

Converting Term to Permanent Insurance



Term and permanent life insurance can play different roles in your insurance strategy. People often use term insurance to provide coverage for specific debts and time periods (e.g., in the amount and for the duration of a mortgage, in the amount of higher education costs, or for the duration of one's working years to provide replacement income). Permanent insurance – and in Navy Mutual's case, whole life insurance specifically – is often used for different purposes. Some people want access to the policy's cash value, while others want their beneficiaries to receive the death benefit as an alternative to an inheritance. Both types of life insurance provide a payout to beneficiaries provided the insured passes away when the policy is active.

Term life insurance is normally less expensive than an equivalent amount of permanent life insurance. For this reason, it is sometimes viewed as a "starter" product for individuals and families that recognize the need for life insurance but cannot yet afford the premiums associated with a permanent policy. As the end of a term policy approaches, a policy owner may want to convert the policy to one that is permanent. However, waiting until a term policy issued many years prior is about to expire can make conversion a more expensive proposition.

Reasons to Convert a Term Policy to a Permanent Policy

There are many reasons why a policy owner might consider converting a term policy into a permanent policy. Some of the more common reasons include:

- **Health concerns:** With age, health often declines. The less healthy an individual is when they apply for a life insurance policy, the less likely they are to be approved – and if they are approved, the higher the premiums they will probably have to pay. If you convert your term policy to a permanent policy before the term policy expires, you may not have to undergo a new medical exam, even if your health has changed. This allows you to maintain life insurance coverage despite being potentially unable to qualify for a new policy.

- **Guaranteed death benefit:** Term policies only pay a death benefit if the insured passes away during the policy's term. Once the term expires, no death benefit is paid. Permanent policies that are in good standing always pay a benefit upon the insured's death, regardless of the timing of the insured's death.
- **Access to cash value:** Permanent life insurance policy premiums go in part toward growing the policy's cash value. Depending on the plan provisions, the cash value can be accessed by the policy owner in the form of a loan or withdrawal. Term policies have no cash value component.
- **Estate taxes:** If you are wealthy enough that your estate will be worth more than \$12.92 million, the federal government will levy estate taxes. A permanent life insurance policy can provide the funds necessary to pay the IRS what is owed, preserving assets you would prefer to pass on to your loved ones. States may also require the payment of estate taxes, and may tax smaller estates that fall below the federal threshold.
- **Tax efficient asset transfer:** Unlike many other assets that could be left to an heir, life insurance death benefits are almost always [tax-free](#), providing the beneficiary with more money than the net value of a taxable alternative such as a traditional IRA, 401(k) or TSP balance.

How to Convert a Term Policy to a Permanent Policy

The first step in conversion is making sure that your current term policy allows for it. Some companies offer term policies with built-in conversion options, while others require that you purchase a convertibility rider at the same time that you purchase your term policy. Conversion is available on many policies but it is not a guarantee, so check your current term policy or call your insurer for more information.

Once you know that conversion is an option, converting a term policy to a permanent policy is normally simpler than applying for a new insurance policy. Instead of filling out an application, undergoing a medical exam, and waiting for the results of medical underwriting, you simply fill out a conversion application and sign a new policy contract.

There may be a deadline before which you must submit your conversion application. At Navy Mutual, [Level II Plus term policies](#) issued since March 2021 can be wholly or partially converted to a [Flagship Whole Life policy](#) with no need for the insured to undergo a medical exam provided that:

1. the term duration has five or more years remaining, *and*
2. the insured is under the age of 71 and the policy's anniversary date has not passed.

Although there are unlikely to be any fees associated with converting your term policy to a permanent policy, your premiums may increase. Your health won't be a factor, but your new premiums will be based on the insured's age and the risk classification offered by the conversion feature.

Your new premiums will also depend on the amount being converted – ordinarily, you are not required to convert the full amount of your term insurance to permanent insurance. For example, if you have a \$500,000 term policy, you could choose to convert \$250,000 to permanent insurance and keep the other \$250,000 as term insurance (to expire at the end of the original term). Your permanent policy's premium will be based on the insured's age, the



coverage amount, and the specified underwriting class, and your term policy's premium would drop because of the reduction in coverage.

Whatever you choose to do, you can rest assured knowing that, so long as it remains in good standing, a permanent policy guarantees a payout for your loved ones no matter when the insured passes away.

If you are interested in learning more about your conversion options or want to know more about the features of Navy Mutual's permanent life insurance, you can [schedule an appointment](#) or speak with a representative by calling [888-300-9331](tel:888-300-9331).