Cracking the Care Code

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good advice is key
equity release

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Figures from the Office of National Statistics (ONS) suggest that people aged over 65 are living longer than ever before but they will not necessarily be healthy for all of their later life and a growing cohort of people will need some form of care.

Indeed, NHS Digital reports that there were 1.31 million new requests for care and support made by the over 65s for the year to March 31st, 2018. One of the crucial questions that those who need this type of help must answer is – where do they want this to take place?

Over two-thirds (77%) of over-55s who expressed a preference as to the type of later life care they might receive said they wanted care in their own home – either in their current home (57%) or in a more manageable property they would buy (20%). With the majority of people wanting care in their own home there are two further questions which need to be answered – how will this type of care be funded? And how much will this type of care cost?

Care provided by local authorities is means tested with the majority of financial assets being taken into consideration. From a Freedom of Information request, undertaken by Key, councils in England, Scotland and Wales said they provided financial support for 568,867 people needing care in 2017. There is a significant difference between the number of people who request care and those who receive it which suggests that for many they will need to make at least some financial contribution.

The Money Advice Service indicates that care-at-home is around £17 an hour, which for two hours each day works out at almost £12,500 per year. The annual cost of a Residential Care Home is on average £30,000, rising to £40,000 if nursing is required and typically from £50,000 a year if 24-hour care is required.

Only one in five (21%) of the over-55s say they have made some financial provisions for care if needed and many are concerned about how they will meet these costs. For the 57% who would prefer to remain in their current property looking into their housing equity may well be the most viable option.

With the increase in the over 65's population and increased longevity, the challenge faced by Government, local authorities and ordinary people when it comes to paying for care is becoming increasingly real. While the long awaited Care Green Paper should help to clear up some confusion, it is likely that people will need to continue to pay at least something towards care.

At this point, it is vital that people take the time to speak to an adviser who can help them make sensible sustainable choices around care and the products that can be used to fund it. Good advice is key!

Will Hale
Chief Executive Officer at Key

What are the chances?

Figures from the Office of National Statistics[1] suggests that not only are people living longer but a larger proportion of the population is over-65 than ever before.

If you are a 65-year-old man today in the UK, you can expect to live on average until you are 83.6 and if you are a woman of the same age you can expect to live to 85.9.

Many of us will be fit and active until the end but the likelihood is that as you get older your physical and mental health will decline.

ONS[2] figures show that men and women at the age of 65 can expect to be healthy for half of their remaining life. The average 65-year-old male can expect to live 18.6 years but will only be healthy for 10.3 of those years while the average 65-year-old woman can expect to live 20.9 years with 10.9 of those years in good health.

When health declines the likelihood is that some form of care and help around the house will be needed. For some it might be a simple case of moving to a more manageable home or adapting an existing house. Others will be able to rely on family for support while some may need carers to come in to help them or may need to go into residential care or even nursing care.

Most of us – and our families – will need to decide at some point on what care we will need and crucially how to pay for it. It is a major decision but one that naturally many do not want to address.

Home is where the heart is

Research[3] undertaken for Key among over-55s looked at what type of care people would prefer to receive in later life. Just 22% of respondents said they had no particular preference as to what type of care they received.

Interestingly, this falls from 31% of 55-60s to 19% of over-71s which suggests that as the prospect of needing care becomes real more people express a preference and that worryingly some may simply not believe they will need care so have not given it any thought.

Of those who expressed a preference, the overwhelming majority would prefer to retain some independence with just 2% saying they would want to move into a care home. Over three quarters (77%) wanted care to take place in their own home with people coming in to help– either in their current home (57%) or in a more manageable property (20%). Sheltered accommodation (14%) and staying with family (3%) were the other care preferences expressed.

Interestingly as people age we see them less willing to move out of their home and 64% of over-71s suggested they would rather remain in their current property vs. 55% of 55-60s.

As people age, they are less willing to move out of their home (64% of over-71s would prefer to remain in their current property vs. 55% of 55-60s). However, while this preference may become stronger as people age, ONS figures suggest that they also become less wealthy and able to support this desire. The key is to make care decisions early – planning, talking to family and seeking advice.

