



Is Term Insurance a Commodity?

Factors to consider in selecting a policy.

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Hopefully, the message that life insurance can't be treated as a commodity is slowly getting through to advisors and consumers. I see signs here and there that it is, but it seems to be a painfully slow process.

Even when that realization sets in, the perception of term insurance is often different. I have to admit that I haven't always viewed the details of term insurance as on par with permanent insurance, but there are aspects to keep in mind that may not surface for years to come.

Term insurance is commonly spreadsheeted, and often the decision is made to go with the cheapest quote from a company one has at least heard of. But sometimes not even that seems to matter. I first realized the issue years ago when I looked into converting term policies on both my dad and father-in-law. The policies were both with a very large, well-known and highly rated carrier, but it turned out the policies were convertible only to a specific product rather than any product in the carrier's portfolio, while some carriers offer conversion to any product in their portfolio. The product was a ridiculously archaic policy with a premium that was at least double that of competitive products of the day, even with the same carrier. It was a product only kept on the books for the purposes of conversion by those with no other choice.

Practice vs. Contract

Some of the companies allow conversion to any product by practice today but not by contract tomorrow. This practice-versus-contract issue was seldom given much thought until recently, when practices have sometimes been abandoned with contractual language brought to bear. To protect your clients, assume that these practices will change over time.

There are some long-term level-premium contracts that allow conversion to any product in the first five years, but not after that. It shouldn't be difficult to see that this might be problematic down the road.

Age

Another issue with conversion is age. I can spreadsheet a 50-year-old client looking for a 20- or 30-year term policy, and the conversion periods can be 65, 70 or 75, with an age 65 conversion costing more than an age 75 conversion. If the client knew this, wouldn't it likely alter his or her decision, even if they didn't plan for conversion when taking out the policy? The age to which a policy is convertible may even change by the risk class of the insured individual. Would any consumer knowingly take options off the table?

Other Issues

Conversion periods are clearly an issue to be taken into consideration, but so are a number of particulars that wouldn't seem apparent or important until you realize they aren't available. Examples include splitting a policy or reducing the face amount of a contract. What about converting a portion of a policy and retaining the balance as a stand-alone term policy? Again, some carriers allow these transactions by practice, some allow it by contract, and some don't allow it at all.

Is a policy on one spouse convertible to a second-to-die policy if the other spouse has a policy with the same carrier? If so, how much is it convertible to?

Of course, who knows what the portfolio of the carrier might look like years down the road and what the pricing might be. However, choosing an insurance company with a wider portfolio of products today with features that are contractual may pay off later.

Premiums Don't Reflect Features

Interestingly, the premiums of the various products often don't line up with product features. Sometimes the cheaper spreadsheet options have the edge regarding policy details, but other times the products with the most flexibility are the most expensive and end up at the bottom of the list. It's a case-by-case situation, and you can't assume anything. When you realize that a spreadsheet of multiple products may be bookended by premiums only a few percentage points different, the premium paid for the power to control your destiny regarding these decisions in the future may be well worth it.

In the end, your clients may or may not make decisions on policy features such as these, and decide solely on price or name recognition or agent in front of them, but it may be important to bring this to their attention. If you don't, you may be blamed, and that may be incentive enough to order a quick study.