

# Term Conversions

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## Introduction

On September 16<sup>th</sup>, 2024, LifeTrends launched its enhancement to Features with the expansion of a new Term Conversion section. As such, we wanted to celebrate by taking a look at the state of conversion privileges today and how that analysis, along with discussions with our valued partners, helped us arrive at the Term Conversion section design.

## What Is It?

Term Conversions are a valuable, and nearly necessary, product feature of Term Life Insurance that allows for the insured to convert their existing Term policy into a new life insurance policy. The most common conversion landing spot is a permanent product, however some conversion provisions allow conversion into another, longer duration, Term Insurance. The appeal for consumers with Term Conversion privileges is two-fold;

1. No Medical Proof of Insurability at time of Conversion
  - a. When an insured looks to convert their policy, they do not have to go through medical Underwriting, assuming the face amount is not increased.
  - b. Allows for someone to lock in a potentially healthier rating for an extended period of time
    - i. In theory, someone could get their policy issued Preferred Best, develop a chronic illness, and then convert to a permanent policy and stay at a Preferred Best rate class. While this is best outcome for client, its generally not favorable to the carrier.
2. Flexibility
  - a. If the insured is not 100% committed to a particular type of permanent life insurance, or maybe has concerns regarding affordability, but still understands the value of having life insurance, they can purchase a Term policy with a Conversion Option and take time making a decision that's best for them with the added benefit of #1.

## Why Do Carriers Offer This Feature?

Every single company benchmarked on LifeTrends offers some form of Term Conversion. Conversions are not regulatory therefore their existence on so many policies demonstrate a direct preference from the market. That said, it's imperative that carriers include a Term Conversion for the reasons stated above. Clients really like the flexibility and the lack of future UW. Agents like that Clients like it as it opens an opportunity to make a higher premium sale in a few years when they move to a permanent plan. Carriers like it because everyone else likes it and Conversion Rates are historically low. Several studies <sup>2,3</sup> from the Society of Actuaries put Conversion Rates at less than 8% on average of eligible policies converting.

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<sup>2</sup> <https://www.soa.org/resources/research-reports/2017/predictive-models-conversion-studies/>

<sup>3</sup> <https://www.soa.org/resources/research-reports/2016/2016-report-conversion-experience-term-plans/>

## How Does It Work?

The basic elements of a Term Conversion option come down to two questions: how long does the Conversion Option last and what products can I convert to?

To understand how long the Conversion Option is available, the first place to start is the Base Duration. LifeTrends defines the Base Duration as the duration that comes standard on the plan, before any sort of additional rider or enhancement. These durations can be as short as 5 years and last as long as the full duration of the Term policy. Table 1 displays the Base Duration period for Term products benchmarked on LifeTrends. Several companies and products appear twice – this is because of the life insurance products offered in which the insured can convert to, which we will tackle next. These Conversion Options allow conversion into different products based on duration options.

