

Life Insurance Underwriting Classes Explained

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If you've looked into applying for life insurance, you might have heard the terms "underwriting" and "risk class" used. Certainly, those words can sound intimidating—especially if they make you feel like someone's going to be scrutinizing the risks you've taken in your life.

Don't worry: Life insurance companies don't need to know *everything* about you. But they do want to figure out how much of a risk you are to insure to decide whether to offer you coverage and how much to charge. That's why they use a process called underwriting and will assign you to a certain risk class based on the information gathered during the underwriting process.

"The underwriting system is designed to provide the most-fair price for a customer's risk profile," says Neal Kerins, vice president of insurance product development at John Hancock. "It's a concept of balancing affordability with offering insurance to the broadest range of people."

It's important to understand this system and the various risk classes insurers use before applying for coverage. Then you'll have a better idea of how much your life insurance rate is being calculated.

How the Life Insurance Underwriting Process Works

The underwriting process involves gathering a lot of information about you, starting with an application that asks about your age, medical history and mental health, family medical history, occupation and even hobbies.

In many cases, the life insurance company also will get your medical records from your doctors, your prescription drug history, your driving record and other records to verify your identity and other risk factors. A “fully underwritten” policy is one that takes into account all this medical and personal information. An application may also require a life insurance medical exam. (You might be able to skip the exam if your insurer is using “accelerated underwriting.”)

During the exam, your height, weight, pulse and blood pressure will be checked. Blood and urine samples will be collected. And an EKG might be required if you’re 50 or older or applying for a policy with a death benefit in the millions of dollars.

Information gathered during underwriting is then used to determine in which risk class you belong. Your risk class will then be used—along with your age and gender—to determine the rate you pay for insurance.

Understand the Life Insurance Risk Classes

Insurance companies typically use three risk classes: super preferred, preferred and standard. The criteria for each class is relatively similar from company to company, but the specific requirements can vary some. If applicants don’t meet the criteria for these classes, they might be classified as substandard.

Super Preferred Risk Class

Someone who qualifies for the super preferred—sometimes called preferred plus—class is in excellent overall health, doesn’t engage in risky hobbies or have a dangerous occupation, Kerins says. You can’t have a history of tobacco use in the past five years or drug or alcohol abuse in the past 10 years. You can’t have a history of cancer or heart disease. And, for the most part, you can’t have a parent who died from cancer or cardiovascular disease before age 60 or possibly 65.

Only a small percentage of applicants qualify for super preferred, says Todd Balderson, founder and CEO of Balderson Insurance Agency in Maryland. “You’ve got to be hitting all the numbers—no traffic tickets, no DUI, textbook blood pressure and cholesterol,” he says.

Preferred Risk Class

Someone who qualifies for the preferred risk class has a similar profile as someone in super preferred. However, they might be taking medication to treat a condition such as high blood pressure, be slightly overweight or have a family history that’s indicative of risk, Kerins says.

People living with diabetes can qualify for the preferred class if their condition is well managed, as can those with some mental health conditions such as anxiety and depression that are being managed. “If you’re taking medication, that’s a good thing because you’re addressing the condition,” Kerins says.

Standard Risk Class

Most people fall into this class. Someone in the standard class typically tends to have a higher body mass index (BMI), is taking multiple medications or has potential health issues, Kerins says. Your driving record doesn’t have to be perfect, and some risky occupations such as aviation are acceptable. The standard risk classification also is more lenient when it comes to smoking. Typically, you must be tobacco-free for a year (rather than five years). However, you might qualify for the standard class if you are a marijuana user—depending on the insurer.

Substandard Table Rating

Insurers use a table rating system of letters or numbers to classify policyholders who are considered substandard. This rating system is used for those who have

significant health conditions or only a short track record of managing a health condition, Kerins says. Conditions that can trigger a table rating include past alcohol abuse or treatment, severe asthma, bi-polar disorder, epilepsy, multiple sclerosis and Type 1 diabetes.

While many people with medical conditions can qualify for life insurance, insurers will simply decline applicants if they have certain health impairments. Those can include—but aren't limited to—current alcohol abuse and recent treatment, cirrhosis, current cancer treatment, drug use, recent heart attack, HIV, kidney dialysis mental illness that required hospitalization in the past year and suicide attempt in the past year.

How Your Risk Class Affects Your Life Insurance Rate

The better your rating, the lower your insurance premium will be. The “standard” rating is the baseline, Balderson says. So, rates drop with each class above standard, and they increase with each table rating below standard.

Typically, an A or 1 table rating will cost 25% more than the premium for the standard class, Balderson says. As the table ratings go up (B, C, D, 2, 3, 4, etc.), so do rates. “It can be quite a large gap from super preferred [rates] to table rated,” Balderson says.

For example, a 35-year-old woman in the preferred plus class could get a \$1 million, 30-year term life policy with an annual premium of \$613, Balderson says. The preferred class premium would be \$732, and the standard class rate would be \$1,192.

If you're a smoker, you can qualify for the preferred or standard class if you meet the other criteria for those classifications. Rates for smokers will be higher than

nonsmokers even if they're in the same risk class. Using the same example as above, the preferred rate for a smoker would be \$2,320 a year. The annual premium for a smoker in the standard class would be \$3,000, Balderson says.

The difference in premiums for permanent life insurance policies for nonsmokers versus smokers can be even more dramatic. For example, Kerins says the annual premium for a 45-year-old woman with a \$1 million universal life insurance policy from John Hancock would be \$8,800. A smoker in the standard class would pay \$14,348 for the same policy. (Permanent life policies are more expensive than term life policies.)

How to Get the Best Life Insurance Rate

The key to qualifying for the best risk class—and, therefore, the best life insurance rate—is pretty simple. “Be healthy, live a clean lifestyle, and you’ll get the best rate,” Balderson says. Easier said than done, right?

You can take these steps to increase your chances of getting a better rate:

Don't wait in hopes of improving your health. If you're not the picture of perfect health, don't wait to apply for coverage in hopes of improving your health, Kerins says. If you need life insurance to provide a financial safety net for your loved ones, waiting to apply will only increase your chances of something happening to you. Plus, with each year you age, the premium increases 3% to 5%, Kerins says. So any savings you might see by improving your health could be eliminated by the higher premiums you'll have to pay because of your age.

Work with an independent life insurance agent. Independent agents work with several insurance companies, so they can compare rates for you. They also are likely to be familiar with those companies' underwriting criteria. Balderson, who is an independent agent, says he speaks with clients about their medical history so he

can match them with insurance companies that have the most favorable underwriting criteria for their situations.

Don't raise red flags. Balderson cautions against going to the doctor to get a battery of medical tests before applying for life insurance. If the doctor, for example, orders a stress test for your heart, it could raise red flags when the insurance company checks your medical records. Also, don't make plans to travel out of the country, which will likely cause postponement of your life insurance application.