

Financial Planning Guide to Long-Term Care Costs



Important note

The Statutory Guide to the Care Act 2014 runs to 431 pages, 30 of which deal exclusively with the financial aspects. Of necessity, this guide deals with the “average retired person”, who doesn’t exist, so it is essential to take personalised advice before acting on anything in this guide.

Introduction

I am a Registered Trust & Estate Practitioner and have been advising on Wills, Trusts, Probate, and Estate Planning since 1971. As a qualified member of the Society of Trust & Estate Practitioners (STEP), I comply with their Code of Professional Conduct. I am a former Chair of STEP Yorkshire.

As a chartered and certified Financial Planner, I have been accredited by the Society of Later Life Advisers since 2010. As the name implies, it's the "gold standard" for later life financial planning.

Since the National Assistance Act 1948, there have been numerous other Acts dealing with social care – the Care Act 2014 being the latest.

Various commissions have been convened and reported, including Sir Andrew Dilnot in 2010. Most of these reports have one thing in common, subsequent inaction by the Government of the day. Baroness Louise Casey is chairing the current iteration which is expected to report in 2025.

Most cries for help have a similar theme, which is that there isn't a definitive guide to the financial aspects of long-term care, and it is hoped this publication will go some way to filling that void.

A commonly held belief is the current system is patently unfair, but the Treasury pleads poverty whenever additional funding is mentioned! Don't shoot me, I'm only the messenger!

Many clients want to talk about sheltering assets from means-testing, and we'll look at "Deliberate Deprivation" in this guide. However, with less than 11% of the UK population aged over 85 (in 2021) being in institutional care, according to the Office for National Statistics, should this be a priority? Also, do you want to be in the care home your local authority is prepared to fund, or something more upmarket?

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Important note

This guide is only for people living in England and is based upon the author's understanding of the current legal framework as at the date of publication.

There is similar legislation in Scotland, Wales, and Northern Ireland.



Social Care and the NHS

One of the most misunderstood aspects of current policy is the breakpoint between Social Care, which is means-tested, and Healthcare, which is free at the point of delivery by the NHS. Hopefully, the following summary will be sufficient for our purposes here.

Generally, the patients are the same, and, often, the conditions are the same, it's a question of the intensity of the care needed. At one end of the spectrum the patient is still at home with a carer popping in briefly once or twice a day. At the other end, healthcare professionals need to be on hand 24/7. It's generally only at the latter extreme end of the care journey that the NHS takes over fully.

There's a "halfway house", with the patient in a Nursing Home (as opposed to a Care Home) where the nursing is paid for through NHS Funded Nursing Care. This is £254.06 per week, paid directly to the caregiver.

A recurring theme is around dementia in connection with which I often hear complaints that the NHS treats cancer, heart attacks, etc., so why not dementia? With more drugs becoming available, the NHS does treat dementia. However, with all illness and injuries, there is a point at which the patient is discharged from hospital into the care of the GP. If help with "activities of daily living" is needed at that point, regardless of the previous diagnosis, this is means-tested social care.

Everyone is entitled to an NHS Continuing Healthcare assessment, which is a "points make prizes" process. As this process is often driven by an NHS "bean-counter", the default position is to decline care initially.

I cannot help with appeals against failed NHS Continuing Healthcare assessments but Compass CHC offers a preliminary and free service via their [website](#) to gauge the likely success of an appeal.

Eligible Care Needs

Fundamentally, you must have Eligible Care Needs before the Local Authority will contribute to your care costs. Consequently, you may consider that you can no longer safely live in your own home and that you need to go into a care home, but if the Local Authority doesn't share that view, there will be no contribution to those costs. This is regardless of whether you would qualify on financial grounds alone.

After all, it is public policy that you stay in your own home for as long as possible.

You will meet the eligibility criteria if:

- your needs arise from or are related to a physical or mental impairment or illness
- because of these needs you are unable to achieve two or more of the activities of daily living specified below
- consequently, there is, or is likely to be, a significant impact on your well-being.

The specified activities of daily living are:

- managing and maintaining nutrition
- maintaining personal hygiene
- managing toilet needs
- being appropriately clothed
- being able to make use of your home safely
- maintaining a habitable home environment
- developing and maintaining family or other personal relationships
- accessing and engaging in work, training, education or volunteering
- making use of necessary facilities or services in the local community including public transport, and recreational facilities or services
- carrying out any caring responsibilities you have for a child

For the purposes of the regulations, you are to be regarded as being unable undertake an activity of daily living if you:

- are unable to achieve it without assistance
- can achieve it without assistance, but doing so causes significant pain, distress or anxiety
- can achieve it without assistance, but doing so endangers or is likely to endanger your health or safety, or that of others
- can achieve it without assistance but take significantly longer than would normally be expected.

