here are five useful things to know about publicly funded social care:

1. The government establishes guidelines, but councils administer the public social care system
2. It’s difficult to know what financial help you’ll be entitled to. A 2010 government commission described needs assessments as “complex and opaque”
3. At present, property is included in the means test for care home fees, but not for care home costs
4. Close to half of the people in residential care in the UK are fully self-funded
5. Family members may be able to contribute top-up fees to cover expenses the council won’t pay for, like a residential facility closer to home or a larger room.

An important caveat: the government intends to overhaul the funding of social care. While it isn’t yet clear how – not least because its manifesto pledges met with fierce opposition – change is likely. We think this makes it even more important to start making your own plans as soon as possible.

5) Care is expensive, but affordable for many

Estimates of the amount people spend on care vary. One study puts average residential care expenditure at £7,200 for a typical two-and-a-half year stay; consumer group Which? suggests £11,600.

At-home help (typical) £15–£20 per hour
Care home (average) £15–£20 per hour
Nursing home (average) £40,400 per annum
Length of stay (average) 2.5 years in residential care

Care home costs are rising at about 5% a year, which is faster than general inflation. This equates to an increase in annual fees of £1,500 to £2,000 over the past 12 months. While the sums involved appear daunting at first, Office for National Statistics data show they are fairly easily covered by the average net wealth of 65-year-olds in the UK.

6) Where you live will affect your plan

The costs of care are usually difficult to predict. But one thing is certain: where you live is likely to have a significant bearing on the amount you’ll pay. People in the south of England should plan for considerably higher expenses than those in the rest of the UK.

7) Stresses in the care system make it more important to plan

Many people thinking about later life will be aware of the headlines that occur fairly often warning of a crisis in social care. There are several issues to be aware of:

- the old-age population is growing rapidly. The number of people aged 85+ is expected to double by the mid-2030s
- Council budgets are under strain. The Local Government Association estimates a funding gap of £1.3 billion for adult social care by the end of this decade
- Rising costs, especially due to the introduction of the National Living Wage, have put many residential homes under financial pressure. Some 380 care home businesses have entered insolvency since 2010.

For those fortunate to be able to provide for themselves, these factors reinforce the importance of having the financial freedom to choose what is right for you or a loved one in later life, rather than relying on public funds.

8) The options for paying for care are limited

One of the challenges of addressing later-life needs is that there are limited financial products available.

The only specialist products in this area are immediate needs care annuities, which are bought at the point of need. There used to be long-term care bonds and insurance, but take-up was poor and the products were withdrawn.

It had been hoped that capping the cost of care (see box ‘No cap on care costs – yet’) would inspire innovative solutions from insurers and the financial services industry. Thus far, this has not happened.

Consequently, the main options for paying for care are:

- Self-funding, i.e. drawing from accrued assets and income
- Purchasing a care annuity
- A combination of both.

In the next section, our Financial Planning team explains how to work out which option to choose when preparing for later life.
No cap on care costs – yet
The government had intended to put an upper lifetime limit of £72,000 on the amount people have to pay for social care. The cap was to exclude ‘bed & board’ for those in care homes, though that would also be capped at £12,000 per year. It also intended to raise the maximum level of assets that could be held before an individual qualified for social care funding to £118,000 from the current £23,500.
These changes were due to be introduced in April 2016, but were subsequently delayed until April 2020. The recent election – in particular the fierce controversy over Conservative manifesto proposals on social care – has thrown the government’s plans into doubt.

Costs of care can vary according to location
The average weekly fee for a care home with nursing is highest in South East England and lowest in Northern Ireland.

Source: Paying for Care
Getting on: planning for later life

Your options explained

**Later-life planning: best practice**
Later-life planning is an inexact science, as no one knows how long they’ll live or what care they might need. Rathbones Financial Planning team explains how it’s done.

**Choosing the right options**
For individuals with no immediate care needs, cash flow planning is most suitable. Where a person is paying care fees or will imminently do so, they will need to decide whether a care annuity, self-funding or a combination of both is best. The following factors drive the decision:

<table>
<thead>
<tr>
<th>Shortfall in future income vs care costs</th>
<th>Future increases in cost of care</th>
<th>Level of existing assets that can be used</th>
<th>Cost of a care annuity</th>
<th>Anticipated time care will be needed for</th>
<th>Do you want / need certainty of payment?</th>
<th>Do you want / need to leave assets to loved ones?</th>
</tr>
</thead>
</table>

**Four planning essentials**
When making a plan, it’s helpful to bear in mind the following key considerations:

1. **Cash flow protection.** A cash flow report that includes the potential costs of future care will assist in better understanding what provision is reasonable.

