

The Value of a Term Conversion Provision

Term life insurance policies typically include a provision that allows the coverage to be converted to permanent insurance at the same risk classification as when the term policy was acquired. Because medical underwriting is not required, this conversion privilege may be valuable and provides planning flexibility. The importance is increased if the client's health deteriorates and new insurance cannot be acquired or would be cost prohibitive.

The value of this provision is often overlooked when comparing term policies on premium alone. The contractual wording varies widely from company to company, potentially limiting the value of the provision.

MOST FAVORABLE

- Contractually guarantee conversion to ANY permanent product offered for sale at time of conversion
- Offered by only a few quality insurance carriers

MOST COMMON

- Allow conversion to ANY product without contractually guaranteeing the right to do so
- The risk is that the carrier will change their current practice and not offer conversion to the most competitive products

MOST RESTRICTIVE

- Specify which product(s) is available for conversion
- The carrier can dilute the value of conversion by restricting it to an expensive and uncompetitive product