

## 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 September 2023, 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 for the current tax year 2023/24 if he breaches the lifetime allowance (£1,073,100) he will not pay a lifetime allowance charge.
- he is concerned that the maximum pension commencement lump sum (PCLS) may be frozen at £268,275 from April 2024.
- 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 to the lifetime allowance

When Edward accesses his pension fund before April 2024 the scheme administrator still needs to test against the lifetime allowance. This is a one-time test so the pension funds will not be tested against the lifetime allowance in the future. This helps to protect Edward's pension fund from any future changes to the pension legislation.

Edward decides to take his PCLS (£268,275) and invest the balance into an FPA.

## 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 calculate the yearly annuity payment that his initial investment would support over his expected lifetime.

The level of annuity income is recalculated periodically to ensure it 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 just makes him aware that as this is a lifetime pension annuity there are certain conditions that need to be met.

# Case Study - Flexible Pension Annuity

## 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.

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:

- The pension fund is only tested against the lifetime allowance when the PCLS is taken and the FPA is purchased, 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 and continues to hold it on death there should be no inheritance tax liability on any value remaining in the Cell.

If you would like further details on our Flexible Pension Annuity or any other product we offer, please contact us:



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