

# NHFA Infosheet 1

## Choice and interim finance

Because local authorities have limited resources the choice of care home offered to older people and funded by them is often restricted by price. However, individuals do still have a right of choice.

### The Right of Choice

Where it appears to a local authority that a person may be in need of community care services, it has a legal responsibility under Section 47 of the National Health Service and Community Care Act 1990 to carry out an assessment of that person's needs and then decide whether the results of that assessment requires them to provide any such services.

Following this, where someone is assessed as requiring accommodation in a care home, under the National Assistance Act 1948 (choice of accommodation) Directions 1992, that person has the right to choose whether the accommodation is in a local authority, private or voluntary sector home as long as a place is available and:

- the accommodation is suitable to meet the needs assessed;
- it does not cost the local authority more than usual for someone with such needs; and
- the home agrees to comply with the local authority's terms and conditions.

If the chosen accommodation is being financed by the local authority but is more expensive than the local authority would normally pay for, then that accommodation can still be chosen if a third party is willing and able to pay the extra cost.

### Self Funding

#### Twelve Week Property Disregard

People moving to care homes permanently and who have a property can have its value disregarded and receive financial support towards the fees from the local authority for up to 12 weeks from the date of entering care. They will be expected to contribute their income less £20.45 a week personal expenses towards the fees. To be eligible:

- You must be assessed as needing **permanent** residential accommodation in either a local authority or independent care home.
- Your other capital apart from the value of the property must be below £21,500 and your income inadequate to meet the full cost of the care.

The financial assistance from the local authority is from the date of being assessed as requiring permanent residential care for a period of twelve weeks, or less if the property sells.

The twelve week property disregard is mandatory and local authorities are under a statutory obligation to apply it once they are aware of a person to whom it applies. Delays by local authorities in providing this funding does not affect one's entitlement to it and could render them to be liable to reimburse people who have consequently paid a higher contribution towards their care costs than they should have during this disregard period.

#### NHS Registered Nursing Care Contribution (RNCC)

People in nursing homes entitled to a RNCC towards their nursing care from the NHS will have this paid after the twelve week property disregard period has expired. During the twelve week disregard period the RNCC will be administered by the local authority.

#### Top-ups for More Expensive Accommodation

The local authority standard rate for accommodation is likely to be less than care homes usually charge. In these circumstances people entitled to the twelve week property disregard can top-up the local authority contribution from disregarded income, earnings or capital with the proviso that:

- The top-up during the twelve week period must not exceed the lower capital limit i.e. £13,000 (equivalent to £1083.33 per month)
- The level of tariff income assessed (£1 for each £250 of capital between £13,000 and £21,500) remains the same even though the capital may reduce as a result of topping-up during the twelve week period.

#### Beyond the Twelve Week Period – The Deferred Payments Agreement

People who have not been able to or do not wish to sell their homes to pay for their care may enter into a deferred payments agreement with the local authority. The contribution from the local authority will be a loan secured against the property's value. This facility is available if other assets are less than the £21,500 and are insufficient to cover the fees. Local authorities have discretion over whether to operate this scheme, for example, they may not wish to do so if the cost of the chosen care may not be affordable by the individual over the long-term.

There are possible advantages in taking a deferred payments agreement, for example, any growth in the property value will contribute towards the loan and you may be able to let the property and contribute the income towards the fees. There are however also possible disadvantages:

# NHFA Infosheet 1

## Choice and interim finance

- It is only deferring a liability repayable from the eventual property proceeds.
- The level of local authority funding may restrict the choice of home unless a top-up is affordable over the long-term.
- Interest will accrue on the loan 56 days after the person dies.
- The level of local authority funding may restrict the choice of accommodation unless a top-up is affordable over the long-term.
- If the property is on the market, entitlement to pension credit can continue. However, if the property is not up for sale it may be treated as capital by the DWP and pension credit could cease.

Selling the property and purchasing an Immediate Need Care Fees Payment Plan can potentially cap the cost of care, whilst investing the balance of the proceeds could provide an income and potential for capital growth.

### Top-ups for More Expensive Accommodation During a Loan Period

People who choose more expensive accommodation than the local authority would normally pay for may be entitled to top-up their fees during a loan period from:

- Disregarded income, earnings or capital or,
- Other capital resources, including the value of the property subject to the deferred payments agreement with the proviso that one must be left with total capital no less than £13,000.
- Where the top-up is part of a deferred payments agreement it is repaid when the property is sold. Local authorities may be reluctant to enter into such agreements if they are not satisfied that the fees including the top-up can be met for the duration of the person's stay in the care home.

The ability to provide your own top-ups applies only to those benefiting from the twelve week property disregard or the deferred payments scheme. Where the local authority is funding the care costs a top-up may only be paid by a third party.

