



Enhanced annuities take into account the individual health status of applicants

# Enhanced annuities

## Delivering fair value for money

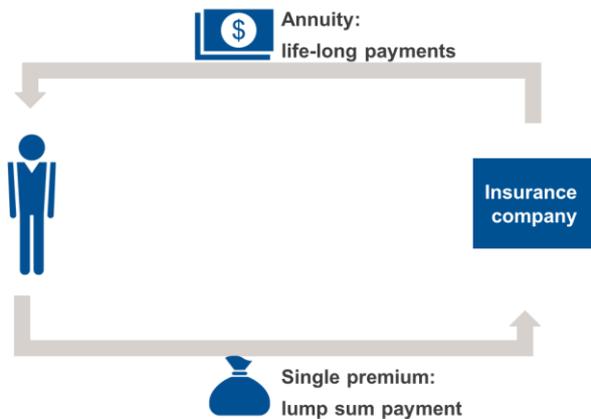
### What is an annuity?

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.

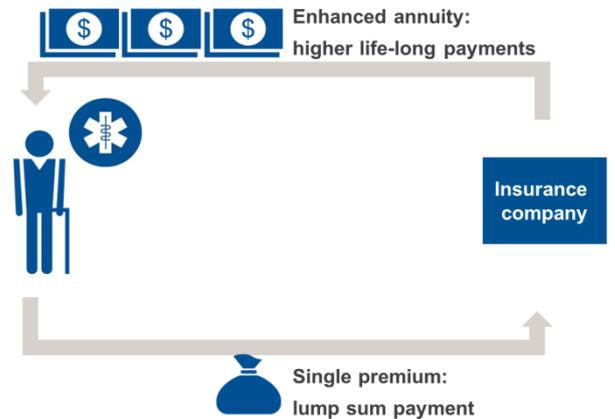
### What is an enhanced annuity?

An enhanced annuity pays a higher retirement income than a standard annuity to applicants with reduced life expectancy due to health and lifestyle issues.

#### Concept of annuities



#### Concept of enhanced annuities



Just like a standard annuity, an enhanced annuity 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.

### Entering an enhanced annuity market

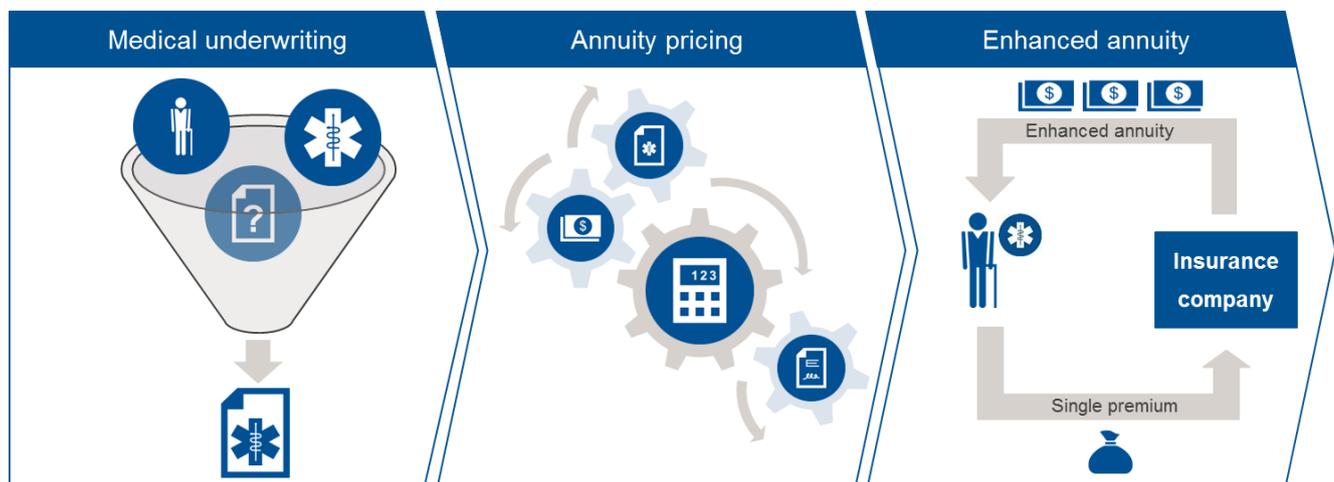
When entering the enhanced annuity market, you have the choice of focusing on specific enhanced annuity segments, such as 'severe cancer cases' or 'diabetes cases', or to offer annuities indiscriminately, targeting the full range from healthy to severely ill applicants. Your choice should be

defined by your target group and how you hope to best reach this target group. You should also take into account the possible implications of an anti-selection effect for your portfolio.

