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Plan now to afford typical care home costs

With around **three out of every four people requiring some form of later-life care**, this article (originally published in the Financial Times) highlights the importance of factoring long-term care into the financial plan and how by taking steps early to address the issue it can help provide some peace of mind.

Frank spends most days ferrying his ageing parents to and from medical appointments, preparing their meals and dealing with their bills, maintenance tasks and carers.

He is also busy looking for a care home for his parents. As well as contemplating the astronomical cost of care, with quotes of up to £1,200 per week per parent, he is struggling to find a home that can accommodate them together; something he is adamant about doing.

The situation is made worse by the fact that both his parents, who are in their late eighties, have dementia and are in failing health. Frank, who asked for his name to be changed, says it is a "sad and inevitable one-way journey that they're both on".

Frank is far from alone in struggling with finding care. The **UK's population is ageing**, with estimates from the International Longevity Centre suggesting the number of people aged 65 and over in the UK is **set to increase from 11.2m today to 17.2m by 2040**. With around **three out of every four people requiring some form of later-life care**, this is a situation that many of us are going to experience first-hand.

Yet research from Fidelity International[1] into people's plans to pay for long-term care shows just how woefully underprepared most of us are.

In a survey of 2,000 adults conducted for Fidelity in December by Opinium Research, 69% of those over 55 admitted they weren't sure what their care needs might be, even though having a plan to fund potential long-term care is a fundamental part of financial planning.

The longer we live, the greater the chances are that we will eventually need some sort of care. However, by that stage it's far too late to start pondering how we'll pay. **That needs to be taken care of years, or preferably decades, beforehand.**

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Too few do so. Some 52% of over-55s haven't thought about how they will afford the cost. Only 27% have given any thought to it and just 5% have made a specific plan, the research found.

Those within this age group who have considered how they will pay for it expect to draw on several sources: 47% said they would use their savings as the primary means of paying for long-term care, 39% said they would use pension income, 28% say they would sell their house and 24% would look to income from their savings or pension. Some 15% said they expect the state to pay.

We are just as much in the dark on costs. The research found people expect care to cost an average of £78,750, with estimates ranging from zero (with local authorities covering the bills) to more than £200,000. Government figures suggest that one in seven people is expected to face care costs of more than £100,000 and one in 10 over £120,000.

So, how might you develop a plan? The cost calculation for long-term care is **uncertain** but we can apply a **broad rule of thumb**. Assuming that the average length of time that someone needs either residential or live-in care is about 30 months, we can see that, with an average cost of £750 a week, they would need around £99,500 in total.

So, assuming you can generate returns of 4% a year, you need to put away £270 a month for 20 years or £670 a month over 10 years. If you have a lump sum to invest, assuming the same rate of return, you need to leave £44,800 invested for 20 years or £66,750 invested for 10 years.

Regular contribution investment required to generate £99,500: -

Term	Amount
5 Years	£1,500
10 Years	£670
15 Years	£400
20 Years	£270

Rounded to nearest £5. Compounded monthly. Source: Fidelity International

Lump sum investment required to generate £99,500: -

Term	Amount
5 Years	£81,500
10 Years	£66,750
15 Years	£54,700
20 Years	£44,800

Rounded to nearest £50. Source: Fidelity International

You could rely on your **pension** for long-term care needs, but this has implications for passing on wealth to loved ones. Depending on the type of pension you have, any unspent money in your pension pot on your death may be able to be passed to beneficiaries free of inheritance tax. If so, using it to fund care may leave little, if anything, to pass on.

It's similar with selling your home to pay for care. **Downsizing** is an option, but is something better done sooner rather than later: as well as releasing cash for care, you can release money to pass on to loved ones now and reduce future inheritance tax liabilities.

Maxing out your **pension contributions** with a view to taking a lump sum out later for care costs is an option. However, you should be careful to segregate the money you set aside for care.

Frank has now found a care home for his parents. But he is selling their house to help cover the bills and acknowledges he is in effect waving goodbye to his inheritance.

Source:

[1] Fidelity International, 20 February 2023. Research was conducted by Opinium Research commissioned by Fidelity International. The survey is based on a nationally representative sample of 2,000 UK adults. Fieldwork ran from 15 to 20 December 2022.

If you are concerned about long-term care funding and the effect this could have on your financial situation, please do get in touch by contacting the office on 0161 839 8229 or rob@mgp-financialplanning.com.