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Case Study - Flexible Life Annuity

Using a Flexible Life 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 & Custom practice, as at January 2026, which could be subject to change in the future.

Anna:

- aged 67
- one adult daughter and
- one grandchild

Anna is a moderately wealthy client, in good health. She works as a freelance designer but wants to provide more support to her daughter. She is looking for an investment that will provide her with a level of income which can be varied to fit her working lifestyle. She owns a property worth £350,000, has a £400,000 ISA portfolio and £400,000 in cash deposits.

Anna speaks to her financial adviser and outlines her needs and concerns:

- she needs an income that can be flexible.
- she wants to ensure that her investment is protected.
- she is aware that, on her death, her daughter potentially has an inheritance tax liability.

Her adviser explains that the Flexible Life Annuity ('FLA'), issued by London & Colonial Assurance PCC Plc ('LCA') can help with both her needs and concerns.

Income that can be flexible

The FLA is designed to be flexible. At outset, the level of annuity payments is calculated based on Anna's life expectancy and her initial investment. However, if Anna's circumstances change, she can vary the amount and even the frequency of payments.

So, if in the future Anna's income stream reduces, she could increase the amount of annuity payments she receives. Alternatively, when her grandchild goes to school and Anna can undertake more freelance work, she could decrease the annuity payments or even stop them altogether.

Protecting her investment

Unlike a traditional annuity, where the investment may be lost on death, Anna has the option to buy a Preference Share in LCA. Her adviser explains that LCA is a Protected Cell Company ('PCC'). This means that LCA will create legally recognised 'Cells' within the company to segregate and protect Anna's assets from other policyholders' assets.

Like a traditional annuity the FLA will cease on death, but unlike a traditional annuity the value of any remaining assets stays within Anna's designated Cell. This means that if Anna also purchased a Preference Share, which is linked to her Cell, the remaining value of the assets will be available for her beneficiaries.

The FLA is a unit-linked annuity, so Anna's adviser explains that there is the potential for investment losses as investments can fall as well as rise. Having a cautious attitude to risk, her adviser constructs a suitable investment portfolio.

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Reduce her inheritance tax liability

Anna knows that with the standard nil rate band and residence nil rate band, frozen at £325,000 and £175,000 until 2030 respectively, if she died today her daughter would have an inheritance tax liability.

As she doesn't know what the future will hold, she wishes to retain control of her investment. But she is pleased to find out that if she buys the Preference Share, on her death, provided she has held the Preference Share for at least two years it will qualify for 100% Business Relief (on qualifying business assets up to £2.5m effective from 06 April 2026) as LCA is an unlisted trading company. This means that whilst the remaining value within the Cell will be included in her estate, there will be no inheritance tax to pay on it.

Anna is happy with her adviser's recommendation and decides to invest £300,000 into the FLA, leaving £100,000 in cash as an emergency fund. As Anna invests £300,000 into the FLA, on her death and after having owned the Preference Share for two years, the Preference Share will qualify for 100% Business Relief as this falls within the £2.5m allowance.

In summary:

- During Anna's lifetime she can increase or decrease the annuity payments to assist with changes in her circumstances,
- She can also vary the frequency of the annuity payments,
- By purchasing a Preference Share she has peace of mind that any remaining value in her protected Cell will be available for her loved ones, and
- Provided she has held the Preference Share for at least two years and continues to hold it on death the potential inheritance tax liability on her estate could be reduced.

Want to know more?

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

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