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The challenge of funding later life care

Few things cause more strife and anxiety among families than decisions about the provision and funding of later-life care.

More than 400,000 older people live in care homes, including about one in seven Britons over the age of 85. Many more receive regular care visits, and some of these individuals should arguably be in a care home as well.

There are several reasons why they might not be. We all know elderly relatives who have resisted care — "The only way I'm going out of here is feet first" — but in some instances their children put off the move as late as possible because of costs.

There are two issues we must contend with: life is unfair and care is expensive.

One person may have dementia and need care for several years; another may be perfectly active till late in life and then suddenly die of a stroke. So the costs of care fall unevenly. And those costs are heavy.

Many people will initially try to get by with carers popping in a few times a week and eventually four times a day. Professional carers can cost £20 an hour or more. You can easily pay £300-£400 a week (up to £21,000 a year) on care visits.

The cost of moving into a home on a permanent basis typically starts at £750 a week (£39,000 a year). It may be necessary to pay much more to avoid ending up in a more basic home. I have one client in London who is paying £2,400 a week (£124,800 a year).

You must pay the bill if you have savings above £23,500. The value of your home is usually taken into account in this calculation, unless your partner still lives there.

Many people find this unfair. They desperately want to preserve an inheritance for their children. (Their children may like that idea, too. I have seen surveys showing that one in 10 are relying on inheritances to fund their retirement, which seems a rather risky strategy).

It is commonly argued that later-life care should be delivered as part of the NHS and that we have paid for that through our taxes over a lifetime. But the brutal reality is that the amount most people pay in taxes doesn't cover anything like the costs of the benefits they receive — education, NHS care, roads, defence, state pension and so on.

We therefore need to find ways to properly fund this care. Perhaps if inheritance tax were ring-fenced for this, people would not object so much to it. In the meantime, it makes sense to make proper provision for later-life care if you can. Here are some things to consider.

First, put in place lasting powers of attorney (LPAs). There are two sorts — financial and health. These will give your loved ones authority to act on your behalf if you are incapacitated. For LPAs to be valid you need to have capacity — be of sound mind — when you make them. So don't wait till you need them. By then it is usually too late. The necessary documents can be found online. I recommend taking legal advice when completing these, but it isn't essential.

Next, ensure your will is written and up to date. Wills make life so much easier for loved ones and ensure that an estate is distributed as wished. Again, this needs to be done while you have capacity.

Finally, while you are in a sorting mood, check that you have an up-to-date "expression of wishes" for any pensions and declarations of trust for any life policies. These nominate those who should receive any assets on your death.

With these matters attended to, you can begin to think about the tricky issue of earmarking money for later-life care. But how much?

This is an impossible question to answer. The average time spent in a care home is two years. Check out the costs in your area and consider putting aside two years' costs for each partner.

Remember, most of the costs of care are staff costs. Wages tend to go up year on year, so if you expect it to be many years before the money is needed, consider investing for a real return. You can reduce the investment risk as you get closer to needing the cash.

Regular income like the state pension and final salary pension benefits can help contribute to the cost, of course. And in many cases the family home will also be sold when an individual moves into residential care, freeing up additional capital for income generation.

Whatever you do, don't go giving your wealth away without taking these costs into account. I have known some people give money to their children thinking they might help them meet care costs when needed. But what if your children divorce, die or become bankrupt and their ability to support you disappears? We work hard to achieve financial independence. Readily surrendering it for possible tax savings is risky. At least take advice first!

And certainly be very careful about giving away your house or savings to avoid paying for care costs. If a local authority judges you to have intentionally reduced your assets to avoid their inclusion in a financial assessment, under "deprivation of assets" rules, it may calculate your fees as if you still own those assets.

Be wary of special care insurance products, too. The criteria for payout can be stringent. Most products are designed as profit centres for insurance companies, notwithstanding the noble aim of spreading the claims of the few across the premium-paying many.

Ultimately, we need a system of pooled risk — one that allows people legitimately and without moral torment to preserve a fair proportion of their family wealth from the ravaging costs of losing the later-life care lottery. We need one that we contribute towards according to our means but which obviates the imperative to give away our homes and possessions to preserve an inheritance.

Before Brexit derailed any sensible political debate on this issue there was talk of an "absolute limit" on what people must pay for care. Let us hope politicians revisit the question once Covid is under control.
