

Introduction

This Guide gives an overview of some of the main financial planning solutions that can be used when seeking to finance care fees.

Part 1 of this Guide deals with the background to care fees funding and what assistance is available if you, or an elderly relative, require care at home or residential care.

Part 2 of this Guide deals with some of the financial issues surrounding care fees funding.

As we have seen in the other parts to this Guide, providing for care fees, either in your own home, or in a residential or nursing home is **an expensive business**. A limited amount of assistance is available from the State.

Whether your concern is your personal well being, the preservation of your assets for your children, **or indeed your concern is for your parents rather than yourself**, it would pay you to consider carefully the options available.

Making a Will

Leaving a valid will is an important part of financial planning for all adults, but **it takes on a new urgency** when you start thinking about care fees funding.

If you die without leaving a valid will, **the law will stipulate how your assets are to be distributed** amongst your surviving relatives.

Making a will is **the only way you can be sure that your wishes will be followed after you die**. If you do not make a will, part or all of your estate may go to people whom you never intended to benefit.

Not only that, inheritance tax legislation means that, if you do not prepare properly, a substantial part of what you leave behind **may simply go to the HM Revenue & Customs**.

In order to make a valid will, one of the requirements is that **you must have the 'capacity' to do so**, that is you must be mentally capable of doing so.

Some of the main conditions that result in someone needing care, either in their home or residential care, such as dementia or Alzheimer's disease, also mean that the person no longer has the capacity to make a will and so **the future of their estate has to be decided by others**.

Lasting Power of Attorney

This is another **important issue affecting many elderly people and their families**. Under a Power of Attorney you can give another person **the right to look after your financial affairs**. There are many reasons why you might want to do this but when planning for care many older people get to a point where **they no longer wish to cope** with the complicated and fast changing world of finance.

From 1 October 2007, Lasting Power of Attorney's replaced Enduring Power of Attorney's as the power that can operate after a person ceases to have mental capacity.

The Lasting Power of Attorney increases the range of different decisions that people can authorise others to make on their behalf.

In addition to property and financial matters, a person can delegate decisions affecting their personal welfare, including healthcare and medical treatment to their attorney.

A Lasting Power of Attorney is special in that **it remains valid after somebody has become mentally incapable** of managing their own affairs whereas an ordinary power of attorney would cease at that point. The important issue here is that a Lasting Power of Attorney **can only be set up when you are in sound mind** and still capable of making decisions about the future.

An attorney can have wide, unrestricted powers to run your financial affairs, or you can place restrictions upon them. As a precaution against possible misuse of power, therefore, you should give **consideration to appointing more than one attorney**.

There are two different types of Lasting Power of Attorney:

- A **Property and Affairs Lasting Power of Attorney** is for decisions about finances, such as selling the donor's house or managing their bank account; and
- A **Personal Welfare Lasting Power of Attorney** is for decisions about both health and personal welfare, such as where to live, day-to-day care or having medical treatment.

A Lasting Power of Attorney **must be registered with the Office of the Public Guardian (OPG) before it can be used**. An unregistered Lasting Power of Attorney will not give the attorney any legal powers to make a decision for the donor.

The donor can register the Lasting Power of Attorney while they have capacity, or the Attorney can apply to register the Lasting Power of attorney at any time.

For further details contact the Office of the Public Guardian telephone **0845 330 2900** or visit www.publicguardian.gov.uk.

If you completed an Enduring Power of Attorney before October 2007 then your attorney's can still use it to manage your affairs once you become mentally incapable of managing your own financial affairs.

To do so they must apply to register the Enduring Power of Attorney **with the Office of the Public Guardian**. They must give notice of this to you and your close relatives so that any objections can be dealt with.

Insurance Solutions

Although there are around 45,000 care fees insurance policies in force in the UK, **most product providers have withdrawn from the market** for new business over the last ten years.

This is due to a combination of factors, not least of which is **the higher claims experience resulting from increasing life expectancy**, even of those living in nursing homes.

It is possible that providers will come back into the market again and it is interesting to note that **in France**, for example, **around one million such policies** are in force.