Where the level of your needs fluctuates, in determining whether your needs meet the eligibility criteria, the Local Authority must consider your circumstances over such period as it considers necessary to establish accurately the level of need.

Means-testing

If you have Eligible Care Needs, the basis of means-testing is around income, so, for most retired people we're talking about pensions – State, occupational, and/or private - and benefits. Pensions not in payment are only included post State Retirement Age.

I haven't included any sources of income from savings or investments, including rental income, because that is dealt with under the Tariff Income rules.

What are the income thresholds?

Everything is considered. For people in a care home, there is a Personal Expenditure Allowance, which changes every year, and is currently £30.65 per week. This is supposed to cover things like hairdressing, podiatry, etc., but doesn't go far.

Also, for those in a care home with a spouse still at home, up to 50% of any occupational or personal pension can be paid to that spouse as a contribution towards running the home. This isn't a "notional allowance", it must be an actual transfer of funds.

What are the capital thresholds?

The lower threshold is £14,250 and the upper £23,250.

Below the lower threshold, savings and investments are deemed not to generate an income, even if they do.

Above the upper threshold, savings and investments are deemed to generate sufficient income to bridge the gap between pension and benefit income and care costs, at whatever level. You are classified then as a "self-funder".

Between the two thresholds, a tariff income applies, which is £1 per week per £250 over the lower threshold. So, upon reaching £23,250 the individual is deemed to have an income of £36 per week. This is equivalent to a return of 20.8% per annum after taxation and charges!

What constitutes capital?

Excluding your home, which is dealt with separately, capital includes:

- All savings and investments in your sole name, including the market value of any second home and/or buy-to-let property.
- A half-share of all savings and investments, etc., in joint names.
- Deemed capital from gifts, disposals, etc., considered to be "Deliberate Deprivation".

What is disregarded?

- All personal possessions, including cars, jewellery, art, collectibles, etc.
- The value of any investments issued by an insurance company with an element of life assurance



What is the treatment of my home?

Your designated Principal Private Residence is disregarded in the following circumstances:

- For the first 12-weeks after the entry into care is made permanent.
- If the property is demonstrably occupied by a qualifying relative as their Principle Private Residence.

The list of qualifying relatives is very comprehensive, but unless they are disabled, there is an age-related qualification; other than your spouse, they must be under 18 or over 60.

As soon as your home becomes a regarded asset, the market value is added to your other savings and investments, taking you well over the upper threshold.

Will I be forced to sell my home?

The answer is no. However, as stated, in the absence of a disregard, the market value is an asset of your estate for means-testing, so the relevant Tariff Income must be found somehow. This could be a third-party top-up if family want to keep your home.

Alternatively, you could consider the deferred payment scheme.

What is the deferred payment scheme?

It's equity release from your home provide by the Local Authority on statutory terms.

To qualify, you must have Eligible Care Needs, and you must pass the Local Authority's sustainability test – will the value of the home sustain the level of payments needed in the light of your life expectancy?

Assuming you qualify, the Local Authority takes a charge over your home – it must be a 1st charge, so there can be no other mortgage or equity release outstanding – and then tops-up your income to pay your care costs, rolling up the debt monthly.

The Local Authority will charge an Arrangement Fee, which isn't governed by the Care Act. The interest rate is governed is published by the Office of Budget Responsibility and is the 15-year gilt rate plus 0.15%. At the time of writing the rate is 4.65%, but it is revise half-yearly in January and July.

The debt must be repaid when the house is sold, or within 90-days of your death, which doesn't give your Executors a lot of time!

What is Deliberate Deprivation?

It is any action you take, when the need for care is foreseeable, to reduce the value of your estate with the intention of triggering a contribution from your Local Authority.

Most commonly, this will be gifts to your family but could be selling a holiday home to the family at a discount to market value.

It could also be converting a regarded asset into a disregarded asset – buying a Picasso or withdrawing funds from an ISA to invest in a Life Assurance Bond, for example.

What isn't Deliberate Deprivation.

Anything you do whilst you are fit and healthy, for your age, so the need for care isn't foreseeable. It's better still if this is documented and there was a genuine financial planning reason for the gift, or other transaction.

When is the need for care foreseeable?

You are already in receipt of Attendance Allowance or any other health benefit.

You have already received a diagnosis of a condition that is likely to lead to a need for help with activities of daily living.



How will the local authority know?

Leeds City Council is typical, with 60% of its 2025/26 budget earmarked for all aspects of social services. If your local authority isn't already bankrupt, it'll be teetering on the brink, so saving money is essential.

