
Many health-impaired Britons overpay for life annuities—Towers Watson

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Many people in the U.K. buy straight life annuities from their plan provider instead of using the Open Market Option to find out if they qualify for a higher-paying "enhanced" or "impaired annuity."

Up to half of all the people in the U.K. who buy income annuities could qualify for higher payout rates because they have medical conditions or lifestyle habits that are likely to shorten their lifespans, says the consulting firm Towers Watson, according to a report in IP&E.com.

But only about 12% of the income annuities actually purchased are higher-paying “enhanced annuities,” which are also known as impaired or medically underwritten annuities.

The sale of enhanced annuities in the U.K. has grown substantially over the past decade. Sales reached £1.42bn (\$2.32bn) in the first half of 2011, a dramatic increase from the £419.6m (\$686m) sold in the UK in 2001.

As Towers Watson’s Andy Sanders told *FTAdviser*, “This year looks set to be another record year for enhanced annuities with sales projected to reach more than £2.8bn.”

“Better awareness of annuity enhancement opportunities” and “an increase in ‘negative lifestyle factors’” accounts for the sales, said the global consulting firm, which estimated that 5,000 different individual medical conditions could potentially lead to the sale of an enhanced annuity. Someone who smokes heavily or consumes alcohol on a regular basis, in addition to those with heart disease or another chronic illness, might qualify for an enhanced annuity.

There has been a drive to increase awareness of enhanced and impaired life annuities in the U.K., but Towers Watson estimates that many people are unaware that they could qualify for higher annuity payouts.

Part of the problem is that most retirees in the U.K. buy their income annuity from their defined contribution plan provider without taking advantage of the Open Market Option, a service that enables them to choose from a wide range of annuity providers, including providers of enhanced annuities.

“Thousands of retirees are missing out on a higher retirement income because (you would assume) they were unaware that they were eligible. It would seem that until OMO [Open Market Option] is made the default option (and there is no current consensus on how this could be implemented), many will continue to miss out on a better annuity,” the company said.