canada life

Purchased Life Annuity (PLA)

Product Details

Introduction

The PLA is a non-linked single premium policy.

It is available on a single life basis, joint life basis and life of another.

It is classed as non-linked because the income under the policy does not depend on the performance of an investment fund. Rather, the income is known to the policyholder, at outset.

The policyholder pays one single premium and in return Canada Life pays a regular income at a guaranteed rate.

The regular income can be paid for life, or for a fixed period.

Benefits

Life Annuities and Temporary Annuities

The PLA is available as either a life annuity or as a temporary annuity.

The life annuity pays an income throughout the life of the annuitant. In the case of a joint life annuity, payments will continue until both annuitants have died.

The temporary annuity pays an income for a specified number of years, or until death, if this occurs before the period has expired.

Main uses for the PLA

Apart from providing a guaranteed income from capital, a PLA can have specific applications:

School and college fees

- Funding school fees using a temporary annuity based upon the child's life. It is possible to receive an increasing income to allow for future inflation in fees. (See 'Opting for escalating payments', overleaf.)

Retirement planning

- Enhancing a retirement provision by converting all of a Pension Commencement Lump Sum (tax-free cash) into a life annuity, which has tax advantages as part of the annuity is not subject to tax (See 'Taxation' section).
- When taking early retirement, using a temporary annuity to cover a possible shortfall in income until State Pension Age.

Funding a life policy 'back to back'

- Funding the premiums of a life assurance policy for inheritance tax payments from a life annuity or temporary annuity, often known as a 'back to back' annuity.

Inheritance tax planning

- Reducing the value of an estate, thus saving on inheritance tax, by purchasing an annuity.
- When a back to back annuity is used (see above), the life policy should be written in trust, so that if the policyholder dies, the lump sum from that policy is passed to the next generation, potentially reducing any inheritance tax due.

Age limits (Annuitants)

Lifetime annuities

The minimum years of age at entry is 35 years of age. The maximum entry age is 94 and 11 months.

Temporary annuities

There is no minimum age for entry. The maximum age is 94 years and 11 months.

However, for annuitants above age 80, we will only accept applications provided one of the death benefit options outlined below are taken out. (See 'Insuring against early death').

Insuring against early death

To avoid much of the investment being lost on early death after the start of income payments, the applicant may select at outset:

(a) A 'guarantee period'. Payments can be guaranteed for a number of years to a maximum of one year less than the duration of a temporary annuity. In the event of death(s), income payments continue throughout the remainder of the guaranteed period.

(b) 'Premium protection'. Where death occurs (the final death if joint life) before the sum of income payments made to the annuitant(s) is equal to the purchase money (net of any adviser charge), this will pay the difference as a lump sum.

If the applicant(s) is the annuitant(s), the above benefits are paid to their personal representatives.

Selecting a reduced income on joint life cases

On a joint life case, in addition to the above options, the annuity may be set up so that income payments continue on a reduced basis on the death of one of the annuitants.

With this option, a higher income can be selected to be paid while both annuitants are living.

It ensures that the annuitants receive payments which more closely match their needs at the time; normally higher when both partners are living; lower when there is only one. The facility can be designed to come into effect on the death of either person, or designed so that the reduction occurs on the death of one specific annuitant.

Opting for escalating payments

If selected, the income will increase on each policy anniversary, at a fixed compound rate, say 5% a year.

Factors affecting the amount of income

The greater the optional features that are built into the annuity, the lower the income.

Frequency of payments received

The applicant may choose to receive payments monthly, quarterly, half yearly and yearly.

Purchase money

Applicants pay a single one-off premium.

The minimum purchase money (premium) is £10,000.

No top-ups or alterations may be made once the policy is in force.

Taxation

Capital element (non-taxable)

A part of each payment received by the policyholder is not subject to tax provided that HM Revenue and Customs (HMRC) form PLA6 is completed to show that the single premium has come from a qualifying source (basically that any tax due has been paid).

This non-taxable portion of the annuity is known as the capital element or content.

It is paid tax-free because the HMRC recognises that part of each payment is return of capital, (the annuity purchase money).

Interest element (taxable)

Tax is usually only charged on the difference between the gross annuity (income) and the capital element and is deducted at the basic rate, currently 20%. This portion is known as the interest element.

Basic rate taxpayers

Basic rate taxpayers currently have a tax free personal savings allowance of £1,000 a year, which means that they will be able to reclaim the overpaid tax from HMRC.

Higher rate taxpayers

Higher rate taxpayers currently have a tax free personal savings allowance of £500 a year, but are liable to pay tax at the higher rate on the interest element of the annuity payments that exceeds this allowance.

The higher rate taxpayer must deal directly with HMRC regarding any tax refunds or underpayments resulting from Canada Life deducting the Basic Rate of tax from the whole of the interest element and pay any difference to HMRC.

Additional rate taxpayers

Additional rate taxpayers have no personal savings allowance and are liable to pay tax on the interest element at the additional rate. It is the responsibility of the higher rate taxpayer to pay their additional tax liability to HMRC.

Low income policyholders

If the policyholder's total income is low enough, it is possible for the annuity to be paid gross, if they complete the HMRC form R89 (or R86 for joint policies).

Married couples and civil partners can benefit from a number of financial planning opportunities.

The following are some examples for a married couple:

Annuity on the 'life of another'

Where a wife is younger than her husband it could benefit her to take out an annuity in her own name, but based on the life of her husband, who will be the annuitant.

That way, the policyholder can take advantage of the higher rates which apply to older lives, while receiving the income themselves.

Also, where the husband is a higher rate taxpayer and the wife pays at the starting or basic rate or is a non-taxpayer, it could benefit the wife to take out an annuity in her own name, but based on the husband's life. This will ensure that the taxable portion of the annuity income, called the interest element, will not be taxable at the higher rate. It will be taxed at the Basic Rate (currently 20%), or will be tax free, depending on the tax status of the wife.

However, where life of another is used and the annuitant (the person on whose life the policy is based on) is older, please note that this could outweigh any taxation or rate advantages. This is because under normal circumstances the older person would die first resulting in the income stopping earlier.

Planning for school and college fees

Where a parent buys an annuity in the name of their child, the income is treated as part of that parent's total income.

The parent who pays a lower rate of tax should consider buying the child's annuity, so that the income is subject to tax on the interest element at the lower rate.

When capital is gifted to a child from someone other than the parents, such as a gift from grandparents, the income from a PLA subsequently purchased is not considered as that of the parents, but is treated separately under the child's personal tax allowance.

'Back to back' annuities

A back to back annuity is one where the regular income received from the plan is used to pay the premiums on a separate life policy.

Back to back plans are especially attractive where the annuity can be paid gross to a non-taxpaying spouse. The spouse will then have more cash available to fund the life policy.

The information regarding taxation is based on our understanding of current legislation, which may be altered in the future.

About Canada Life

Canada Life Ltd. provides insurance and wealth management products and services through domestic operations in Canada and international operations in the Republic of Ireland, Isle of Man, Germany and the U.K., as well as branch and subsidiary operations in other countries. Canada Life is a subsidiary of The Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies.

www.canadalife.co.uk

Canada Life Limited, registered in England no. 973271. Registered office: Canada Life Place, Potters Bar, Hertfordshire EN6 5BA.
Telephone: 0845 6060708 Fax: 01707 646088 www.canadalife.co.uk Member of the Association of British Insurers.

Canada Life Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

7431 – 321R/B