

Understanding Term Life Insurance Conversion: Insights for Lifelong Coverage

Life is full of changes, and your life insurance coverage should adapt to meet your evolving needs. Term life insurance conversion offers an opportunity to extend the benefits of your term life insurance policy into permanent coverage, providing stability and flexibility for the future.

This article explores what term conversion is, how it works, and why it might be the right move for you. We explore a real-life case study demonstrating how this option can address various financial planning goals. Whether you're preparing for the unexpected or planning for a long-term financial strategy, term conversion can be a valuable tool.

What is Term Conversion?

Term conversion allows policyholders to exchange their term life insurance policy for a permanent one without undergoing a new medical exam, allowing you to preserve your current health rating, even if your health has changed. This process ensures continuity in coverage and provides additional benefits that term insurance alone cannot offer.

Key Features of Term Conversion



No Medical Exam

Preserve your current health rating, even if your health has changed.



Premium Predictability

Lock in premiums for lifelong coverage.



Lifelong Coverage

Obtain coverage for life, often with added features like cash value accumulation.

By converting your term policy, you gain more than just continued coverage, you gain a tool for long-term planning.

Common Questions About Conversion

Can I convert part of my term policy?

Yes, partial conversions are often available. This means you can convert only a portion of your term policy into a permanent policy while keeping the remaining coverage as term insurance. Partial conversion offers flexibility, allowing you to obtain lifelong coverage for part of your needs, while maintaining the remaining coverage on your term policy.

For example, a policyholder might convert a portion to provide long-term financial planning benefits, such as estate liquidity, while leaving part of the term coverage in place to insure immediate obligations, like a mortgage. This tailored approach can help balance current costs with future benefits.

Will my premiums change?

Yes, permanent policies typically have higher premiums, but unlike a term policy, they offer cash value accumulation. A permanent policy is an asset with a predictable rate of return, making premiums akin to investment contributions.

Permanent policies provide lifelong coverage, which means the premiums are designed to fund not only the death benefit but also the policy's cash value component, which grows tax-deferred over time. This cash value can be accessed during your lifetime through loans or withdrawals, offering additional financial flexibility.

It's important to note that the exact premium change will depend on the amount of coverage you convert, the type of permanent policy you choose, and your age at the time of conversion.

What are my term conversion options?

Term conversion options vary depending on the insurance company and the specific terms outlined in your policy. It is crucial to familiarize yourself with the options available in your policy to ensure that you are able to take advantage of the conversion strategy best suited to your needs.

Conversion options may be limited to a specific period of the policy, such as the first four years, or may be available for the entire policy term. Some policies are convertible to the insurance company's entire line of permanent policy options, while others may be limited to specific products.

Some policies may include both time and product options. For example, conversion within the first four years may allow for selection from a wider range of products but limited to only one product option after the initial period.

Why Now? The Cost of Waiting

The decision to convert your term policy to permanent coverage is time sensitive. Acting sooner rather than later can make a significant difference in terms of cost and eligibility.

Health Changes: Life is unpredictable, and your health today might not be the same tomorrow. Converting now preserves your current health rating, even if unexpected medical conditions arise in the future.

Waiting could lead to the loss of this feature if your policy expires or becomes ineligible for conversion.

Lower Costs: By converting early, you lock in premiums based on your current age. Waiting to convert could result in higher premiums, as life insurance costs increase with age.

Conversion Deadlines: Many term policies have specific timeframes for conversion eligibility. Missing these deadlines could mean losing the opportunity to convert altogether. Review your policy terms to ensure you're aware of these critical timelines.

Financial Planning Benefits: Converting early provides access to the cash value feature of permanent policies, allowing it more time to grow tax deferred. This additional growth can enhance your long-term financial strategy, offering a source of funds for future needs.

The cost of waiting is not just financial—it's the potential loss of flexibility and planning opportunities. By acting now, you can help ensure your coverage evolves with your needs.

Case Study: Real-Life Application of Term Conversion

Background

The client, an affluent individual, held a \$5 million term life insurance policy. Due to a recent health change, they no longer qualified as a preferred risk with new underwriting. After an in-depth review of available term conversion options, it became clear that transitioning to permanent coverage would address both

immediate and long-term financial concerns.

The objective was twofold:

- Provide lifetime coverage to meet estate planning goals and provide liquidity for potential estate tax obligations.
- Help increase the value of the life insurance policy as a tax-deferred investment vehicle.

The Challenge

While the client valued the flexibility of term policies, the need for more robust long-term strategies became evident. Additionally, the cost-effectiveness of the available permanent products varied significantly depending on the insurer and policy type. The client needed guidance on:

- Selecting between Indexed Universal Life (IUL) and Variable Universal Life (VUL) policies.
- Balancing premium commitments with desired policy features and potential cash value accumulation.

The Solution

After evaluating policy options from multiple carriers, two primary options were recommended:

Death Benefit Focus:

- **Policy Type:** VUL with a level death benefit designed to last for the client's lifetime.
- **Premium Structure:** \$56,276 annually for 10 years, assuming a 7%

gross return (or up to 21 years at 5%).

- **Opportunities:** This structure provides estate tax liquidity while helping to preserve family assets. Funding the policy for a level death benefit helps ensure the policy's longevity and predictability.

Investment Focus:

- **Policy Type:** VUL structured as a tax-deferred investment vehicle.
- **Premium Structure:** Maximum funding over seven years while maintaining the policy's tax treatment.
- **Comparison:** When matched against a hypothetical taxable mutual fund option, the VUL policy provided significantly greater after-tax distributions. Additionally, the policy offered flexible access to cash value for retirement or other

needs, making it a dual-purpose financial tool.

Key Takeaways

This case demonstrates how term conversion can be tailored to meet specific financial goals, whether for estate planning or investment purposes. By leveraging proprietary policy options and specialized guidance, the client was provided options to align their life insurance coverage with both immediate needs and long-term objectives.

Next Steps

Your term life insurance policy is more than just coverage for today—it's a foundation for tomorrow. Evaluating your conversion options is an essential step in your financial planning journey. Contact us for a personalized consultation to review your policy and explore how term conversion or other policy options may support your goals.

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