The local authority has powers like those of an Administrator in Bankruptcy, meaning that they can, and will, conduct a thorough investigation of your finances. There is no "statute of limitation", so they can go back as far as they deem appropriate. They will ask about anything they think looks suspicious.



What were Dilnot's proposals?

There were two key proposals from the commission chaired by Andrew Dilnot, published in 2012. Firstly, to raise the asset thresholds, and, secondly, to introduce a cap on care costs.

Both proposals were embraced by the 2014 Act but never implemented. The latest iteration was "kicked into the long grass" by the previous Government and so far, not embraced by the 2024 Labour Government. Those proposals were for the asset thresholds to change from £14,250/£23,250 to £20,000/£100,000, and for the cap to be £86,000.

Hiding behind the headlines surrounding the proposed increases in the asset thresholds, is the continuing application of the tariff income between the upper and lower thresholds. As we've already observed, this is £1 per week per £250 over the lower threshold. So, at £100,000, this is deemed to generate an income of £320 per week!

The main reason for the continuing reluctance to implement this is cost. Frustratingly, much of the cost will be bureaucratic rather than being of direct benefit to the public. This is because of the operation of the cap.

Currently, Adult Social Services departments up and down the country are struggling to meet the demand of those qualifying for local authority financial help. The introduction of the cap would entail those departments dealing with everyone needing care whilst progress towards the cap is monitored for all self-funders.

Calculations I did when the latest proposals were muted suggested that it could take someone in a care or nursing home around 5-years to reach the cap, when the average stay is 2-years for a care home and 1-year for a nursing home. This is because the formula excludes "accommodation costs" (set at £200 per week), and care costs limited to the maximum the local authority would pay, rather than actual costs.

The proposals sounded like a lifeline for self-funders, but the reality is that it's "smoke and mirrors"!

What is Attendance Allowance

This is one of the most underclaimed benefits in the UK.

You can claim Attendance Allowance if you've reached State Pension Age, and the following apply:

- You have a physical disability (including a sensory disability, for example blindness), a mental disability (including learning difficulties), or a health condition
- Your disability or health condition is severe enough for you to need help caring for yourself or someone to supervise you, for your own, or someone else's safety
- You have needed that help for at least 6-months

There's an upper and lower rate, depending on whether you need help at night as well as during the day. The rates are £73.90 and £110.40 per week respectively, which are tax-free, and not means-tested.

The application is like *War & Peace*, and the Department of Work & Pensions, which administers Attendance Allowance, has a default position of "declined".

Advisers at AgeUK are skilled at completing the application in such a way as to maximise the chances of being given the benefit. You can find your nearest AgeUK Advice Centre via this [link](#).

Attendance Allowance stops if the local authority is contributing to your care costs, or after 28-days, for a prolonged stay in hospital.

My husband needs care, what should I do?

As soon as there's a need to pay for care, whether it's at home or in a care/nursing home, make sure your husband pays for it all and not you. If you pay any of it, all you will be doing is subsidising your local authority because you will be deferring the point at which they may start to contribute to the cost.

If, as many do, you have a joint current account for all your income and expenditure, I recommend that you open two new current accounts, one each, and mandate your respective incomes to those new accounts. Your joint account then becomes a "Budget Account" for your outgoings, which should be funded rateably from your respective incomes.

Your husband's care costs should then be paid from his new account.

If you have any joint savings or investments, split them now. In this way, if your husband's income is insufficient to meet his care costs, any drawdown from savings will only come from his share.

If your husband is going into a care home, then you are only entitled to one-half of any occupational/private pension, and none of his State Pension or Attendance Allowance, towards the running costs of your home.

You should also think what would happen in the event of you dying with your husband still in care. Whilst you are alive, your home is disregarded for means-testing, but will it pass by survivorship to your husband upon your death? Does your Will leave him everything? If so, all your joint assets are then available to pay for his care. If you are wanting family to benefit, you need to take some action.

Change the ownership of your home from Beneficial Joint Tenants to Tenants in Common, so your divided half-share passes under the terms of your Will. You can do this unilaterally if your husband has already lost capacity. Then rewrite your Will to incorporate a "Family Trust" so that your share of the assets is then ringfenced, as they are presently, from paying for your husband's care.

I can help with this – ask for a copy of my Will guide.

What is the role of the Financial Planner?

Pre-funding.

In the late 90s and early 2000s, a few insurers introduced Long Term Care Plans, which were either protection-based, or investment-based. Because of a “it won’t happen to me” attitude, these plans found little favour with the public and were withdrawn.

