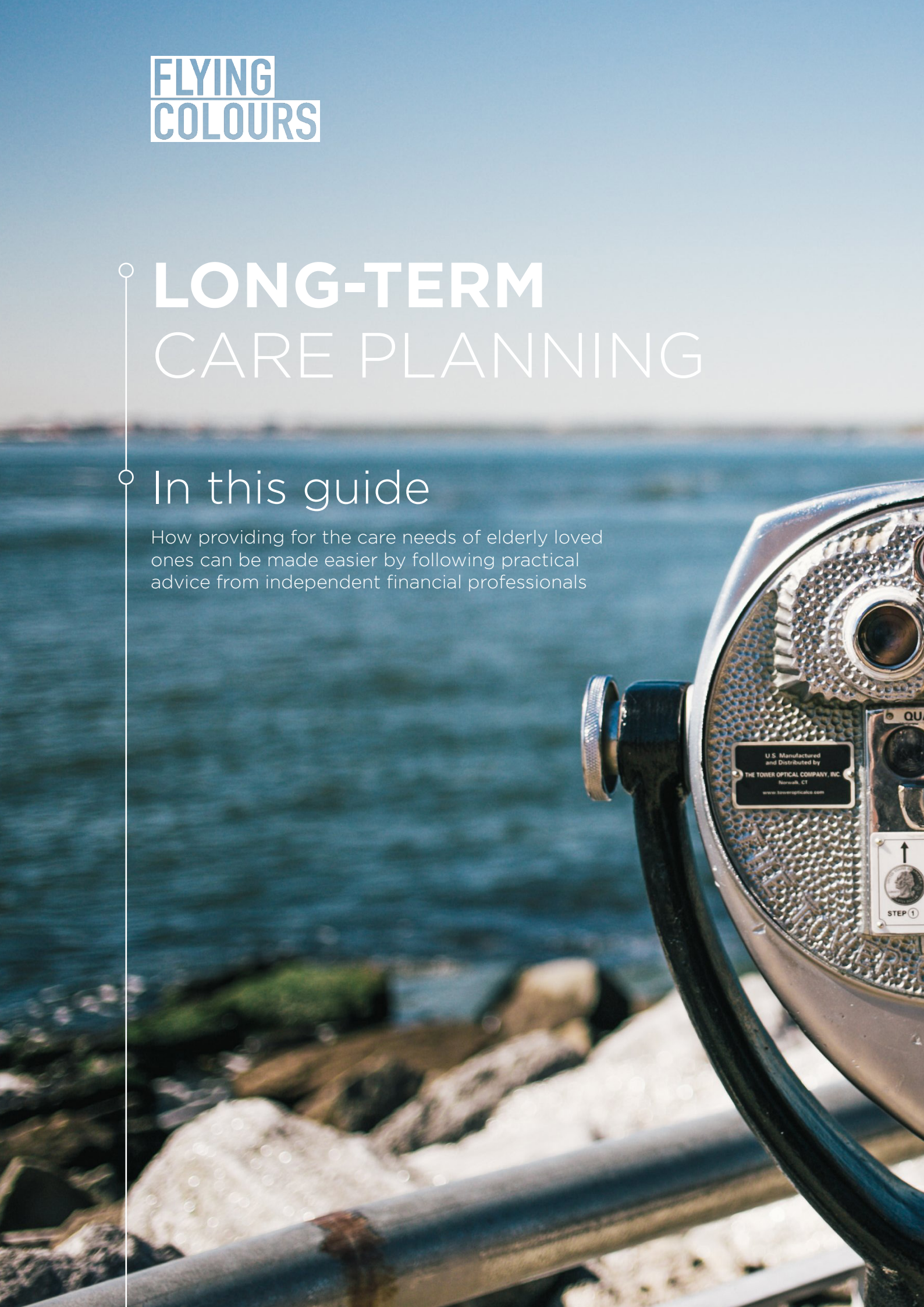
FLYING COLOURS

LONG-TERM CARE PLANNING

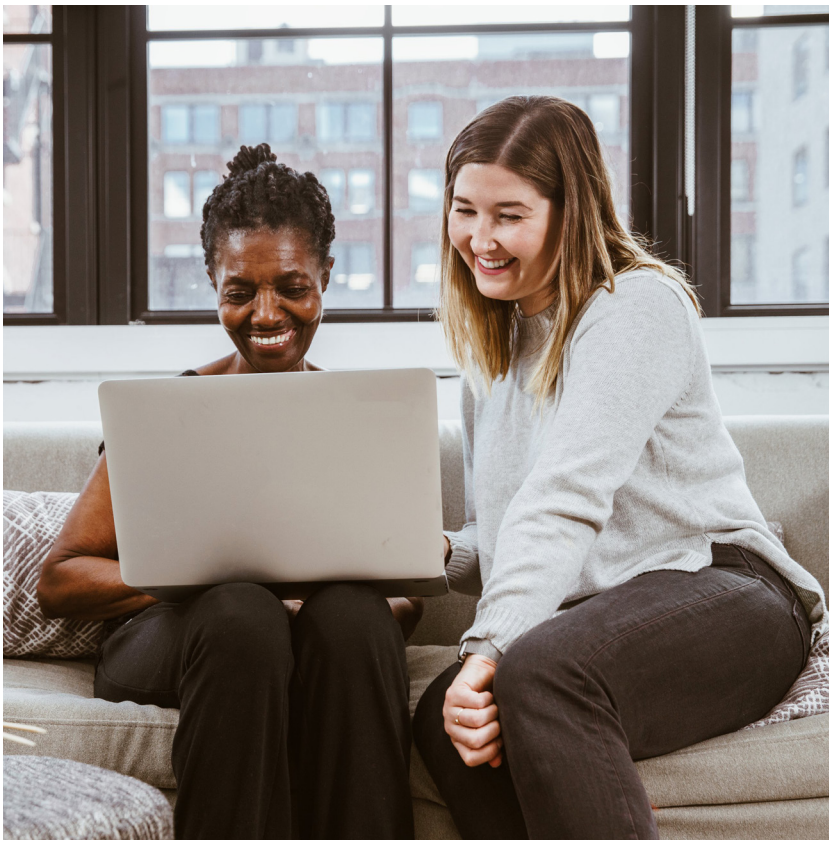
In this guide

How providing for the care needs of elderly loved ones can be made easier by following practical advice from independent financial professionals



I admire Flying Colours because they care about the same things I do and are dedicated to improving people's lives and their financial security. They work for the good of their clients and their families. Financial advice should make you money.

- Baroness Ros Altmann CBE



Over the course of the past few decades, the trend towards an ageing population in the UK has had a dramatic impact on family structures and saving practices, and has placed extreme demands on health and welfare services. Demographic changes have not just been limited to people living longer: declining fertility and mortality rates mean that as the number of people being born goes down, and the life expectancies of people already born go up, the costs of caring for an increasing number of elderly people falls on fewer shoulders.

This can have far-reaching implications.

It means, for example, that an average woman is likely to spend more of her life with a parent over 65 than with a child under 18. As they get older, many people rely on care, just as children do, so their needs – and the responsibilities of their loved ones to support those needs – are rising.

Of course, the needs of older people are as varied and individual as people themselves, and the solutions to these needs will be just as wide-ranging.

Caring for older loved ones can sometimes be even more complicated and emotionally fraught than looking after children. Seeing a parent succumb to a condition such as dementia in the latter stages of their life, or catering to their changing needs as a result of diminished mobility and independence can be heartbreaking. It is only natural that most of us feel a duty to reciprocate the love and care lavished on us in our childhood if our parents need it.