What does care cost?

Home or away

Whether care is received at home or in a residential home, there are likely to be some cost implications.

Over two-thirds (77%) want care at home which can often be provided by a partner or family member. However, some people need more care than they can provide or do not have this type of support structure. Paying for care-at-home (often referred to as domiciliary care) will cost around approximately £17 an hour which for two hours of daily help could amount to almost £12,500 a year. For some there is the need for 24-hour live in care which can cost as much as £50,000 a year if not more.

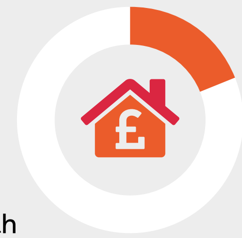
Money Advice Service figures[4] show the average cost of a residential care home place in the UK is about £30,000 a year, and £40,000 if nursing care is required. These prices are linked to the cost of living in each area, so the price is likely to be more for those who live in the South East than the North West.

The ways over-55s plans to pay for care

44%
say they would use savings and investments

40%
plan to use their pension income

19%
say they would need to use their property wealth



A helping hand

They are daunting figures – especially for someone on a fixed income – and there is of course help from the Government and local authorities available. However, there are strict rules and financial limits on who is eligible and how much is available.

The local authority has a duty to carry out a care needs assessment to find out what a persons care needs are. This assessment will be used together with a financial review – referred to as a means test – to determine how much someone will need to contribute. They might pay for all care, some of it or unfortunately nothing at all.

As part of the care needs assessment, they will consider which of the 'activities of daily living' someone can manage. These include the ability to feed themselves, dress themselves, maintain levels of personal hygiene and move around. Only clients who have critical or substantial needs typically receive support with the rest receiving information and referrals to other support services.

If a person is deemed to need support, they will undertake a means test. In England and Northern Ireland if you have assets and savings including your home worth more than £23,250 then the local authority will expect you to pay all care home fees. In Scotland the figure is £26,500 and in Wales it is £30,000. The value of your home is not taken into account for these purposes in certain situations such as if you live with your spouse or a dependent child or adult.

Those who opt for care at home do not have the value of their house taken into account but to receive support, they will need to pass a care needs test.

The rules around accessing local authority care support can seem extremely confusing so those who are going through this process may well benefit from speaking to an adviser who does this on a daily basis.

Funding Options?

Shouldering the Financial Burden

Given the pressure on local authorities and the need for means testing, most people will need to pay at least something towards their care.

Key[3] asked over-55s how they believed they might meet care costs and this showed a mixture of planning, optimism and trepidation. Some had considered the issue before making some provision (21%) while others believed that they were wealthy enough to pay for care if they need it (13%).

Others (8%) felt they would not need care in later life which 21% expressed concern as to how they might meet these costs and a further 15% had 'no idea' how they might pay for care.

When questioned further about how they might meet these costs, 44% were keen to use their investments and savings while 40% would look to use their pension income to fund care. While these might seem sensible choices, ONS figures suggest that they may not be as viable as hoped.

As people age and retire, they enter what is known as the decumulation state when their wealth typically diminishes. The ONS[10] figures in the table below outlines the typical impact on a person's finances – clearly highlighting that for many investment and savings as well as pension wealth will not cover care costs.

Typical Wealth by Age Group

Age Group	Financial Wealth	Private Pension Wealth	Household Contents and Assets
65-74	£25,000	£162,000	£46,000
75-84	£21,000	£61,000	£38,000
85+	£16,000	£13,000	£29,000

While those with a defined benefit pension, lifetime annuity and a state pension may receive regular income in addition to savings and investments, ONS data suggests that with the gross mean income of retired households being reported as £29,000[5] (single pensioners – £17,784[13]) there is still likely to be a shortfall for many.

A house can be more than a home

Key's Pensioner Property Equity[9] Index shows that over-65s own unmortgaged property worth more than £1.1 trillion so it is not surprising that almost one in five (19%) said they would look to access some or all of the value in their home to meet the cost of care.

If they intend to go into a residential care home or buy a property in a sheltered community, the choice as to how they use their equity is relatively simple as it will be released through sale of the property. For those who need to go into a care home but don't want to sell their home, they may wish to consider renting out the property or enquiring about a Deferred Payment Agreement (DPA).

