Flexible Life Annuity

Technical Guide

For use by professional advisers and intermediaries only

London & Colonial
A Global Pension Corporation Company

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Introduction to our Flexible Life Annuity ('FLA')

The FLA is a unit-linked purchased life annuity, issued by London & Colonial Assurance PCC Plc ('LCA'). It is designed to provide an income for the life of the annuitant or until the assets within the fund have been exhausted.

Being a unit-linked annuity, you and your client can choose to invest from a wide range of permitted investments. For more information on permitted investments please see the 'Flexible Life Annuity Permitted Investments.'

The investments that sit within the annuity belong to LCA. LCA, being a Gibraltar-based company, pays no corporation tax on any income or growth made within the investments. However, there may be withholding tax paid, which cannot be reclaimed, depending on the underlying investments that you or your client has chosen.

Any investment gains made as a result of switching between underlying investments do not give rise to a UK capital gains tax liability.

As the investments belong to LCA there is no personal income tax liability until your client decides to take an annuity payment.

As the FLA is linked to the value of units, a 'tax-exempt sum' is calculated at the start of the annuity. This tax-exempt sum remains constant unless an additional premium is paid into the annuity, at which time the tax-exempt sum will be recalculated.

The tax-exempt sum is the amount of annuity payments that can be taken each year tax-free and if not used in any one year, it can be carried forward to future years. However, where the tax-exempt sum is exceeded, the annuitant will pay UK income tax on the excess at their marginal rate.

Frequently Asked Questions

If your question is not covered below, please contact your business development manager who will be happy to help.

1. How is the level of annuity payments calculated at outset?

At outset, the level of annuity payments is calculated using the annuitant's age and initial amount invested. Then, using an appropriate mortality table and current gilt yield we calculate the yearly annuity payment that the initial amount invested would support over the annuitant's expected lifetime.

2. How is the tax-exempt sum calculated at outset?

At outset, the tax-exempt sum is calculated using a prescribed formula.

IPTM4330 - Purchased life annuities: partial exemption scheme: exempt sum formula - HMRC internal manual - GOV.UK (www.gov.uk)

3. Can additional premiums be paid into the FLA?

Yes, additional premiums can be paid into the annuity at any time. The minimum additional premium is £50,000; there is no maximum.

On payment of the additional premium, LCA will recalculate the tax-exempt sum and annuity payments based on the annuitant's age, the current value of the annuity and the life expectancy of the annuitant.

4. Can the FLA accept an in-specie transfer?

Yes, subject to the asset being a permitted investment.

Frequently Asked Questions (continued)

5. Can the level of annuity payments be changed during the lifetime of the FLA?

Yes, your client can request to change the level of annuity payments. The annuity payments can be reduced to zero or increased to 100%. We will require at least 60 working days' notice to change the amount of annuity payments.

Increasing the amount of annuity payments may mean that your client pays some or more UK income tax and that the value of the FLA will be exhausted quicker.

6. Does the tax-exempt sum remain constant throughout the life of FLA?

When the FLA commences, the tax-exempt sum is based on the premium paid, at outset, and the expected term of the annuity. The expected term of the annuity is the period from the date the first annuity payment starts and the expected date of the last annuity payment. This is determined by reference to prescribed mortality tables.

The tax-exempt sum will remain constant throughout the life of the FLA until an additional premium is paid into the annuity.

Where an additional premium is paid into the annuity the tax-exempt sum will be recalculated. The new tax-exempt sum will be based on the current value of the FLA plus the additional premium being paid and the new expected term of the annuity. This new tax-exempt sum will then remain constant throughout the life of the FLA or until another additional premium is paid.

7. If the level of annuity payments is changed, is the tax-exempt sum reviewed?

No, the level of annuity payments does not affect the tax-exempt sum. The tax-exempt sum is based on the premiums paid and the life expectancy of the annuitant determined according to prescribed mortality tables.

The tax-exempt sum will only be reviewed if an additional premium is paid into the annuity.

8. Can the tax-exempt sum be greater than the annuity payments?

Yes, as the tax-exempt sum is based on the amount invested and the life expectancy of the annuitant determined according to prescribed mortality tables.

When the annuity commences, we will calculate the level of annuity payments that can be supported, based on a normal life expectancy, using up-to-date mortality tables and a discount rate based on gilt yields. When gilt yields are high, the level of annuity payments tends to be higher than the tax-exempt sum. Conversely, when gilt yields are low, the level of annuity payments is usually lower than the tax-exempt sum. This is as a result of zero investment return being included in the HM Revenue & Customs ('HMRC') formula for calculating the tax-exempt sum and HMRC specifying a mortality table that leads to a shorter life expectancy than the more up-to-date mortality table that LCA uses for calculating the annuity payments.

Once the annuity commences, your client has the option to vary the level of annuity payments, so the actual annuity payment taken in any one year can be higher or lower than the tax-exempt sum.

