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Annuities Designed for the Old, Ill

By ANNE TERGESEN

People in poor health are understandably reluctant to buy an immediate annuity. After all, an early death can mean losing most of the money put into one of these insurance contracts. But for those who expect to live a long time with a chronic condition, a few insurers offer a way to get a fatter payout.

The key: Ask for medical underwriting.

An immediate annuity allows a purchaser to convert a lump sum into a set monthly, quarterly or annual payment.

Typically, these contracts provide a significantly higher level of sustainable income than you would be able to produce from your investment portfolio, assuming you stick to the convention of withdrawing no more than 4% of your nest egg per year.

For example, a 65-year-old man who invests in an immediate annuity today could receive some 7.5% a year of the amount invested, according to ImmediateAnnuities.com, a website that offers price quotes and information about these products.

But there are drawbacks. While the payments on many of these products are guaranteed for life, the paychecks often stop when you die.

"There's no point in buying an immediate annuity if you think you will die soon," says Gary Mettler, a vice president at Presidential Life Insurance, a Nyack, N.Y., insurer that offers medically underwritten annuities. But with some conditions, "you might live a relatively long time."

To qualify for medical underwriting, you have to have a relatively serious condition, such as Parkinson's or Alzheimer's disease or congestive heart failure, according to ImmediateAnnuities.com. You also have to submit your medical records to the insurer.

If the insurer determines that you have a shorter-than-average life expectancy, it will bump up your payout.

Consider a 60-year-old man who puts $100,000 into an immediate annuity. Ordinarily entitled to about $590 a month, this person would receive $655, or 11% more, from Presidential Life if he has a life expectancy that's deemed five years shorter than average, says Mr. Mettler. For an 82-year-old, the payout rises to $1,540 a month, from $1,200.

Before purchasing an annuity, find an agent who specializes in immediate annuities and works with multiple carriers. (Sites including ImmediateAnnuities.com and AccuQuote.com are examples.)

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Don't limit yourself to the handful of insurers—including Presidential Life, United of Omaha Life Insurance and AIG's American General Life—that offer medical underwriting. It may be possible to get a higher quote from a different company that's aggressive in its pricing, says Hersh Stern, owner of ImmediateAnnuities.com.

To protect yourself from an insurer's insolvency, consider its credit rating. And keep purchases from individual companies below the amounts industry-funded associations cover. For your state's coverage limit, check the National Organization of Life and Health Insurance Guaranty Associations at www.nolhga.com.