The existing UK policies are roughly broken down into **64% pure insurance** policies, **29% investment linked** policies (ie life assurance bonds which also fund care fees) and **7% immediate care** policies (ie impaired life annuities).

It is the smallest section, the immediate care policies, which is **the only one which is really growing in number**. This is probably because people do not want to spend money on something which may not happen. They would rather wait until it has happened and then arrange the most appropriate source of funding even though it then costs them more.

Where you already have an insurance policy designed to pay out when care fees are required, it is triggered at **the point that you fail a specified number of activities of daily living (ADLs)**. The benefits of the policies are normally paid as monthly agreed amounts which are paid **tax free** either to you or the care home.

The ADLs are measurements of **your inability to carry out certain tasks without help** and the Association of British Insurers (ABI) has drawn up standard definitions for these.

The Association of British Insurers (ABI) has set up the following standard definitions for ADLs (Activities of Daily Living):

- **Washing** - ability to wash and get in and out of a bath or shower
- **Dressing** - ability to put on, take off, secure and unfasten garments
- **Mobility** - ability to move indoors from room to room on level surfaces
- **Transfer** - ability to move from a chair or wheelchair to a bed and vice versa
- **Feeding** - ability to eat food which has already been prepared
- **Toileting** - ability to use the lavatory or manage bowel and bladder function

Investments

One of the areas that you will need to look at when considering care fees funding is **your current portfolio of investments**. Earlier in life your investments might have been arranged to provide a good level of capital growth with possibly some income. Once a high level of care fees require to be covered the emphasis of your investment portfolio is likely to need to be moved to **producing maximum income only**.

Many investments **can be switched from a growth mode to an income mode** quite easily, whilst others will need to be encashed and transferred to something quite different.

The important thing to do is **involve the services of an investment orientated independent financial planner**. Not only is there a wide range of investment products that could be used to provide a high level of income, but **it is important to be aware of the tax implications** of each investment so as not to pay tax unnecessarily on that income.

An Equity Release Plan

A common expectation for many people is that **their home will have to be sold** in order to pay for any care that is required.

Being forced into selling your home in order to meet care costs **could be a source of great distress**, especially when you are already suffering some loss of independence and control over your life.

You may also feel that you have nothing of value to hand on to your children after a lifetime of hard work.

It also restricts your options and **removes the choice of receiving care in your own home**, which most people prefer.

Where the capital that you require is **much less than the value of your home** some form of equity release plan may be appropriate. These are **now generally known as lifetime mortgages** and the capital released from your home **can be used to purchase an annuity** or just **provide additional capital** to pay the care fees.

Although there are various types of lifetime mortgage **they all secure a loan on your property and you retain the right to live in your home for the rest of your life.**

How much of your home you leave to your beneficiaries depends on **the type of lifetime mortgage that you arrange**; whether interest is paid from your additional income **or rolled up** as an addition to the mortgage in some way, and for **how long the arrangement continues.**

A number of providers of equity release mortgages have combined together to set up **Safe Home Income Plans (SHIPS)**. Where schemes are covered by Safe Home Income Plans the debt can never become larger than the value of your home.

The financial services regulator, the Financial Services Authority (FSA) considers such arrangements to be high risk and that it is **essential that your solicitor** and where, possible, **other family members** are involved in, or at least aware of, this decision. Please refer to the FSA Guide: *Paying for Long Term Care* (www.fsa.gov.uk)

Enhanced Annuity

At its simplest an annuity is **an insurer's promise to pay an income for a set purchase price**. The advantage of using an annuity is that **the life office chosen will guarantee a level of income for the rest of your life.**

The whole thing is taken care of simply and easily and there is no danger that you will outlive your capital.

Such 'purchased life' annuities are **extremely tax efficient** as only the interest element is taxable at 20% (or 40% for a higher rate tax payer) and **the larger capital element is tax free**. The older you are the larger the tax free capital element will be. In fact, **if you arrange for the annuity to be paid directly to a residential care home** it will be paid tax free.

When planning for care fees funding it is important to be aware of the benefits of using an enhanced annuity. It is estimated that **40% of people** who are of retirement age or over, **will qualify for enhanced annuity rates because of their lifestyle** (the most important of which is their smoking habits), their medical history, current state of health, where they live, or the type of work they used to do.

