

News & Views



Long Term Care - Special Edition

Options for care

There is very little Government funding for long-term care and only people with assets less than around £20-22,000 are entitled to financial help (levels differ in England, Scotland and Wales). According to the Joseph Rowntree Foundation, more than 1 in 4 of us is expected to need a long-term care bed in old age, yet provision is limited and, currently, the costs are very high. The Elderly Accommodation Council (housingcare.org) estimates that fees start at around £300 a week depending on the location and services provided – and rise to £1,000 or more for homes with nursing care.

There are three types of home: Private care homes, owned by private individuals or companies; voluntary care homes, run by charities or other voluntary groups; and local authority care homes. Other types of care are also available including domiciliary care, which ranges from meals on wheels to full nursing care, or sheltered housing, which provides an on-site warden for emergencies, but allows residents to maintain the independence of their own home.

The unpredictable nature of future care costs, combined with low demand (very few of us want to plan for this in advance), mean pre-funded care plans are now quite rare. Instead, immediate care plans, which provide an income in exchange for a lump sum, are more common. These can take a considerable chunk out of any investments you have built up – which is just one more reason to ensure you are making the most of your savings for the long-term.

One of the implications of increased life expectancy is the fact that we may have to make our money work longer and harder. This newsletter highlights some of the specialist services & products which EBS offers to help you and your family face the future with confidence. Call us for advice.

Contact us:

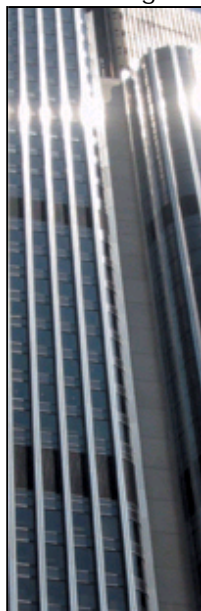
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Qualified to help

Understandably, advice in this area is restricted to firms with advisers who have passed specialist examinations, set by the Personal Finance Society and the Chartered Insurance Institute, in Long Term Care, Equity Release and Home Reversion Schemes. EBS sees these areas of advice as increasingly important in coming years and is pleased that through Steve Randall and Dave Welch we are qualified and authorised by the Financial Services Authority to provide independent advice in these areas. If you or a friend or family member would benefit from an initial consultation, conducted at our expense and free from obligation, please get in touch.





Funding options

Most of us tend not to be thinking ahead to long-term care, but then, this might not be a problem if costs can be met out of income or existing savings.

For short-term requirements, funding from savings could indeed be the most appropriate course. However, in the long-term, what happens if payments for care increase? How long will the savings last? What if you live longer than expected? An 'immediate care plan' guarantees to cover any shortfall between what you can pay and the actual care fees for life – or for as long as you need them, whichever is sooner. These plans are based on special annuities and balance the risk that you will live longer than expected and need more money than you invested with the possibility that some investors will die earlier than expected and therefore cross subsidise the rest.

If finding a lump sum may be difficult, releasing equity from the your home might be a possibility. Alternatively, investing now can help build a nest egg for whatever need you have later on.

Equity release schemes

As house prices have risen and annuity rates have declined, specially designed equity release schemes have become more popular with those in retirement. These schemes work by loaning you a cash lump sum against the value of your house which is then paid out either as a monthly income or as a lump sum.

In the specially designed schemes, the loan taken is paid back when the house is sold - either on death or when you move house. Generally, you pay no interest during your lifetime and this is instead added to the loan until the end of the term. The idea is that you are able to stay in your home whilst also benefiting from its value - but because of the unknown nature of your life expectancy and the cost of setting these schemes up, you will need to be at least 55, have a property that is worth over £40,000 and own the freehold on the property to be eligible.

There are, of course, some downsides to using equity release. First, you reduce or perhaps even cancel out the value of the house which you might otherwise have wanted to pass on to your beneficiaries. In addition, the income you receive could impact both any means-tested benefits you receive and your income tax bill. And, while the cash received from the scheme is tax free on receipt, if you invest that money, any additional income you receive will be subject to tax.

Of course, you can achieve the same effect by simply moving to a smaller house and using the difference to invest appropriately. However, many people prefer not to have the upheaval or want to stay in their family home, say. Equity release can also be a useful way of paying for care home fees if the move into a care home is sudden and waiting to sell a house may not be feasible.

Equity release schemes have been controversial and some can still be expensive, with higher interest rates and fees than a normal re-mortgage. However, three years ago, they were brought under the FSA's remit so can now only be sold by qualified advisers, which has helped to rid the industry of bad practice. In a housing market which, after a period of sustained growth is now sliding a little and may get worse before it gets better, equity release investors also run the risk that their property will be worth less than their loan. These can offer good opportunities but should be seen only as part of a long-term plan.

"EQUITY RELEASE" REFERS TO HOME REVERSION PLANS AND LIFETIME MORTGAGES. TO UNDERSTAND THE FEATURES AND RISKS, ASK FOR A PERSONALISED ILLUSTRATION.