A FAIR DEAL

Changes within the immediate annuity industry may provide sick and disabled clients with attractive price breaks.

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Until recently, sick or disabled clients who might qualify for actuarially fair immediate annuities didn't have many options. Although a client's condition may have reduced his life expectancy, the immediate annuity market didn't offer increased benefits to compensate for the shorter life span. But movement within the insurance industry has created an outlet for these impaired risk cases, resulting in additional benefits to those sick and disabled clients who are seeking a steady, constant income stream.

An impaired risk immediate annuity is nothing more than a regular immediate annuity that is actuarially priced to reflect the owner's life expectancy. Clients who might take advantage of impaired risk benefits suffer from significant illnesses or disabilities. They can be older and retired (over 65) or younger and unemployable or employment-limited, because of their condition. Using impaired risk immediate annuity products, these clients are assured an income source that cannot be forfeited and offers pricing benefits that consider their adjusted life expectancies.

Carriers offer impaired risk benefits to make their immediate annuity products more attractive. The immediate annuity market is competitive; companies use these benefits to stand out from the crowd.

Impaired risk annuity underwriting

is not new, but until 1995, it only was available in the structured settlement or litigation annuity market. Presently, there are about a dozen life insurance carriers (see Table 1) that offer this underwriting technique, up from two in 1995. Just as in life underwriting, this technique is referred to as "substandard" underwriting.

Because of movements within the insurance industry, the number of insurance carriers in the impaired risk annuity market is poised to expand even more. One of the current barriers to offering these annuities is a requirement that the insurance industry set aside reserves on a standard basis using the insured's chronological age. This is very costly because it strains reserves and carrier profitability.

On December 5, 2000, however, the National Association of Insurance Commissioners' (NAIC) life committee approved a guideline which would lift this requirement and create new reserving rules based on the insured's rated age — the age that most closely resembles the true mortality risk. This is the last step before the proposed guideline is fully adopted, which is expected to happen when the general NAIC membership meets on March 25, 2001.

The proposal states, "The population is aging, and the need for fairly-priced single premium immediate annuity benefits is substantially increasing. Forcing companies to hold standard reserves results in many people being overcharged (for the extra cost of capital associated with the higher reserve) at a time in their life when they may have the greatest need." Carolyn Johnson, NAIC senior counsel and model laws coordinator says presently there is no opposition to the guidelines, and adoption is certain.

If this occurs, industry leaders estimate that the number of carriers in the impaired risk annuity market will double by this time next year. More insurance company competition means enhanced products, better consumer annuity pricing and higher consumer product awareness.

DETERMINING THE BENEFIT

The impaired risk annuity benefit is determined by the annuitant's adjusted life expectancy, not by his or her chronological age. Individual medical conditions also are considered. These conditions affect annuity "life contingent" benefit payments. A 65-year-old annuitant with impaired health due to a heart condition, cancer, diabetes or a stroke may be assigned a rated age of 75 by the underwriters of the annuity policy. At the same time, the insurance company will consider the client's shorter time

CARRIER	WEB ADDRESS	NAME OF IMPAIRED RISK IMMEDIATE ANNUITY PRODUCT	AM BEST RATING	S&P RATING
American Mayflower First Colony Life Insurance Co. GE Capital Assurance GE Capital Life Assurance Co. of New York • all members of the GE Financial Assurance family of companies	www.gefn.com	Rated Age Immediate Annuity	A++ for First Colony, A+ for the rest of the companies	AA
Canada Life Assurance Co.	www.canadalife.com	Substandard or Impaired Risk Annuity	A+	AA+
Fidelity & Guaranty Life Insurance Company	www.fglife.com	Guarantee Income Plan	A	AA
Golden Rule Insurance Co.	www.goldenrule.com	Immediate Care	A	AA-
Lincoln Benefit Life Insurance Co.	www.lbl.com	Single Premium Immediate Annuity	A+	AA+
Presidential Life Insurance Co.	www.presidentiallife.com	Single Premium Immediate Income	A-	Api

horizon due to health circumstances, providing the insured with a pricing advantage. The age rating increases the monthly benefit for any given premium or, for any desired benefit, reduces the annuity purchase cost.

For example, a 68-year-old female might be quoted a "standard" monthly annuity benefit of $1,176, or $14,112 per year, with an installment refund of premium benefit election. The premium cost is $150,000. However, another insurance company that offers impaired risk benefits reviews her medical condition and issues her an age rating of 75. This increases her monthly benefit to $1,341, or $16,092 per year — a 14.03 percent increase. Conversely, if she requires a $1,176 monthly benefit, her standard premium cost of $150,000 is reduced to $131,544, which results in a 12.3 percent premium savings.

An impaired risk premium cost reflects the consumer pricing advantage of using a fairly priced annuity. This consumer now has the advantage of using her "true" mortality circumstances to increase her annual spendable income. And this income is truly 100 percent spendable, because she does not have to worry about reinvesting money in the future to generate additional dividends or interest. The entire annual benefit can be spent without fear of eroding future income.

SELLING TO IMPAIRED RISK CANDIDATES

A good place to start selling impaired risk annuity products is among your substandard life or long term care clients or clients who have been denied this type of coverage due to health circumstances. It's also wise to consult with attorneys who specialize in special needs trusts or elder law who may have clients who could qualify as an impaired risk candidate. Another group to prospect is new retirees with unhealthy spouses, or second spouses who can't rely on the first wife's children to take care of "Dad's new wife."

The impaired risk discussion comes up after the immediate annuity concept is sold, when you can point out that impaired risk pricing becomes an added benefit. People are more willing

MAX. ISSUE AGE	MIN. DEPOSIT	SPECIAL/UNIQUE FEATURES	PHONE NUMBER
85 maximum rated age, no maximum issue age	$5,000	Flexible structuring of benefit payments. Can step down or step up benefits after a certain age to let the customer maximize the amount received from the annuity. Can step up to six percent annually for inflation. Can also defer compensation to a previous date. Offers a certain-only period, lifetime guarantees, installment refunds for certain period contracts and lifetime income with a certain period.	(888) 325-5433
90	$5,000	Offers 24-hour turnaround for underwriting. No forms or questionnaires. Will use any medical information available to make an assessment.	(800) 829-7099
89	$100,000	Accelerated benefit rider.	(800)-357-8734
99	$10,000	Especially for people who are about to enter or who are already in a nursing home or are receiving care. Looks at mortality and morbidity; the more ill the person is, the higher the payout will be.	(800) 275-5101
99	$5,000 non-qualified, $2,000 qualified	Can add up to five years on the person's age to improve annuity payouts. Can put a yearly increase for cost of living on the annuity.	(800) 525-9287
90	Premium must generate a $25 check or more	No life contingency, period certain	(800) 926-7599