**Table 1.**

Company	Product	Base Conversion Option Duration			
		10	15	20	30
Ameritas	Ameritas Value Plus Term	5	5	5	5
Ameritas	FLX Living Benefits Term	Duration	Duration	Duration	Duration
AuguStar Life	Term Basic	Duration	Duration	Duration	-
AuguStar Life	Term Plus	8	12	15	-
AuguStar Life	Term Plus <sup>1</sup>	Duration	Duration	Duration	-
Brighthouse Financial	Brighthouse SimplySelect	Duration	Duration	Duration	Duration
Cincinnati Life	Termsetter	Duration	Duration	Duration	Duration
Columbus Life	Nautical Term 2019	Duration	Duration	Duration	Duration
Corebridge Financial	Select-a-Term <sup>1</sup>	Duration	Duration	Duration	Duration
Corebridge Financial	Select-a-Term	8	10	10	10
Equitable Financial	Term Series 160 <sup>1</sup>	5	7	10	-
Equitable Financial	Term Series 160	5	5	5	-
Foresters Financial	Your Term 2019	5	10	15	25
Guardian	Guardian Level Term	5	5	5	5
John Hancock	Protection Term 23	6	8	10	12
John Hancock	Protection Term 23 <sup>1</sup>	Duration	Duration	Duration	Duration
Legal & General	OPTerm	Duration	Duration	Duration	Duration
Lincoln Financial	LifeElements Level Term (2019)	7	7	7	7
Lincoln Financial	LifeElements Level Term (2019) <sup>1</sup>	Duration	Duration	Duration	Duration
Lincoln Financial	Lincoln TermAccel (2019)	7	7	7	7
Lincoln Financial	Lincoln TermAccel (2019) <sup>1</sup>	Duration	Duration	Duration	Duration
MassMutual	MassMutual Term	Duration	10	10	10
Mutual of Omaha	Term Life Answers	Duration	Duration	Duration	20
National Life	Term	Duration	12	15	20
Nationwide	Guaranteed Level Term	Duration	Duration	Duration	20
New York Life	Level Term AD123	Duration	10	10	-
North American	ADDvantage	7	12	15	20
Pacific Life	Pacific Elite Term	Duration	-	10	10
Pacific Life	PL Promise Term	Duration	Duration	Duration	Duration
Penn Mutual	Guaranteed Convertible Term	Duration	Duration	Duration	20
Principal	Term 2023 Convertible	7	12	15	20
Protective	Classic Choice Term	5	5	5	5
Protective	Classic Choice Term <sup>1</sup>	8	13	18	18
Protective	Custom Choice UL 9-21	20	20	Duration	20
Prudential	Term Essential	Duration	Duration	Duration	Duration
SBLI	Level Term	Duration	Duration	Duration	Duration
Securian Financial	Advantage Elite Select	5	5	10	10
Security Mutual Life	LT Security Plus 3	Duration	Duration	Duration	Duration
Symetra	SwiftTerm	Duration	10	10	10
Symetra	Symetra Term 5.0	Duration	10	10	10
Thrivent Financial	Term Life Insurance	5	5	5	5
Transamerica	Trendsetter LB	5	5	5	5
Transamerica	Trendsetter LB <sup>1</sup>	Duration	Duration	Duration	Duration
Transamerica	Trendsetter Super	5	5	5	5
Transamerica	Trendsetter Super <sup>1</sup>	Duration	Duration	Duration	Duration

<sup>1</sup> Indicates that the product has two durations for conversion, each with a different set of product(s) available for conversion.

The 2<sup>nd</sup> question is: What products can the Term policy be converted to? This is not always a straightforward answer.

There are several factors that determine what products the insured is able to convert into. One factor was briefly mentioned above is a split on the products available based on the duration. More often than not, a shorter duration Conversion Period offers access to more products, typically those also being currently sold as new issue policies. An example of this would be John Hancock's Protection Term. In the first 6 – 12 years, depending on the Term duration, they allow you to convert to any single life product available for sale. After that period it becomes a limited offering.

### Current Practice vs. Contract Provisions

A factor to consider is what we call Current Practice vs. Contract Provisions. Contract language is ultimately what determines what a carrier might be able to offer for Conversion. However, the language used is not consistent across the industry – it is written differently by each carrier and in the right circumstances, could be significant for policy holders. However, the feature is promoted much the same by all carriers.

Let's compare Protective Classic Choice Term, Guardian Level Term, and Securian Advantage Elite Select.

**Table 2.**

Company	Product	Contract Language
Guardian	Guardian Level Term	The new policy will be any level premium whole life insurance plan that is available for sale by our parent company The Guardian Life Insurance Company of America on the conversion date and which could otherwise be purchased on the life of the insured. We may also make available for conversion other plans of permanent insurance being issued by us or by our parent company on the conversion date.
Protective	Classic Choice Term	The Conversion Policy must be a plan of permanent insurance, such as, a flexible premium adjustable life insurance, whole life insurance or other similar plan of life insurance available for conversion at the time of your Written Notice. We will always have at least one such policy available. We are not required to have more than one Conversion Policy available.
Securian Financial	Advantage Elite Select	The new policy must be single life permanent coverage on the policy forms we are then issuing.

