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News you can use

Make the most of your annuity by looking around

A larger retirement income may only be a question away, reports **Stephen Ellis**

NOBODY wants to be unwell but ill-health can increase your wealth when it comes to buying an income for life in retirement.

With interest rates heading down, it is more important than ever to get the best possible deal when you use most of your pension fund to buy an annuity. Members of defined benefit or final-salary schemes do not have to worry about such issues but savers with defined contribution or money-purchase pensions have to use at least three quarters of their fund to buy a guaranteed income for life before they turn 75.

Many people who may have a lower life expectancy than standard can obtain substantially higher rates of return if they buy what are unattractively called 'impaired-life annuities'. Unfortunately, many of those who could gain from this option are turning their backs on this chance to boost their income. Surrey-based independent advice firm (IFA) Credenda said it could mean rejecting the chance to enjoy several times more annual income in retirement.

However, be aware that an annuity purchase is a once-and-forever decision, which means it cannot be changed after the 14-day cooling-off period, and will effectively help determine the kind of retirement you will enjoy.

The company where you have built up your pension pot will write to tell you what level of income it is willing to

offer in exchange for your savings. Somewhere in all the documentation you will be told that instead of accepting this offer, you can check out how much other insurance companies are willing to offer.

This is called the "open market option" and, although it is estimated that eight out of 10 people would get a higher income by exercising it, nearly two thirds of all those buying annuities do not search out the best deal.

But the really shocking fact is that as many as 40pc could get a substantial increase in their income because of their health or lifestyle.

After years of being treated like a second-class citizen because of a medical problem, this is the point at which the tables are turned. Because the insurance companies believe your life expectancy will be reduced, they are willing to pay you more income every year – for the simple reason that they expect to make fewer payments.

Alastair Lyon, managing director of Credenda, said: "To get an enhanced annuity – for people with any health complaint – pensioners should ask their independent financial adviser to get a quote from a specialist company, declaring their medical history. This seems to be the best-kept financial secret in the UK."

The most dramatic case Mr Lyon dealt with resulted in an income of six times what would have been available from a normal

annuity. He acknowledged that this is not the norm but explained that smokers can expect at least 10pc to 15pc more income, while serious medical conditions will result in greater increases.

Stuart Bayliss, managing director of Annuity Direct, said: "This is the one time in your life when being sick does you a big favour. Anything that impacts on your life expectancy will ensure you get a better retirement income when you buy an annuity."

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"We estimate that every calendar year people buying annuities turn their back on £1bn of extra income over their remaining lifetime. It can make more of a difference than having the best-performing fund during the whole period you have been saving in your pension pot."

He said the Government or the Financial Services Authority (FSA) should do more to ensure people were made fully aware of their ability to buy their annuity from a source other than their original pension company.

One of the reasons some people may be put off getting advice about annuities is the thought that they will have to pay fees or reduce the amount of income they receive. Many IFAs will not charge a fee and will, instead, be paid commission from the insurance company whose annuity you eventually accept.

Most insurers pay this commission from their profits

and do not reduce the annuity as a result. There is, of course, a chance that the advice will be to stick with your original pension company. But getting the advice will not have cost you anything and it might substantially increase the income you receive.

Most IFAs will probably be able to help, but it may be to your benefit to seek out one who specialises in annuities.

One such IFA is Dominic Mansley of Key Financial Consultants. He explained: "An IFA who is well-versed in this area of business will know which companies offer top rates to people with impaired lives because of health and medical problems."

"It is a fact that Prudential has around one fifth of the annuity market – and yet they are not among the best providers when it comes to this sort of business. We had a client recently with a £200,000 pension pot with the Pru. By shopping around, we were able to get him an extra 40pc income. That is an extra 40pc which he can spend every month of every year for the rest of his life."

However, Stuart Bayliss warned: "Talk of getting six times as much income could be misleading. For that to happen the insurance company would have to believe you had a very short life expectancy."

RULES GUIDE

The Daily Telegraph Guide to Securing yourself a comfortable retirement, in association with Origen, explains how to use pension rules and complementary investments to achieve your objectives. Free copies of the guide, written by Ian Cowie, can be requested by calling 0870 1267 543 or online at telegraph.co.uk/readerguides.

How annual charges vary for protected rights pensions

	Scottish Widows	Skandia
Jupiter Income	1.99pc	2.25pc
Investec Cautious Managed	1.71pc	1.85pc
Schroder UK Alpha Plus	1.90pc	2.20pc
Schroder Managed Balanced	1.30pc	1.60pc



HEALTH

Like so many Mike Borshell has problems. These blood pressure – low-level diabetes. These conditions that he is getting originally offered extend the payment wife Carol, 59, with the rest of her life. Mr Borshell has schemes which in addition he has from additional v and one money p In May of this