But the costs of providing care for older people in the UK are markedly higher than for child-age dependants. Indeed, they are astronomical; in 2016-17, the average weekly cost of a room in a residential home in the UK was £600, while for a nursing home it was £841.

As well as financial challenges, there are also legal difficulties to overcome: anyone seeking to make financial decisions on behalf of someone else must first gain Power of Attorney or, in some circumstances, a Court of Protection Order. In addition, frequently changing legislation around tax and inheritance issues makes it even harder for most people to make an informed decision.

Seeking informed independent professional financial advice can go a long way towards overcoming many of these problems.

According to pensions expert and political campaigner Baroness Altmann CBE, "In my experience, little time and energy is spent on solving the problems that affect older generations. Maybe this is because it isn't glamourous, or because it doesn't attract angry protests. I've spent years representing the interests of older people and their families in financial services and have been committed to making things better. One of the areas that stands out for me is the journey around care, including how people can be expected to pay for it.

"I admire Flying Colours because they care about the same things I do and are dedicated to improving people's lives and their financial security. They work for the good of their clients and their families. Financial advice should make you money and if you think you might benefit from speaking to an adviser please give us a call."

GLOSSARY

CARE FEES ANNUITY PLAN

Also known as an Immediate Needs Care Plan, this is a financial product – like an insurance policy – that provides a tax-free income for life in exchange for an initial lump sum payout. It is designed to cover the shortfall between someone's income and the cost of their care.

POWER OF ATTORNEY

A legal document that enables someone to make decisions on another person's behalf because they are no longer able to do so.

COURT OF PROTECTION ORDER

A legal document from the Court of Protection that appoints someone to make decisions on another person's behalf due to loss of mental capacity.