9. If annuity payments are not taken in any one year, what happens to the tax-exempt sum?

In any year, if the tax-exempt sum exceeds the annuity payments, the excess tax-exempt sum can be carried forward to future years.

For example, if a client has a tax-exempt sum of £1,500 per year and they take annuity payments of £500 in year one, the unused £1,000 can be carried forward to year two. This means that in year two, potentially your client could take £2,500 (the cumulated tax-exempt sum) tax free.

10. What happens at the three-year review under a FLA?

As this is a unit-linked annuity, where the value of units can go up as well as down, we want to ensure that the level of annuity payments can continue to be supported for the annuitant's life.

Therefore, every three years we will recalculate the level of annuity payments that could be purchased with the then value of the annuity using the annuitant's new life expectancy.

As the tax-exempt sum is based on the money used to purchase the FLA, it is not recalculated at the three-year review.

Frequently Asked Questions (continued)

11. How is the FLA taxed?

Where a purchased life annuity is linked to the value of units the way the annuity is taxed is different to a traditional purchased life annuity.

Where the annuity is based solely on human life expectancy, each annuity payment has a capital element which is free of UK income tax as this is simply a return of the capital used to purchase the annuity. The remaining portion of each annuity payment is deemed to be taxable savings income.

Where the annuity is also linked to the value of units, a tax-exempt sum is calculated when the annuity starts. This is the amount of annuity payments that can be taken tax-free each year. In any year if the tax-exempt sum exceeds the annuity payments the excess tax-exempt sum can be carried forward to future years.

If the annuity payments in any year exceed the cumulated tax-exempt sum, then the excess is deemed to be taxable savings income.

IPTM4330 - Purchased life annuities: partial exemption scheme: exempt sum formula - HMRC internal manual - GOV.UK (www.gov.uk)

12. Can the annuity invest in commercial property?

As an anti-avoidance provision, HMRC restrict the choice of available investments to the following:

- Property appropriated by the insurer to an internal linked fund,
- Units in an authorised unit trust,
- Shares in an approved investment trust, or an overseas equivalent,
- Shares in an open-ended investment company ('OEIC'),
- Cash (but not acquired for speculative purposes),
- Interests in collective investment schemes, which are units in non-UK unit trusts or any other arrangement that creates rights in the nature of co-ownership under the law of a territory outside the UK,
- Shares in a UK Real Estate Investment Trust ('REIT') or an overseas equivalent, and
- An interest in an authorised contractual scheme.

Provided the commercial property falls within one of the above permitted investments, it can be included within the annuity.

If the commercial property does not fall within one of the permitted investments, it cannot be included within the annuity.

13. Is CGT paid when a fund switch takes place?

The funds that sit within the annuity belong to LCA. As LCA is a Gibraltar-based company, we do not pay corporation tax on any income or growth made within the funds. However, there may be withholding tax paid, which cannot be reclaimed, depending on the underlying funds.

Any investment gains made as a result of switching between underlying funds does not give rise to a UK capital gains tax liability.

14. Why buy a Preference Share?

When your client effects a FLA with us, they also have the option to buy a Preference Share in the company.

LCA is a Protected Cell Company ('PCC'). This means that LCA will create legally-recognised 'Cells' within the company to segregate and protect each policyholder's assets. Each Cell has its own designation (the FLA number).

In the event of your client's death the FLA will stop, and any remaining value will sit in their Cell and not be returned to the client. However, if your client buys a Preference Share in LCA, as this is attached to their Cell, the remaining value can be paid to the person entitled to the Preference Share – this will normally be their estate but could be an assignee or even a trust.

Frequently Asked Questions (continued)

15. Can more than one Preference Share be bought?

Yes, each additional Preference Share purchased by your client is linked to the Cell which is designated to your client's individual annuity.

Where more than one Preference Share is bought, the value remaining in the Cell will be shared equally between all Preference Shares.

16. Does another Preference Share need to be purchased if an additional premium is paid?

No, your client buys a Preference Share in the company. This Preference Share is linked to the Cell which is attached to the FLA.

17. Does the Preference Share have any value during the lifetime of the FLA?

No, the Preference Share merely holds an expectation of the value that may remain within the Cell on the annuitant's death.

18. Can the Preference Share be gifted?

Yes, the Preference Share can be gifted to an individual or a trust. As there are tax implications around gifting, we would recommend that legal advice is sought.

19. Would the Preference Share qualify for inheritance tax Business Relief?

Yes, currently (and up to 05 April 2026): the proceeds from the Preference Share are tax-free after two years of owning the LCA Preference Share. This is because the Preference Share qualifies for 100% Business Relief as LCA is an unlisted trading company

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

Please note that HMRC will only conduct a Business Relief assessment on the death of the annuitant. Whilst Business Relief has been around since 1976 and over time governments have recognised the value of this relief, LCA accepts no responsibility for any changes in legislation.

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