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LONDON & COLONIAL

Later Life Account – Case Study

Using a Later Life Account can help your clients support the future cost of long-term care



This document is based on London & Colonial Assurance PCC Plc's understanding of applicable UK tax legislation and current HM Revenue & Custom practice, as at January 2025, which could be subject to change in the future.

Long-term care is expensive. The cost of care support can vary based on the type and level of care required, where you live, and your chosen provider. Research published in October 2023 by the UK Care Guide shows that the average residential care cost ranges from £37,000 (North West) to £50,000 (South East). These costs increase to £50,000 and £67,000 if nursing care is required, with a care home likely to charge a higher fee for someone who has dementia – on average 3% more in a residential home and 2% more in a nursing home.

In England local authorities have an obligation to provide residential accommodation 'for persons who by reason of age, illness, disability and other circumstances, are in need of care and attention which is not otherwise available to them'.[1] But the provision of accommodation costs is means-tested and where an individual has capital of more than £23,250, they will receive no assistance from the local authority.

There are over 400,000 people in the UK living in residential care homes and nursing homes, of which almost half pay for care themselves.[2]

There is no doubt that paying for later life care can put a strain on your finances and more and more people are concerned about their whole estate being depleted by care fees. However, it is possible to plan for care costs and effectively ring-fence an inheritance for future generations.

Case study

Aysha's mother had suffered from dementia for several years. In the early stages Aysha and her family could provide the care but as the disease progressed, she needed more specialist care and eventually needed full-time nursing care for the three years before her death. The cost of her mother's care put a lot of stress on their finances.

Whilst dementia isn't necessarily inherited, Aysha is concerned that both her mother and maternal grandmother suffered with the disease and with people living longer she believes dementia is becoming more prevalent.

Owning a property jointly with her husband, she is aware that this will not be taken into account when the local authority undertakes any means-testing, but she would like to know that the care provider and type of care can be chosen by her family without putting a strain on their finances.

Currently, Aysha and her husband have money sitting in bank and building society accounts, earning little interest. Being in her mid-50s she feels that earmarking £50,000 of their £150,000 savings for care costs in 20 to 30 years time is manageable and wants an investment that can provide growth and a level of income that will be flexible.

The Later Life Account ('LLA') offered by London & Colonial Assurance PCC Plc ('LCA') would allow Aysha to invest in a wide range of permitted investments, ensuring that her savings have the potential to grow. Together with her adviser they can choose an investment portfolio that meets her attitude to risk.

[1] **Section 21 of the National Assistance Act 1948.**

[2] **UK Care Guide**

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Case study (continued)

Whilst LCA calculated the level of payments that Aysha would be entitled to receive, from outset, based on her life expectancy and initial investment she can reduce those payments to zero by giving LCA at least 60 working days' notice. This means that she can leave her investment to grow.

Also, at outset LCA calculate a tax -exempt sum using a prescribed formula. This tax-exempt sum remains constant, until an additional premium is paid. Where the tax-exempt sum is not taken in any one year it is carried forward to future years. As Aysha will not be taking an income to start with, the tax-exempt sum will be rolled over until such time as she requires income payments.

With a growth rate of 5% (excluding charges) in 20 years' time the value of the LLA has grown to approximately £133,000 and not taking any payments means there is a cumulative tax-exempt sum of £38,623[3]

Aysha is now in her 70s and whilst she has not shown signs of dementia unfortunately, she suffered a stroke. Her mobility has been affected and she finds it difficult to get up the stairs, so her family want to fit a stairlift. Having spoken to a local company the cost would be around £5,000. They speak to their adviser who explains that a one-off payment can be taken from the LLA and as there is 20 years of cumulative tax-exempt sum there will be no UK income tax to pay.

Aysha's rehabilitation is slow and after a difficult few years she is diagnosed with middle stage dementia. In order to help with managing Aysha's daily life her family employ a paid carer, for 3 hours a day, 5 days a week. In 2022/23 the average cost for a home carer is £20 per hour. Using 5% inflation in 25 years' time this would equate to £67 per hour.

After speaking to their adviser, they start to take regular monthly payments of £4,000. The adviser explains that as they have only taken £5,000 from the annuity there is still a cumulative tax-exempt sum available. He explains that:

- the cumulative tax-exempt sum is £43,300 ((£1,932 x 25) - £5,000)) and
- the yearly payments will be £48,000.

He explains that in any year if the payments exceed the tax-exempt sum, then the excess is subject to Aysha's marginal rate of UK income tax.

He also explains that if the cumulative tax-exempt sum is eventually exhausted, any annuity payments above the rolled-over tax-exempt sum can only be made directly to Aysha and not to her care provider.

After two years with Aysha requiring around the clock assistance her family made the difficult decision to move her into a nursing home for the remainder of her life. Whilst the payments don't cover all the cost having them allows her family to choose a home closer to them.



In summary:

Aysha was able to:

- invest a lump sum (for growth) to secure the majority of her care costs.
- help her family fund her future changing care needs. Being able to take one-off payments and vary the amounts to help with changes in her care costs.
- alleviate some of the financial stress on her family.

Want to know more?

If you would like further details on our Later Life Account or any other product we offer, please contact your dedicated business development manager or email sales@lcalife.co.uk

[3] **Based on a 56-year-old female with an initial premium of £50,000 (tax-free sum £1,932 each year)**

LONDON & COLONIAL

London & Colonial Assurance PCC Plc
3rd Floor
55 Line Wall Road
Gibraltar, GX11 1AA
T (UK): 0044 (0)2036 406843
www.lcalife.co.uk
LCA@lcalife.co.uk

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