Case Study:
Ruby

> **Each case needs to be taken on its merits individually. There is no one-size-fits-all approach**
>
> **- John Varley, financial adviser**

STATS

410,000
the number of UK care home residents as of 2017 *

41%
the percentage of those residents who fund themselves*

49%
the percentage of those residents who receive Local Authority funding (around a quarter of these pay top-ups)*

* Competition & Markets Authority, Care homes market study, November 2017

Retired teacher Ruby was 87 when she entered a dementia specialist care home costing £42,000 per year. At that point she had £180,000 in savings from the sale of her home. Her income from her state pension and teacher's pension was £18,700, leaving a shortfall of £23,300. Ruby's daughter Carol was determined that her mother should receive the best care possible but her own financial situation meant that she was unable to contribute to Ruby's fees if her savings ran out.

Carol got in touch with John Varley, a Flying Colours financial adviser, who identified that Ruby was eligible to claim Attendance Allowance at a higher rate, reducing the fees shortfall by £4,321 to £18,979. Additionally, John produced a detailed report outlining the various options available. On the basis of this, Carol decided to purchase a Care Fees Annuity Plan for £104,384. This provided a guaranteed income of £1,582 per month, increasing by RPI for the rest of Ruby's life. This solved the problem of the fees shortfall, with a small sum left over for incidental monthly expenses. The remainder of Ruby's savings (£70,000) was placed in a tax-efficient, low risk investment.

By the time of Ruby's death, the Care Fees Annuity Plan had paid out £147,005 towards the cost of her care. A total of £321,788 had been paid in care home fees, but after the estate was settled Carol still inherited £95,920 from Ruby's original savings of £180,000. If Carol had not sought financial advice and had simply left her mother's money in a bank account, there would have been less than £17,000 left over at the time of Ruby's death and Carol would have needed to seek local authority funding.

> **People really need to be taking advice on what their options are, so they're going into it with their eyes open**
>
> **- John Varley, financial adviser**

Bridging the gap

According to a Flying Colours financial adviser John Varley, the problem many people encounter when arranging care for an elderly relative is meeting the shortfall in funds: "Each person's circumstances are different. It's not the asset value that's the issue, it's the shortfall in income that needs to be generated that's the focus," he says. "You could have somebody with relatively low assets but a small shortfall to address.

"On the other hand, you could have somebody with what may appear to be plenty of assets but the income shortfall is substantial. Again, we might be able to help them. Each case needs to be taken on its merits individually. There is no one-size-fits-all approach."

On the legal side of things, Flying Colours can also offer advice and guidance. "At the initial consultation stage, if someone is speaking on behalf of an elderly relative, we would very quickly establish whether or not they have legal authority," says John. "If they don't, part of the service we provide is to help them put that in place. We cannot take any instruction unless there is clear legal option in place. Another option is a Court of Protection order, which we can help with."

Popular options

Despite there being no off-the-peg solution to long-term care needs, John points to two popular routes many people in this situation choose to go down: "There are two general ways of generating income: a well-structured investment portfolio, which can, dependent on the income need, be a reliable way of generating income.

"Or you can secure a guaranteed income stream through an Immediate Needs Care Plan. Effectively that provides a guaranteed income for life, tax-free."

When asked about how the long-term care landscape has changed over the years, John confirms that things seem to be getting worse – and more complicated: "It's a huge political hot potato," he says. "Successive governments have failed to address the problem – they keep kicking it into the long grass and hoping it'll go away. But the problem is just getting greater. Given the last few years of austerity, central government funding for this is absolutely at rock bottom.

"Hence why people really need to be taking advice on what their options are, what they can and can't do, what to expect – so they're going into it with their eyes open."

By heeding advice now, families can both meet the care needs of their loved ones and preserve their capital – so that it can be passed on to future generations who are likely to face similar problems of their own when the time comes. Becoming aware of all the available options around long-term care is not just a smart choice – it can make a real difference to the future wellbeing of those you care about the most.