Whilst enhanced annuities offer the prospect of a higher annuity income for a good number of people, **a smaller number may qualify for an 'impaired life' annuity.**

In very broad terms an impaired life annuity might be offered to someone whose medical condition meant that there was **a very high risk of death within the next five years**, whereas an enhanced annuity might be offered to someone **whose health or lifestyle meant that their life expectancy was reduced** from the average.

It is important to note that **an annuity can be a very poor deal for the members of your family** if you die within a few years of moving into residential care, as **there is usually no return of capital once the annuity has commenced.**

It may be possible **to obtain an annuity that is 'capital protected'** (that is, the balance of the original capital not paid in income will be returned to your estate on death) or **guarantees that the first five years of income payments** will be made even if you die during this period.

However, if you are elderly **you may find it impossible to obtain an annuity on one of these bases** and even if you do, the level of income provided will reduce to reflect the additional guarantee.

Immediate Care Plan

While some plans that go under this name are impaired life annuities as described above, **others are healthcare annuities**. Whereas you can decide to take out an enhanced or impaired life annuity (subject to underwriting) and start to receive an income at any time, a healthcare annuity will only start to pay you an income **if you have failed one of the stated activities of daily living (ADLs)** or display dementia.

Unlike an impaired life annuity **there is no tax at all on the income from a healthcare annuity**, whether paid to the residential care home or to yourself. Furthermore, under a healthcare annuity, **the benefits will cease if you recover** but most people going into residential care home would probably take that risk!

When advising on immediate care fees funding we will obtain quotations from those companies offering immediate care plans.

To simplify the procedures we require only one questionnaire to be completed.

Life Assurance Bonds

These are a very useful type of investment for elderly clients for a number of reasons:

- A life assurance bond can provide **monthly withdrawals that can act as additional income** whilst deferring any tax implications for up to 20 years.
- The first 5% per annum of withdrawals **does not count as income for age allowance purposes**, although the encashment of large sums or the whole bond may affect your age allowance.
- The bonds can be put under trust **to achieve inheritance tax savings**, and not least of all for our present study
- The bond value should **not be taken into account as capital** by your local authority when deciding what care assistance it can provide to you, although any withdrawals will count as your income

Our Care Fees Funding Service

We are **experienced in assisting clients finance their care fees**, either in preparation for possible care needs in the future, or where fees are required to be paid immediately.

In August 2003 we placed **the largest immediate care plan that PPP Lifetime had issued** to that date, for £246,000, to pay care fees of £46,000 a year increasing by RPI + 2% pa.

Three of our advisers have passed the Chartered Insurance Institute's **Long Term Care Insurance examination** (CF8) as required by the FSA.

We believe that financing for care fees should not be considered in isolation but that it should be **part of a person's overall estate planning**. Some of the decisions made for care fees funding **will also reduce the inheritance tax burden** for a person's beneficiaries.

That is why, as professionally qualified independent financial advisers, **we believe we are ideally placed to help you** in this important area.

Our Care Fees Funding Team

PETER N KINGSTON Senior Care Fees Funding Specialist
(peter.kingston@arch-fp.co.uk)

Peter Kingston is an investment specialist with the company. He has passed the CF8 examination and as a result of his unrivalled experience in advising on care fees funding within the company, has been appointed as **our specialist in advising on care fees funding**.

JOE C TRICCAS Senior Pensions Specialist
(joe.triccas@arch-fp.co.uk)

Joe Triccas is a highly qualified pension specialist with the company. He has also passed the CF8 examination and is therefore in a position to provide input to Peter Kingston should a client with a care fees funding situation also need to consider **the implications for, or use of, existing pension plans**.

ARTHUR J CHILDS Certified and Chartered Financial Planner
(arthur.childs@arch-fp.co.uk)

Arthur Childs has a wide experience in all aspects of personal financial planning combined with a high level of professional qualifications. He is a prolific writer and his views are regularly sought by the financial press. He has also passed the CF8 examination. For the last 12 years he has led a 100 strong retired people's group in Guildford and in overseeing the provision of care fees funding advice by the company he brings **an intimate understanding of the needs of older people**.

