Case Study - Flexible Pension Annuity

Using a Flexible Pension Annuity can support your clients and their loved ones.

This document is based on London & Colonial Assurance PCC Plc's understanding of applicable UK tax legislation and current HM Revenue & Customs practice, as at November 2024, which could be subject to change in the future.

Edward:
- aged 57
- widowed with
- two adult children

Throughout his working life Edward has been diligent with his finances; accumulating a pension fund of £1,500,000. He has no lifetime allowance protection. Edward would like to semi-retire and is looking for an investment that can supplement his reduced earnings.

Edward speaks to his financial adviser and outlines his needs and concerns:

- he is aware that the lifetime allowance has been replaced by two new allowances (a lump sum allowance and a lump sum and death benefit allowance).
- he is aware that the maximum Pension Commencement Lump Sum (PCLS) that he can take is £268,275.
- he needs an income that can be flexible.
- he wants to ensure that his investment is protected for his children and their families.

His adviser explains that the Flexible Pension Annuity ('FPA'), issued by London & Colonial Assurance PCC Plc ('LCA') can help with both his needs and concerns.

Protecting against future changes

When accessing his pension fund, Edward decides to take his PCLS. This is tested against the lump sum allowance (£268,275). Edward takes the full £268,275 and invests the balance in an FPA. Purchasing an FPA is not a relevant benefit crystallisation event, so no test is required against either new allowance.

This helps to protect Edward's pension fund from any future changes to pension legislation.

Income that can be flexible

The FPA is a lifetime pension annuity which is designed to be flexible. At outset, the level of annuity payments is calculated based on Edward's age and his initial investment. Then, using an appropriate mortality table for his age and current gilt yield, LCA calculates the yearly annuity payment that his initial investment would support over his expected lifetime.

The level of annuity payments is recalculated periodically to ensure the FPA will continue to provide a lifetime income. However, if Edward decides that semi-retirement is not for him or he wants to retire fully, his adviser explains that he can vary the amount and even the frequency of income payments.

His adviser makes him aware that as this is a lifetime pension annuity there are certain conditions that need to be met.

Protecting his investment for his family

His adviser explains that as well as purchasing the FPA Edward also has the option to buy a Preference Share in LCA. LCA is a Protected Cell Company ('PCC') which means that it creates legally recognised 'Cells' within the company to segregate and protect each policyholders' assets from other policyholders' assets. The Preference Share bought by Edward is linked to the Cell that is used to back his annuity payments.

On Edward's death the FPA will cease, and no further income will be available from the annuity product. However, any value that remains within Edward's designated Cell will be available for his surviving family members and beneficiaries.

Under IHT legislation, there are reliefs and exemptions that allow assets to be passed on to a deceased's beneficiaries tax-free or be liable to a reduced rate of IHT. One such relief is Business Relief. Currently (and up to 05 April 2026), where the asset is a share in an unlisted trading company, 100% Business Relief is available, provided the asset was owned by the deceased person for at least two years before they died and continued to be held on death.

London & Colonial Assurance PCC Plc is an unlisted trading company, so the Preference Share can potentially benefit from 100% Business Relief.

From 06 April 2026, the proceeds of the Preference Share, up to £1m, continue to be 100% exempt from IHT. However, any proceeds that exceed the £1m allowance will benefit from 50% Business Relief and IHT will be payable on the excess.

Edward is happy with his adviser's recommendation and decides to crystallise his pension, take the maximum PCLS, and invest the remaining pension fund into an FPA.

In summary:

- No test is required against either the lump sum allowance or the lump sum and death benefit allowance when purchasing the FPA, which safeguards against future changes in pension legislation.
- During Edward's lifetime, within the pension rules, he can increase or decrease the annuity payments to assist with changes in his circumstances.
- As the FPA offers full architecture Edward and his adviser can put together a suitable portfolio to reflect his risk profile.
- By purchasing a Preference Share Edward has peace of mind that any remaining value in his designated Cell will be available to support his two children and their families.
- Provided he has held the Preference Share for at least two years, continues to hold it on death and on death, the value of the Preference Share does not exceed £1m, there should be no inheritance tax liability on any value remaining in the Cell.

Want to know more?

If you would like further details on our Flexible Pension Annuity or any other product we offer, please contact your dedicated business development manager or email sales@stmgroup.online.

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