### NHS Registered Nursing Care Contribution (RNCC)

If participating in a deferred payments scheme, subject to assessment, entitlement to the RNCC continues as if the person were a normal self-funder.

### Council Tax

Properties left empty by someone who has moved to receive personal care in a care home/hospital or elsewhere are exempt from Council Tax.

### Long-term affordability

Every case must be considered on its own merits taking into account life expectancy, the property market, the possible loss of DWP benefits, the feasibility of letting against selling, investing in alternative financial products and the person's wishes to remain independent from the State.

During any period of interim funding whilst your property is on the market the care home fees are likely to be greater than your income. How will this shortfall be paid? Can a relative afford it, or will the home owner allow it to accrue over the long term if the property does not sell quickly?

How much will the property sell for and will this provide sufficient money to meet care costs for life? If not, and the capital falls to below £21,500, will the person qualify for help from the local authority?

## Benefit Rates 2007/08

	Local Authority deferred loan Property not on the market (£)	Local Authority deferred loan Property on the market (£)
Cost of care per week	350.00	350.00
Attendance allowance (not means tested)	(64.50)	(64.50)
Pension credit with severe disability addition		167.50
State Pension	87.30	-
Personal expenses allowance	(20.45)	(20.45)
	(66.85)	(147.05)
Local authority charge against property/ shortfall		
First 12 weeks local authority funding	Nil	Nil
Second 14 weeks shortfall	218.65	138.45
Overall cost from capital over 26 weeks	3,061.10	1,938.30

**If it took 26 weeks to sell the property, the current saving of having the property on the market can therefore be up to £1 122.80 less land registry search and legal costs if a deferred loan agreement is entered into. (Councils may ask residents to cover, up front, the cost of land registry searches and any other legal costs.)**

# NHFA Infosheet 1

## Choice and interim finance

Will the care home owner agree to keep somebody as a resident if their capital falls to £21,500 and can only pay what the local authority offers?

A sensible precaution would be to discuss these points with the social services department, the chosen home owner and your NHFA Adviser before proceeding.

**Your NHFA report will illustrate the affordability of your chosen care.**

### Seek Advice

The financial and legal implications to be considered when paying for care are wide, and require careful planning. Older people or their relatives should seek specialist advice before taking on any commitment that they are unsure of being able to afford. They should seek advice on what their entitlements are from the State, what legal matters they should attend to and how best to use their capital and income to meet ongoing care costs and possible changing care needs.

### Taking the worry out of paying for care.

For over 15 years the aim of NHFA Care Fees Advice has been to enable older people to meet the cost of their chosen care whilst also preserving their original capital and, with that, their independence and dignity. Unlike many older people today who run out of money because of paying for care, our hope is that NHFA clients living in care homes can retain their financial independence and still be able to leave a significant inheritance for their families.

If you are selling your home to pay for care one of the financial options for meeting care costs are Immediate Need Care Fee Payment Plans. These plans, although not suitable in every case, are specifically designed for older people who need care; they deliver a regular guaranteed tax-free income higher than can normally be achieved from traditional investments or annuities. Normally requiring just part of one's capital to purchase, they are a way of meeting care costs for life whilst potentially capping the cost of care. Thus, as so many older people wish, enabling an inheritance to be left for the family.

**NHFA advice is available to all regardless of means**

**Capital limits and DWP benefits referred to in this sheet relate to residents in England Only**

**Infosheet 1 Choice and Interim Finance**  
**Infosheet 2 Treatment of Property**  
**Infosheet 3 The Legal Framework**  
**Infosheet 4 L A Charging Procedures**  
**Infosheet 5 Deprivation of Assets**  
**Infosheet 6 Case Studies / Top Ten Tips**  
**Infosheet 7 Treatment of couples**  
**Infosheet 8 NHS Nursing Care Contribution**  
**Infosheet 9 Inheritance Tax**  
**Infosheet 10 Enduring Power of Attorney**

NHFA care advice line 0800 99 88 33  
[www.nhfa.co.uk](http://www.nhfa.co.uk)

The price of a care plan depends on an assessment of life expectancy taking into account one's health and age. Therefore, the more impaired the life the lower the cost. There are only a few companies that offer this product and because their actuarial view of life expectancy can be quite varied consequently so can their prices. To combat this and obtain the best possible price for clients, NHFA uses a common application form and health questionnaire submitted to all companies. Care plans can be purchased to commence payments immediately or, for a lower cost, after a predetermined deferred period of two years or more. In order for you to understand how they work below are two actual case studies. (Names have been changed to protect confidentiality.)

## Gordon – Immediate Care Plan and Investments

Gordon, aged 95, had become very frail following a heart attack and stroke and needed to move into a care home. In May 2003 his daughter Maureen, who lived in Australia, flew home to make the necessary arrangements. She only had 3 months in which to organise everything and then could only visit once a year so she needed someone to help her look after her father's affairs who she felt comfortable with.