2. **Regional variations.** Plans should incorporate regional variations in the cost of care. They should also consider that care home costs are rising at about 5% a year, which is faster than inflation.

3. **Be specific.** It is always best to use specific figures for costs, where possible. Ideally, plans should be based on a particular care home (or the average of a selection). Useful information can be found at carehome.co.uk

4. **Use your income first.** Where possible, it is advisable to fund care from current income streams. This allows assets to be used at a later date should the rise in costs outstrip income. Regard should be given to the tax consequences of any sale or surrender of assets when funding costs.

**Low bar**
In England, people with assets of more than £23,350 don’t qualify for local authority social care funding.

Source: Office for National Statistics
Finding the balance

Like many aspects of financial management, later-life planning often involves balancing priorities: in particular, between being certain of covering the costs of care and maximising the amount left to loved ones – as well, of course, as enjoying life in retirement.

A long-term care annuity with a suitable level of increasing benefit can ensure that care costs will be funded. However, whether it turns out to be a relatively expensive option will depend on how long the individual is in care.

Self-funding — what might be termed the pay-as-you-go option — may prove to be less expensive for individuals who do not spend many years in care. On the other hand, there is a risk that assets may be depleted if the individual is in care for considerably longer than expected. Clearly, the decision over which method of funding is most suitable depends very much on individual circumstances.

It’s also important to acknowledge that later-life planning can be a challenging topic for people to address — not least because in many instances decisions have to be made on behalf of loved ones who have lost the capacity to decide for themselves. Thinking about the issue well in advance can help ensure the best outcome for everyone when care is needed.

Understanding legacy solutions

Creating investment products to cover later-life care costs has proven to be challenging, and some of the ones that have been marketed were later withdrawn by providers. Long-term care bonds were insurance bonds funded by an initial sum. The aim was that the initial investment together with returns achieved would cover the costs of care. Policyholders may need to make additional payments (or accept a lower level of care) if the anticipated investment growth is not achieved.

Long-term care insurance involved regular payments. A person generally claimed once they became unable to perform certain activities of daily living (ADLs), such as washing, dressing and using the bathroom. It’s important to check policy terms. Some only pay out if two or three ADLs cannot be performed. Others may pay if the policyholder needs assistance with one ADL and may even cover the cost of adapting the policyholder’s home. Some plans have reviewable premiums where the payments needed to maintain the insurance cover increase.

Conclusion

Understandably, later-life care is a source of anxiety for many people. However, we believe that there is less to be fearful of than people think. Care is expensive, but it should be affordable for many.

Nevertheless, it’s important to start financial planning for later life as early as possible, ideally long before retirement, to give sufficient time to make appropriate provision. This is a specialist area that requires careful consideration, not least because no one can be sure what care they’ll need and for how long. A trusted adviser can be invaluable in making reasonable provision for care costs, as well as balancing later-life goals with other financial aspirations.

If you’d like to discuss any of the issues in this TalkingPoints, please feel free to get in touch.
**Case studies: annuity or self-funding**

Finally, here are three examples of how a planning strategy might be implemented in practice to suit the personal situation of the individual needing care.

### Planning example: annuity recommendation

Anna is a widow with no children. She has not expressed any wish to leave an inheritance and has no one to support her. Her current income is £1,500 per month and she has total assets of £400,000.

Anna is suffering from early-stage dementia and needs to go into a care home. She has given her solicitor a power of attorney so that they can look after her assets.

The funding of the care home fees will leave her with a shortfall of £2,500 per month.

An annuity purchased for £300,000 would provide suitable rising income for Anna and would cover her care costs no matter how long she lives.

### Planning example: self-funding recommendation

John is a widower with two children. Having sold his house a few years ago, he has £1.2 million in available assets. He currently lives with one of his children. He wishes to leave his estate to his family.

John now needs more help than his family can provide. His children have agreed that he needs residential care. The cost of their intended care home is £60,000 per year.

The cost of a suitable care annuity is £600,000. John’s doctors advise he is unlikely to survive another four years, though this is obviously uncertain.

