

## Is Your Home Worth Enough to Cover Your Care Costs?

According to the recently reported ‘Pensioner Prices Index<sup>1</sup>’, the buying power for pensioners compared with most other consumers is diminishing faster now than at any other time during the last 15 years but, even worse is the rate at which care home costs have increased over the last five years for the vulnerable pensioners that have the misfortune of needing long-term care.

Whilst care home costs have increased over the last five years by a staggering 48% the average care home residents income has only increased by 12% over the same period. This equates to an extremely high increase of 83% in the shortfall in income to meet care costs. Only average house prices have increased at a greater rate but even then the proceeds would be inadequate to yield the required shortfall in income to meet care fees if placed on deposit.

	2001/02	2005/06	% Change
Average Residential Care Fees <sup>2</sup>	14,560	21,546	+ 48%
Average Nursing Home Fees <sup>2</sup>	20,436	29,651	+ 45%
Average residents income per year <sup>3</sup>	7,178	£8,034	+ 12%
Average Shortfall in income	7,382	13,512	+ 83%
Average Deposit Interest Rate <sup>4</sup>	2.56%	2.72%	+ 0.2%
Capital required to fund shortfall	288,359	496,765	+ 72%
Average House Price <sup>5</sup>	93,450	179,425	+ 92%

With Inflation standing at about 3.5%<sup>6</sup> and a typical savings rate of about 2.8% net, means that in “real terms” anyone who has placed property proceeds on deposit is getting a **negative** return on their money of 0.7% a year. Again, for care home residents this is even worse when seeing fee increases averaging around 8% and in some cases up to 20% per year.

NHFA fears that many of the 70,000 older people who sell their homes each year<sup>7</sup> and pay their care costs from monies left on deposit will quickly deplete their capital to the level where local authority funding will need to be sought. In many cases this will mean moving to cheaper accommodation or seeking substantial third-party top-ups from family or friends. This is particularly unfair because part of the reason for the increase in care costs is because, local authorities not paying a market rate for care home places, forces

care homes to cross subsidise this through charging private payers typically between £75 and £100 per week more than local authority funded residents.

Combining the above with the fact that the majority of older people fail to seek advice on funding long-term care paints a pretty dire picture for the future of some of the most vulnerable in our society.

Philip Spiers, Managing Director NHFA Care Fees Advice says “To combat this it’s essential that older people and their families seek advice on funding long-term care. Maximising State assistance that is often missed and being able to understand the financial products specially designed to meet care costs can make the whole situation that much more affordable as well as enabling older people to retain their financial independence, dignity and as many wish the ability to leave an inheritance.

As a measure to cope with fee increases we have drafted and would encourage care homes to enter into fee increase limitation agreements whereby self-funding residents who purchase immediate need care fee payment plans delivering 5% compound annually increasing income have their annual fee increases limited to the same amount.”

For the first time long-term care advice is accessible through the high street as HSBC introduces NHFA through its branches. Copies of the NHFA Free Long-Term Care Guide and more information about obtaining and paying for care can be obtained from calling the Care Advice Line 0800 99 88 33 or visiting [www.nhfa.co.uk](http://www.nhfa.co.uk)

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#### **Notes for Editors**

- NHFA Limited is authorised and regulated by the Financial Services Authority, is a member of HSBC Group and since 1992, has successfully advised thousands of families on paying for care including maximising State assistance and understanding the most appropriate financial products for meeting care costs and preserving capital.**
- Statistical sources:** <sup>1</sup> The Pensioner prices index is a specially weighted counterpart to the retail price index which rose by 5.1% in the third quarter of the year, the highest rate since 1991. <sup>2</sup> Care Home Costs – Laing and Buisson. <sup>3</sup> Average Resident’s income excludes investment income - NHFA 10/ 2006. <sup>4</sup> Money Facts less basic rate tax October 2006. <sup>5</sup> Average UK House Prices Q3 2001/Q3 2006 - HBOS Plc. <sup>6</sup> RPI –National Statistics. <sup>7</sup> Liberal Democrats
- Immediate Care Plans (ICPs)** can provide tax free, increasing payments for as long as someone needs care. Their price is subject to medical underwriting and, as the table below indicates can vary tremendously between providers, the more impaired the life the lower the

cost. Normally requiring just part of a property's sale proceeds to purchase ICPs can potentially cap the cost of care to the cost of the plan as well as providing the security and reassurance of a regular income regardless of any fluctuations in interest rates or stock markets.

<b>Sample Immediate Need Care Plan Prices</b>			
<b>Gender (M or F)</b>	M	F	M
<b>Date of Birth dd/mm/yy</b>	09/08/19	23/4/19	17/9/12
<b>Plan Income PCM (£)</b>	1000	880	2284
	Dementia	Dementia	Dementia & Stroke
<b>ADL Failures ticked</b>			
Dressing	-	4	4
Bathing	-	4	4
Feeding	4	4	4
Toileting	4	4	4
Mobility	-	4	4
Cognitive	4	4	4
<b>Company Offers - Income escalating @ 5% PA compound (£)</b>			
<b>AXA PPP</b>	<b>59652</b>	<b>47,363</b>	<b>90,268</b>
<b>PA</b>	58489	54,933	<b>30,047</b>
<b>GE LIFE</b>	<b>46323</b>	<b>64,475</b>	73,346
<b>Source: Insurance company quotes compiled by NHFA Care Fees Advice 0800 99 88 33 www.nhfa.co.uk</b>			