

Enhanced annuities Delivering fair value for money

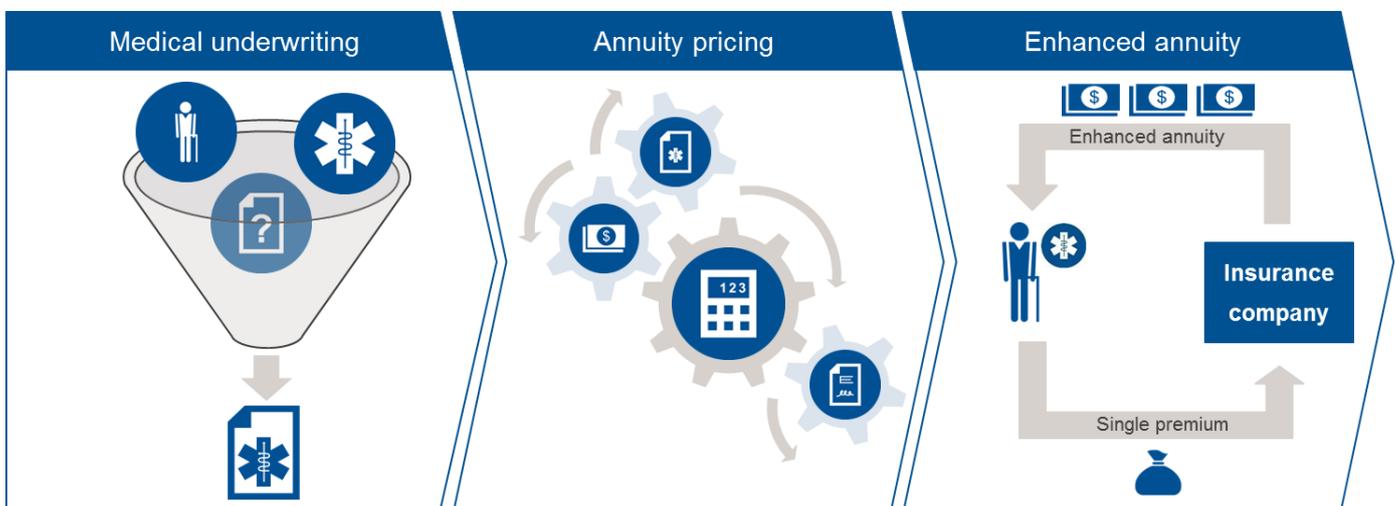
What is an annuity?

An annuity is a guaranteed series of life-long payments in exchange for a lump sum payment (single premium) at the beginning of the retirement phase.

Annuities are purchased to provide an income during retirement and protect against outliving personal savings.

What is an enhanced annuity?

An enhanced annuity is a special form of an annuity and pays a guaranteed series of life-long payments in exchange for a lump sum payment at the beginning of the retirement phase. However, it offers higher regular income to applicants who are not in good health, in recognition of the fact that, on average, they have a lower life expectancy than a healthy person does.



Enhanced annuity process

Entering an enhanced annuity market

Annuity providers can decide upon the level of automation and the depth of detail of medical underwriting. By using an underwriting system that will generate immediate guaranteed quotes at point of sale

the process can be accelerated or alternatively a simplified underwriting approach can be followed. Whichever approach is chosen, all available information is taken into account to perform adequate pricing for each and every risk.

Concept	Advantages	Disadvantages
Detailed medical underwriting: medical questionnaire, medical reports, tele-underwriting	High enhancement and optimal rates	More time intensive, integration of underwriting system requires upfront investment
Simplified medical underwriting: limited amount of questions	Short questionnaire with yes/no answers	Smaller enhancements

Benefits of introducing enhanced annuities

In general, enhanced annuities feature tailor-made conditions based on individual life expectancy and provide financial security for seniors, at a fair price.

If underwritten annuities are not available in the market, enhanced annuities offer the following benefits:

- Chance to be the first mover and shape the market and product design
- Access to a new consumer segment: consumers who have not purchased a standard annuity could be interested in an enhanced annuity

If underwritten annuities are available in the market, enhanced annuities are still beneficial:

- Access to a niche market
- Ability to offer more competitive rates in a developed market
- Widening of the portfolio range



Enhanced annuity allows people in ill health to receive a higher regular income

Issues to be aware of

Market demand for introducing enhanced annuities

Drivers	Barriers
Need for lifetime income	Product not understood by consumers
Incentives to buy annuities from savings either because they are compulsory or tax advantage	Regulatory restrictions
Need of fair longevity solution for older people with medical history	Annuities not common in the market

The UK enhanced annuity market

Tax advantages in the UK encouraged people to invest their money in an annuity and most people at retirement bought an annuity. The enhanced annuity market emerged because it was perceived as unfair to be treated as standard when having health issues. Since its beginnings in 1995, the enhanced annuity market has grown significantly. In recent years, some annuity regulations were changed and the tax incentives were withdrawn. However, there is still a sizable market for enhanced annuities. Around GBP 4.5 billion annuities are sold per annum, of which ~ 35% are enhanced annuities. Figures show that in fact around 65% of all annuitants could actually be eligible for some kind of enhanced annuity.