

moneywatch

Long Term Care

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Worries about care home firms and your rights

With many homes closing across the UK, knowing the rules and regulations is more important than ever.

Many care home residents and their relatives have been worried about the business troubles of care home firm Southern Cross. Happily, it seems likely that most of those homes will remain open, taken over by other operators. However, a scan of the UK's local news shows that many homes are closing. In the unfortunate event that a home closes, you have certain rights.

If your relative's care fees are being met by a local authority, it has a duty to find an alternative place. They must look after both the physical and emotional needs of those looking for a home. You can challenge the amount of the local authority contribution if you can't find any provision within your local area within this limit.

Those who pay their own fees may have to find alternative accommodation, but in both cases, you are entitled to a local authority assessment to determine your care needs. This can help with finding another suitable nursing home. If a resident doesn't have the mental

capacity to communicate their needs, then anyone working with them must act in their 'best interests' as defined by legislation.

Other legal requirements include the fact that all care home providers must meet the standards required by the Care Quality Commission.

“ If your relative's care fees are being met by a local authority, it has a duty to find an alternative place ”

Owners must observe any notice to leave requirements contained in the contract with the resident or local authority.

Residents who have been placed by the local authority are protected under the Human Rights Act.

Residents who arrange and fund their own residential care can make a complaint to the Local Government Ombudsman about their care home provider.

If a local authority home is to close, there must be a full consultation process, while the NHS has a responsibility to relocate any residents

who were originally placed and funded by them.

If you have any worries about a relative in care, and believe you may need to adjust their financial arrangements for the short or long term, please get in touch, we will be happy to help.

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Proposals for a new care funding system

A Government commission on long term care, led by respected economist Andrew Dilnot, has made several recommendations for reforming care funding.

The key recommendation is that - subject to means testing - the contribution for care per person should be £35,000. We envisage that it may be possible to obtain insurance or to set up an investment plan to cover this sum.

The Government has welcomed the report and ministers have promised legislation soon, so it is definitely worth bearing in mind if you are considering making provision for your future care or for the care of a relative.

However, the recommendations of previous reports and commissions have sometimes been ignored or only partially implemented due to costs. Politicians are aiming to get broad political agreement for reform, but the last consensus broke down spectacularly just before the last election.

All this makes detailed planning difficult, so it is probably best to consider a range of scenarios, not least that the status quo remains unchanged.

However, for your information, Dilnot made the following recommendations:

- The contribution that any individual makes towards the costs of their care, excluding general living costs, should be capped at between £25,000 and £50,000, with £35,000 the preferred amount.
- The asset threshold above which people in residential care are liable for the full cost of their care should be increased from the current level of £23,250 to £100,000.
- People in residential care should make a standard contribution to cover their general living costs of between £7,000 and £10,000 a year.

- Eligibility criteria for care services should be set nationally as part of a clear national offer, and needs assessments should be 'portable' between local authorities.

The Commission forecasts that no-one should have to spend more than 30 per cent of their assets to fund their care and estimates that funding system would require £1.7 billion in additional public expenditure by the year 2025.

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£23,250 to **£100,000**

High earners face lower contribution limits

Changes to pension allowances could see tax penalties for big savers

The tax treatment of pension contributions for high earners has altered radically. For most high earners, in practice the contribution limits have increased from the previous short-lived anti-forestalling regime, but it is

The annual allowance for pension savings has decreased from

£255,000 to **£50,000**

less generous than the 'pensions simplification' tax regime that has operated since 2006.

The annual allowance for pension savings has decreased from £255,000 to £50,000 from this April and will not be increased even by inflation until at least 2015-2016. Any pension savings in excess of the allowance is taxed at an employee's marginal tax rate, so breaking the limit is definitely not in your interests. You are, however, allowed to carry forward any contributions up to the unused limit for three years after which it is lost. Due to the complications from

the previous anti-forestalling regime, the three years up to 2011 are now deemed to have had an annual limit of £50,000.

Therefore, if you have a very large contribution to make to a pension, it may be a very good time to consider utilising it. The pension savings used to calculate the annual sum include both employer and employee contributions to defined contribution (DC) plans and the value of the accruing benefit under defined benefit (DB) plans. Accruing defined benefit pension rights will be valued at £16 per £1, instead of the current

Protecting your business as you would protect your income

Many businesses fail to put in place business protection insurance but the results can be catastrophic.

