DEEP DIVE
FINANCIAL PLANNING



CARE FEES ANNUITIES, EXPLAINED

Chartered
Financial
Planners

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www.deep-dive.co.uk



IS THIS YOU?

Is a parent, or someone you hold power of attorney for, moving into a care home that costs more than their income? Are you looking at the fees, the savings and the house, and wondering how long the money will last and what happens if it runs out?

You may be the one holding the power of attorney, doing the sums at the kitchen table after a day at the home, and being asked by the rest of the family what the plan is. This guide was written for you.

IN THIS GUIDE YOU WILL FIND

- What a care fees annuity is: one payment, and the fees covered for life, however long that turns out to be.
- Who provides them, what they cost, and what decides the price.
- The tax position, what happens on an early death or a long life, and what happens if the fees rise or the home changes.
- Buying one under a Lasting Power of Attorney, and what the attorney has to weigh up.
- Whether it reduces Inheritance Tax, whether it affects benefits, and how long it takes to arrange.
- The alternatives: pay as you go, a deferred annuity, investing the capital, the pension, the house and NHS funding.

Prefer a print version? For one that won't slurp up half your toner, email **info@deep-dive.co.uk** and we'll ping it through.

Reading time: about 5 minutes.

By the end of it you'll know how a care fees annuity works, who sells them, roughly what they cost and what decides the price, what happens if your parent dies early or lives to 101, and what the alternatives are. The last page lists the seven mistakes to avoid and the nine tactics to consider, so you can decide, with the rest of the family, how the fees get paid.

WHAT IT IS

A care fees annuity is a way of paying for a care home once, rather than every month for the rest of your parent's life.

You pay an insurer a lump sum. In return, the insurer pays the care home an agreed amount every month, rising each year if you choose, for as long as your parent lives. One year or twenty, the fees are covered. The proper name is an immediate needs annuity.



THE QUESTIONS FAMILIES ASK

Who is it for?

Someone who is in care now, or about to move in, whose income doesn't cover the fees and who would otherwise eat into their capital to close the gap, and is concerned the money might run out.

Who provides them?

A small market of big names. Four UK insurers currently offer care fees annuities: Just, Aviva, Legal & General and National Friendly. We obtain quotes from all of them.

How much does it cost?

It's impossible to say without receiving a personal quote, but the one-off cost is sometimes in the region of three to five times the annual shortfall. It depends on age, health and whether you choose an income which rises each year.

What decides the price?

Age, health and the income needed. Poorer health makes it cheaper, which is the opposite of most other kinds of insurance. The insurer prices on how long it expects to be paying, so

someone with dementia or heart disease pays less for the same income than someone in better health.

Is it tax-free?

Yes, as long as the money goes straight from the insurer to a registered care provider.

What if the resident dies soon after buying it?

Then the insurer has had the better of the deal, and the family has paid for certainty it didn't end up needing. You can soften this with capital protection: for a higher price, part of the lump sum (up to 75%, less what's already been paid out) comes back to the estate if death comes early.

What if they live for twenty years?

Then the insurer pays for twenty years, and the plan would have saved the family a great deal of money. The benefit to those residents is effectively subsidised by those who died early.

What if the fees go up?

You can choose a plan that rises each year, by a fixed percentage or with inflation, so it keeps pace with the home's annual increase. If the fees rise faster than the plan, you need to top up the difference. A level plan is cheaper initially and falls behind over time.

What if they move to a different home, or back home?

The payments follow the person to any registered care provider, including care at home from a registered agency. If they stop needing care altogether, the payments can be made to them instead, but they become taxable.

Can we cancel it?

Within the first 30 days, yes. After that, no. The money is committed for life. That's the trade: certainty in exchange for flexibility.

Is the money safe?

Annuities are covered in full by the Financial Services Compensation Scheme if the insurer fails. The four providers are among the largest and longest established in the country.

Can I buy one using a Lasting Power of Attorney?

Yes, under a property and financial affairs lasting power of attorney.

It's the duty of the attorney to prioritise the needs of the person who gave them that power. Arguably once you go into care you have few other needs for the rest of your life than securing the best care available. Many attorneys therefore see it as a duty to seek long term care advice.

Does it reduce Inheritance Tax?

As a by-product, yes. The lump sum leaves the estate the day it's paid, so the taxable estate is smaller.

