Is Term Life Conversion Time Running Out?

by Gregory E. Schwabe, FLMI, as seen in ThinkAdvisor

Advisors are always looking for new business. As something of a twist, I've been finding it for them in their old business. While reviewing in-force term policies at my company, First American, I check for conversion expiration dates and end of level period dates. It's turning up lots of business opportunities for advisors.

I remind advisors that a conversion date is coming up or their level term period is expiring and suggest this would be a good time to make contact with clients. Most appreciate the nudge since it helps clients and can result in a conversion or a new sale. It also prepares them for the impending correspondence from the insurance carrier about an upcoming change in their premiums.

Unfortunately, there are other examples where the news is not so good. Recently, I came across a 10-year $500,000 plan that was issued 15 years ago and remains inforce today. The initial $365 annual premium is now $1,173 quarterly. If the woman is still insurable, she could be paying $1,500 annually. I've been told the client isn't returning the advisor's calls. This can't come as a surprise to an advisor who failed to maintain communication after the sale.

In another case, a 15-year $500,000 term plan with a conversion expiration date a little more than two years ago went from a level premium of $345 annually to a current $1,890. Next year, it jumps to $2,520. What will it be if the woman lives to age 85?

There are instances where there's still time. One policy owner's $250,000 policy's premiums remain level for seven more years, until the client reaches age 77. However, the conversion expiration is only two months away.

If he misses it at 77, the monthly premium of $165 goes to $585 and a year later, it's $1,003. And then there's the policy owner who purchased a $1million 15-year term plan in 2003 and the policy renewed last month. His annual premium went from $10,880 to $115,600! He is now 78-years old. Faced with a premium increase of more than $100,000, no wonder he dropped the policy.

Because this didn't need to happen, I indicated to the advisor that if the policy owner is insurable, much better options are available for continuing the coverage. Here are a couple of possibilities: a new 10-year plan at standard rates is $45,000 a year or he could possibly keep $250,000 of coverage for the next 10 years for about what he is paying now if he is still insurable.

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Some may blame clients for creating problems for themselves by failing to pay attention to their policy's conversion expiration date or end of their level term period. Chances are, they didn't know such dates existed. If they received a notification, they may have failed to pay attention to it. Most clients buy term plans with the mindset that they will not need the coverage beyond the level period, much less think they will ever have to worry about converting the plan down the road. Even so, you could argue that advisors should be more proactive. Yet, in many situations with these older term plans written 15 to 20 years ago, the advisor is retired or no longer in business.

So, where does this leave us? It might help if we made a point of the conversion expiration date when selling term life plans in an effort to impress clients with its importance. We can also set up a reminder system to contact clients that the date is coming up.

But when it comes right down to it, it's in our best interest to stay on top of conversion expiration dates. This is a perfect opportunity for policy reviews to determine if their plan is working as expected and to offer suggestions that are a better fit for their current life situation.

To put it another way, there are new business opportunities in our old files.

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