Leaving a key person uncovered can leave a business seriously in the lurch and in the worst case end up with a business closing.

Constructing an effective package of business protection takes a lot of thought and consideration. This process is a very valuable one, in

able to work or the unfortunate death of a principal or partner, but that decisions about inheritance, succession and the future involvement of the family of a major shareholder are also considered.

By constructing a protection insurance programme, a business

It means that staff, suppliers and, probably most importantly, creditors are not unnerved by something unexpected happening.

Cover varies by the type of business, and of course, calculations of the necessary sums assured vary too.

Types of cover available include relevant life cover, a very tax efficient means of covering staff, key person protection, ownership protection and combinations of these. We would strongly recommend that business owners and directors consider this type of protection as they would for themselves. Please get in touch to help secure the best future for your business.

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that the businesses can ensure not just that the business – of whatever size of protected – from say its finance director not being

also considers issues such as business wills, the cost of hiring replacements for key staff, and other business planning issues.

£10 per £1. The lifetime allowance for pension savings will decrease from £1.8 million to £1.5 million from April 2012. The value of retirement benefits in excess of the revised limit will continue to be taxed at 55%.

Anyone who believes they are likely to hit either the annual or lifetime limits with their pension contributions in either a defined

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benefit or defined contribution scheme should take advice, so they can avoid any tax penalty and consider whether other saving and

investing options are appropriate. Those earning above £100,000 should also note that they may have lost all or part of their personal allowance in other tax changes, and increasing your pension contributions could mitigate this.

Likewise, employers may wish to adjust the arrangements for

rewarding high paid employees and directors, taking into account the new limits and their impact on either DC or DB pension schemes.

Advice on all pension changes can also be affected by issues such as your pension input period and by the amount of pensionable earnings.

If you have any concerns or are considering making any changes to your pension planning, please seek advice.

Points to remember

- The annual allowance for pension savings will not be increased until at least 2015-2016
- Accruing defined benefit pension rights will rise from £10 per £1, to £16 per £1
- The lifetime allowance for pension savings will decrease from £1.8 to £1.5 million from April 2012.

Better qualified advisers and a change in the way you pay for advice

The world of independent financial advice is undergoing a big reform, which will see advisers required to become better qualified and to change the way they charge for their services. As part of the Retail Distribution Review, from the end of 2012 advisers will be required to reach a new qualification level known as QCF 4. This may

“ A new system called ‘adviser charging’ is being introduced from January 2013 which will see advisers agree their charges with you at the outset including what services you receive for what you are paying ”

involve him or her taking more exams or undergoing an assessment by an accredited body to test their knowledge. Alternatively, your adviser may have already reached this level but besides this, advisers are undergoing a ‘gap-filling’ exercise to ensure their knowledge is up to date in all areas.

The regulator, the Financial Services Authority is also planning to ban

commission payments from insurance and fund management companies to remove any perception of bias from an adviser’s recommendations - though commission will still be paid on insurance products. A new system called ‘adviser charging’ is being introduced from January 2013 which will see advisers agree their charges with you at the outset, including what

services you receive for what you are paying. This charge can be paid for out of the product you are buying which could for example take the form of one upfront charge and then a smaller ongoing charge for service. The charges may reflect the amount of time your adviser has spent with you developing your financial planning and product needs or may represent

a percentage of the funds you are investing or keep invested, or may be a combination of these. The premise of the reform is that you and your adviser are much better informed about what it is you are paying for.

If you have any concerns about these payment changes, please get in touch to discuss the issue in greater detail.

Annuities

Annuities and their alternatives – big rule changes

For a lot of people taking out an annuity to pay yourself a retirement income is a sensible solution.

When you take an annuity, you exchange your pension savings and investments for an income generally provided by an insurance company. This will pay you a monthly income until you die. It can be linked to inflation and allow you, and if you arrange it, your spouse, to derive an income until death. In effect, it means the pension company takes the risk that you could live for a long time, but you of course, could die earlier and therefore not get what you might view as the full value from your assets. If you are unwell, even with a minor ailment, you may be able to receive a higher income known as an enhanced annuity. It is however always wise to shop around when taking an annuity and rates vary between companies so you should think long and hard before accepting the annuity offered by the firm you are already saving with. Unfortunately for a number of economic and regulatory reasons, the price you pay to buy an annuity income has been going up. This has encouraged many people to consider alternatives.

