

1035 Exchanges: What You Need to Know Before Making a Change

A 1035 exchange allows you to replace an existing life insurance policy with a new one. This provision, under Section 1035 of the Internal Revenue Code, allows policyholders to transition into policies that better meet their financial goals while maintaining the tax-deferred status of their accumulated cash value.

Why It Matters

As financial needs evolve, your current life insurance policy may no longer be the best fit. A 1035 exchange provides an opportunity to:

- Improve coverage for the financial well-being of your loved ones or business.
- Lower policy costs while maintaining or increasing benefits.
- Access modern policy features, such as enhanced death benefits or long-term care riders.
- Avoid taxable events while upgrading your policy features.

Why Consider a 1035 Exchange?

A 1035 exchange can be a strategic move if:

You've Outgrown Your Current Policy

Your life circumstances have changed, and your current policy no longer aligns with your financial goals or protection needs.

You Want Better Features New policies often include improved benefits, lower premium costs, or

options for additional riders such as long-term care provisions.

You Want to Maintain Tax-Deferred Status By using a 1035 exchange, you can transition to a new policy without triggering taxable gains on your existing policy's accumulated cash value.

Key Conditions for a Successful 1035 Exchange

While a 1035 exchange offers benefits, it's important to determine that the

transition is in your best interest before moving forward. Consider the factors below.

The New Policy Must Be a Better Fit

Improvements frequently pursued in a new policy are increased death benefit coverage, lower costs, or more beneficial terms than your current policy. It is important to evaluate potential riders and added benefits that weren't available when your existing policy was issued.

Understanding Potential Costs

Be aware of any fees, surrender charges, or changes in premium structure that could impact the overall value of the exchange. Consider whether the benefits of the new policy outweigh the costs of making a switch.

You Will Need to Qualify Again

Your health and insurability status may have changed since purchasing your current policy. Most policies require new underwriting, which could impact pricing or eligibility. For a detailed discussion of how health factors impact underwriting, see our whitepaper [Obtaining Life Insurance with a Health History](#).

Following IRS Rules to Maintain Deferred Taxation

A properly structured 1035 exchange ensures that the transaction remains tax-free. Policyholders must transfer

the full cash value directly to the new policy to avoid taxable gains.

Real-Life Scenarios: When a 1035 Exchange Makes Sense

The following case studies illustrate how a 1035 exchange has helped individuals improve their life insurance.

Case Study #1: Improving Coverage and Carrier Strength

Client Profile The client was a 55-year-old male with a Preferred Plus Nonsmoker rating. He held multiple policies, including term, whole life, variable whole life, and universal life policies, for a total of \$1.5M in death benefit.

With \$1M in death benefit in a 20-year level term policy nearing the end of the term period, the client sought a solution to maintain his existing death benefit while strengthening his policy portfolio.

Outcome By transitioning to a no-lapse guaranteed variable universal life policy with a top-rated carrier, the client obtained a 33% increase in death benefit and increased financial efficiency without additional premium outlay.

Case Study #2: Enhancing Survivorship Coverage

Client Profile A married couple, male aged 66 and female aged 72, with preferred nonsmoker and super preferred nonsmoker ratings

respectively, owned two whole life survivorship policies with a combined death benefit amount of \$4.6M.

Outcome The clients were able to more than double their death benefit with a \$10M survivorship universal life policy from a top-rated carrier, while maintaining the same premium structure, along with the added premium flexibility of a universal life product.

Case Study #3: Young Professional's Opportunity for Long-Term Value

Client Profile A 32-year-old female with a super preferred nonsmoker rating owned a whole life policy purchased at age 19 with a \$642K death benefit.

Outcome The client obtained an increase of over 475% in death benefit with a \$3.75M indexed universal life policy through a top-rated carrier. With no additional premium, this exchange significantly improved her financial well-being and created long-term value.

What to Watch Out For

While a 1035 exchange can be beneficial, it's important to proceed with as much information as possible. Here are some common mistakes to avoid:

Not Fully Evaluating Costs Some exchanges come with surrender charges

or new policy fees that may outweigh the benefits.

Overlooking Underwriting

Requirements If you need to qualify again, changes in your health could impact your new policy options.

Failing to Align with Financial Goals

Be cognizant of how the exchange supports your broader financial strategy and long-term objectives.

Questions to Ask Before Making the Switch

- Does the new policy offer clear advantages over my current policy?
- Are there any fees or surrender charges that may impact my decision?
- What current health and lifestyle factors may impact new underwriting?
- How does this change fit into my overall financial plan?

How We Can Help

Navigating a 1035 exchange can be complex, but with the right guidance, the process can be smooth and beneficial.

The Role of an Experienced Team

We analyze your current policy and financial goals to determine whether a 1035 exchange is the right strategy. If we determine that your existing policy is a good fit for replacement, our team

works to structure the exchange to maintain tax-deferred status and enhance benefits.

Step-by-Step Guidance Through the 1035 Exchange Process

For over twenty years, we've been reviewing life insurance policies to help individuals and families better understand their coverage. Our process helps both policyholders and their advisors take a proactive approach to evaluating coverage, ensuring it continues to serve its intended purpose. Our steps include:

- Conducting a detailed policy review.
- Comparing potential new policies to determine the best fit for your unique needs and goals.
- Working with carriers and your financial advising team to facilitate a seamless exchange, if appropriate.

How Tenzing Insurance Strategies Helps Facilitate a Seamless and Beneficial Exchange

We partner with top-rated insurance carriers, using informal underwriting to find solutions for your needs. Our team provides personalized recommendations tailored to your long-term objectives while structuring for compliance with IRS guidelines to maintain tax efficiency.

Next Steps: Is a 1035 Exchange Right for You?

If you're considering a 1035 exchange, contact us to guide you through the next steps.

Contact Us for a Policy Review

At Tenzing Insurance Strategies, we specialize in helping clients make informed decisions about their life insurance policies.

Ready to explore your options? Contact us today for a personalized policy review.

© Copyright 2025 Tenzing Insurance Strategies. All rights reserved. Improve My Life Insurance - Powered by Tenzing Insurance Strategies, LLC | 781.444.8600 | tenzingins.com

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC. Tenzing Insurance Strategies, LLC is independently owned and operated.

This material and the opinions voiced are for general information only and are not intended to provide specific advice or recommendations for any individual or entity. To determine what is appropriate for you, please contact your Tenzing Insurance Strategies Professional. Information obtained from third-party sources is believed to be reliable but not guaranteed.

The tax and legal references attached herein are provided with the understanding that Tenzing Insurance Strategies, LLC is not engaged in rendering tax or legal services. If tax or legal advice is required, you should consult your accountant or attorney. Tenzing Insurance Strategies, LLC does not replace those advisors.

Case study results are for illustrative/informational purposes only and may not reflect the typical purchaser's (client's) experience and are not intended to represent or guarantee that anyone will achieve the same or similar results. An insurance contract's financial guarantees are subject to the claims-paying ability of the issuing insurance company.