There are now some Whole of Life plans, both for life cover and critical illness cover, with at-cost options for benefits to be paid if the policyholder fails a certain number of activities of daily living. In my experience, these are no more popular than their predecessors from 20/30-years ago.

At the point of needing care

What a Financial Planner, with the requisite qualifications in long-term care, can offer is an Immediate Needs Plan.

An Immediate Needs Plan is a specialist form of annuity that pays an income directly to a regulated care provider for the remainder of the plan holder’s life, however long that may be.

So, in exchange for a fixed lump sum, with limited death benefit options, you have a guaranteed income to bridge the gap between actual income and care costs. So, it’s like all forms of insurance, do you take on the risk yourself that you’ll die before you run out of money, or do you pay an insurance company to take on that risk for you?

Whilst the income is fixed from the outset, there are distinct options to consider:

- **Indexation.** Do you want the income to remain level or increase? If the latter, at what rate? Care costs have tended to increase faster than headline inflation, particularly in the 2020s.

- **Deferred.** Do you want the annuity to be a “backstop”. Are you prepared to pay all the care costs for anything between one and five years before the annuity kicks in? The longer the deferred period, the lower the initial cost.
- **Enhanced death benefits.** If you are concerned about premature death, for an additional premium, you can secure a guarantee of a return of either 25%, 50%, or 75% of your capital.

The annuity rate depends on several factors, including interest rates, age, and the health/functional profile of the annuitant. However, my “rule of thumb” is that an annuity paying immediately and indexed at 5% per annum is likely to cost between 5 and 6-years of the annual income shortfall.

I can help with this.



What is the role of the Will Writer?

I've already talked about severing the joint tenancy on your home and including a "Family Trust" in your Will when one of you goes into care, but this is legitimate planning for all couples in any event.

In my experience, the real issue with care costs arises if the survivor needs care after the first death. So, with perhaps half of the matrimonial assets ringfenced in a Trust, the survivor hasn't deprived themselves of any of their assets, so there is no Deliberate Deprivation.

Some Will Writers advocate "Asset Protection Trusts" but only with lots of "nods and winks". If you put your home, and any other assets, into a Trust, with the intention of protecting them from future care costs, that's Deliberate Deprivation regardless of timing or health. The Will Writer will say, "It's to avoid Probate costs and to get the assets to your intended beneficiaries quickly".

To work, you must be a beneficiary of the Trust, so they are ineffectual for Inheritance Tax (IHT) purposes; they fall foul of the "Gifts with Reservation of Benefit" (GRoB) rules – ask for a copy of my IHT Guide. However, the intervention of an Asset Protection Trust will preclude your Executors claiming the Residence Nil Rate Band, which could cost your beneficiaries up to £140,000 in IHT on the second death!

To be fair, some local authorities have accepted that the Trust wasn't Deliberate Deprivation and have contributed to care costs. However, an increasing number are taking a leaf out of HMRC's IHT Manual and applying a GRoB rule themselves.

The conversation, at the point of asking the local authority for help with care costs, is along the following lines:

"So, Mrs Miggins, you say you gave 22 Acacia Gardens away 10-years ago, but you are still living there now, and you haven't been paying rent. So, what exactly are you claiming you gave away?"!

Of course, because Mrs Miggins is a beneficiary of the Trust paying rent would be irrelevant as she would just be paying herself!

I come back to one of my opening gambits, "Many clients want to talk about sheltering assets from means-testing. However, with less than 11% of the UK population aged over 85 (in 2021) being in institutional care, according to the Office for National Statistics, should this be a priority? Also, do you want to be in the care home your local authority is prepared to fund, or something more upmarket?".

An Asset Protection Trust may not save care costs, could incur more IHT than necessary, and costs a lot to set up. Fees are well into four, if not five figures!



Conclusion

Of necessity, this guide deals with the “average retired person”, who doesn’t exist, so it is essential to take personalised advice before acting on anything in this guide.

Can the author help with other matters?

Personally, and in conjunction with trusted partners, there are several legal and other matters I can help with, including:

- Wills
- Deeds of Variation
- Applications for Probate
- Lasting Powers of Attorney (LPAs)
- Advance Directives
- Lifetime Trusts for gifts and loans
- Registering a Trust with HMRC
- Trust Administration
- Trust Investment
- Mitigating Inheritance Tax.

The above list isn’t exhaustive, so if you have a question on any matter raised in this guide, or any other financial matter, please just ask. Remember, the only dumb questions are the ones you don’t ask when you have the chance!

Contact me for help and advice on any of these and other related services. Any initial consultation is without obligation, at my expense and your convenience.