Especially if you have a significant sum of money saved for your retirement, it may make sense for you to consider other options to an annuity. You might, for example, arrange to buy an annuity with one part of your pot of money, but then keep other sums invested in other types of plan which generally fall under the heading of income drawdown.

From 6 April this year, new rules have been introduced for drawdown.

There is no longer an age limit when you have to buy an annuity and there are no tax disadvantages if you never buy one. You can now leave your fund invested right through your retirement.

The age limits for drawing an income and taking a pension commencement lump sum have also been removed, though when you start to draw income the lump sum must be drawn at the same time.

Drawdown is available from age 55 or earlier for those with a protected pension age.

If you die after starting to draw an income from your pension, any remaining pension fund will be taxed

at 55 per cent, regardless of your age.

Until age 75, there will be no tax charge on death for undrawn funds and a lump sum can be paid to your beneficiaries. After age 75, undrawn funds will be taxed at 55 per cent on death, but ring-fenced from the rest of your estate. This represents a tax increase for those under 75 and a decrease for those over 75.

“ All of these decisions are hugely important, in that they determine the sort of income and, as a result, lifestyle you may have in retirement ”

There are two types of arrangement. Capped drawdown allows you to draw between nothing and what is known as 100 per cent of a limit set by the Government Actuary’s Department (GAD). It used to be 120 per cent for those under 75 and 90 per cent for those over. The new maximum amount of income that may be drawn is 100 per cent of the single life annuity that somebody of the same sex and

age could purchase based on the Government Actuary’s Department rates. An individual’s pension provider calculates the maximum income, using standard tables prepared by the GAD. This rate must be reviewed every three years and every year after age 75 unless your last review came before April this year, in which case you may not need a review until five years from that date.

There is also a flexible drawdown option. There is no limit on the amount of income you can withdraw. In fact you can withdraw the whole fund less tax. However to receive it, you must meet the minimum income requirement (MIR) of £20,000 per annum, which can only be made up of secure pension income including annuities, scheme pensions i.e. say a public sector or armed forces pension, and your state pension. It doesn’t include drawdown, of course.

UK inheritance tax will not typically apply to drawdown funds, regardless of age. There are no longer any anti-avoidance rules for those who do not take pension benefits.

Finally an overlooked set of options are what are known as variable annuities,

third way annuities and fixed term annuities.

Variouly these can allow you to invest some of your fund, guarantee some or all of your income and guarantee the amount of money you may receive at the end of the term – say of ten years at which time you might decide to buy a conventional annuity. They aim to provide a middle option between the absolute certainty of an annuity and the investment risks of drawdown.

Once again these can be used in combination with conventional annuities and other plans.

All of these decisions are hugely important, in that they determine the sort of income and, as a result, lifestyle you may have in retirement. Everyone’s circumstances are different, you may have income from different sources, and a low, intermediate or high appetite for risk, concerns about funding care or different ideas about what you wish to pass on. If you are making any decisions about your retirement income and are unsure about the best strategy for you, please get in touch.

facts & figures

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Mitigating IHT – UK public risk losing £1.5bn to taxman by not planning

It is very easy to have gathered assets above the inheritance tax threshold of £325,000 at which point the tax is levied at 40 per cent, particularly given house price rises of the last couple of decades.

Even though prices have fallen back in many areas of the country, it still makes very good sense to consider whether you may be liable for the tax.

IFA Promotion, an organisation which promotes the benefits of independent financial advice, has calculated that more than £1.5bn is currently lost to the taxman.

In order to ensure you are not one of the contributors, one of the first steps is to calculate whether you have an IHT liability by at least roughly considering the assets you have.

“Strategies include using exempt transfers or gifts to reduce what may be liable for IHT, or taking out a life insurance plan and placing it in trust which could then pay off any IHT bill”

These assets can include your investments and savings, your car, your furniture and personal effects and the potential proceeds from any life insurance unless it is written in trust.

You should also note that inheritance tax is not paid when you leave money and assets to a spouse or civil partner provided they are domiciled in the UK.

You need to consider the fact that you and your spouse can each leave £325,000 which does of course,

significantly increase the amount both of you can pass on tax free.