Local authorities offer DPAs which allow homeowners to use the value of their home to fund residential care and repay the local authority when their house is sold, or they die. However, the rules governing their availability are strict and a national freedom of information[6] request by Key revealed that there are only just under 7,000 DPAs in use across the UK (see Care Needs – The National Picture for more details).

For those 77% who wish to have care in their own homes the care conundrum is arguably simple as their main options are downsizing and/or equity release. One in five (20%) said they would move to a more manageable home before receiving care at home. However, moving becomes more daunting as people age and just 15% of over-71s vs. 24% of those aged 55-60 chose this option.

In addition to being less inclined to move as people age, research on estate agents suggest that it may be simpler said than done. Estate agents estimate that downsizing will only release £46,000 when costs are taken into account and 80% say there are a lack of homes that are suitable for those with reduced mobility.

Equity release allows people to access a proportion of the value of their home while remaining in the property with the loan typically only becoming due when they and their partner have died or gone into care.

The equity release can be used for a variety of reasons including paying for care and making the property more accessible. Key's latest data suggests that 64% of equity release customers used some or all of the equity in their property to make home or garden improvements including walking-in showers and stair lifts.

While some people may wish to use an equity release lump sum to make these improvements and pay for care, others may choose to use drawdown (i.e. reserving an amount and taking it out gradually over a period of time) to pay for care.

Unmortgaged Property Wealth Held by over-65s

Area	Estimated property equity in homes owned outright by people aged 65	Estimated percentage of total value of property equity belonging to people aged 65+	Number of households in the region owned outright by people aged 65+
South East	£211.295 billion	19.21%	656,000
London	£175.260 billion	15.93%	366,000
South West	£157.826 billion	14.35%	626,600
East Anglia	£136.317 billion	12.39%	472,000
North West	£105.703 billion	9.61%	671,000
East Midlands	£82.021 billion	7.46%	431,200
West Midlands	£68.928 billion	6.27%	358,400
Yorks/Humbs	£45.878 billion	4.17%	288,600
Scotland	£42.019 billion	3.82%	282,000
Wales	£39.397 billion	3.58%	264,600
North East	£35.387 billion	3.22%	275,000
Great Britain	**£1.100 trillion**	–	**4,691,400**

Good advice is Key

Whether people have the income and savings to pay for care or need to look at making choices around how to access other assets, one issue that faces all self-funders is that it can be difficult to predict how long they might need to pay for care.

Anecdotal evidence suggests that when people start receiving care and have a more structured regime with regular meals, correct doses of medicines and more support their life expectancy increases. While this is a wonderful relief for the family, it does mean that if they only a couple of months of care have been budgeted, they may face some financial pressures.

Research from Laing & Buisson suggests that the average stay in a residential care home is 30 months[14] but someone may receive care at home for much longer. There are a range of different financial products which help people to manage the risk of outliving their assets which include immediate needs annuities and bonds. Making choices around care funding can be daunting and it is vital that people fully understand not only what the person needing help might be responsible for but also what they might be entitled to.

Whether a person receives care in their own home, relies on family or choses to go into a residential home, the best approach is to speak to a specialist financial adviser who can help to ensure that they are making the right choices for their situation.

It's a family thing

For many people, choices around care not only impact on the person needing the support but their friends and family as well. Key asked the so-called sandwich generation (30 to 55 year olds) their views on their parents care needs:

38% are concerned or very concerned about having to provide care for their parents rising to 47% among those aged between 50 and 55;

44% say they have never discussed the need for care in older age because their parents do not want to discuss the issue;

33% say they have discussed the issue with their parents with 9% saying their parents will come to live with them or other family members and 9% saying they or other family members will fund care for their parents;

7% say they have discussed it and they and their parents are now worried about how they will pay for care.

Care needs – the regional picture

NHS Digital figures[7] for the year to March 31st, 2018 show 1.31 million new requests for care and support were made by over-65s in England.

