CARE FUNDING: A CASE STUDY

£50,000 of care home fees? It can be done...

As life expectancy continues to increase, so we seem to hear of increasing numbers of elderly needing dementia care. This is indeed a huge challenge for 21st Century society. One dimension of the challenge comes under the spotlight when care at home is no longer viable, and that's cost. While new rules are to be introduced in 2020, capping lifetime care costs at £72,000 with the local authority paying the care costs thereafter for the rest of their lives, the total costs of living in a care home will remain considerable. The food and accommodation costs of care homes will remain the responsibility of the resident, including heat, light and power and so forth.

Here's one son's story of how, under the old rules, his mother was able to stay for nearly seven years until her death in early 2016, in one of the country's best, but most expensive care homes...

KEY ISSUES

Funding long-term care, whether in your own home or a residential home, is both expensive and stressful.

The cost can easily run to tens of thousands of pounds a year.

Getting it wrong can be difficult emotionally in particular where it necessitates moving a loved one because fees have become unaffordable.

Immediate Needs Annuities are one way of creating a stable income stream, with fees paid directly to the care home.

Careful planning can make the most of any existing financial assets, taking into account the likelihood of fees increasing.

Eileen Keirl – born 1925

"Mum was first referred to the 'Memory Clinic' in South Wales in 2002 at the age of 77. She knew her memory was deteriorating, but there was little to be done in practice. Over the subsequent seven years, she remained fiercely independent in her own home, but her care needs gradually grew. She could no longer drive and her dementia would result in her refusing admittance to carers from time to time, along with a failure to take medication.

In early 2009, aged 83, her situation reached crisis point when she was admitted to hospital following a serious fall at home. We knew now was the time to act in her best interests and, after much soul and care home searching, we decided on a home in leafy Cheshire near my own home.

Care home funding difficulty

However, the considerable challenge was how to afford it. The care home quoted a daily cost of £104. That's £38,000 per annum, far in excess of her income of around £17,000 including savings income. Even if we could sell her house for £180,000, the money would only last for eight or nine years, and then what?

Of course, we asked ourselves whether Mum would live that long. And our answer was always that she could easily do so, given longevity in her family – a father who died aged 87 having fought on the Somme and her mother living until the ripe old age of 97. So we just couldn't take the risk that the money would run out and she'd have to move to a local authority funded home. That scenario was far too distressing.

Immediate Needs Annuities

So what to do? Fortunately, the care home put us in touch with a local financial adviser, specialising in care funding and we learned about Immediate Needs Annuities (INAs). These annuities are offered by a small number of insurers. They provide an income for life, direct to the care home and so tax-free, in return for a lump sum investment. A comprehensive set of medical reports and histories are required before they will provide a quotation, but don't let that put you off.

In Mum's case, Partnership was able to provide an INA paying 15.3% of the capital sum per annum and rising by 5% each year. By investing £150,000 from the house sale proceeds in the INA we were able to generate income of £22,900 in the first year which meant we'd more income than the care home fees and wouldn't need to touch her remaining capital. But the INA risked her capital. If she'd lived only for a short time, we'd have lost a significant part of her estate. We were more than happy to take that risk in return for certainty that she could live in an excellent care home for the rest of her life. It was her money after all, not ours.

Conclusions

Mum died in January 2016, aged 90, nearly seven years after moving into the care home. There's no doubt in our minds that she lived a significantly longer, safer and more loved and cared-for life in the care home than she'd otherwise have lived. That had been our primary goal throughout and we achieved it.

And her estate? By the time she died, her care fees had risen to £50,000 per annum. But the INA was now paying £30,700 and her income of some £18,000 was making up most of the rest. In fact, over the seven years, her remaining capital now stood 9% or £11,000 higher. Faced with the same situation again, we'd always take the risk and buy the annuity. We've seen too many other residents move out of their care home in the intervening years because they'd run out of money."

Charles Keirl

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