



# Financial Services Bulletin

## The debate about long term care costs

A report has been published – arguably one of the most important in recent times - that directly asks us to address how much we are prepared to pay in order to support the care and welfare of our elderly. It is arguable that “Fairer Care Funding - The report from the Commission on the Funding of Care and Support” should have been making headlines and been the topic of conversation on everyone’s lips since its publication on the 4 July. However, like many other subjects this has been relegated to the inside pages by other matters deemed more newsworthy or sensational.

Details of the report can be found on <http://www.dilnotcommission.dh.gov.uk/> but among the recommendations in the report are:

- ✓ Individuals’ lifetime contributions towards their social care costs – which are currently potentially unlimited – should be capped. After the cap is reached, individuals would be eligible for full state support. This cap should be between £25,000 and £50,000. We consider that £35,000 is the most appropriate and fair figure;
- ✓ The means-tested threshold, above which people are liable for their full care costs, should be increased from £23,250 to £100,000;
- ✓ National eligibility criteria and portable assessments should be introduced to ensure greater consistency; and
- ✓ All those who enter adulthood with a care and support need should be eligible for free state support immediately rather than being subjected to a means test.



The 'partnership' model it recommends strikes a fair balance between individual and state and ensures that the highest costs, which frequently occur at the end of life, will not fall on individuals and their families. This combination of a cap and the higher means-tested threshold would ensure that no-one going into residential care would have to spend more than 30 per cent of their assets on their care costs.

The above does, however, come at a cost and this is estimated at £1.7bn (based on a cap of £35,000). The questions we should be debating are whether we can afford this given the current Government finances? Would we be prepared to pay higher taxes to meet these costs? This debate should be raised in the public's awareness, as it will affect so many of us.

### *Less tax if you leave money to charities*

Inheritance Tax (IHT) can be a very complex area but in general terms when IHT becomes payable 2 rates of tax apply. The first £325,000 is taxed at zero % (hence it is often referred to as the Nil Rate Band) and the balance above this is taxed at 40%. Married couples (if both of you are UK domiciled) and those in civil partnerships, can use both nil rate bands on the death of the second to die, so, in the majority of cases 2x the nil rate band can be utilised. This means that £650,000 will be taxed at zero rate with the balance above this being subject to 40%.

The government announced in the Budget in March that it would be cutting this tax rate to 36% for estates where people had left a significant amount to charity. We now have the details of how this scheme will operate.

For deaths occurring in the next tax year, starting on 6 April 2012, if your estate includes a legacy to charities of at least 10% of the net amount of your estate, a rate of 36% will be levied as opposed to the standard rate of 40%; to determine if your estate will qualify, you have to compare:

✓ the total value of all charitable legacies, and

✓ the value of your net estate for IHT purposes

For example:

Mrs Green's estate totals £850,000 and she is leaving £20,000 to the RSPCA in her will.

The amounts of inheritance tax payable if she died today and if she died after next April, are as follows:

	Now	From April 2012
Estate	£850,000	£850,000
Less nil-rate allowance	-£650,000	-£650,000
Net estate for 10% test purposes		£200,000
Less charitable legacy	- £20,000	- £20,000
Taxable estate	-£180,000	-£180,000
Tax payable	@ 40% = £72,000	@ 36% = £64,800

So it can be seen that not only does the charity benefit from the estate, Mrs Green's family also benefit because £7,200 less inheritance tax is payable.

This is clearly of benefit if your Will already contains a gift to charity of 10% or more. However, an obvious question to ask is whether it is worth introducing a 10% gift if there is currently no provision in your will. Whilst this would mean less tax is payable it does also mean that less will be received by your beneficiaries (assuming charitable gifts are not part of your current intentions). If we assume that your estate has a value of £200,000 above the nil rate band (as above) then without any gifts your beneficiaries will receive £120,000 (40% tax being £80,000), this compares to them getting £115,200 if a 10% gift is made (36% tax on 90% of your estate being £64,800) but £20,000 will have been gifted to charity as well.

## *Changes to state pension age hit hard*

We all recognise that the cost of state pensions is increasing not only because people are living longer but also because the ratio of those in work (who, via national insurance, pay the pensions of those already retired) is falling. Change is needed to make the system sustainable and affordable and there is a general agreement that the gradual increase in



retirement age is a rational and reasonable step to make. However the comprehensive spending review the government has undertaken proposes to accelerate the rate of change and has a particularly severe impact on women born between March 6 1954 and April 5 1954, who will see their state pension age rise to 66 (from 64) just when they were on the cusp of retiring! It is estimated that 33,000 women will be caught by this change and if they were expecting the full state pension entitlement (some would have paid the reduced-rate married woman's stamp), that is a loss of around £10,000!

Details of the current state pension ages and the proposed changes can be found on <http://pensions-service.direct.gov.uk/en/state-pension-age-calculator/home.asp>

Iain Duncan Smith, the Work and Pensions Secretary, has said that 'transitional arrangements' will be made to help those most affected and that he would he would 'happily look at transitional arrangements.' We will have to wait to see what that means.

## *Internal news*

Phil Grafton has been selected as the regional 'Chartered Champion' for the Personal Finance Society (PFS), the leading professional organisation for financial advisers in the UK.

This initiative by the PFS, which is part of the Chartered Insurance Institute (CII) group, is aimed at raising the profile of Chartered status for financial planners and firms among local business communities and consumers.

Fay Goddard, CEO of the PFS says: "Now, more than ever, consumers are demanding that financial advisers and planners demonstrate their professional expertise. Consumers want to deal with individuals and firms who provide first-class service and trusted advice that helps them meet their financial goals."

"Chartered status is a recognised brand in itself and consumers value it as an indication of merit, capability and commitment to ethical practice. Chartered Financial Planner status is relatively new to the Chartered family, so the benefits need to be promoted to the sector and the public."

In his role as chartered champion, Phil will be the local advocate for Chartered status in the region, represent the PFS and the CII as well as host a variety of events for Chartered Financial Planners, including Chartered Business Dinners and Chartered Connections Clubs.

Fay Goddard adds: "As an excellent advocate for the profession, Phil is perfect for the

chartered champion role as he is passionate about the sector, the benefits that chartered status brings and is very eager to get involved in the development of the financial planning profession. I am delighted to welcome him on board.”

Phil said: “Both for individual advisers or firms of advisers, Chartered status provides an edge over competitors. It is an objective measurement and verification of a professional approach to meeting clients’ needs and it’s the seal of approval that sets the professional adviser apart.”

Also, and perhaps most importantly, as more and more advisers achieve Chartered status, I hope that the perception of the sector as a whole will gain more credibility. I am very excited about the role and the new challenges it brings.”

We are pleased to confirm that both Phil Grafton and Phil Hasell are Chartered Financial Planners.

This newsletter is intended for the use of clients and other interested parties. The information contained in it is believed to be correct at the date of publication but it is necessarily of a brief and general nature and should not be relied upon as a substitutes for specific professional advice.

## *Contact us*

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