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ENHANCED ANNUITIES

Could you qualify for extra income in retirement?

Your height and weight, your blood pressure levels and whether or not you smoke might not seem like information you'd want to give your pension provider.

In some cases, however, these details could make a significant positive difference to your income in retirement, by making you eligible for an enhanced annuity.

Sometimes also known as an impaired annuity, this is a type of retirement product that pays out a higher income for people with certain medical conditions.

In 2016, the Financial Conduct Authority (FCA) estimated that between 39% and 48% of people who bought a standard annuity may have been eligible to buy an enhanced annuity, while other sources suggest this figure could be closer to 60%.

To address the problem, the FCA has proposed new rules which are set to take effect from November 2019.

Pension providers should ask their customers to check whether they could qualify for an enhanced annuity, and using this information to generate a market-leading annuity quote.

Meanwhile, figures from the Association of British Insurers suggest awareness of enhanced annuities could already be on the rise, as they made up 41% of all annuity sales in the first two quarters of 2018, up from 32% of annuity sales in the same period of 2017.

For those who are still unaware, though, not accessing an enhanced annuity could mean losing a significant boost to your retirement income.

HOW DO THEY WORK?

At age 55 or over, you can access 25% of your pension pot tax-free, then use the rest of your savings in a number of ways. One option is to buy an annuity.

When you purchase an annuity, you're essentially converting some or all of your pension savings into a regular income – either for life or for a set period of time.

Your provider will be able to give you a quote on how much income you can secure from the amount in your pension pot.

The guarantee of fixed, regular payments can be appealing, especially for those with little or no appetite for risk.

However, for a person with a shorter-than-average life expectancy, a normal annuity may not provide as much income over time as it would for someone who lives longer.

That's where enhanced annuities can help.

These are policies offered by some providers, which offer a higher income for people with qualifying health conditions, on the assumption that the annuity will last a shorter period of time.

WHO QUALIFIES?

There are several health conditions that could potentially qualify for an enhanced annuity. Some examples include:

- stroke
- cancer
- diabetes
- heart attack
- kidney failure
- chronic asthma
- multiple sclerosis
- high blood pressure.

People who are overweight, or who smoke regularly or have done so in the past, could also be eligible.

Additionally, some providers offer enhanced annuities if you've worked certain jobs, such as those involving a significant amount of manual labour.

This isn't a comprehensive list of conditions that could qualify. Talk to us if you're not sure whether you might be eligible.

HOW DOES IT AFFECT YOUR INCOME?

The increase in income you receive depends on the seriousness of your health condition, and on the provider offering the annuity.

For example, a 65-year-old woman with a pension pot of £100,000 might choose to take 25% of this as a tax-free lump sum, and use the rest to purchase a standard annuity equivalent to around £4,800 per year.

However, someone in the same position who has smoked for many years, is overweight and taking blood pressure medication could receive up to 25% more each year from the same provider with an enhanced annuity, according to a survey by consumer publication Which? in 2018.

The percentage of difference can vary significantly with different circumstances, so it's always worth shopping around for the best deal. Speak to our advisers to go through your options.

APPLYING FOR AN ENHANCED ANNUITY

As with any decision you make about your pension, it's important to do your research before committing to a product or provider.

Be sure to spend time comparing the products offered by different providers and the income they offer.

Most major providers use a common quotation form, so you don't need to fill out your details several times for different providers.

Answer this form honestly and fill in each section carefully. Omitting any information about your health and lifestyle issues or providing inaccurate information could result in your income being reduced, or your policy could be cancelled.

OTHER OPTIONS AT RETIREMENT

Annuities, enhanced or otherwise, aren't your only option for a retirement income. You now have more choice than ever when it comes to accessing your pension pot.

Drawdown

Flexible income drawdown products allow you to buy investments with your pension savings, which you can use to provide a retirement income.

As with your other pension options, you could do this after withdrawing your 25% tax-free lump sum.

While annuity rates are low, drawdown offers the potential for higher returns, but they come with the risk as the value of your investments could fall as well as rise, and the income you take from them is not sustainable and reduces the overall value of your pension.

The most recent statistics on the pensions market from the FCA show that sales of annuities have been significantly outpaced by drawdown products in recent years.

While 70,866 annuities were purchased in the 2017/18 financial year, 118,450 new income drawdown policies were entered into.

There are some signs that annuity rates could be recovering, however, so make sure you check current rates and speak to us about the pros and cons of each option.

Lump sums

You could choose to withdraw cash as and when you need it, without reinvesting it in a drawdown product.

This can be taxed differently depending on the type of lump sum you take. One option is to take your 25% tax-free lump sum, and withdraw the rest as taxable income. Alternatively, you could make several withdrawals, with the first 25% of each tax-free.

Be aware that this might come with charges on each withdrawal or limits on how much you can take out in a year.

Combining options

If you would prefer to combine your options, it's possible to use some of your pension pot to buy a flexible income drawdown product and some to purchase an annuity.

This is a particularly complex option, and requires professional advice.

Whatever your situation, we can advise on the different pension options available, and help you reach a decision to suit you.

Speak to us about accessing your pension.