As part of this report, Key undertook Freedom of Information (FOI) requests[6] to better understand the size of the challenge facing councils across England, Scotland and Wales. This revealed that councils provided financial support for 568,867 people needing care in 2017.

Of these, 175,256 applications are fully-funded, 300,287 receive partial funding and 19 councils were unable to provide further information of the level of funding they provided for 93,324 people. A further six councils were unable to provide any breakdown or further information.

That is just the national average and the picture varies around the country. Local authorities in the East of England are the most likely to say they provide full funding with on average 68% of applicants being fully funded while in Wales and the East Midlands 16% and 17% respectively are fully-funded.

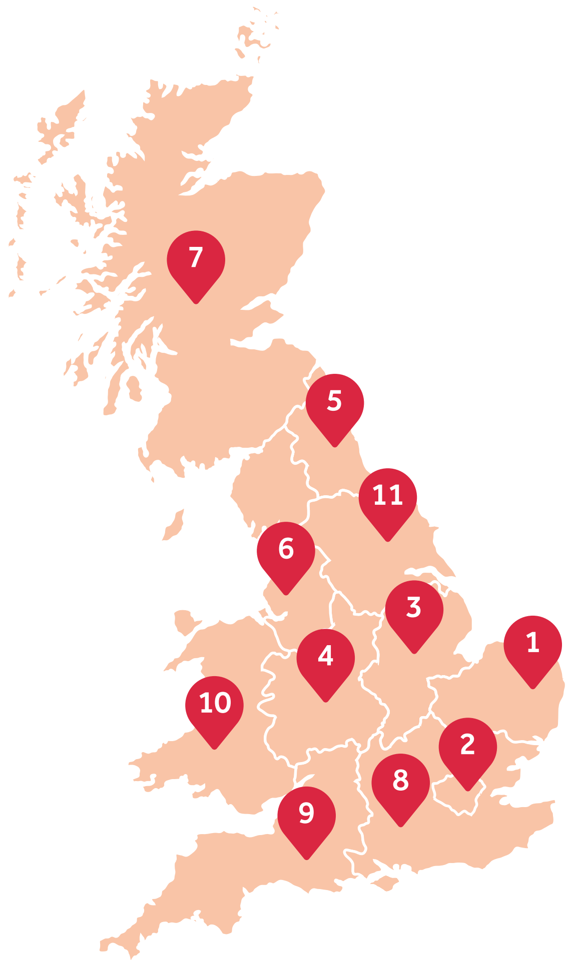
Councils reported that just under 7,000 DPA were in use across England, Wales and Scotland. The West Midlands (72) and the East of England (72) has the highest average number of DPAs across its councils followed by the South East (71) while London (11) and Scotland (16) have the fewest.

While Scotland's approach to care funding may explain its relatively low numbers, the numbers recorded in the capital raise some queries.

The table below shows how the numbers who are fully-funded and partially-funded vary across the country, according to Key's FOI.

Type of Council Funding

	Area	Numbers Fully Funded	Numbers Partially Funded	Percentage Fully Funded	Number of DPAs
1	East	29,334	13,813	68%	652
2	London	22,937	27,596	39%	317
3	East Midlands	6,019	27,402	17%	440
4	West Midlands	11,124	27,710	19%	860
5	North East	2,980	8,045	11%	498
6	North West	11,609	20,023	23%	700
7	Scotland	8,108	24,817	22%	453
8	South East	35,756	72,741	28%	1,260
9	South West	27,509	29,920	45%	661
10	Wales	3,061	14,359	16%	478
11	Yorkshire	15,162	31,464	33%	563
	Great Britain	**173,599**	**297,890**	**31%**	**6,882**



The pressure on local authorities

The country has got dramatically older over the past 20 years and is forecast inevitably to get even older over the coming years[8]. However, while the Government[7] spent £17.928 billion on total adult care funding in England in 2017/18, that figure is unchanged in real terms since 2005/06 – although it has increased in 'cash terms' by 25%. It will need to increase to meet the needs of the ageing population as the graphic below shows. By 2046, nearly one in four of the population will be over-65.

The rapidly ageing population will increase the burden on local authorities and while the graphic below shows the national picture it varies across the country with some local authorities facing far higher demand than others.

