

Corbett Road

In The Media

What To Do When Your Term Life Insurance is Ending

— By Chris Taylor | January 31, 2023



File Photo: U.S. \$100 notes are shown at the Korea Exchange Bank headquarters

NEW YORK (Reuters) - Joe Natiello is facing what you might call a "nice problem to have."

Almost 20 years ago, the 64-year-old Westfield, New Jersey, resident took out a term life insurance policy, to help cover his family in case the worst happened.

Next year, though, that policy is elapsing, and at his age, Natiello's insurance premiums would spike if he decided to extend coverage.

Obviously, it is better than the alternative of not being around anymore. But it begs the question, for Natiello and every other policyholder in his situation: "Do I need this anymore?"

It is a fraught decision that can bring up some pretty big existential questions. Such as: How much time do I have left? What is my health situation like? Is it still critical to safeguard my family's financial future?

"It is actually a great time to revisit your need for life insurance, and whether it is adequate or too little or too much," says Scott Bishop, a financial planner in Houston.

Remember there are different types of life insurance on the market, and those with "permanent" versions do not face this conundrum. Those types offer different advantages, depending on the particular policy – such as not lapsing, containing options for investment growth, and having a cash-value component you can withdraw or borrow against – but are far more costly.

Term policies appeal to those who prefer a simpler product with lower monthly premiums. A typical monthly cost for a 30-year-old male in good health buying a 20-year, \$500,000 policy – the most common length and amount – is in the range of \$19-\$28 monthly, according to offers on the aggregator site Term4Sale.com.

So if your "deadline" is coming up, here are options to consider:

LET IT LAPSE

A key rationale for life insurance is protecting your family early in your career, when you do not have much to your name. But with enough assets, the equation changes.

"Ideally, they bought the term policy when they were young, and possibly had small children and a large mortgage," says Kayla Johnson, a financial planner in Wilmington, North Carolina. "Now they're near retirement, the kids are out of the house, and the mortgage is paid off. By this point, life insurance is hopefully a waste of money."

Since Natiello's two kids are now out of college and he has some universal coverage, the former Wall Street trader decided to let his term policy lapse.

EXTEND YOUR CURRENT POLICY

You may choose to keep the meter running on your existing policy, which typically gets renewed on an annual basis. The advantage of this is that you will not have to go through another battery of health tests to get approved.

The downside: Since your insurer is taking on more risk, those previously level premiums will jump.

"They can extend their current policy, but the cost will most likely be notably higher [than purchasing a new policy] because the person does not go through underwriting," says Elaine Tumicki, head of insurance product research for the trade association LIMRA.

PURCHASE A NEW TERM POLICY

If your first term policy is winding up, and you are still in excellent health, shop around for a new term policy.

Just be ready for another underwriting process and don't expect the same premiums. For a 50-year-old male in good health, buying a 20-year-policy with \$500,000 in coverage, you will

now be getting offers of monthly premiums in the range of \$70-\$100 a month, according to Term4Sale.com. (One way to keep a lid on those premiums: Getting coverage for a smaller amount than before.)

Also keep in mind that if you do have health problems, it may be difficult getting a new policy at all.

CONVERT INTO DIFFERENT COVERAGE

Another option is to flip your term into permanent coverage, which some insurers allow, depending on the fine print of your current policy.

"A term conversion privilege often allows the policyholder to convert to a permanent policy, like universal or whole life insurance, without having to take another medical exam," says Amanda Kuhl, senior vice president and head of life products at insurer New York Life.

Even better if the converted policy has a long-term care component, designed to assist with future costs associated with disability or chronic illness or nursing homes.

"Can you convert the term life policy to a permanent policy?" asks Michelle Gessner, a Houston financial planner. "If you can obtain long-term care benefits as a rider through another life policy, that may be the way to go."

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