For the purposes of tracking on the LifeTrends platform, Guardian and Protective would be considered Limited for product availability, while Securian would be considered Any. That said, there are key differences between what Protective and Guardian offer that should be recognized. Protective's Current Practice allows for Conversion into all their currently available permanent plans, but as the language points out, they control what is available at conversion and are only required to have 1 product available. So, while it's Any for a client today, there is no guarantee that a client in 5 years will have the same options available. In contrast, with Securian, who offers Conversion to a single life policy they are then issuing. This means that a client today, and a client in 5 years, will have the same opportunity. While it's totally possible Securian slims down their product portfolio in 5 years, regardless, both of these clients have the same chance to convert to any plan that is available to all new issues. The hybrid of these two would be Guardian. For their Whole Life suite, Guardian is Any in the same way as Securian. This is arguably their flagship product line but leaves out their VUL and UL offerings. Guardian does have the right to make those plans available for conversion, if they want too though. It's easy to see how these could be quickly spreadsheeted into similar categories but when boiled down, have distinct differences.

It is for these reasons that we state both the Products Available for Conversion, which represents the Current Practice, and state the Contract Language in Features.

### Extended Term Conversion Options

Some products offer an Extended Term Conversion option which is normally available via a Rider. As the name implies, it Extends the Term Conversion period from the base duration. In some cases, product availability expands as well. For example, the recent launch of the Conversion Enhancement Rider on Symetra’s SwiftTerm not only extends the duration of conversion availability, it expands the potential conversion products.

An area of competitiveness that is becoming more popular with Extended Term Conversion riders is the ability to convert into a policy that has a paid-for Chronic Illness Benefit without proof of insurability. Plenty of carriers allow you to convert into a policy that has these riders, but if you want the Chronic Illness / LTC rider, you must go through medical underwriting again. Going through medical underwriting defeats one of the two key main benefits described at the beginning of this post. This enhanced extension is achieved in different ways. Securian and Guardian both have a unique rider explicitly for the Chronic/LTC benefit, in addition to the traditional Term Conversion rider. Protective combines these benefits into 1 rider. These riders do come at a cost and vary across carriers based off of design and structure as just discussed. For example, on a 20 year Term Policy, a 40 year old Preferred Male, would pay 6.39% more Symetra’s rider and 13.45% more for Protective.

**Table 3.**

Company	Product	Extended Conversion Option Available?	No Insurability Chronic/LTC Rider Access
New York Life	Level Term AD123	Yes	Yes <sup>4</sup>
Guardian	Guardian Level Term	Yes	Yes <sup>5</sup>
Securian Financial	Advantage Elite Select	Yes	Yes <sup>5</sup>
Protective	Classic Choice Term	Yes	Yes
Symetra	Swift Term	Yes	No
Ameritas	Ameritas Value Plus Term	Yes	No
Principal	Term 2023 Convertible	Yes	No
Thrivent Financial	Term Life Insurance	Yes	No
MassMutual	MassMutual Term	Yes	No <sup>6</sup>

<sup>4</sup> on Whole Life products only

<sup>5</sup> Separate Rider from Duration Extension

<sup>6</sup> Can convert to LTCaccess but with requirements

### Additional Considerations

Something LifeTrends does not track is whether a Conversion Credit exists on the policy. Often, a Conversion Credit will apply your Term premium towards the 1st year of premiums in the new policy. At least, that is the general idea. However, the variations in how Carriers handle this, some being contractual, some being a “current business offering”, and what information they include in the product material, results in inconsistencies with the data and challenges in maintaining accuracy.

## Conclusion

After the death benefit, the Term Conversion privilege might be the most important feature on a Term policy. Unsurprisingly, this means the majority of products offer some form of Term Conversions, and for the ones that don't, they just tend to be cheaper. Term is known to essentially be a commoditized product. There is a Term Length with a corresponding level premium. This means that pricing competitiveness is the main battleground for competition, as Sydney Presley pointed out in the previous post on Term Reprices. Conversions give companies that don't want to play that game another way to provide meaningful benefits a client may be willing to pay for. Term Conversions are also an amazing tool for the agent. Client can't afford an expensive permanent policy at the moment? No problem! Term Conversion to the rescue. Client worried about future health deterioration, no problem! Term Conversion to the rescue. Lock in a client's insurability? No problem! Again, Term Conversion is on the job.