



The 5 minute money guide to:

# Fixed Term Annuities

## Introduction

Long Term Care is one of the realities for many people of the significant improvements in life expectancy that we have seen in the past decades. People are living longer but as a consequence they may live their final years under some form of care. And one of the stresses of this is the cost that often accompanies the care required.

## Some Basic Relevant Facts

- The Number of people currently in care in the UK today is 1.2 million
- One in five people over age 85 live in a care home or long stay hospital
- One in ten people age 64 to 75 live in a care home
- One in three people have to bear the costs of their care
- There are an estimated 486,000 care home places in the UK
- Average weekly cost of a nursing home is over £600 per week
- Average weekly cost of nursing at your own home is £400 per week

## Who Pays?

The complicating factor here is that the rules are far from clear. One important point to note is that the rules applying in England, Wales and Northern Ireland are somewhat different to Scotland.

Likewise the rules as they are applied can be very different from local authority to local authority, making the whole system somewhat of a lottery. However as a rule of thumb anyone with more than £23,000 in assets will not qualify for assistance.

The days of the State looking after you from cradle to grave have long gone and the trend for the individual to have to fund their own care costs is growing.

It seems appropriate to suggest then that the cost of care will, in the main, be the responsibility of the individual who requires care and the State will only step in should the individual be unable to afford the cost. This will only happen should the individual have no funds: if they do the State will step in only in part or when those funds have been spent.

## The core problem

Of course the main problem in this area is that, as the statistics suggest, only a minority of people will need Long Term Care. The key here is the “long term” part of the title. If the figures (1 in 10 for ages 65-74 and 1 in 5 for age 85+) remain constant then for any individual the prospects of seeing their hard earned money (often accumulated over a lifetime) whittle down in just a few years of expensive care is relatively unlikely.

However it is relatively unlikely your house will be burgled or your holiday will be cancelled but the fact is that most prudent people still look to take contents insurance and travel insurance to counter the eventuality. And the fact is that the term relatively unlikely is just that: relative. One could (and probably should) argue from ***a financial viewpoint*** that a 1 in 5 chance of something happening is actually quite a high relative probability if it entails financial meltdown.

If you were to choose an investment and we told you it had a 1 in 5 (or even 1 in 10) chance of losing all your money you probably would consider that quite a high chance and avoid the investment like the plague even though it is *more* likely you won't lose all your money. So the same principle applies: it is more likely than not that you won't need long term care but if you do the financial consequences can be disproportionately severe.

## The costs

The costs of paying for care are very high and *are increasing*. According to the Laing and Buisson 2008 Market Survey the costs of care have risen to an average of £34,500 for nursing care and £24,100 for residential care. The costs have risen by a staggering 70% in the previous 10 years. Having care at home is estimated to cost nearly the same i.e. £24,000 per year.

## The government's position and Green Paper

A Green Paper with the name "Shaping the Future of Care Together" is an interesting document but is just that: a green paper. It proposes certain methods to tackle the care problem or more relevant the *cost* problem. In particular it proposes that the government and the individual share the problem through a partnership arrangement. It puts forward alternative suggestions one of which includes an insurance scheme.

We believe however that reading between the lines the one thing that will NOT happen is that any government will be able to pay for the care lock, stock and barrel.

Especially relevant is that the proposals only seem to cover local authority care and not specialised and private care facilities or arrangements. It is also clear that the very wealthy (and this definition applies to a broad spectrum of people, who may consider themselves very far removed from the very wealthy) will have to fund or part fund care themselves.

## The solutions

As with any such financial planning the solution lies in a getting a tailored approach to the individual situation: there is not a solution which fits the description "one size fits all". Solutions which seem obvious e.g. getting rid of all one's assets may either be impractical or impossible or may not work (for example a local authority may refuse to pay if assets have been hidden or sold /gifted just to avoid the costs of care), or solutions which combine Inheritance Tax (IHT) planning (e.g. making gifts which may later be needed to pay for care) may fall foul of complicating factors such as the rules applying to "gifts with reservation" so either the long term care will not be funded or the monies gifted will be taxed.

Insurance remains the single most effective solution and with specialist help schemes that combine sensibly funded insurance with gifting may make a neat package which helps with both the IHT and the care costs, if needed. As with all planning there are two requisites to make for an efficient solution:

**1. Get the best advisers to help. Make sure they have specialist tax and long term care knowledge and qualifications.**

**2. Plan early.**

For anyone who has left planning to the last minute certain other solutions may be viable e.g. enhanced or impaired annuities, which could allow an individual to buy an income for life at very high rates and cover the cost of the care whilst retaining for themselves or their beneficiaries the rest of their assets.

## The way forward

This is one of the most difficult problems facing the Nation. Demographics and life expectancy tell us that the long term care requirement is going to escalate massively as will the costs. For future generations this is one of the biggest threats to their finances and only with sensible planning and forethought can the escalating costs be contained. There are solutions but these need to be worked through carefully and it is definitely an area where specialist advice is needed.



## 5 minute money guide series from Get Financial Advice

This guide to paying for long term care is part of a series of such guides being developed by Get Financial Advice to provide an easy reference for readers.

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