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### Retirement Options: what is an enhanced annuity or impaired annuity and can I get one?

Retirement annuities are essentially mortality risk based payments (i.e. the chance of you dying at certain ages), because insurance companies will calculate how much they can afford to promise you for life in return for you handing over your pension fund to them.

#### For example:

If you are 65 and give me your pension fund worth £100,000 and I can get a risk free investment return of 5% per annum on this money, then I will look at your details and assess when I think you will die. If I think you are most likely to be dead by age 75, then I might offer you the promise of £9,000 per annum.

If you die at 75, as I expected, then I make 5% per year on the money you gave me at outset plus the £10,000 that I have not paid out (i.e. 10 payments of £9,000 = £90,000). This is a nice little earner. If you die at 66, then I am quids in, because I have taken £100,000, made £5,000 on investments, but only paid out £9,000 (a £96,000 profit). If I am wrong, then I adjust the annuity rates I offer to new annuitants to reflect this loss.

#### I see!

So, with a standard pension annuity, if you hand over your pension pot to an insurance company in return for an annuity, you will usually need to live a long time to get your money's worth (i.e. break even, or your spouse will have to, if you include a spouse's pension).

Therefore, in addition to current interest rates, your health and lifestyle will significantly affect the insurance company's view of the risk that you will live a long, or a short time.

If you smoke, are overweight, take medication, or have a postcode that invariably has a shorter life span than average (often in poorer areas), then you will most likely qualify for an **enhanced annuity**, which could pay as much as 20% more per annum than a standard annuity. This can amount to a huge difference in your retired standard of living.

Also, if you are known to have a serious illness, which will more than likely result in you passing away before the average life expectancy, then you could get an even higher income through an **impaired annuity**.

There are various annuity providers, some having different views on different conditions, so it is vital that you speak with a whole of market, independent financial adviser before taking out an annuity.

For example, a 65 year old man with £100,000 in his pension fund could currently get a single life annuity, guaranteed for life, of about £6,000 per annum. However, this rate quoted online by various insurers does not take into account his health.

If, for example, he has Diabetes type 2 and smokes 10 cigarettes a day, then he could qualify for a higher income of £8,000 per annum.

This is £2000 a year more, so if he lived for another 10 years, that would make him at least £20,000 better off (though if this extra income was reinvested over the 10 years at net growth rate of 5%, then it would be more like £30,000, though if spent you could enjoy an extra 5 star 2 week holiday each year!).

As you can see, even if you pay a high fee to an IFA for his/her knowledge, you are still likely to be much better off in the long run.

Going it alone without advice, or using an adviser without knowledge in this area, could cost you dear, though of course if you are ignorant to the options then you will remain blissfully unaware, though much poorer for it.

At Lower Cost Complaints we can introduce you to an IFA with specialist knowledge of all your retirement options, or if you have already received advice and feel you were not informed of this option then we can take on a pension mis-selling claim for you.

Source: [www.lower-cost-complaints.co.uk](http://www.lower-cost-complaints.co.uk) 08.12.09