Furthermore you can decide upon the technical standards and the depth of detail of medical underwriting. The underwriting process can be automated by using an underwriting system that will generate immediate guaranteed quotes at point-of-sale.

In general, the most detailed and complex underwriting process leads to the highest level of individualisation. Simplified approaches such as limited questionnaires can lead to a faster and simpler underwriting process, however the annuity is less customised.

### Enhanced annuity process



Concept	Advantages	Disadvantages
Detailed medical underwriting: medical questionnaire, medical reports, tele-underwriting	Individual assessment of life expectancy can result in high enhancement and therefore optimal rates for your customers	Detailed medical underwriting is more time intensive, integration of underwriting system requires upfront investment
Simplified medical underwriting: limited amount of questions	We use a short questionnaire with around 10-15 questions that can easily be answered by yes/no	Enhancements will be smaller compared to detailed medical underwriting

Whichever approach you choose, all available information is taken into account to perform adequate pricing for each and every risk. Additionally, the use of underwriting systems automates and speeds up the process.

Further aspects that you may have to consider are:

- product marketing
- distribution partners
- reporting and accounting
- administration of policies

### The benefits of introducing enhanced annuities

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

If annuities are common in the market, yet underwritten annuities are not available, the introduction of enhanced annuities offers the following benefits:

- Chance to be the first mover and shape the market and product design
- Access to a new customer segment: customers who did not buy a standard annuity might be interested in an enhanced annuity

If underwritten annuities are already available in the market, the introduction of enhanced annuities is still beneficial:

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

### The UK enhanced annuity market

The enhanced annuity market in the UK has grown significantly since its beginnings in 1995. Market sales peaked at over GBP 4 billion in 2012. Major pension market reforms, giving the pensioners freedom of choice, led to a decline of premium volumes by 75%, in the annuity as well as in the enhanced annuity market. The market is recovering and figures show that there is a demand for enhanced annuities. However, it is vital for such a product to be marketed proactively and explained in a fair and simple way. Figures show that in fact around 65% of all annuitants could actually be eligible for some kind of enhanced annuity.

## Issues to be aware of

### Market demand for introducing enhanced annuities

Drivers +	Barriers -
Need for private longevity protection	Product not understood by customers
Compulsory or tax advantaged to buy annuity from savings	Regulatory restrictions
Need of fair longevity solution for older people with patient history	Annuities not common in the market

### Distribution factors

Drivers +	Barriers -
Unique selling proposition: Being able to offer more attractive rates due to risk adequate pricing	Product not known to sales department
Decision possible at point of sale	Medical assessment seen as inappropriate
Product for underserved customers	Underwriting means time investment

## Why Hannover Re?

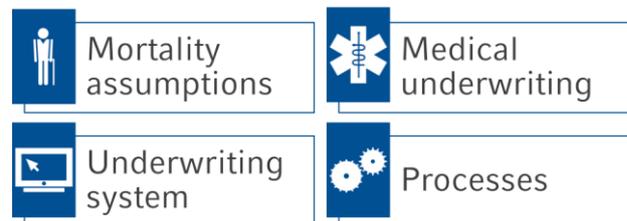
With more than 20 years of experience and expertise in the enhanced annuity market, we have access to a large database of impaired lives, which we analyse on a regular basis to update our mortality assumptions. We are happy to share our experience with you in order to develop suitable mortality assumptions for your underwritten annuity product.

We were the first to introduce underwritten annuities in the UK and we have closely observed the changes annuity markets can face over time.

Hannover Re can provide well-rounded support including the design of a new underwriting process, implementation of our automated underwriting system at the point-of-sale as well as medical training by our experienced doctors. Our system can be used for different sales scenarios (online, bank, direct), requires minimal medical expertise and enables you to write impaired life annuity business at low underwriting costs, allowing rapid creation of guaranteed quotes.

We are flexible with regard to reinsurance solutions and, if desired, we are happy to discuss financing solutions for the funding of new business strains.

### Hannover Re's core competences



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