MoneyMarketing

The cost of living

15 September 2011

There is a variety of challenging choices on paying for long-term care

My mum has just gone into a care home. My dad still lives in their home. Mum's care fees are paid by the local authority minus a contribution from their pension incomes. They have modest savings. What financial planning requirements should we consider?The greatest financial risk is if your dad dies before your mum. If this happened, your mum would receive no further state assistance with the care home fees because the property would no longer be disregarded under means testing. Furthermore, a proportion of your dad's final-salary pension scheme would continue as a spouse's pension but his state pension would end, so this would leave a significant income shortfall for your mum.

The immediate step must be to seek legal advice regarding the merits of a lasting power of attorney.

An LPA grants power to make decisions on behalf of a person who is unable to do so for themselves. Taking this step now could avoid considerable compilations and delays in the future.

The thought of selling the family home to fund care costs is abhorrent for some people but you would have little choice once your parents' savings have been depleted.

One option to avoid selling the home would be to rent it but that is only viable if the rental yields are sufficient to cover the shortfall in income.
Equity release is also an option and would effectively mean your mum maintains a share in the equity of the property in exchange for a capital sum. Depending on the type of scheme, this could prove a very costly option and because ownership is given up, this is not desirable for everybody, so detailed advice would be required.

The unknown factor in living off capital is whether the money will last. If it doesn't, the local authority is then obliged to provide care but, in doing so, is going to put a limit on the costs. Therefore, there is a chance your Mum may have to move care home, which would be highly undesirable.

To avoid this scenario, upon sale of the property, a longterm care annuity could be considered, which would mean giving up a capital sum in exchange for a guaranteed income for the rest of your mum's life. There is a risk that the income received may not reach the premium but at least the remaining capital would be ringfenced.

A word of warning, do not be tempted to transfer your parents' assets into someone else's name. If the local authority decides that the motivation for doing so was to increase entitlement to financial assistance, it could impose a charge on the asset after it had been gifted.

Peter Chadborn is director at Plan Money

Readers' comments (1)

- Anthony Harper | 16 Sep 2011 3:55 pm

  Dear Peter
  I think you've missed a trick here. You have not mentioned how the property is held and what action may be appropriate which is fundamental to the case.
  I agree with your comment about gifting. Such advice is far too prevalent and the proper regulation of will writing firms cannot come soon enough.
  Care Asset Management Ltd is a specialist provider of long term care advice. We have a fee proposition only.

Distancing oneself from commission and products is extremely liberating and genuinely makes it possible to provide professional advice.
Yours sincerely

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