Does it affect benefits?

Attendance Allowance is not means-tested and is unaffected. NHS-funded Nursing Care, if the home provides nursing, is paid regardless. We'd always check NHS Continuing Healthcare before buying: if the NHS should be paying the fees, there's nothing to insure.

How long does it take?

Usually, four to eight weeks from application to first payment. Most of that is waiting for the GP report. The four providers give their quotes at different times: typically two come quickly and two more slowly. We then go back to the quicker providers who are often able to improve their quotes and then we choose the best price out of the four.

What do we have to do afterwards?

Very little. The insurer pays the home every month. You tell the insurer if the home changes its fees, if your parent moves, and, when the time comes, that they've died. Keep the plan documents with the LPA. You might check with your adviser once a year to make sure the income and the fees are still in step.

What are the alternatives?

- **Pay as you go** from income, then savings, then the house. Nothing committed, nothing settled, and somebody reviews it every year.
- **A deferred care annuity.** The same plan, but payments start in one to five years and you pay the fees yourself until then. Cheaper, because the insurer expects to pay for less time. In one published example, deferring two years cut the price from about £200,000 to about £107,000.
- **Investing the capital** and drawing from it. Flexible, with the usual risk of markets falling in the wrong year.
- **The pension.** From April 2027 an unused pension counts for Inheritance Tax, so it is sometimes the first pot to draw on, once the income tax on the withdrawals has been weighed.
- **Selling or letting the house.** A one-off solution, and letting makes the attorney a landlord.
- **The NHS.** Continuing Healthcare, if the needs are mainly health needs. Always ask before spending anything.

Most families end up with a combination: an annuity for the core shortfall, with investments or the house kept in reserve.

What does advice from Deep Dive involve?

A SOLLA-accredited Chartered Financial Planner reviews your parent's income, capital, health and care costs, checks what funding is owed and unclaimed, obtains quotes from all four providers, and sets out the options in writing, on your parent's own numbers, before anything is committed.

WHAT TO DO NEXT

SOLLA Society of Later Life Advisers ACCREDITED

Email **info@deep-dive.co.uk** and tell us how we can help, or book a free 20-minute call at trustsadvice.co.uk/mattbriefingddfp.

Further reading

If you're arranging care for a parent and the savings or the house will be needed to pay for it, there is usually more than one way to do it. Book a call with one of our team at trustsadvice.co.uk/mattbriefingddfp and we'll talk you through it.

