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JUST.

CARE FUNDING

INVESTMENT VS IMMEDIATE NEEDS ANNUITY

RETHINK CARE

Unless your client qualifies for state support, they're likely to have to fund their own care fees. Only the lucky few will have sufficient income to pay their care fees in full. Many will have savings they can utilise and draw down on. Others may need to sell their property and use one of two main options for care funding, for example, investing the money or purchasing an Immediate Needs Annuity (INA).

The consequences of choosing the wrong solution to care funding can be huge:

- There are currently around 176,000 people privately paying for their long term care needs in the UK*.
- The average cost of a self-pay room in a residential care home is £66,456pa (£82,888pa if nursing care is required)* with many costing significantly more.
- This can severely impact a client's financial security and erode any legacy they want to leave.
- If a client runs out of funds, it's unlikely that the local authority will pick up all of the costs, leaving relatives to either pick up the bill or scale back the care provided. This could result in your client having to move to a cheaper care home.
- Effective planning on how to fund care can provide your clients with confidence and peace of mind that they'll be able to receive the full level of care they want for the rest of their life. This reassurance can be invaluable at what can be a very sensitive time.

When deciding which option is best for your client, there are a number of factors to take into account:

Funding care fees from investments

Risk	Consideration
Investment strategy	When designing any investment strategy, you should take into account: • the expected investment term - in this case, how long you expect your client to survive • their risk appetite • their capacity for loss This often results in a cautious investment strategy for care fees planning. However, a lower risk investment strategy often reduces the potential return, so it's also important to ensure the ongoing investment return is sufficient. Even then, investments can fluctuate.
Income liquidity	Any investment strategy must provide the necessary liquidity to fund ongoing care fees. Therefore, the impact of market volatility should be carefully considered if fees are to be funded from encashments.
Longevity	The biggest uncertainty in planning for care fees is how long they'll be needed. It's important to carefully consider the risk of funds running out too soon.

Funding care fees from an Immediate Needs Annuity (INA)

Risk	Consideration
Investment strategy	There's NO investment risk with an INA as it's a guaranteed product. It's also 100% guaranteed by the Financial Services Compensation Scheme (FSCS). The balance of the client's estate can be invested in accordance with their wishes, although it may be prudent to ensure further funds are available if care fees increase.
Income liquidity	An INA provides a fixed income for the rest of the client's life, which can be paid directly to a care provider to help pay care fees.
Longevity	The income from an INA is guaranteed to be paid for the client's life no matter how long they live, which can help towards the cost of care and safeguard against running out of money.

2 INVESTMENT VS IMMEDIATE NEEDS ANNUITY

Funding care fees from investments

Risk	Consideration
Fee increases	Care fees are not normally fixed for the lifetime of the client. These can increase because of annual inflation, and also if care needs increase. Therefore, an investment proposition should be flexible enough to adjust for this.
Flexibility	It's important to regularly review an investment portfolio as any change in the investment conditions, or the care needs of the client, may have a big impact on its ability to meet the ongoing care fees.
Inheritance protection	The full balance of the client's estate may be left for beneficiaries on their death. However, this value depends on the cost of their care, their length of stay and the investment performance of their portfolio.
Tax efficiency	This depends on the wrapper being used. For example, ISAs are tax efficient, but ISA contribution limits may not be enough to cover care costs, unless these are in existence already. Similarly, funds held in certain investment bonds may be excluded from the means test for calculating state support for care funding. Any funds not used to pay for care will normally be included in the client's estate for inheritance tax purposes.

Funding care fees from an Immediate Needs Annuity (INA)

Risk	Consideration
Fee increases	An INA provides a prescribed level of income for the rest of the client's life. Although an INA can be established to increase each year, either by a fixed % or in line with RPI, there's no guarantee that this will be sufficient to meet all future care fees. Therefore, separate arrangements should be made in respect of this.
Flexibility	There are options under an INA to include Plan Protection, or to defer income payments for a period. This can provide the flexibility to meet each client's needs and circumstances. If a client's care needs change, income can be transferred to a different care provider, or paid on a taxable basis if privately funded care is no longer needed. However, other aspects of an INA cannot normally be changed once it has been purchased.
Inheritance protection	The cost of the INA will be deducted from their estate up front. However, as the majority of their care fees are likely to be covered for the rest of the client's life, this can provide some certainty as to the value of their estate. This can allow more effective inheritance planning for the client's beneficiaries. Additional Plan Protection can be selected at the outset which will make a payment to the client's estate in the event of their early death.
Tax efficiency	Income payable from an INA can be made tax free, if paid to a registered care provider. The cost of the INA will be excluded from the client's estate for inheritance tax purposes. However, any payments from Plan Protection will be included in their estate.

In general, an INA provides a simple solution that can help reassure clients that a regular income to help pay for care fees will continue for the rest of their life, bringing peace of mind to all concerned in the care process.

Support available from Just

Advising on care fees funding can often appear complex, which is why Just has provided a range of support to help you make the right decisions for your client.

The Consumer Vulnerability in Later Life online training provided by Just, with content created by SOLLA, is free, interactive and can help you refresh your knowledge.

*Source: Laing and Buisson Care Homes for Older People, UK market report, 35th edition, 2025

FOR MORE INFORMATION

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