She chose NHFA as being the most appropriate organisation to assist her and met with her father's local NHFA Adviser.

Gordon had a State pension and Attendance Allowance adding up to £585 per month. The fees for the care home they chose were £2,167 per month and he required a further £65 to cover personal expenses. The shortfall in income was therefore £1,647 per month. Gordon had savings of £69,000 and a property worth £200,000 therefore he could expect no local authority funding.

### Taking the worry out of paying for care.

Maureen had no idea how the UK care system operated or what financial products were available and needed expert guidance to enable her to fully understand her father's situation.

Gordon's local NHFA Adviser prepared a detailed report clearly illustrating his options for meeting his care costs. After Gordon and

# NHFA Infosheet 1

## Choice and interim finance

Maureen had considered this they decided on an Immediate Care Fee Plan which, by using just part of his capital £39,297, provided the required £1,647 income increasing by 5% per annum compound. Of his remaining capital they chose to invest £205,000 in a portfolio of bonds in various cautious funds, avoiding equities, and retained the balance on deposit for contingencies. Maureen introduced the NHFA Adviser to her father and the care home owner so they had someone to relate to in her absence.

Maureen completed all the arrangements just before she was due to return to Australia. Since then she has visited from Australia and met with her father's Adviser to review his affairs at least annually.

Maureen continues with her life in Australia happily knowing that her father is being cared for and his finances are under control. By April 2007 the care plan, costing £39,297 had paid out £80,040 and the investments of £205,000 continued to benefit from growth thus, together with the monies retained on deposit, potentially regenerating Gordon's Estate to the amount that Gordon had wished to leave for Maureen.

**Further information and advice on paying for care or free copies of the NHFA Long Term Care Guide can be obtained from:**

St Leonard's House, Mill Street,  
Eynsham, Oxford, OX29 4JX

Care Advice Line: 0800 99 88 33  
Telephone: 01865 733000  
Facsimile: 01865 733001  
Website: [www.nhfa.co.uk](http://www.nhfa.co.uk)  
E-mail: [enquiries@nhfa.co.uk](mailto:enquiries@nhfa.co.uk)

Member  Group

NHFA Ltd is authorised and regulated by the Financial Services Authority

NHFA Ltd is registered in England & Wales. Registration No. 04620891.

## Muriel – Deferred Care Plan and Investments

Muriel, aged 88, was unable to cope at home as she was depressed and suffered from anxiety. Following blackouts and falls the decision was made that she needed the care and support of a care home. In September 2002, having settled his mother in the care home her son John contacted NHFA. Muriel's savings and the proceeds from selling her home totalled £145,000 which being above the means test limit meant that she would have to pay for her own care. John was concerned about how his mother was going to be able to remain there and meet the costs. Muriel was also upset and anxious about the cost, she had always thought that she would be able to leave her home to her children.

The care home only provided personal care, however, the fees were still £1,400 per month and Muriel's income from pensions and Attendance Allowance was only £690. Allowing £100 for personal expenses meant she had a shortfall of £810 per month.

### Taking the worry out of paying for care.

John met with his local NHFA Adviser to discuss ways of providing for the care fees in a way that also allowed his mother to fulfil her wish of being able to leave some money to her children.

After preparing a report detailing the options for meeting these costs and discussions with Muriel's two sons and daughter it was agreed that she should purchase a deferred care plan which would commence meeting the specified shortfall after a 2 year waiting

period. The cost of this plan, £29,238, was significantly less expensive than one providing an immediate income but it would provide an income for as long as she needed care beyond the 2 year waiting period.

A further £100,000 was placed in a range of carefully selected investments with the balance of just over £15,000 being left on deposit. Initially the care fees shortfall was funded from deposits and then from the investments. After 2 years the care plan started to provide for the majority of the shortfall.

Because the care plan, which had already paid out £27,311.44, was paying £937 per month increasing by 5% compound annually, most of her shortfall would be taken care of leaving the investments to participate in potential growth.

The anxiety Muriel and her son John had at the outset has been replaced with the peace of mind in knowing that she can easily afford the care providing all the comfort and security she needs.

### Wealth Warnings

In the above case studies the clients have chosen and benefited from care plans over a number of years. Although it is often the case that people can live for many years whilst receiving good quality care it can also be the case that death can occur sooner than expected in which case the capital used to purchase the care plan could be lost to the Estate. Care plans are just one option for meeting care costs and families must weigh up the peace of mind factor of knowing that a regular income is going to be received for as long as care is needed and potentially capping the cost of care against the risk that the purchase price of the plan could be lost to the Estate on premature death unless capital protection is purchased.

As regards investments, past performance is not necessarily a guide to future performance or returns. The value of investments can fall as well as rise and may fall below the amount originally invested.