ALISON RADFORD Equity Release Specialist
(alisonradford@ymail.com)

Alison Radford has passed the Chartered Insurance Institute's Lifetime Mortgage exam (CF7) and is therefore in a position to provide input to Peter Kingston should a client with a care fees funding situation need to consider **the use of lifetime mortgages or home reversion plans**.



Further Information

Able Community Care - providers of live-in carers throughout the UK
www.uk-care.com/index.html

Age Concern - focusing on the needs of older people
www.ageconcern.org.uk

Alzheimer's Society - information and support for families of sufferers
www.alzheimers.org.uk

Better Caring - a resource for anyone seeking or researching care solutions
www.bettercaring.com

Care Direction - care information and rights of older people
www.caredirections.co.uk/index.htm

Carers UK - general help and advice for all carers
www.carersonline.org.uk

Care Quality Commission - registering and inspecting care services and homes in England
www.cqc.org.uk/

Crossroads - caring for carers, practical support in the home
www.crossroads.org.uk

Dept of Health
www.dh.gov.uk

Elderly Accommodation Council - advice and information
www.housingcare.org

English Community Care Association - representative body
www.ecca.org.uk

Grace Consulting - advice about finding and funding care
www.graceconsulting.co.uk

Help the Aged - lots of useful information
www.helptheaged.org.uk

Independent Age - charity supporting older people at home
www.independentage.org.uk

Public Guardianship Office - the administrative arm of the Court of Protection
www.guardianship.gov.uk/

Residential Homes -Care Homes Guide Ltd provides an in-depth search facility for all types of residential, nursing and retirement homes
www.carehomesguide.com

Royal College of Nursing - helpful publications
www.rcn.org.uk

Safe Home Income Plans - information on income plans and equity release plans
www.ship-ltd.org

Risk Factors

- Please note that these Guides are simply designed as an introduction for you to care fees funding. They cannot cover every possible aspect of care fees funding and are not meant to be exhaustive.
- They are not meant to be seen as giving advice or promoting any particular product. These notes are intended as a guide only and do not replace the full product details that accompany each care fees funding investment recommendation.
- Information given relating to tax legislation and State benefits is based on our understanding of legislation and practice currently in force.

Whilst we believe our interpretation of current law and practice to be correct in these areas, we cannot be responsible for the effects of any future legislation or any change in interpretation or treatment.

In particular you are warned that levels of tax and tax reliefs and also State benefits are subject to alteration and, in any case, the value of such reliefs and benefits may depend on an individual's circumstances.

- In general terms it is important to note that State benefits that are means tested may be affected by payment under a care fees funding insurance plan. Such plans do not have a cash in value. In the event of your death prior to a claim being made there will be no return of contributions paid. The cost of care fees may increase at a greater rate than the plan payments. There is no protection against inflation, unless the indexation option has been selected.
- If you take out an equity release plan too early in life, you may not have enough value left in your home to move to a property later on. Using equity in your home will affect the amount you are able to leave as an inheritance.
- State benefits may be affected by any equity released. Taking out an equity release scheme will affect you in the short and long term. You need to be sure you are happy with the scheme now and that it will suit your objectives now and in the future as far as you are able to judge.

References to married couples should also be taken to include those in registered civil partnerships.

Please note that this information does not constitute personal advice and should not be treated as a substitute for specific advice based on your circumstances. If you are thinking about the financial implications of funding care fees for yourself or a relative, then you should discuss the matter with a suitably qualified independent financial adviser such as ourselves.

Any information given in this Guide relating to income tax legislation is based on our understanding of legislation and practice in force at the date of this Guide. Whilst we believe our interpretation of current law and practice to be correct in these areas, we cannot be responsible for the effects of any future legislation or any change in interpretation or treatment.

For personal advice

If you would like to receive advice on care fees funding, either for yourself or a relative, please ask your usual Arch adviser in the first instance or contact us via one of the following:

Tel: **0845 3700 661**
or **01483 204600** (if local)
Email: **enquiries@arch-fp.co.uk**
Online: **www.arch-fp.co.uk**

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