By 2036[8], over half of local authorities are projected to have 25% or more of their local population aged 65 and over with many of the highest percentages among authorities in southern England. In mid-2016 it was estimated that West Somerset was the highest at 33.3% and Tower Hamlets was the lowest at 6%.

We are also seeing increasing numbers of elderly retirees. In 1996, there were no local authorities with more than 3% of their population aged 85 and over. In 2006, most authorities had 2% to 3% of their local population aged 85 and over and by 2016 over half of local authorities had more than 3% of their population aged 85 and over.

By 2026 very few authorities will have fewer than 3% of their population aged 85-plus and very few will be below 4% in 2036. Southern authorities including Rother, East Devon and Dorset have the highest proportions, while London Boroughs such as Tower Hamlets, Islington and Hackney are consistently among the lowest with a very old population.

While the population is ageing and increasingly looking to their local council for support, the FOI undertaken by Key revealed that only 10 out of the 201 councils who responded captured any data on the number of requests for care that they received. This is particularly worrying as it suggests that they have less of understanding than might be hoped about the size of the challenge and when it might come to a head.

The potential scale of the challenge is something that Government is acutely aware of and has been exhaustively debated with potential solutions such as the Care Act being introduced in 2015. While the second part of the Care Bill which looked at a cap on care costs has not been introduced, the Government Green Paper on Care announced in the March 2017 Budget is due out shortly. It will set out proposals on social care for older people to "ensure that the care and support system is sustainable in the long term".

% aged 65+ in the UK (10 year intervals)

1976	1986	1996	2006	2016	2026	2036	2046
14.2%	**15.4%**	**15.9%**	**15.9%**	**18.0%**	**20.5%**	**23.9%**	**24.7%**
7.982 million	9.296 million	9.248 million	9.671 million	12.473 million	14.317 million	17.533 million	18.856 million

Resources

With so many different options and things to consider, making choices around care can be extremely stressful – especially if you or a family member need immediate support. It is best to speak to the experts:

- For general information about your entitlements and how the system works, you can visit Independent Age click here
- To find an adviser who specialises in helping people make choices around care, you can visit the Society of Later Life Advisers to find an adviser close to you click here
- To learn more about how equity release could support your later life finances, you can visit the Equity Release Council's find a member page click here

Sources and methodology

1. Office for National Statistics (ONS) – National Life Tables, UK 2015 to 2017 – September 2018 – click here
2. ONS – Health State Life Expectancies, UK: 2015 to 2017 – December 2018 – click here
3. Research conducted by Opinion Matters among 1,024 adults aged 55-plus between November 30th and December 5th, 2018 and 1,010 adults aged between 30 and 55 conducted between November 30th and December 5th, 2018
4. Money Advice Service – Paying for Care – click here
5. ONS – What has happened to the income of retired households in the UK over the past 40 years? – click here
6. Key data from a Freedom of Information request to 205 local authorities across England, Scotland and Wales and analysis is based on data received from 201. Local authority reporting periods vary between financial year reporting and calendar year reporting
7. NHS – Adult Social Care Activity and Finance Report – 2017/18 – click here
8. ONS – National Population Statistics: 2016-Based – October 2017 – click here
9. Key's Pensioner Property Equity Index tracks the amount of equity held in property by people over 65 years old in Great Britain. Figures are based on analysis of data from the ONS Family Spending Report (2014), the UK House Price Index, Registers of Scotland House Price Statistics and ICM (2014) and Key's UK Equity Release Market Monitor.
10. ONS – Wealth in Great Britain – Wave 5 – 2014/16 – February 2018 – click here
11. Key market data for Q3 2018 The Monitor uses Key's data to reflect the market as a whole. The data reflects both members and non-members of the Equity Release Council, and provides the most detailed analysis of the equity release sector
12. Research was conducted amongst 1,654 adults aged 50-plus including 792 who intend to stay in their homes through retirement using an online methodology by independent researchers Consumer Intelligence between July 29th and August 8th, 2017
13. Pensioner Income Series – March 2018 – click here
14. LaingBuisson, Care of older people: UK market report, May 2017, p. xxiii

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