Fact Sheet No 13

Care fees insurance policies

Care Fees Insurance Policies

- There are insurance policies designed specifically for people who need care. There are two main types: Immediate Needs Annuities (INAs) and Deferred Needs Annuities (DNAs).

- In return for payment by you of a lump sum, the Insurance Company agrees to pay out a fixed sum (each month) to a registered care provider for your care for the rest of your life. The insurance company estimates how long you will live and charges you a lump sum which it calculates will be sufficient (after factoring in the investment return which the company will make on your premium) to pay the agreed level of monthly income to your registered care provider for the rest of your life as well as returning a profit to the company.

- Since the insurance company is necessarily making a bet on how long you will live the company will only give you a quotation for the price at which they will provide you with a policy once they have made extensive enquiries from you about your own medical and family history. A report from your GP (and consultant) as well as the care provider will be required.

- The Immediate Needs Annuity starts paying out as soon as all the documentation has been completed and the contract signed between you and the insurance company whereas the Deferred Needs Annuity only starts paying out after a time interval agreed between you and the insurance company. For example you may pay for the insurance policy now but specify that you will not require the policy to begin paying out until a date in say two years' time. Because the insurance company calculates that the number of years for which it will have to pay out on the policy is reduced, the cost of the policy is also reduced.

- The cost of every policy is specific to each individual: it takes into account their family history and their medical history as well as the level of the monthly payment which they request the company makes to their registered care provider. The average Immediate Care Needs Insurance single premium for policies written by a major insurance company during 2012 was £101,000. The average life expectancy of self-funders taking out a plan with this insurer is approximately 4 years and 1 in 8 policyholders live for over 8 years in a care home.

- The insurance companies may offer additional refinements on these two basic forms of insurance policy such as partial refund of premium if the beneficiary dies within say six months of taking out the policy. Variations are also available which increase the sum paid out each year to the registered care provider.

- How do you raise the sort of money needed to buy one of these care policies? For many people this will only be possible by using some of the value in their home; see next section.