

Costs of later-life care

Establishing a thorough wealth strategy is key to ensuring financial readiness

The financial implications of care in later life are often underestimated, leaving many unprepared for the substantial costs associated with care homes. Establishing a thorough wealth strategy is key to ensuring financial readiness for long-term care needs.

In England, individuals with assets exceeding £23,250 are currently required to self-fund their care home expenses. However, a new government proposal aims to introduce an £86,000 lifetime cap on care fees starting from October 2025, designed to simplify care fees planning and potentially reduce the financial burden on individuals.

UNDERSTANDING THE £86,000 CAP ON CARE FEES

The proposed cap on care fees, often referred to as the 'social care' cap, intends to limit the personal financial contribution towards long-term care costs. At first glance, the cap appears to offer considerable relief; after an outlay of £86,000, further personal care costs would ostensibly be covered by one's local authority.

Yet, it's crucial to recognise that this cap exclusively pertains to personal care costs, leaving individuals responsible for additional expenses such

as accommodation and living costs. Moreover, the intricacies of what expenditures count towards the cap mean that many may find themselves contributing significantly more than £86,000 for their care.

CHANGING LANDSCAPE OF SOCIAL CARE FUNDING

The government's proposal extends beyond the care fees cap and includes adjustments to the capital thresholds associated with means-tested social care funding. Key changes the government is proposing from October 2025 are introducing an £86,000 'cap' on how much an individual has to spend on personal care costs over their lifetime and increasing the upper and lower capital thresholds for means-tested social care funding to £20,000 and £100,000.

At present, the social care upper limit is £23,250, and the lower limit is £14,250 in England. If your assets are above £23,250 and you don't

qualify for NHS support, you must pay full care fees. If your assets are below £14,250, then the local authority will pay for your care costs. Any income you do have will be used to pay part of your care fees.

FORWARD PLANNING FOR CARE COSTS

The thought of requiring long-term care and the financial implications that come with it is often met with apprehension. The unpredictability of needing social care in later life, coupled with potential changes in care requirements, underscores the importance of early financial planning.

Securing professional financial advice and incorporating care costs into your retirement plans can demystify the expenses involved, enabling you to address them tax-efficiently. This preparatory step clarifies cost implications and strategies for maximising tax benefits.



TAX PLANNING AND ANNUITIES FOR CARE COSTS

Addressing care home costs effectively involves a blend of strategies, including tax planning and considering annuities for care fees. Tax planning for care homes focuses on implementing measures to manage the tax implications of financing and affording care home expenses.

The goal is to optimise financial resources while ensuring necessary care is received without incurring excessive tax liabilities. Alternatively, annuities for care home fees offer a financial mechanism to cover retirement care costs, providing a regular income stream in exchange for a lump sum payment to an insurance company.

STRATEGIES FOR MANAGING CARE EXPENSES

Annuities serve as a viable option for managing care home fees, offering a lifetime income following an initial lump sum payment, akin to purchasing any other annuity. The cost and subsequent income are determined by an assessment of medical records and expected lifespan, ensuring the arrangement meets the individual's needs.

Notably, if the annuity income is paid directly to a registered care provider, it may be tax-exempt,

further enhancing its appeal. These financial products also afford flexibility, including provisions for spouses and adjustments for inflation, adding a layer of security to your financial planning for care. ■

DO YOU REQUIRE EXPERT GUIDANCE AND SUPPORT TO PLAN FOR FUTURE CARE COSTS?

We're ready to offer expert guidance and support if you require additional information or assistance in planning for future care costs. We are committed to helping you navigate the intricacies of care planning and financial management, ensuring your financial wellbeing and security in later life. Contact us today to explore how we can assist you in achieving your financial goals and providing a comfortable and secure future.

Source data:

[1] <https://ukcareguide.co.uk/rise-in-care-home-costs/>

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