

The “Impaired Risk Option on an Immediate Annuity”: How being underwritten can actually increase the payout.

Most of us understand why a higher table rating on a life insurance policy results in clients paying more per dollar of death benefit. But what happens when you underwrite a substandard health risk on a life-contingent single premium immediate annuity (SPIA)? The answer is an immediate annuity with the impaired risk option. Your clients benefit either by receiving more income per premium dollar, or by paying a lower premium for a specified income amount.

The underwriting process is not as common as it is with life insurance policies. However, getting an impaired risk option on an immediate annuity for your clients is not difficult. Two examples should help clarify how it works.¹

Assume as a first example a 65 year-old male applying for a 10-year certain and life SPIA with a \$100,000 premium. If he enjoys normal health he would receive an income of \$627 per month.² Or as a second example, assume that the same person wanted an income of \$1,000 per month. He would have to pay a premium of \$159,380.00. Suppose, however, that the agent submits evidence of health impairment with the application. If, based on the medical evidence, the issuing company’s underwriter concluded that the client had at least a 25% reduction in life expectancy relative to a healthy individual of the same age and gender, the client could benefit in one of the following ways:

An increased monthly benefit, if the client has selected a particular single premium, OR

A reduced single premium, if the client has selected a particular monthly benefit level.

By how much do we increase the benefit or reduce the premium? Based on his or her assessment of the medical evidence, the underwriter determines an “age rate-up”, an increased age for purposes of underwriting the SPIA. For example, if our 65 year-old male’s health justified a rated age of 71 (maximum rated age is 85), the monthly benefit in our first example would rise from \$627 per month to \$712. Or, in the second example, if the customer wanted to keep the original \$1,000 per month income, his premium would fall from \$159,380 to \$140,407.

It’s always best to have your health. But if your client’s health is impaired, consider the impaired risk option on an immediate annuity for their income needs.

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¹ Information in this bulletin is subject to policy form numbers 35845 et al., 19561 et al., 37317 et al., 535-12 et al., 8010 et al. and FC6012 et al. Impaired risk option on immediate annuities is only available from First Colony Life.

² Based on rates current as of September 29, 2005. Rates subject to change.