

UNDERSTANDING RATED ANNUITIES TODAY

By Thomas J. Granata

A growing trend in the fixed annuity marketplace is a concept called – Rated Annuities. Rated Annuities are sometimes referred to as Impaired-Risk Annuities or Substandard Annuities. Whichever name you choose, these annuity offerings can be an advantage to the client because they can translate to higher income versus an SPIA with a client who has standard health. This “rate-up” doesn’t add any cost or rate reduction to the consumer. The rated annuity can only increase income to the client and thus adds a competitive edge from the agent’s standpoint by adding value and winning the business.

The first question people ask me is, “What is a Rated Annuity?” A rated annuity is an immediate payout fixed annuity that guarantees income for a lifetime or for the lifetime of two people in which the mortality of the annuitant(s) is measured based on medical records within the last 5 years. Essentially all plan types can be used for Rated Annuities except Period Certain Only plan-types. These “rate-ups” can result in higher SPIA income, because from the insurance company’s perspective, they feel this “substandard” or “impaired-risk” client will not survive to the average life expectancy of someone in good health of the same age. So in turn, the insurance company pays the client more income, they believe, for a shorter period of time than a healthy person of same age. But one thing is for sure - the insurance carrier must pay out for as long as the annuitant lives, no matter how long! The company is making a bet that the Rated Annuity client with medical conditions will pass away sooner than their expected lifetime. This type of client always wants to “beat the house” and live longer than the insurance company expects.

Rated Annuities – Fast Facts:

- They look to the health of the annuitant for possibly higher immediate annuity income.
- Rated Annuities require no medical exam – informal or formal APS OK.
- Opposite of getting Rated for life insurance - insurance company pays the client more \$!
- Not every insurance company offers a Rated Annuity Program.
- Rated Annuities help the agent add value to client relationship by maximizing income.
- Rated Annuities = Referral Annuities
- Period Certain plan-types not available with Rated Annuities.
- Rated Annuities are sometimes referred to as Substandard or Impaired-Risk Annuities.

The term Rated Annuity or “rate up” comes from life insurance. When someone applies for life insurance with a history of heart disease, cancer or other chronic maladies, the annuitant generally gets approved for life insurance at a higher premium or at a table rating – in other words, they get “rated up.” The opposite is true regarding Rated Annuities. The agent, in this case, is hoping to take advantage of the client’s poor health history by applying for a Rated Annuity. The reasons to apply for one can be many and varied. Some people apply because they decide, in conjunction with their agent that an immediate annuity is the best vehicle for retirement income, or it is to be used to annuitize an IRA, to help reduce estate taxes, fund life insurance premiums, help qualify for medicaid and other financial planning reasons. Another common scenario in using a Rated Annuity is when a client is declined for Long-Term Care and needs a way to protect medical expenses from eroding their estate.

The process of applying for a Rated Annuity differs for each carrier but for the most part it follows the following process. Some carriers will tentatively offer a Rated Up Annuity quote or illustration without formal underwriter review initially. In these cases, submission of an application must include medical records within the last 5 years for underwriter review. This approach can sometimes be tricky because the records may reveal information so that the Age Rate Up is less than originally quoted and can lead to client confusion. I'd suggest to gather medical information on the client first, especially since you're not being asked for a formal APS or entire medical exam but, initially, gather at least enough information to have a meaningful conversation with an underwriter. Also, it is customary that a medical examination is not necessary or even a formal Attending Physician's Statement (APS) for that matter. Usually a copy to an underwriter with an informal APS (Dr. correspondence, EKGs, medical questionnaire's, etc.) is usually enough. The key is with more information available to the underwriter, the better he or she is able to aggressively rate up the proposed annuitant. Normally a Rated Age Notification is sent with the Rated Annuity quote which in turn is submitted with the application to properly identify it as a Rated SPIA. Once the agent has the Rated Up quotation, he or she goes back to the client and shows the silver lining to their negative health – higher payout! You, the agent, are now the trusted hero who saved the proverbial day. The application and other paperwork is signed and completed and the process then flows like any other annuity transaction. Often times the client is elated about how they translated their poor recent health into increased payments. They now receive higher income than they otherwise would if they didn't have an agent who pursued a Rated Annuity. That's look at an example below of a Male Age 65 who is looking for Life Only Income. Assume a \$100,000 deposit and monthly payments.

	<i>Standard Rating</i>	<i>Rated Up 3 Years</i>	<i>Rated Up 6 Years</i>
Monthly Income	\$777.03	\$837.42	\$910.42

*** Note: This is not representative of any case and is hypothetical.*

Another misconception regarding Rated Annuities is that the client has to have a serious medical impairment to get offered a Rate Up in age. This couldn't be farther from the truth. In reality, diabetics, heavy smokers, angioplasty procedures and other less-than-serious health impairments all could be possible rate-ups. There is a formal underwriting process for Rated Annuities, but overall it is less stringent and much faster to undertake than a traditional life insurance underwriting review. The key factors will always be age, weight, family history, surgeries, how recent the health problems and, of course, any medicine that the proposed annuitant may be currently taking.

Another key point to remember from an agent viewpoint, is to make sure that when dealing with non-qualified dollars that the exclusion ratio matches the annuitant's actual age versus the rated up age. This far-too-common mistake is usually made by the insurance company but the reporting of the income taxes to the IRS is the responsibility of the client with help from the agent. So double-check with your carrier and make sure the exclusion ratio is accurate.

Keep in mind, that not every insurance company offers Rated Annuity programs. Most companies that do offer these, have brisk life insurance divisions with underwriters aplenty and specialize in mortality measurements. Some companies spice up the program by offer

Underwriting Conference Calls, and Meet the Underwriter Day or set up one-on-one phone appointments with agents to discuss rated annuity opportunities. The key to any Rated Annuity program is competitive underwriting and fast turnaround, otherwise it can actually hurt the sales process and even be detrimental to the company's annuity department.

All in all, Rated Annuities can be a powerful tool in maximizing retirement income. Every agent or planner getting involved in a decision to implement a single premium immediate annuity must ask the question about their client – can my client qualify for a Rated Annuity? Remember, there is no downside to a Rated Annuity inquiry. Worst case, you are offered a standard annuity rate. Simply pick up the phone and speak to your friendly neighborhood insurance company marketer and ask if they offer substandard or Rated Annuities. Focusing more on Rated Annuities can lead to more sales, more clients and most importantly, referrals from satisfied clients.

(Tom Granata has been in the financial services industry for over 10 years and now is Director of Annuity Marketing for Canada Life Insurance Company of New York. Tom can be reached by phone at 877-275-2704 x639 or email at tom_granata@canadalifeus.com)