In the jargon of tax experts, this is known as the nil rate band, but it can afford you a lot of flexibility in terms of tax planning.

The tax situation remains fluid. In the Budget, the Chancellor George Osborne, who was probably hoping to offer some good news amongst the bad, incentivised giving to charity by reducing the IHT bill on the remaining assets. Now if you leave 10 per cent or more of your estate to charity, the IHT on the rest of your estate is reduced from 40 to 36 per cent.

However, this contrasts with what has in general been a gradual reduction on the freedom you have around planning for IHT.

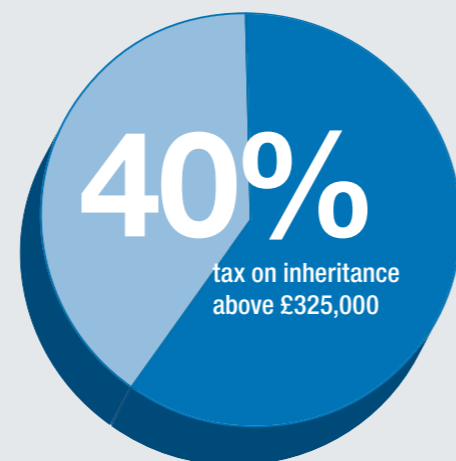
Tax planning for IHT, also known as estate planning, is complicated but also very rewarding for those you wish to leave money to.

Strategies include using exempt transfers or gifts to reduce what may be liable for IHT, or taking out a life insurance plan and placing it in trust which could then pay off any IHT bill.

There are many details that can have an impact on the cost effectiveness of such strategies, so advice is essential.

You can even spend the money, though of course you need to spend it on things such as holidays, not on assets which would count towards an eventual bill. You may also consider creating a trust arrangement, where you put the money or assets into trust, long before your death which can reduce the bill significantly.

Generally your estate will pay less



tax if you transfer assets into a trust, and then you live for more than seven years.

The sort of trusts you can set up may depend on the number of beneficiaries, whether you wish them to benefit from just the income, the capital and income or even leaving most decisions in the hands of the trustee. The tax treatment and rules can also differ for example if you are making provision for someone who is disabled where the treatment is more generous.

Another area of planning which is becoming increasingly popular is inter-generational planning across more than one generation. Once again this is complicated but the potential rewards, say for grandchildren, can be significant.

There are also things you cannot do, such as gifting your house to your relatives and continuing to live in it. The taxman will simply deem you have continued to own the house.

All of these issues are very complex and if you are worried about a potential IHT bill, please make contact to discuss your individual circumstances.

Protecting yourself from the Long Term Care lottery

Unfortunately as many as one in four of us may need care later in life and there remains a lot of uncertainty about what the state will provide, even with the planned reforms.

Much depends on the sort of care you need too. Currently, if you do go into a care home, you are likely to have to undergo a financial assessment to see if you qualify for state assistance.

Many people feel there is an unfairness in the system say between elderly people treated in hospital for cancer or heart problems and for example, those with Alzheimer's disease who need residential care. However, despite often heated political debate many of these anomalies remain.

You may also have to pay for care you need at home, but the policy on this is not set centrally and varies significantly between different local authorities. There are also concerns that councils may try and cut care budgets as the Government cuts back on funding in general.

First a few numbers to give you an idea of how state help may work.

In England and Northern Ireland, if you have capital below £23,250 you may be entitled to some state assistance, your needs will be assessed, you will be asked to claim any benefits or pension credit you are entitled to, and these will also be taken into account. All income goes to pay fees less £22.30 a week. With capital below £14,250 you receive maximum help. Between £14,250 and £23,250 you have to contribute on a sliding scale of a pound a

week for £250 over the minimum. In Scotland, the relevant amounts are £22,750 and £14,000 and in Wales the top limit is £22,000, and there is no sliding scale.

Unfortunately, your home counts as capital in many circumstances. So for example, it is disregarded only for the first 12 weeks of care in a nursing or residential home. Otherwise it may be included in calculations though local authority policies on this vary. They will often offer a deferred payment, where the cost of care may be redeemed from your house, in the event of your death. Your home may be exempt in some circumstances – if it is occupied by a partner, a relative aged over 60 or incapacitated or a child under 16. All of these issues are very complicated so if you or your partner are facing the prospect of needing care we strongly suggest you seek advice from an IFA.

