

Life and Reversionary Interests

What is a Life and Reversionary Interest

A life interest in a trust creates two groups of beneficiaries whose rights unfold at different times. One person receives the benefit during their lifetime, and others receive the capital afterwards. When families want to restructure the trust, release funds early, or understand what each party's entitlement is worth, an actuarial valuation becomes essential.

What a Life Interest actually gives you

A life interest (also called a life tenancy) typically provides one of two rights:

- Right to income – the life tenant receives all income generated by the trust assets for the rest of their life.
- Right to occupy a property – the life tenant can live in the property rent-free for life.

The capital itself is preserved for the remaindermen, who inherit only when the life tenant dies.

Why valuations are needed

Families often reach a point where maintaining the trust no longer suits their needs. Typical scenarios include:

- The life tenant needs cash now rather than future income.
- The remaindermen prefer an immediate lump sum instead of waiting decades.
- The trust is administratively burdensome or tax-inefficient.
- All parties agree the assets should be sold or reallocated.
- To unwind or vary the trust fairly, each person's interest must be valued in today's money.

What clients usually want to know

Clients often ask about the value of their life interest, how to compensate a life tenant, how to split proceeds fairly, and how health affects the valuation.

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How Actuaries value these interests

Actuaries calculate the present value of each party's entitlement using a combination of:

- Life expectancy of the life tenant.
- Expected investment returns on the trust assets.
- Type of assets (property, equities, cash).
- Terms of the trust.

The life tenant's interest is the present value of income or occupation they are expected to receive over their lifetime. The remaindermen's interest is the present value of the capital they will receive at the life tenant's death.

Why these valuations matter

A well-constructed valuation protects all beneficiaries, provides a defensible basis for negotiation, helps solicitors structure a variation or trust dissolution, reduces the risk of disputes, and supports tax planning rules.