

The state of your health & enhancing pension income

Enhancing a pension income is a tough task these days: banks offer middling to nil interest on savings.

Investing requires time and a strong nerve and access to professional, impartial advice if you are to avoid high costs and charges.

And with unemployment still so high, not every older person has the energy or ability to keep working once they hit retirement age; part-time jobs are hard to find.

One of the most lucrative ways to enhance a pension income – a home reversion or equity loan – hasn't been available in Ireland since 2012 when Seniors Money stopped lending to over-60s against a portion of the borrowers home.

The company has a long waiting list of applicants, but may be delaying reactivating their service here until the wider, legacy issues that still dog the Irish property sector and the banks are cleared. Seniors Money always had lending restrictions in place which limited how much could be borrowed based both on the market value of the property and the borrower's age with a maximum loan of 30% of the property, but our property market remains distorted and dysfunctional due to continuing negative equity and arrears and the Central Bank's lending restrictions.

Far too many older people are financially compromised by their ownership of buy-to-let properties that were purchased using their family homes as collateral.

Outside of private mortgage loans within families, this probably leaves the Revenue's 'Rent-a-Room' scheme as the best remaining property-based way for older people to enhance an inadequate pension income.

As I've written here many times before, under 'Rent-a-Room' you can rent out a spare room or rooms in your home and generate up to €12,000 a year entirely tax free. This income might impact on means-tested social welfare benefits, but this does not income a non-contributory pension and there would be no deduction of benefits if you live alone.

Another possible way to enhance pension income, but only if you belonged to an occupational pension scheme, a private pension or PRSA (personal retirement savings account) is to apply for an 'enhanced pension annuity' at retirement. (Pension annuities are purchased with the money accumulated in a pension fund at retirement. The income you receive from the annuity is then locked in for life, so it is important to secure the highest annuity rate.)

Last week Irish Life, one of the main providers of enhanced pension annuities, released its latest data which showed that 25% of all customers who purchase pension annuities now qualify for and take up an enhanced annuity.

In 2015, the highest enhancement paid was 27% while the average enhanced payment was 9%. What this means is that someone who, say, qualifies for a pension income of €10,000 a year (based on the size of their pension fund, their age, general health, whether they want their dependents to also have a pension after their death, etc) would instead receive income of €12,700 at the high end of Irish Life's payouts, or more typically €10,900 as an average enhanced bonus.

Enhanced pension annuities have only been around for a few years, but they are an important innovation from the life assurance and pension providers because of how low pension annuity rates have become over the past 20 years.

Most pensioners should consider themselves very lucky indeed if their occupational or private pension scheme generates a net 5% annuity rate, that is, produces €5,000 a year income from every €100,000 saved in their pension fund.

But the catch from an 'enhanced' annuity is that you will be suffering from some kind of underlying health condition that is likely to result in a shortened life expectancy:

"Medical conditions and lifestyle factors such as smoking or obesity qualify for Enhanced Annuity payments," according to Irish Life which found that in 2015 "the most common lifestyle and medical conditions presented included smoking (36%), high blood pressure (34%) and obesity (31%)."

High cholesterol was a further factor for 26% of cases, while other heart-related conditions accounted for another 25% of cases. More than half of the cases where the enhanced annuities were paid, two or more medical and lifestyle conditions prevailed.

Irish Life expect that we will soon reach the UK level whereby 60% of all annuities incomes are enhanced.

This is 'good' news in that it means that six out of 10 such pensioners will enjoy higher income, but it is a further indictment of the growing risk of obesity-related conditions that are affecting our ageing population.

As more private pension fund holders become aware of the enhanced annuity option, take-up is likely to rise and it may convince some new pensioners to reconsider the annuity option instead of an ARF – the Approved Retirement Funds and Approved Minimum Retirement Funds – that continue to invest your pension money after retirement. ARFs, as many discover, often come with investment risk that is not suitable for everyone. This is where a good pension adviser is essential...and worth their fee.

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