There are also many products available, some specifically for care, some that may be adapted to produce income and pay for care. They may enable you to preserve a lot of your capital or your home to pass on to relatives.

Immediate care plans are a type of annuity for which you pay a lump sum and receive an income for as long as you need care.

Deferred care plans operate in a similar way, but you are expected to fund a few months of costs – this type of product effectively insures yourself against needing care for too long.

Prefunded or long term care plans are a means of insuring yourself in case you need care, and pay out when you are not able to perform

Points to remember

- If you go into a care home, you are likely to have to undergo to a financial assessment
- If you have capital below £23,250 in England and Northern Ireland, you may be entitled to some assistance
- With capital below £14,250, you receive maximum help
- Your home counts as capital in many circumstances and is only disregarded for the first 12 weeks of care

what insurers describe as certain activities of daily living. They can be limited to three years of payments and unfortunately many providers have decided these plans are not cost effective to offer. This sort of plan may get a new lease of life, if the Dilnot Commission proposals are adopted and a specific sum is required to meet care costs.

A care cash fund pays out a cash sum or income for a set period. It pays out for specific mental or physical problems and different plans may have different criteria and different numbers of criteria for paying out.

You might also consider specifying part of your investments to produce income to pay for care, taking a straight forward annuity or considering releasing part of the value of your house under an equity release or home reversion plan.

All of these options require very detailed advice and you should take care to make sure it suits you and your family. At all times, we urge you to seek help from your IFA if you are worried about care costs now or in future.

Twin debt crises take toll on stock markets

Keep an eye on your long term goals.

The debt crisis in Europe and America has finally taken its toll on stock markets. At time of writing, European markets had stabilised, following a torrid start to August.

Investors' fears were calmed a little when the European Central Bank started buying the bonds of Spain and Italy, bringing down the cost of borrowing on 10 year bonds, to 5.1 and 5.05 per cent respectively (11 August). They had been trading over 6 per cent, a level often regarded as unsustainable.

The FTSE 100 was trading below 4,900 on 9 August, having been well above the 6,000 barrier a matter of weeks previously, for example closing at 6,054.5 on July 7. At the worst point, the fall was about 20 per cent, though markets were back around 5,300 by 12 August.

It remains far from certain whether the eurozone's woes are over. Most commentators believe that to save the euro in its current form, the governments involved have to agree to allow transfers of money between countries in what the economists would describe as greater fiscal union.

It remains far from clear whether Germany, which would have to provide much of the financing for this, has the stomach to do so through the European Financial Stability Facility.

Meanwhile US treasuries, the US equivalent of UK gilts, were downgraded by Standard & Poor's for the first time in history from treble A

to double A. The rating agency cited several reasons, not just the high stakes political argument about the debt ceiling which was raised at the 11th hour, but also because of more general concerns about America's ability to reduce its debts over the long term, and the anaemic economic recovery.

Two other ratings agencies have maintained the US credit rating. The US saw growth in the second quarter of 1.3 per cent, although this actually looks quite strong in comparison with the UK, which saw a paltry level of growth of 0.2 per cent.

Markets unfortunately now believe there is a reasonable chance of a double dip recession.

In the UK, the low level of growth saw most commentators predicting that any chance of a Bank of England rate rise had receded further into next year.

The bank kept base rates at 0.5 per cent in August while inflation for June, the latest measured, fell back slightly. The rate of the Consumer Price Index, was 4.2 per cent, a fall from 4.5 the previous month.

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The Retail Price Index, which includes housing costs, fell from 5.2 per cent to 5 per cent.

However, many consumers may not feel as if prices are rising more slowly. For example, despite the fact that



world energy prices are now falling, companies such as British Gas and Scottish Power were planning big double digit rises in electricity and gas prices this month, with gas in particular going up by almost a fifth.

This may not make them popular with consumers as oil prices have fallen with the decline in economic activity (Brent Crude was down to around \$108 a barrel on August 12). Gold continued its remarkable run and was priced at more than \$1,700 a dollar at time of going to press. Its status as a safe haven is driving investor behaviour.

These are clearly difficult economic times, though we would stress that portfolios are constructed for the long term with long term goals in mind. We would caution against taking any action too hastily without consulting your adviser. However, if you are worried about the impact of these events on your investments, please contact us.