

HOW TO GUARANTEE THE PAYMENT OF CARE FEES

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THE PROBLEM

The cost of care can be substantial, particularly if an individual is expected to need care for a significant period.

Many people have little idea how long care might be needed and as a result they don't know how much it will cost altogether. For some, the costs can be catastrophic.

There are many ways that a 'self-funder' can pay for their care, but there is currently only one way that this unknown liability can be guaranteed to be covered. This is via a financial product called an Immediate Needs (Care) Annuity (INA) or a Deferred Needs (Care) Annuity (DNA).

WHAT IS AN IMMEDIATE NEEDS ANNUITY (INA)?

This is a type of insurance policy that provides a regular guaranteed income for life to pay for care fees, in exchange for one upfront lump sum payment. It is designed to cover the shortfall between someone's income and the cost of their care fees for the rest of their life.

The income from the plan is tax-free if it is paid directly to the care provider. Cover for future care fee price increases can be built into the cost of the care plan to avoid a future short-fall. For an extra cost a 'capital protection' clause can also be included. This allows the family or other beneficiaries to get some of the lump sum payment paid back into the person's estate if the policyholder should die earlier than initially expected and planned for.

What is a deferred immediate needs annuity?

This is a variety of INA where a premium is paid at the outset, but no income is received from the annuity until after a specified waiting period, which can be anything from 12 to 60 months. Care fees due during this deferred period will need to be paid from other resources. This reduces the annuity provider's liabilities, and as a result the cost of the upfront premium can be significantly lower than it would be for a standard INA.

HOW MUCH DOES IT COST?

The price of a plan is based on how much income is needed and the insurance company's assessment of how long they are likely to have to pay for the individual's care. The upfront cost will depend on age, current annuity rates, the level of income needed, whether and to what extent future care fee price increases are to be covered, whether 'capital protection' is added, whether a deferred period is selected and the health and life expectancy of the prospective policyholder. Unlike life cover, the poorer your health or shorter your life expectancy, the cheaper the plan should be.

In any event, we suggest that in most cases it would be wise to seek quotations and compare the costs, advantages and disadvantages of an INA, both with and without capital protection, and with a deferred period. This will allow other possible solutions to be weighed up against the only way to guarantee the payment of care fees for life.

IS IT SUITABLE FOR ME?

Paying for care using an Immediate Needs Annuity may be suitable where -

- ✓ Your health is impaired.
- ✓ You are already in a care home, about to move into one, or are receiving care at home.
- ✓ You want the peace of mind of knowing that there is a regular income for life that can be used towards care costs.
- ✓ You want to cap the cost of their care, and take no investment risk, safeguarding any remaining capital and/or assets.

Paying for care using an Immediate Needs Annuity may not be suitable where -

- × You are in good health.
- × You don't need to pay for care immediately.
- × You think you may only need care temporarily or for a short time.
- × You might want your money back in the future.
- × There's a good chance that you might be entitled to NHS Continuing Health Care funding, which is free.

WHAT ARE THE POSSIBLE ADVANTAGES OF AN INA?

- ✓ It is currently the only product that guarantees payment of care fees at a selected level for life.
- ✓ Security and reassurance - the income is guaranteed to continue until the death of the person needing care. This can be a useful bargaining point when negotiating costs with a care provider as well as giving family the reassurance that they are unlikely to have to make up any shortfall in costs, unless increases in fees outstrip income payments at some future point.
- ✓ Tax-efficiency. Because the benefit is paid directly to a registered care provider (a care home or home care agency that is registered with the Care Quality Commission or its Welsh, Scottish or Northern Irish equivalent), it is completely tax free and will not affect any allowances being received.
- ✓ The annuity can pay for care at home while retaining the above tax efficiency if care is supplied by a UK-registered care provider. Be aware of the fact that the benefits can be paid directly to the policyholder if required, for instance if they are receiving care at home from non-registered carers, but the benefits would then be taxed in the same way as a purchased life annuity.
- ✓ An inflation element can be included, to help offset future increases in care fees.
- ✓ For an additional single premium, part of the capital paid into the policy can be protected in case of early death. Any lump sum death benefit will be paid to the client's estate and may be subject to inheritance tax.
- ✓ The policy can be transferred from one care provider to another if required.

- ✓ If care is no longer needed, or the fees are reduced, part or all of the annuity can be converted to pay a personal income instead, subject to marginal rate tax.
- ✓ The annuity is protected by the Financial Services Compensation Scheme if the policy provider is unable to meet its liabilities.
- ✓ The upfront payment for the annuity will remove an equivalent value from the estate of the person making the payment. So if their estate is likely to be subject to IHT in the future (assuming a continuation of current IHT rules) the purchase price of the annuity could be weighed up against the reduced future IHT liability when assessing value for money. (See above comment on capital protection.)
- ✓ Some providers of immediate needs annuity products will return a percentage of the premium minus any income paid if death occurs within months of taking out an INA. More recently some will pay out the total premium less any income paid should the customer pass away within 12 months of the policy inception date and Covid-19 is recorded on the death certificate as a contributory cause.

ARE THERE ANY DISADVANTAGES?

- × It requires a significant sum of money to purchase and there may be no cash-in value*.
- × Once an Immediate Needs Annuity has been taken out, there's no going back. The plan can't be cancelled to get some of the money back if, for example, you stop needing care. In such circumstances, any ongoing payments will be subject to income tax at your marginal tax rate. (However, be aware that an Immediate Needs Annuity can be cancelled in the first 30 days' cool-off period resulting in your capital being returned.)
- × There is a risk to capital in the early years if no capital protection option is selected. This may mean your estate doesn't receive all the capital back. You need to weigh up the peace of mind of having a regular, secure income to pay for care vs the loss of the lump sum you have invested should you die sooner than expected.
- × The annuity may not ultimately keep pace with increasing care fees (dependent upon the basis upon which it is set up at outset). In such circumstances, where there is a shortfall between the cost of care and the income from the annuity, this must be found from other resources.
- × Income payments from the plan may affect entitlement to some means-tested state benefits.

WHERE CAN I GET ONE?

An immediate Needs Annuity is what is called a 'Regulated Investment Product' by the Financial Conduct Authority (the body that regulates financial services in the UK). As such, only registered financial advisers that hold a specialist qualification (an example of which is the Chartered Insurance Institutes exam CF8 – Long Term Care Insurance) can recommend and facilitate taking out such a product.

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