

# Know the Insurer You're Depending On

By Terry Heys

The purchase of an annuity can help to ensure that you don't run out of income in retirement. When deciding on the right annuity, however, it's important to consider the type of product you're purchasing, as well as the potential tax implications, how and when income can be received, and what additional riders - if any - can be added to the contract.

In addition to all of these criteria, though, there is one factor that many people tend to overlook when considering an annuity - and that is the insurance company itself. Yet, this could end up to be one of the most important elements of all.

## Why the Underlying Insurer Matters

Today, there are literally hundreds of insurance companies that offer annuities - so it can seem a bit overwhelming when trying to pare down your top choices for current retirement savings, and likewise, future retirement income.

But, when entrusting an insurer to provide you with your ongoing, lifetime income, you want to be sure that the company will be there in the future when you are going to need them most. So, how do you go about researching these firms? There are a couple of good rules of thumb.

## **Checking Your Insurance Company's Report Card**

One way that you can conduct a "background check" of sorts on a potential annuity carrier is to review the ratings that have been assigned to it by the various agencies that provide them. There are several agencies that focus on providing information on the financial strength and stability of insurers - and all life insurance companies must become rated by at least one of these agencies. Such ratings could be thought of as a "report card" for insurers.

There are five major rating services. These include:

- A.M. Best
- Standard & Poor's
- Moody's
- Fitch
- TheStreet.com

Each of the services uses its own unique criteria for issuing a report card to the insurance companies that it rates - although all use a letter grading system using grades that range from either A++, AAA, Aaa, or A+ to F, D, C, or R.

### **What Do These Ratings Mean?**

The ratings that are given to an insurance company are based upon certain factors. For example, A.M. Best issues financial strength ratings measuring insurance companies' ability to pay claims. Its Financial Strength Ratings represent the company's assessment of an insurer's ability to meet its obligations to its

policy holders. The rating process involves quantitative and qualitative reviews of a company's balance sheet, operating performance, and business profile. It's long-term credit ratings assess the ability of an insurance company to meet its senior obligations.<sup>1</sup>



### **How to Determine an Insurer's Rating**

There are several ways that you can go about checking an insurer's ratings. One of the best ways to do so is to go directly to the insurance company's website. Typically, the ratings - as well as an explanation of what the rating signifies - will be provided there.

In addition, this type of information is usually found on each states' Department of Insurance website. Each of the 50 U.S. states has its own website that provides a great deal of information regarding the types of insurance coverage that are offered, as well as details on how to go about choosing the right insurance carrier for consumers' specific coverage needs.

1. [http://en.wikipedia.org/wiki/A.\\_M.\\_Best](http://en.wikipedia.org/wiki/A._M._Best)