

WHAT IS AN IMMEDIATE NEEDS ANNUITY?

If you invest a lump sum upfront, an immediate needs annuity gives you a regular income. This can be used to pay care costs, but you'll need financial advice to check it's right for you. Here's what you need to know.

How does an immediate needs annuity work?

An immediate needs annuity is designed to cover the shortfall between your income and the cost of your care for the rest of your life. The income is tax-free and paid directly to the care provider.

This type of annuity can be known as an:

- immediate care plan
- immediate needs annuity
- immediate need care fee payment plan.

How much does an immediate needs annuity cost?

Typically, the price of a plan will depend on:

- your age
- current annuity rates
- the level of income you need
- whether you need an income that stays the same or increases over time
- your health and life expectancy (the poorer your health or shorter your life expectancy, the cheaper the plan will be).

Most care plans provide an income that increases either with inflation or a set amount each year to help you cope with future rises in care costs.

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.

What is a deferred needs care annuity?

If you think you might need to pay care costs in the future, you can get a deferred needs care annuity.

This works in the same way as an immediate needs annuity except that the income doesn't start straight away. Instead, it can start some months or even years in the future.

Care fees due during this 'deferred' period will need to be paid from other resources.

A deferred needs care annuity can be cheaper than an immediate needs annuity because you're older when the payouts begin. This is because the insurance company expects to make payments for a shorter period, which can lower the cost.

By opting for a deferred needs care annuity, you're fixing your annuity rate ahead of time. This could be a good idea if annuity rates fall in the future, as you'll still receive payouts based on the rate you locked in. But if the rates increase, you'll still be locked into the lower rate.

Should I get an immediate needs annuity?

An immediate needs annuity might be suitable for you if:

- you're already in a care home, you're about to move into one, or you're receiving care at home
- you want the peace of mind of knowing that you have a regular income for life that can be used towards your care costs, whatever happens
- you have the money available to buy the plan.

An immediate needs annuity might not be suitable for you if:

- you don't need to pay for care immediately
- you think you might only need care temporarily
- you might want your money back in the future

there's a good chance that you would be entitled to NHS Continuing Care funding. See our guide [Do I qualify for NHS continuing healthcare funding?](#)

What are the benefits and disadvantages of an immediate needs annuity?

Pros

You and your family can feel better knowing that some of your care costs will be paid for as long as you need help.

You won't have to pay as much, which might leave more money for your family after you're gone, but not always.

The income is tax-free and paid directly to the care provider. This makes it better than a regular annuity where the income is paid to you and will be taxable.

Many plans give you money that goes up a little over time to keep up with prices going up.

You might find a plan that gives money back for an extra cost. This allows your loved ones to get some of the lump payment back if you die early.

Cons

Once you've taken out an immediate needs annuity, there's a cooling-off period (usually 30 days), giving you time to change your mind. But, after that, you won't be able to cancel the plan and get some of the money back if, for example, you stop needing care.

Your care costs might increase faster than the income from your plan. This means your care plan might not pay for all your care and you'll need to meet the shortfall in other ways.

You need to weigh up having a regular, secure income to help pay for care against losing the lump sum you've invested in if you were to die earlier than expected.

If the money you get from the annuity is a lot, it might affect other government benefits you get based on your income.

Other ways to fund your long-term care

An immediate needs annuity is one way to pay for long-term care. It's important to consider all your options first. Read our guides:

[Beginner's guide to paying for long-term care](#)

[How to pay for your long-term care in a care home](#)

[How to pay for your long-term care at home](#)

Get advice and help

It's important to get professional advice before making big money decisions, like buying an immediate needs annuity. Our guide explains [how a specialist care fees adviser could help you help](#).

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