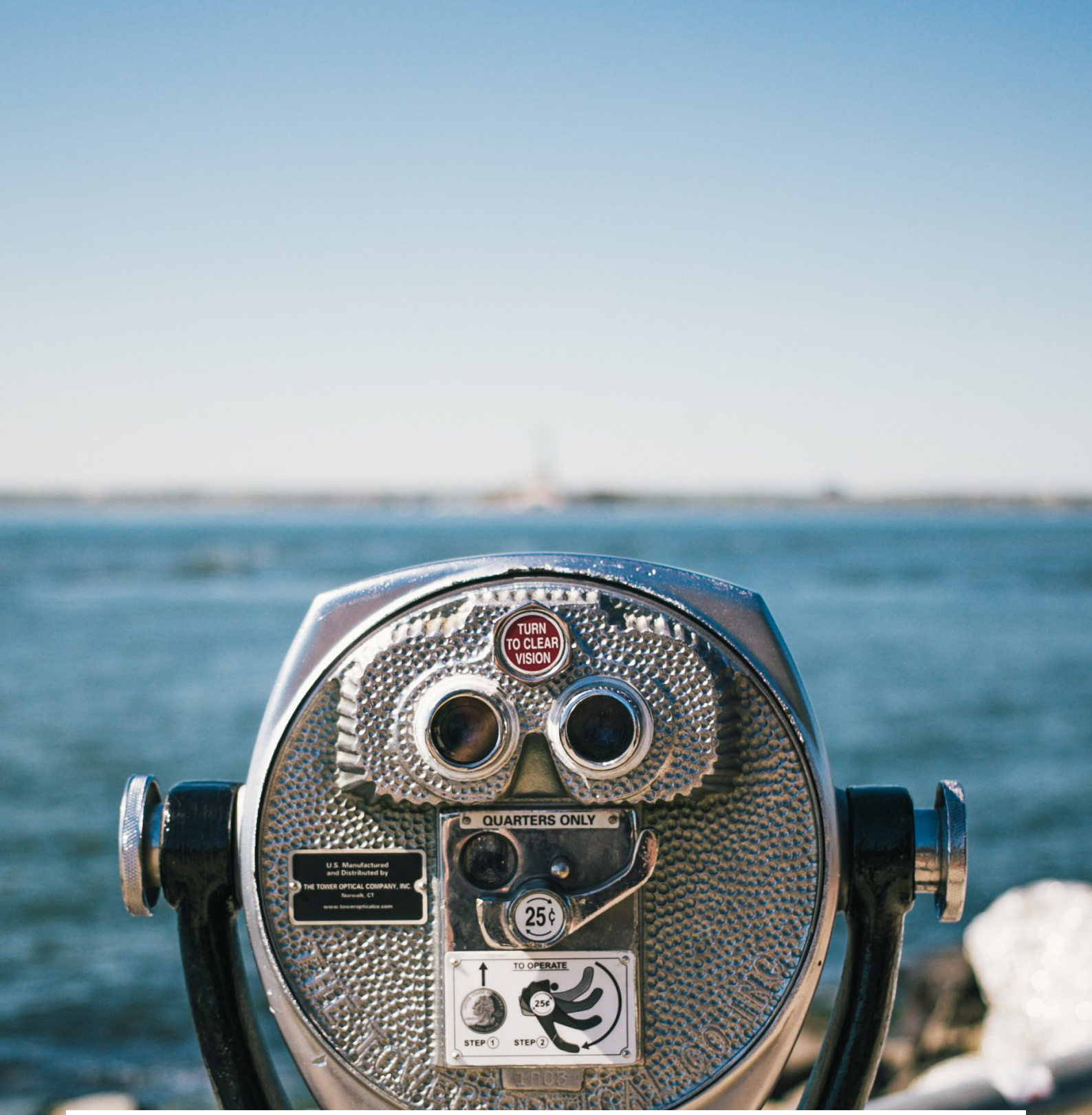
Case Study:
Mavis

When her husband died, 84-year-old Mavis needed to move into a permanent residential care home, for which the costs came to around £4,250 per month. After her existing pension provisions were taken into account, she was left with a £1,450 monthly shortfall. Her savings of £80,000 were in a cash Individual Savings Account (ISA) bringing in just 0.5% per annum, and she owned a property with a market value of around £245,000.

Mavis's daughters, Rachel and Julia, considered renting out their mother's property to cover the cost of her care home fees but realised that they would need to spend more than £25,000 on modernising it, and that after tax and other expenses the rental yield would be insufficient to bridge the care fees gap. Their mother's remaining savings of £55,000 would last fewer than five years before fully running out, at which point they would have no other option but to sell the home. Despite suffering from poor mental health, Mavis's physical health was good, so purchasing a Care Fees Annuity Plan was going to be too expensive in relation to her total assets.

After consulting a Flying Colours financial adviser, Rachel and Julia decided that selling Mavis's home was the best way to protect the value of her assets. They soon accepted an offer for the asking price.They were also advised to keep £35,000 of the £80,000 ISA on deposit and to invest the balance of the ISA plus the eventual proceeds of sale. A total of £285,000 – £45,000 from the ISA and £240,000 from the sale of the house – was invested in a combination of a General Investment Account (GIA) and a top-up of the ISA, transferred from cash to an investment ISA.

By utilising Mavis's current year's ISA allowance, £100,000 could be held in a tax-free ISA arrangement and £185,000 in a GIA, with a plan to 'drip feed' the ISA from the GIA at a rate of £20,000 each year. Mavis's family's priority was to secure the capital, whilst paying the care home fees. Having supported eighteen months of care home fees the investments have performed well and protected the capital, and are now valued at £319,200 plus a balance of £8,900 held in cash.



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