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JUST.

HOUSE VIEW

SERIES

LONG TERM CARE FUNDING

Pension reforms have given people more freedom and arguably made longer term retirement income planning more complex.

Since Pension Freedoms, we have seen much debate about whether clients are accessing funds too early, or withdrawing funds at a rate that is unsustainable. However, we rarely see any commentary trying to match withdrawal rates to their long term actual income needs.

According to the Office of National Statistics (ONS), spending patterns change as we go through retirement and into later life. For those aged 50 to 64 it averages £29,744 per annum, between ages 65 and 74 it falls to £23,816 and drops to £15,496 at age 75 and over.

But what if residential care is required at age 85, for example? Assuming the average residential care cost is around £30,000 per annum, if they live a further five years the cost will be around £150,000. If they live to 100, the total cost would be in excess of £450,000 without making allowances for fee increases. This is based on the average of around £30,000 and many people will be spending significantly more than that for the more luxurious homes.

The issue of how long a person will live for is difficult to assess, especially as we get older. If they have care needs that are costing up to £1,000 per week or even more, and the care they're receiving is good quality, with nutritious food and plenty of cognitive activity, it's almost impossible to know how long they'll live and what the eventual total cost will be.

Let's consider an 86-year old female entering a care home. When she was born in 1931, life expectancy for females in England and Wales was 62.9 years*. Her life expectancy now at age 86, based on the average, is just under seven years - taking her to 93. That's 30 years more than when she was born.

The longer you live, the longer you'll be expected to live

Another problem in assessing her life expectancy is that the longer she lives the longer she can be expected to live. So although at birth the 86 year old lady's life expectancy was only just under 63 years, she's already gone past current female life expectancy of 83 years. So there is longevity there without a doubt and probably a very strong constitution! If she gets to age 90 she can then be expected to live to age 95, and if when she gets there she can be expected to live to 98.3 and so it goes on. How does anyone know how long she'll eventually live for and what the care will cost?

Peace of mind for your clients using insurance

As an insurer our care plans work on a mortality cross subsidy basis which allows us to spread the risk. So those that die early will be cross subsidising those that live longer keeping the cost of insurance down for all. Without insurance, individuals and the families of those that live to ripe old ages in care homes don't have the luxury of risk spreading - they often have to fund the full cost themselves.

When funding significant care costs on this basis, the consequences of underestimating the life expectancy assumptions of the person in care can be disastrous. Not only will they not be able to leave the legacy they wanted to, but care homes are under huge financial pressure and many will not be able to maintain the same package of care. So it could mean being moved if the money runs out. Potentially, a very unpleasant situation for all concerned.

*Source: http://visual.ons.gov.uk/how-has-life-expectancy-changed-over-time/

Ensuring your clients' money doesn't run out

An Immediate Care Plan (ICP) is the best way a client can help ensure their money doesn't run out. With an ICP there's no investment risk, it's a guaranteed product and 100% covered by the Financial Services Compensation Scheme (FSCS) for complete peace of mind. Income is payable for life no matter how long someone lives or what happens.

Ways to protect some of the money too

Some people may be concerned about the value of an insurance solution should the client die earlier than expected but there are ways to cover this eventuality if it's a real concern. There's a capital protected option (up to 75%) so that some money may be returned to the estate in the event of earlier than expected death. Though this option will increase the cost of the care plan.

Or there's a deferred option (deferral of up to five years) which means we'll make a contribution to care fees if the client lives longer than expected. This option will reduce the cost of the care plan but fees will have to be met during the deferred period.

Wider social issues

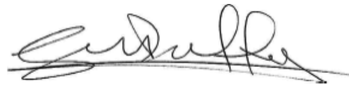
Unfortunately the purchasing of ICPs will not solve all the problems in social and health care.

However if those that self-fund can maintain that funding and not run their money down to local authority support levels then there's some potential saving there. According to the Local Government Information Unit (LGIU) 24% of self-funders fall back on the state for support costing anywhere between £425m and £1bn every year depending on their different estimates.

Any saving can then be used in the wider system to help with local authority funding and budgets.

Advisers should always get fully underwritten terms for an ICP and take into account all of the issues surrounding longevity risk when making any recommendation for care funding.

Graham Duffy



Care Specialist

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