

Solutions available to UK individuals looking for regular income payments.

	Flexible Life Annuity	Conventional Purchased Life Annuity	Discounted Gift Trust
Overview	A unit-linked purchased life annuity	A non-unit linked purchased life annuity	A trust-based solution containing a unit-linked bond
Underwriting	No underwriting required	Typically, no underwriting required	Full underwriting required to calculate the size of the discount. The discount could be 0%
Investment	Investment linked. A wide range of investments are available ¹	Not linked to investments	Investment linked. A wide range of investments are available ³
Investment Risk	Individuals can benefit from market growth. Can choose investments to match their individual risk profile	As not linked to investments could miss out on a future market upswing	With income typically being fixed whilst the fund can benefit from market growth the individual cannot.
Income payments	Initial income payments calculated at outset but can be varied throughout the life of the product	Fixed at outset	Fixed at outset – normally set to 5%
Income Flexibility	Unlimited flexibility between 0% and 100% of fund value	If selected can increase yearly at a fixed rate ²	Typically, cannot be cancelled or varied ⁵
Taxation of Income	Each year the excess above the tax-exempt sum potentially subject to UK income tax	Each year the interest element is potentially subject to UK income tax	5% tax deferred for 20 years then any future income payments are potentially subject to UK income tax
Taxation at time of death	No inheritance tax ('IHT') on the proceeds from the preference share as long as the London & Colonial Assurance PCC Plc ('LCA') preference share was held on death and purchased at least two years previously	Depending on whether a guaranteed period has been chosen income element taxed at beneficiary's marginal rate of UK income tax	Depending on the structure and when the chargeable event occurs either taxed at trust rate of tax 45% or settlor's marginal rate of UK income tax

¹ Oversea jurisdictions can benefit from gross roll up due to no/low tax environment except for non-reclaimable withholding taxes.

² Purchased Life Annuities offer a variety of optional features. The more optional features that are built into the annuity the lower the income.

³ If allowed by the provider this would be deemed a further gift for IHT.

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Inheritance Tax	Tax-free after two years of owning a LCA preference share	No IHT but if a guaranteed period has been chosen then the interest element is potentially taxable	Any discount is outside of the estate immediately and the remainder after seven years
Additional investments ('top-ups')	Allowed	Not allowed	Not allowed
Control	During lifetime, the individual has control to increase/decrease/stop or restart income payments.	During lifetime, no control to vary the income payments. Can be written on a joint life basis where the income continues on a reduced basis after the death of the first life assured	Trust based solution. During lifetime, the individual can only receive the income decided at outset.
Investor Protection	Covered by Financial Services Compensation Scheme and LCA's Protected Cell structure	Covered by Financial Services Compensation Scheme	Depends on the jurisdiction

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