LONDON & COLONIAL
A Global Pension Corporation Company

London & Colonial Assurance PCC Plc's ('LCA's') Flexible Annuities and Preference Share

Flexible Annuities

LCA currently offer two flexible annuities:

1. The Flexible Life Annuity ('FLA') which is a purchased life annuity ('PLA') bought with an individual's personal funds (savings or investments).
2. The Flexible Pension Annuity ('FPA') which is a lifetime annuity, purchased with an individual's pension assets saved in a registered pension scheme (crystallised pension funds but not Pension Commencement Lump Sum).

Protected Cell Companies

LCA is structured as a Protected Cell Company ('PCC') subject to the provisions of Gibraltar's Protected Cell Companies Act 2001 ('PCC Act'). This means LCA has the ability to establish 'Cells' for the purpose of segregating and protecting cellular assets in a manner provided for by the PCC Act. Each Cell has its own designation (the LCA Annuity number), and it is the duty of the directors to keep the assets and liabilities of each Cell separate. Also, the directors must account for each Cell separately as the legislation prohibits the assets of a Cell being used to satisfy any liability not attributable to that Cell.

LCA Preference Share

At the time of purchase of either the FLA or the FPA, the annuitant has the opportunity to purchase a Preference Share in LCA. The Preference Share is linked to their allocated Cell, which is used to hold the assets that back their flexible annuity. The Preference Share enables any residual balance in the annuitant's allocated Cell to pass to their Estate upon their death (unless the Preference Share has been gifted or placed in trust, in which case the residual balance will go to the named owner of the Preference Share). This means that when an annuitant dies, their cellular assets, plus any investment income earned and the value of the Preference Share are not retained by LCA but are passed to their Estate for Probate purposes or are distributed in accordance with the Preference Share owner's wishes (if gifted or held in trust). It must be clearly noted that the purchase of an LCA Flexible Annuity is a completely separate commercial transaction from the purchase of the Preference Share. In the case of the FPA, the Preference Share cannot be purchased from pension assets. For both the FLA and the FPA, the Preference Share must be purchased from cash or cash in bank.

Business Relief

Under current Inheritance Tax legislation (and until 05 April 2026), if the Preference Share has been owned for at least two years at the date of the annuitant's death, the value of the Preference Share plus the residual balance in the allocated Cell would qualify for 100% Business Relief. However, changes to Business Relief were proposed in the 2024 Autumn Budget.

Autumn Budget 2024

It is proposed that from 6th April 2026, Business Relief will be limited to 100% for the first £1 million of combined agricultural and business property. The rate of Business Relief will be 50% thereafter. For shares designated as 'not listed' on the markets of recognised stock exchanges, such as AIM, Business Relief will be limited to 50%. As LCA is an unlisted trading company, its Preference Share will continue to enjoy up to 100% Business Relief for cellular assets up to £1 million (assuming no agricultural property relief) and 50% on any assets in excess of £1 million.

Budget Impact on LCA's Flexible Annuities and Preference Share

It would seem that the continued qualification of LCA's Preference Share for Business Relief up to £1m will be advantageous for individuals seeking to mitigate their potential IHT liability because any residual assets in the annuitant's allocated Cell (up to the value of £1m) will be completely lifted out of their Estate for IHT purposes, provided the Preference Share has been owned for at least two years at the date of the annuitant's death. It is, however, important to consider the impact of Business Relief on the Residence Nil Rate Band.

Nota Bene

In keeping with FCA regulation and HMRC rules, LCA's flexible annuities are designed for annuitants to receive a level of annuity payments that would be sustainable for the remainder of their lives. Also, in the IHT and estate planning process, there should be no deliberate attempt to inflate the value of the assets in the annuitant's allocated Cell which would vest in the Preference Share upon death, for example by refraining from taking regular annuity payments during the annuitant's lifetime.

Looking Forward

It is expected that conventional lifetime annuities and flexible lifetime annuities will once again become more attractive, especially as the annuity sector has seen a recent resurgence in sales volumes and owing to rising gilt rates. The popularity of annuities will be supported by changes proposed in the Autumn Budget 2024 whereby from April 2027, unused pension assets will be included within an individual's Estate for Inheritance tax purposes.

This change will incentivise individuals to use their pension assets to provide an income in retirement (as initially intended) reversing the trend of pensions assets being left in unused drawdown funds for the benefit of their family.

Individuals looking for an innovative product which can deliver a sustainable income during retirement, whilst allowing income flexibility and investment growth, coupled with a mechanism to pass on some of their pension savings in a tax efficient manner to their Estate, may want to consider the purchase of an LCA Flexible Annuity. This is in conjunction with the purchase of a LCA Preference Share which can help with effective and efficient estate planning both before and after 06 April 2026.

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