

Improve Your Retirement - Drink More Beer!



Using the proceeds of a retirement plan to buy a lifetime annuity is a way of providing yourself with a guaranteed income for life. Annuities can be set up to increase each year, at say 3%, include widows' pension, or to simply provide a fixed income guaranteed for life.

Historically, in the UK at least, these annuities were the only way legislation allowed a pensioner to obtain a pension, and the regular payments from annuities were based primarily on age, and prevailing UK government bond rates.

The connection to Gilt rates therefore meant an effective connection to interest rates and inflation. When, some four decades ago, all these rates were high, annuities were an attractive, safe way to guarantee lifetime income.



However, the low inflation, interest, and bond rates since the 1990's made annuity incomes so poor that they rarely made economic sense, given that the retiree gave up all the capital in his pension account to buy it.

As we are now seeing interest and bond rates increase along with higher inflation, annuities are again starting to look much more attractive.

Annuities are invariably provided by life insurance companies, whose actuaries (an insurance man for whom accountancy would be far too exciting) are adept at calculating the statistical risk to life, based on age, gender, lifestyle and other factors when calculating insurance premiums. It should come as no surprise then, that since annuities are essentially the opposite of life insurance, the same types of statistical calculations can be used.

The actuary calculates the risk of the insured's death for insurance, but the risk of a retiree living far too long for the profitability of an annuity. And this is where the beer comes in!

The majority of expats are thought to consume alcohol on a weekly basis, and while the effects on your waistline and budget are evident, if you enjoy a tipples of one kind or another, being a drinker might actually see a boost to income from a pension annuity.



Annuity providers are now starting to ask more detailed lifestyle questions, like alcohol consumption, tobacco smoking, as well as asking health history questions, and whilst every 'yes' on an insurance application may risk an increase in premium, these same answers have the opposite effect on annuities.

As the annuity is based on your pension pot, you may get more income for your money.

A bottle or two of wine a week, not to mention a cheeky pint here and there, could mean you qualify for a higher annuity income.

I am not suggesting you binge drink for a quick fix on your retirement income (as enjoyable as that might be!) because I'm a responsible Strategic Expat. But I do suggest that you are open and honest with the information that you provide if you apply for a pension annuity. There is no need to be embarrassed about your alcohol consumption.

To show this in a numerical form, I can reference financial services company Hargreaves Lansdown, who took data from the UK's Office of National Statistics (ONS) relating to the drinking habits of the nation, and did a few calculations to see how alcohol consumption may impact pension annuity incomes.

The ONS data revealed that less than 20% of people approaching retirement are teetotal.

Those aged 45-64 are the most likely to be drink alcohol. Two thirds of those approaching retirement, and who live with someone else, drank in the last week, while 57% of those living alone also enjoyed a glass or two.

However, less than half of those aged 16-24 drank in the last week, irrespective of whether they lived alone or with someone else.

What Boozing could mean for your Pension

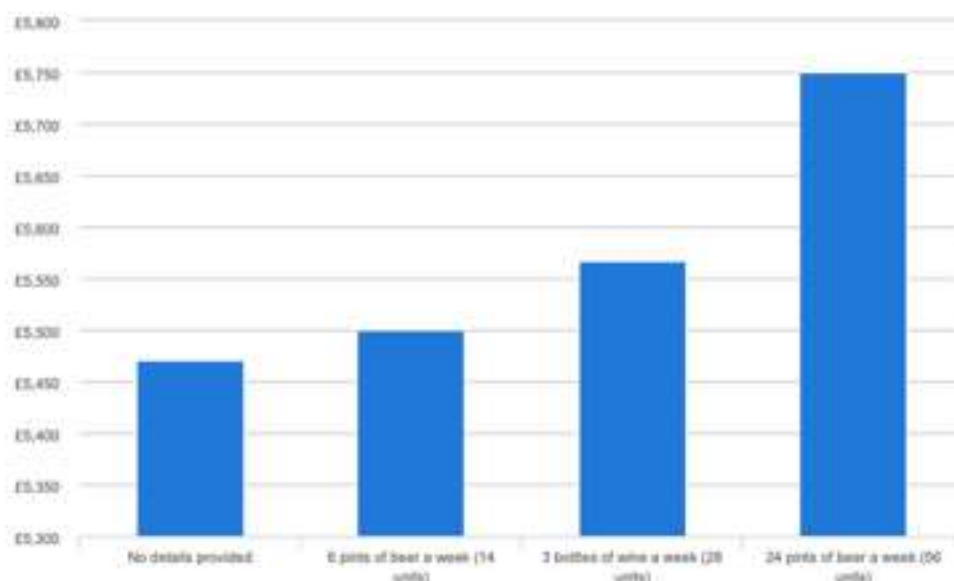
Hargreaves Lansdown calculated that a 65-year-old drinking 24 pints of beer a week would see a £100,000 pension pot buy an annuity of £5,750 a year. This is an extra £279, or 5% a year above the standard £5,471pa.

More modest drinkers, those consuming three bottles of wine a week, would see pension income increase by £96 a year over the standard annuity.

Hargreaves Lansdown also said that health conditions which can be linked to alcohol consumption can mean that even higher pension incomes could be paid.

The graph below shows the impact of drinking on the income from a single life, non-increasing annuity for a 65-year-old with a £100,000 pension:

Annual income from a £100,000 pension



As you can see, by not providing any details on your alcohol consumption, or understating it, which most people do, you could be missing out on a larger annuity income.

Nathan Long, senior pension analyst at Hargreaves Lansdown, said: “While older members of society may not cheer their hangovers worsening with age, they may raise a glass to the fact their boozy habits could give them a higher retirement income.”

“Annuities are a way of turning your pension into a guaranteed income for life, and providers actually give you a higher income based on certain health and lifestyle conditions, which includes drinking.”

Here's One for the Road - It's on me!

As you can see, even occasional drinking boosts pension income, so it pays to disclose all of your health information, as ultimately they are not expecting you to live quite as long. (Sad, but true).



How much annuity income you receive, depends on the size of your pension pot, current annuity rates and your personal circumstances, including age, health and lifestyle factors.

That's why it's so important that you are honest and open about your lifestyle choices and existing or previous health conditions.

Unlike other insurance products, having health conditions or lifestyle habits such as smoking, has the potential to give you a better annuity rate and therefore boost your annual income. In the case of serious medical conditions, this could be up to 40% more, according to Legal & General.

It is important to understand the difference an enhanced annuity can make to retirement income. In fact, it could be significant enough to alter the balance between 'drawing down' from your pension account, and buying the guarantee of an annuity.

Pension annuity providers will not judge you or pass comment. In fact, the more the provider knows about your lifestyle, the more likely they are to get the best income for your personal circumstances.



So while this article is intended to give you a greater awareness, should you be considering now or in the future taking an annuity, (and certainly not designed to encourage you to drink more), let's raise a glass and say "Cheers" to that!