

Factsheet: Immediate Needs Annuities

What is an immediate needs annuity?

An immediate needs annuity is a type of insurance policy that pays a regular lifetime income towards your care fees. An immediate needs annuity may be a suitable way to pay for care fees if the applicant:

- Has health issues;
- Is receiving care either at home or in a care home – or is about to start;
- Want peace of mind that the care fees will be paid in the future;
- Has the capital available to invest
- Wants to cap the cost of care, potentially safeguarding any remaining capital

It is probably not a good option if the applicant:

- Only needs care for a short period of time;
- May want a return of capital in the future, and/or
- Could be entitled to local authority or NHS Continuing Healthcare funding, which is free.

How an immediate needs annuity works

An immediate needs annuity is most commonly used to fund either the full cost of care fees or the applicant's income shortfall (see our Care Fees Budget Planner).

You buy the policy upfront, with a single payment. The cost of the policy depends upon a number of factors such as:

- Applicant's age;
- Applicant's health;
- Current annuity rates;
- The level of income required;
- The insurance company's assessment of how long you're likely to need it for.

If the applicant's health isn't good, then the policy cost could be lower than someone in good health. The income from the plan is tax free if it is paid directly to the care provider. If you're concerned about future increases to the cost of care, then you can build the cost of covering them into the immediate needs annuity. For an extra cost you can also put in a 'capital protection' clause. This allows your family to get some of the lump sum payment back if you were to die early.

Advantages of an immediate needs annuity

Having one of these policies can help with negotiating a cap on your annual care home fee increases because the care home knows the fees will be privately-funded and losing you as a resident is unlikely. If payments are made directly to the care home or home care provider, then those payments will be tax-free, which means the applicant's personal tax allowance won't be affected. To qualify the care provider must be registered with the local regulatory

body. In England, your care provider must be registered with the Care Quality Commission and in Scotland with the Scottish Care Inspectorate. For Northern Ireland they should be registered with the Regulation and Quality Improvement Authority and in Wales the Care Inspectorate Wales.

Key benefits:

- Your policy can be set up to increase each year at a fixed level, or in line with inflation;
- These plans are underwritten. If you have health issues, the cost will be lower than for someone with no health issues;
- For an extra one-off payment, you can buy built-in protection in case you pass away earlier than expected. This death benefit is paid to your estate and may be subject to inheritance tax;
- You can transfer the policy from one care provider to another if required;
- If care is no longer needed at any time, or the cost of care reduces, then you receive part or all of the annuity as income. This income will be subject to income tax at the applicant's marginal rate;
- The annuity is protected by the Financial Services Compensation Scheme (FSCS) if the policy provider can't meet its liabilities;
- Under current tax rules, if you buy an immediate needs annuity, its cost is deductible from your estate's future value. This can help you manage inheritance tax liability. This means you can benefit twice if you have a large estate to pass on;
- There is a 30-day cooling off period.

Disadvantages of an immediate needs annuity

- Taking out an immediate needs annuity isn't a quick process because the plan is underwritten. The insurance company has to collect information about the applicant's health from the care provider, family and GP.
- These plans require a large upfront payment;
- If the applicant dies soon after taking out the plan and haven't taken out protection, their estate won't be refunded.
- Once you've taken out the plan and you've gone past the 30-day cancellation period, you can't change it;
- If you no longer need care, or become eligible for NHS continuing healthcare funding, you can receive the payments as income. These will be taxed at your marginal rate. This extra income may also affect the applicant's entitlement to means-tested benefits.
- If you haven't allowed for care fee increases, the annuity may not cover all of your future care fees. In this scenario, you'll need to make up any shortfalls from other resources.

Considerations

Once an immediate needs annuity has started, there's no going back. You won't be able to cancel the plan and get some of the money back if, for example, the applicant stops requiring care. You also need to weigh up having a regular, secure income to pay for care against losing the lump sum you've invested if the applicant was to die earlier than expected.

It's also possible that your care may not be fully covered – and many annuities don't fully guarantee that the ongoing cost of your care will be covered indefinitely

Getting advice

An immediate needs annuity is only one way to pay for long-term care. The options for funding your long-term care are complex. You should always seek professional advice to make sure you're making the most of your money and not investing in a product that doesn't meet your needs.

Make sure you seek independent advice from a specialist care fees adviser and look at what else is available before buying an immediate needs annuity. If you're paying for care yourself, you should get specialist care fees advice from a qualified and experienced adviser such as Carepal. We can:

- Discuss the best ways to protect your assets
- Look at how to ensure that your money lasts for as long as is needed, and
- let you know whether a care funding plan (immediate needs annuity or a deferred annuity) could be right for you.

Contact us

T: 01282 866287

E: info@carepal.org

W: www.carepal.org