

What Do Life Insurance Company Ratings Mean and Do They Matter?

Buying life insurance is a big commitment and the application process can be lengthy, but you are relying on the financial soundness of the life insurer to ensure that it will live up to its obligations should you pass.

Fortunately, there is a method for gauging an insurer's financial strength and you should keep that in mind when it's time to purchase a policy. Just like you would read reviews of a product you're thinking about buying online, you can also do your homework on the ratings of the life insurers you are looking at.

Life insurance ratings are a picture into the financial soundness of the carrier and its ability to meet its claims-paying obligations.

There are a number of ratings firms that analyze life insurance companies' finances in minute detail and then give them a letter grade to reflect their soundness. Understanding these ratings will give you confidence in choosing an insurer that you can rely on to pay its claims, if need be.

There are four main ratings agencies, and they each have their own method for generating ratings to the same insurer.

A.M. Best — This agency gives life insurers a "Financial Strength Rating," which is based on a scale that includes six categories that range from "Poor" to "Superior," and 14 ratings ranging from D- to A+++. There is actually an E rating for companies under regulatory supervision, F for those in liquidation and S for insurers whose ratings have been suspended.

Fitch — Fitch rates life insurers on their ability to meet their long- and short-term credit obligations and their financial strength. The best long-term rating is AAA, which is indicative of what the agency considers "exceptional quality." The worst rating is D, which is given to insurance carriers in serious financial trouble or on the verge of shuttering their operations.

Moody's — This agency also looks at an insurer's ability to pay short- and long-term debts, using a different calculus. Long-term ratings range from Aaa (best) to C, the worst.

Standard & Poor's — The S&P Insurer Financial Strength Rating system indicates whether an insurance company has sufficient assets to pay its claims. The highest rating is AAA. AA, A or BBB are considered acceptable ratings. It also has ratings for companies that have defaulted on a policy or are in bankruptcy (SD and D, respectively).

Why it matters to you

Ratings should be one of many considerations you have when shopping for life insurance, as you want to make sure the insurer you choose has the financial wherewithal to pay your claim.

Ratings can tell you about a carrier's financial stability and give you a sense of which ones make the most reliable to insure your life with.

But it should not be the only consideration. You'll want to factor in product options, pricing and each insurer's customer service.

We can help you check ratings, or you can do it on your own by going to each of the ratings agencies' websites and searching the life insurer you are considering.

We can help you get started and make the search easier. Give us a call today.

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