Case Study

Title: Care Home funding

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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 predeceases your Mum. In this event you 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 cease so this would leave a significant income shortfall for your Mum.

Whilst your Mum retains mental capacity the immediate step must be to seek legal advice regarding the merits of Lasting Powers of Attorneys. 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.

Whilst the thought of selling the family home in order to fund Care costs is abhorrent for most people, you would have little choice once their savings has depleted.

One option to avoid selling the home would be to let it but that is only viable if the rental yields are sufficient to cover the shortfall in income.

Equity Release 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 your Mum may have to move Care Homes, which would obviously be highly undesirable. To avoid this scenario, upon sale of the property a Long Term 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. So whilst there is a risk that the income received may not reach the premium, at least the remaining capital would be ring-fenced.

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Do not be fooled into transferring your parent's assets into someone else's name. If the local authority believed that the motivation for doing so was to increase entitlement to financial assistance, they could impose a charge on the asset after it had been gifted.