

Richer retirement

Yearly pension from £50,000



Don't lie about your health, your weight or how much you smoke when you retire – you could be better off

Anne

Anne had a personal pension pot of £81,250, which offered her a total retirement income of £3,297 a year.

However, Anne had had breast cancer, clinical depression and an underactive thyroid. So she was eligible for an enhanced annuity. She bought one instead of a normal annuity, increasing her income by 38 per cent to £4,557 a year.

At least one in three of us could be eligible for a higher income when we retire: all we have to do is buy a type of annuity that reflects the poor state of our health. The trouble is, most of us don't realise it – every year, more than 100,000 people could be missing out on extra income. According to annuity expert Stuart Bayliss: 'People spend less time shopping around for their lifetime income than they do for their weekly groceries'.

When you retire, most of the money saved in your pension must be converted into an income. One way to do this is to leave your fund where it is and draw an income from it; the other is to use it to buy an annuity. This is a financial product that pays you an income for life in return for a lump sum.

INCREASING YOUR INCOME

How much you get when you retire depends on your pension fund and where you buy your annuity from (as with any financial product, different providers offer different rates). But your provider also takes into account your gender and age (because these affect your life expectancy and thus how much the provider is likely to have to pay out), whether you want your income to increase each

Harry

Harry had a pension fund of £38,500 and was offered a joint life annuity of £1,999 a year. But Harry smoked more than ten cigarettes a day (and had some minor ailments). That meant he was eligible for an enhanced annuity, which boosted his pension by more than 11 per cent to £2,234 a year.

year, and whether the income is just for you. If you want it to continue to pay your partner income after your death, that's known as a joint life annuity.

The secret to unlocking extra cash is to buy an enhanced (also called impaired) annuity, which not all providers offer. This pays out more to people with health problems (anything from a heart triple bypass to high blood pressure), smokers and people who are overweight. Providers take the view that, as you are unlikely to live to a ripe old age, they can afford to pay you more while you are still around.

Matt Trott from GE Life, which is one of the largest providers of enhanced annuities, says they

Reg

Reg had a heart attack and a heart quadruple bypass in 2000. He had a fund of £438,000 through his company pension scheme and was offered an annuity of £19,316 a year. His adviser increased this by £5,000 a year to £24,387 by getting an enhanced annuity.

can make a big difference: 'People could potentially increase their income in retirement by around 15 per cent if they buy an enhanced annuity.'

For example, a lump sum of £50,000 currently buys a 65-year-old man a conventional annuity paying around £3,660 a year. However, if he was a smoker, he could boost that income to just over £4,100 a year. If he wanted a joint life annuity, he'd get about £3,324 a year as a non-smoker; that would increase to around £3,456 as a smoker.

And it's not just a health issue. If he was a manual construction worker, he might qualify for an income of £4,092 a year, whether he smoked or not.

A few providers offer a set increase in income just because you are a smoker or overweight. One (B&CE Insurance) offers a higher income to people who have been manual construction workers for at least 25 years, irrespective of health or lifestyle.

However, most providers look at your personal situation in more detail. For example, two people who have both had a heart attack could still receive different levels of enhancement, depending on the type of attack and when it occurred.

SHOP AROUND

Even if you're not eligible for an enhanced annuity, or you're unsure whether you're eligible or not, it's still worth checking whether you can get a better deal than the one you're being offered by your pension scheme or provider. See 'How to buy an enhanced annuity', right, for more information about how to find a financial adviser and get started.

How to buy an enhanced annuity

Even if you've never taken financial advice before and you never take it again, take it before you retire.

Decisions you make then determine the income you receive for the rest of your life – and you can't correct bad decisions later.

You'll get a 'wake-up' letter from your pension provider or pension scheme three to four months before retirement. Use this as a prompt to get started.

Go independent

Always choose an independent financial adviser (IFA) who specialises in annuities. IFAs can recommend any provider in the market; there are other advisers who can offer products from only a small range of providers (or even just one). See 'Further information', right, for places to try first.

Check the charges

From 1 June 2005, all advisers must tell you their charges and how many providers they

deal with. Also from this date, IFAs must offer the option of paying by fees or commission.

Check what they ask

If your adviser doesn't ask about your health and lifestyle to see whether you're eligible for an enhanced annuity, walk out. He or she is not a specialist.

Try all providers

There isn't one best provider for everyone, so insist that your adviser contacts every enhanced annuity provider in the market.

Be absolutely honest

Tell your adviser about your health and lifestyle – hold back, and you could lose out.

Joint incomes

If your partner smokes or is in poor health, you could still get an enhanced joint income – even if you're a fitness fanatic.

Fill in the forms

You have to complete only one application

form, which your adviser will send to all providers. It's unlikely that you'll have to take a medical but you may need a doctor's report.

Compare quotes

After your IFA has shopped around, compare the best quote with the one your pension provider has given you. Then simply pick the one which offers most.

FURTHER INFORMATION

Finding an IFA

IFA Promotion

www.unbiased.co.uk

Personal Finance Society

www.thepfs.org/

findanadviser

Annuity specialist IFAs

Annuity Direct

www.annuitydirect.co.uk

The Annuity Bureau

www.bureauxltd.com

The Insurance Surgery

[www.the-insurance-](http://www.the-insurance-surgery.co.uk)

[surgery.co.uk](http://www.the-insurance-surgery.co.uk)

Enhanced annuities

PROVIDER

	Contact	Enhancements			
	Website	Smoking	Overweight	Building work	Varies
B&CE Insurance	www.bandce.co.uk			✓ ^a	
GE Life	www.gelife.co.uk	✓	✓		✓
Just Retirement	www.justretirement.com	✓ ^b	✓		✓
Norwich Union	www.norwichunion.com				✓
PAFS	www.pafs.co.uk				✓
Prudential	www.pru.co.uk				✓
Reliance Mutual	www.reliance mutual.co.uk	✓ ^b			
Scottish Widows	www.scottishwidows.co.uk				✓

^a Offered to people who have worked in the construction industry for at least 25 years or who are members of the B&CE Benefit Schemes package

^b You must have smoked at least ten cigarettes a day for the last ten years

TABLE NOTES

This table shows all the companies that sell enhanced annuities. Go through an IFA to buy from them.

Enhancements

Smoking/Overweight

Increases income by set amount if you smoke/are overweight. **Building work** Increases income by set amount for certain construction workers.

Varies The amount you receive varies according to individual, depending on medical condition.