Financial planning for retirement


Photo: John Hutton-Attenborough


Photo: Nicki Sparks

John Hutton-Attenborough, Chartered Wealth Planner, HFS Milbourne looks at the issue of longevity and financial planning for later life

Financial planning for retirement is often based on 'average' life expectancy – but what exactly is an 'average' lifespan? We know it's a fluid term which can be influenced by marital status, family history, health and wealth and lots more besides.

According to the Office for National Statistics (ONS) the average life expectancy for women is 82, for men it is 79 years of age. But, the ONS has recently added to the conundrum by releasing data on two additional measures, median and modal ages at death. According to the ONS, the variation between the mean, median and mode life expectancy is more than six years for women and seven years for men which, in terms of financial planning, cannot be ignored.

ONS stats are based on average life expectancy which represents the whole country across all demographic profiles. As we live in "affluent" middle England it is likely that the local population i.e. our clients will be on the "above average" spectrum which could have a bearing on longevity.

Add to this the state of flux in the Care Act 2014 and the whole issue of planning for later life becomes more complex.

Changes to the Care Act

Cast your minds back to the 2017 election campaign and you might remember the lengthy debates on the whole topic of social care, in particular, the funding for those in care. You might also be wondering what the current state of play is now that the dust has settled.

To recap, we need to reflect on the Care Act 2014, the single largest change to health and social care policy for a generation, bringing together all existing legislation on social care services into a single legal framework.

So far only Part 1 has come into force. The Government announced that Part 2, which was set to introduce hefty financial reforms to the care system, has been delayed until 2020. There is currently a consultation process in progress and it is difficult to say whether the changes outlined in Part 2, which amongst other things, proposed a £72,000 cap on care costs and a higher capital limit, will ever come into being.

The implications for those needing care now

Whilst elements of the Care Act are in limbo, nothing has changed. The funding of a person's adult social care continues to be subject to means testing and remains the responsibility of the individual until their assets fall below £23,250.

In Surrey, someone who is funding their own care would typically be paying between £1000/1500 per week, whereas local authority support often falls a considerable way short of this amount.

As it stands, once assets drop below the threshold, individuals may find themselves faced with the prospect of finding alternative accommodation, which can pose quite a challenge as the impact of moving an elderly family member cannot be underestimated.

Financial options for those in care

It's likely that the consultation will take a long time to complete and that makes planning for those either in care now or likely to need care in the future more difficult.

In the meantime, conventional means of meeting costs are likely to continue. Options for those already in either a residential care or a nursing care home include an Immediate Needs Annuity which secures an income stream for the rest of the individual's life which, as the ONS figures suggest, could be a significant period. The income covers all or part of the care home costs for the life of the individual and is tax free as long as the annuity amount is equal to or less than the charge made by the care home.

Other considerations include an equity release scheme such as a lifetime mortgage which can be taken out by individuals regardless of the value of other assets they hold. Interest is generally fixed for the term of the loan, and proceeds can be taken out as either a lump sum, or drawn down over time. This could then be used to purchase an Immediate Needs Annuity as detailed above.

Alternatively, with the new pensions freedom arrangements in place, it's possible that an individual's pension could provide a further source of funding for long-term care.

As it can be seen, there is plenty to ponder and we are talking about quite a complex area compounded by the fact that legislation moving forward is still unclear. As always, if in doubt, seek professional advice, preferably from an accredited member of the Society of Later Life Advisers (SOLLA).

John Hutton-Attenborough & Nicki Sparks
HFS Milbourne