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Funding Care from Property (August 2016)

Funding care in the UK is one of the main concerns we hear from clients as they reach later life. This doesn't just affect clients but their families as well.

There are more people aged over 60 than there are under 18 in the UK. 11.6 million People are over 65 and 1 out of 5 people will live to be centenarians*. With this in mind, funding for later life care is an issue that is not going to go away.

With the means test, any one in need of care that has assets over their local authority's threshold will find that the cost of care falls to them. As such, properties and assets are sold to fund care. So what do you do with these monies to help cover the cost of care? Here we note two routes to consider in meeting what can be a daunting need.

Immediate Care Annuity

Immediate care annuities are essentially the same as the annuity you might buy when you retire to provide an income. The idea is that as you are older and likely to have health concerns, the income offered in exchange for the capital paid should be higher.

Immediate care annuities involve a premium being paid in return for an income for life. This income is guaranteed for as long as the person needing care is alive. These annuities have the options to increase with inflation and add protection to ensure that a lump sum is paid back to the estate should the person in care pass away in the early years.

Immediate care annuities are great in 'ring fencing' and limiting the effect of care on an individual's estate. They also have the benefit that if the income is paid directly to the care home, no income tax is deducted.

There are issues with immediate care annuities. Unless protection is added, which increases the cost of the annuity, when the individual in care passes away; there is nothing left to the beneficiaries. This is a risk we see in retirement annuities where more and more people are concerned with getting 'value for money' in the income they receive against the premium they paid.

Immediate care annuities can also be expensive. With lower interest rates and increasing costs of care, the amount needed to buy an annuity with enough income can be staggering.

Investments

Due to the costs of annuities, more and more people are relying on investments to fund care costs. Rather than leaving the monies in a deposit account where the interest earnt is in no mean going to replace the withdrawals, investments can be used to attract higher returns.

There are a range of investments that can be used to help fund care. Increasing competition in the market has meant that more and more investments come with out penalty fees and can facilitate lower risk options as well.

Risk is something that is inherent with investments. The relationship is that the more risk you take the higher the medium to long term returns. It is important to understand what risks you can afford to take.

With the right independent financial advice, investments can be structured to manage the risks taken while maximising the tax allowances available. There is also the benefit that any value remaining in an investment on the passing of those in care, can be passed to the estate.

We have noted two broad approaches to care cost planning. It is possible to mix both approaches to spread the risks and benefits. One thing that is certain is that care costs are not cheap, they will increase and so independent financial advice is vital in trying to secure the financial security of those in care and their families.

*Source: Age UK Later Life Fact Sheet – August 2016