The annuity seems expensive based on John’s life expectancy. It is appropriate to consider funding directly from assets as there is little likelihood of complete asset depletion.

### Planning example: self-funding + annuity recommendation

Morag, 56, is divorced and has accrued wealth of £450,000. She has one child, Robert, to whom she has always wanted to leave something. Sadly, Morag has Huntingdon’s disease, a degenerative condition.

After her diagnosis, Morag researched where she would like to be cared for once she lost capacity. She is now unable to make decisions for herself. Robert holds power of attorney.

Morag’s doctor advises that she may need care for perhaps six to eight years, though this is uncertain. A care annuity to cover the £60,000 annual fees of her chosen home costs £475,000 - a little more than she has.

Although there are less expensive homes, Robert wants to honour Morag’s choice of facility. He uses her assets to purchase an annuity to cover most of her care home fees, and funds the rest himself.
End notes

2. Daily Telegraph, February 2010
3. Daily Mail, December 2016
5. Age UK, February 2017
6. Age UK, February 2017
7. Institute and Faculty of Actuaries, April 2014
9. Which?, February 2017
11. Which?, February 2017
12. Age UK, February 2017

Important information

This document and the information within it does not constitute investment research or a research recommendation. Forecasts of future performance are not a reliable indicator of future performance.

Nothing in this document should be construed as a recommendation to purchase any product or service from any provider, shares or funds in any particular asset class or weighting, and you should always take appropriate independent advice from a professional, who has made an evaluation, at the point of investing.

We are covered by the Financial Services Compensation Scheme (FSCS). The FSCS can pay compensation to investors if a bank is unable to meet its financial obligations. For further information (including the amounts covered and the eligibility to claim) please refer to the FSCS website fscs.org.uk or call 020 7892 7300 or 0800 678 1100.

Rathbone Investment Management International Limited is the Registered Business Name of Rathbone Investment Management International Limited which is regulated by the Jersey Financial Services Commission. Registered office: 26 Esplanade, St. Helier, Jersey JE1 2RB. Company Registration No. 59593. Rathbone Investment Management International Limited is not authorised or regulated by the PRA or the FCA in the UK.

Rathbone Investment Management International Limited is not subject to the provisions of the UK Financial Services and Markets Act 2000 and the Financial Services Act 2012, and, investors entering into investment agreements with Rathbone Investment Management International Limited will not have the protections afforded by that Act or the rules and regulations made under it, including the UK FSCS. This document is not intended as an offer or solicitation for the purchase or sale of any financial instrument by Rathbone Investment Management International Limited.

Copyright ©2017 Rathbone Brothers Plc. All rights reserved. No part of this document may be reproduced in whole or in part without express prior permission. Rathbones and Rathbone Greenbank Investments are trading names of Rathbone Investment Management Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Registered Office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW Registered in England No. 01448919. Rathbone Investment Management Limited is a wholly owned subsidiary of Rathbone Brothers Plc.

Our logo and logo symbol are registered trademarks of Rathbone Brothers Plc.

The value of investments and the income generated by them can go down as well as up.
Contact us

If you would like further information or to arrange an initial meeting, please contact us on 020 7399 0000 or email info@rathbones.com

Head Office
8 Finsbury Circus, London EC2M 7AZ
020 7399 0000

We also have offices at the following locations:

Aberdeen
01224 218 180
rathbones.com/aberdeen

Birmingham
0121 233 2626
rathbones.com/birmingham

Bristol
0117 929 1919
rathbones.com/bristol

Cambridge
01223 229 229
rathbones.com/cambridge

Chichester
01243 775 373
rathbones.com/chichester

Edinburgh
0131 550 1350
rathbones.com/edinburgh

Exeter
01392 201 000
rathbones.com/exeter

Glasgow
0141 397 9900
rathbones.com/glasgow

Kendal
01539 561 457
rathbones.com/kendal

Liverpool
0151 236 6666
rathbones.com/liverpool

Lymington
01590 647 657
rathbones.com/lymington

Newcastle
0191 255 1440
rathbones.com/newcastle

Winchester
01962 857 000
rathbones.com/winchester

For ethical investment services:
Rathbone Greenbank Investments
0117 930 3000
rathbonegreenbank.com

For offshore investment management services:
Rathbone Investment Management International
01534 740 500
rathboneimi.com

@Rathbones1742
Rathbones Brothers PLC
Rathbones Brothers PLC

rathbones.com