



Irrational fear of care costs leads to irrational decisions

In a series of articles David Borrowman addresses some of the issues round care costs and explains why rushing to give away houses to avoid care costs is generally not a sensible approach.

Rich families in Scotland don't worry about paying residential care costs – they can afford to pay. Poor families don't worry about paying care costs either – the local authority will pay them. About 62% of Scots live in houses they have bought and they could neither be described as rich or poor – yet many people in this group really worry about care costs and fear they will lose the house to them.

Some have read there is an “easy” solution to this problem – just give away your house to your children or put the house in a trust and your care cost fears will be no more.

All very well of course, but sometimes the cure is worse than the illness, as I hope this series of articles will show.

The starting point here instead of having a “knee jerk” reaction to the fear of care costs is to assess the risk. What is the likelihood of being in care? And what is the likelihood of an average couple losing their house to pay for care?

Well neither is very likely at all in my view - as can be seen from the statistics of people in residential care.

Of the whole population over 65 years of age only about 4% of the total are in residential care – 96% are not! Of the whole population over 85 that figure goes up to about 15% - that means 85% of those over 85 are not in care. So even if you reach the grand old age of 85 only about one in seven people will be in residential care. And if you reach 85 in Scotland as a woman you will have beaten the average life expectancy by 3.9 years, and as a man by a whopping 7.9 years. So, most of us will die before residential care is necessary – that is the brutal truth.

It is obvious from these statistics that the overwhelming majority of Scots will never be in residential care.

The next issue of which to be aware is the median length of time in care – which is 19.6 months – i.e. less than two years. Let's invent Mr Jock Thomson – he is an average sort of guy – and he has to go into care. His income (state and private pension) is £16000. To that he can add his personal and nursing care allowances totalling £13572 per annum – giving a total income of £29572. He manages to rent his house out at £375 per month (after expenses) – bringing his total income to £34072 per annum. The care home fees are £38,000 per annum. This leaves a deficit of £3928 per year – and if he lives for 20 months in the care home he will have “racked up” a

deficit of £6546. There are various ways he could have financed that but if he owns a house worth say £170,000 somewhere near the Scottish average – you can see that Jock is not anywhere near seeing his estate “demolished” by care costs.

So, the second truth here is that even if you do end up in care and stay there for the median time in Scotland you are not visited with the financial disaster some claim is inevitable.

Considering that most people will not be in care, and for many the costs will be manageable – it just does

not make sense to jump through legal hoops to give property away – to mitigate against something happening which probably never will happen. Giving away assets carries with it many difficulties and disadvantages. And these difficulties and disadvantages can be very damaging – as I will show in future articles. So, by all means think ahead about paying care costs and consider mitigation strategies but always keep the issue in perspective – it probably won't happen to you.