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LONDON & COLONIAL

Later Life Account – Case Study

Using a Later Life Account can help your clients support the future cost of long-term care



This document is based on London & Colonial Assurance PCC Plc's understanding of applicable UK tax legislation and current HM Revenue & Custom practice, as at January 2025, which could be subject to change in the future.

Michael:

- aged 63
- has just retired and
- crystallised his £400,000 pension pot

After taking the maximum pension commencement lump sum (PCLS) he will receive pension income of £20,897[1]. With his wife's pension income and a small portfolio of stocks and shares, which provides them with dividend income of £5,500, he feels that they have sufficient income, and he is looking to invest his PCLS.

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

- Having spent the last few years dealing with his mother's failing health and seeing her estate being depleted with the cost of his care fees, he wants a plan to fund potential long-term care,
- He is happy to accept a level of risk,
- He needs the investment to be flexible in case his circumstances change, and,
- He wants to ensure that the investment is protected if he dies before it is used to pay for any long-term care costs.

His adviser explains that the Later Life Account ('LLA'), issued by London & Colonial Assurance PCC Plc ('LCA') can help with his needs and concerns.

Investing for growth

Being a unit-linked annuity, issued by a Gibraltar based company, there is the potential for tax-efficient growth, as LCA 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 have chosen.

Michael's adviser also explains that as the LLA is a 'tax wrapper' any investment gains made as a result of switching between underlying investments will not give rise to any personal UK capital gains tax liability.

This means that the investment can grow virtually tax-free. However, he reminds Michael that there is the potential for investment losses as investments can fall as well as rise.

Flexibility

The LLA is designed to be flexible. At the start, LCA will calculate the level of annuity payments based on Michael's life expectancy and his initial investment. However, by giving LCA at least 60 working days notice he can reduce those payments to zero and leave the investment to grow if he wants to.

Whilst Michael may not need long-term care yet, he is aware that with the UK population ageing "people aged 65 and over today around 3 out of every 4 people will require some form of later life care by 2040"[2]. He is also aware that the level of care required will vary depending on his particular needs, so having the flexibility to increase and decrease annuity payments resonates with him.

[1] **Age partnership online annuity calculator**

[2] **International Longevity Centre**

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Protecting his investment

His adviser explains that as well as purchasing the LLA, Michael also has the option to buy a preference share in LCA. LCA is a Protected Cell Company ('PCC'), and this means that they create legally recognised 'Cells' which are held independently of one another. The assets and liabilities of one policyholder's Cell are kept separate and therefore are protected from those of other policyholder's Cells.

This means that, in the unlikely event that anything should happen to LCA, the assets within each Cell would remain secure and untouched by any LCA creditor, giving Michael peace of mind. His adviser just makes him aware that this protection does not apply to any losses due to the performance of the investments that LCA has purchased to provide the LLA.



The preference share bought by Michael is linked to the Cell that holds all the investments within his LLA. On Michael's death, the LLA will cease, and no further payments would be available. However, the value of any remaining investments that are sitting within Michael's designated Cell will be available for his surviving family members and beneficiaries.

Michael is happy to learn that if he doesn't take the full value of his LLA in annuity payments, before his death, his family will be able to benefit from the remaining value.

Michael knows that it's far better to over-prepare than leave it to chance. And knowing that with the LLA he can leave his investment to potentially grow and take his annuity payments in a tax efficient manner he is happy with his adviser's recommendation to invest his £100,000 PCLS into the LLA.

In summary:

The LLA can help Michael:

- invest a lump sum (for growth) to plan for any future long-term care costs.
- Plan for the possibility of care without fully depleting assets.
- Effectively ring-fence an inheritance for his family.

Want to know more?

If you would like further details on our Later Life Account or any other product we offer, please contact your dedicated business development manager or email sales@lcalife.co.uk

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