IN SUMMARY

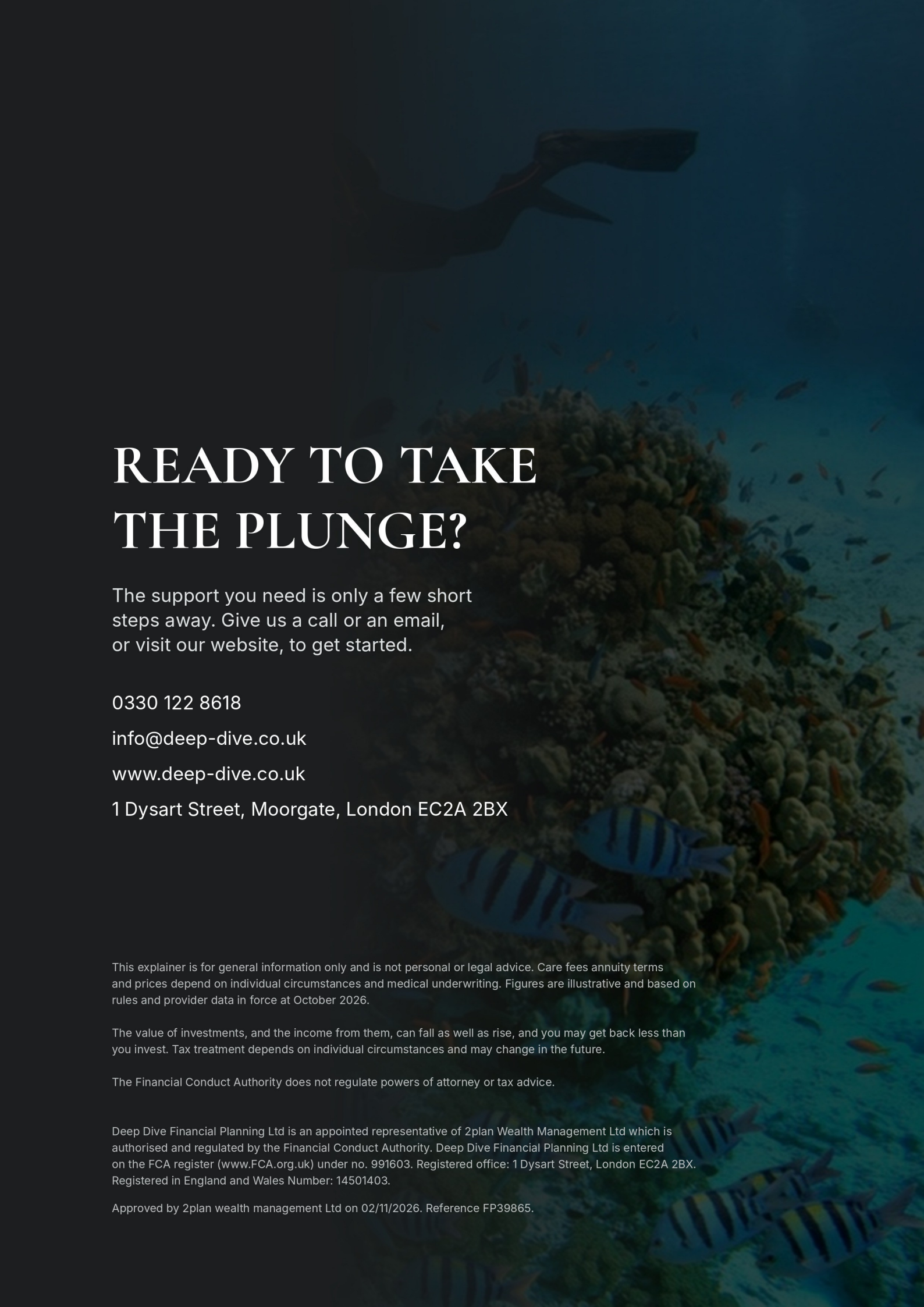
Seven mistakes to avoid

1. Paying the home month by month from savings, then the house, with nobody able to say how long the money lasts.
2. Spending anything before asking whether the NHS should be paying under Continuing Healthcare.
3. Assuming poor health puts an annuity out of reach. It makes it cheaper.
4. Buying a level income that falls behind the home's increase every year.
5. Taking the first quote, when there are four insurers and the quick ones can usually be improved.
6. Having the income paid to your parent rather than straight to the home, which makes it taxable.
7. Deciding which pot pays the fees without asking the question again, now that from April 2027 an unused pension counts for Inheritance Tax.

Nine tactics to consider

1. Pay once and have the fees covered for life, tax-free as long as the money goes straight to a registered provider.
2. Declare every condition. The insurer prices on how long it expects to pay, so the worse the health, the lower the price.
3. Defer the start by one to five years and pay the fees yourself in the meantime. In one published example the price fell from about £200,000 to about £107,000.
4. Add capital protection, so up to 75% of the lump sum comes back to the estate if death comes early.
5. Choose an income that rises each year in step with the home's increases.
6. Get all four quotes, then go back to the two that answered quickly.
7. Claim Attendance Allowance and NHS-funded nursing care, neither of which is means-tested.
8. From April 2027, ask whether the pension should be drawn before the savings and the house. Sometimes it should; the income tax on the withdrawals decides it.
9. If you hold the property and financial affairs lasting power of attorney, you can buy it yourself. Keep the plan documents with the LPA.

Email **info@deep-dive.co.uk** and tell us how we can help, or book a free 20-minute call at **trustsadvice.co.uk/mattbriefingddfp**.



READY TO TAKE THE PLUNGE?

The support you need is only a few short steps away. Give us a call or an email, or visit our website, to get started.

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This explainer is for general information only and is not personal or legal advice. Care fees annuity terms and prices depend on individual circumstances and medical underwriting. Figures are illustrative and based on rules and provider data in force at October 2026.

The value of investments, and the income from them, can fall as well as rise, and you may get back less than you invest. Tax treatment depends on individual circumstances and may change in the future.

The Financial Conduct Authority does not regulate powers of attorney or tax advice.

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