Immediate Care Plan

Immediate care plan

What is it?

Immediate needs annuities are a type of annuity, also known as immediate care plans or care fees annuities, which pay out a guaranteed income for life to help cover the cost of care fees in exchange for a one-off lump sum payment.

Payments can be set to pay a level benefit, or can be index linked to raise over time. You can use whatever money or assets you may have left over after taking out the immediate care plan for any purpose – for example, if you wanted to leave it to your family.

Immediate needs annuities offer

- The ability to have care in your own home, or in a residential or nursing home
- A payout until you no longer require care, which is usually when you die
- The option to have your payment given directly to a care home, carer, or to you as the policyholder

You can also buy a deferred care plan for long term care. Instead of paying out benefits immediately, this pays out after a few months or years.

With a deferred care plan, you can agree a fixed period of time for your care. For example if you will need care for a few months or few years, but you will also have some protection if your care needs go beyond the agreed fixed period of time (you will have to agree this extra period of time with your insurer). A deferred care plan is usually cheaper than an immediate care plan.

There are many optional benefits that can be taken with an Immediate Care Plan but for those individuals who are particularly concerned about receiving full value, should they die soon after purchase, the option capital protection may be considered. Capital protection allows you to protect between 1% and 75% of the premium until the percentage protected has been paid out in full to either the care home or the estate (total payments may well be less than the original amount invested). If capital protection isn't selected, there will be no return of capital on your death, and as such the initial income will be higher.

Eligibility

You must be medically assessed as needing care to apply for this type of care plan, and for the insurer to evaluate how much you must pay for your chosen level of income.

You cannot normally cancel or get your lump sum premium back, except during the statutory cooling off period (normally 30 days) after purchase.

- If you die earlier than expected your family will not get any money back, but some policies do offer an option to safeguard the capital in the event of early death
- If you die later than expected, the insurer will pay out an income until your death
- When you die, unless the policy offers a death benefit, there is no payout to your estate

Contribution limits

The minimum purchase price is usually £5,000 with the maximum around £400,000.

Taxation

Payments from an immediate care plan are tax free as long as they are paid direct to your care provider. If, for whatever reason, you leave care at any point the income will be paid directly to you, rather than to your care provider, but it would lose its tax-free status. However, it can be converted back to being tax-free should you require care again in the future. If, at any point, the income was paid direct to you the annuity is split into two parts, a capital element and an interest element. The capital element is deemed to be a part return of an annuitant's original capital and as such is not taxable. The capital content varies according to such factors as age, sex, guarantees and frequency of payment. Generally, only the interest element is taxable and is taxed as savings income with tax being deducted at 20%.

If you are a higher rate taxpayer, you will be liable to pay additional tax direct to HM Revenue & Customs (HMRC). If you pay starting rate tax, you may be able to reclaim part of the tax deducted.

If you are a non-taxpayer you should complete HMRC form R89, or R86 for joint purchasers to ensure that your annuity income is payable gross.

To ensure that a part of your income payment is regarded as returned capital, you should complete HMRC form, PLA6.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Withdrawals

Payments can be paid tax free directly to the care provider or to the annuitant but it would lose its tax free status.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Once your annuity has started it is not possible to amend the basis chosen or the provider selected, until the expiry of the selected term, if applicable
- Normally, payments will cease on death unless an option to continue for a spouse / dependent has been selected
- If you have selected a Temporary Income, the contract (and therefore payments) will cease at the end of the specified term
- Inflation could diminish the purchasing power of your income
- The total return from the Lifetime Income Plan will depend on how long you live and (if applicable) the joint policyholder, unless you have selected a Temporary Income
- Increases in tax rates may reduce the amount of your regular payments
- The contract has no surrender value at any time
- Choosing the right annuity is very important as once bought, an annuity cannot be switched to another annuity provider, cannot be changed to a different type of annuity and cannot be altered in any way for the rest of your life