



What to Do If Your Life Insurance Policy Is About to Expire



One advantage of term life insurance is that it is generally the most cost-effective way to achieve the maximum life insurance protection you can afford. Many people first purchase term life insurance to protect their family's financial interests after a significant life event, such as getting married or the birth of a child.

You may have done the same for your family when you purchased your policy years ago. And chances are, other than paying the premiums, you probably haven't given it much thought since then. However, if your term life insurance policy is set to expire in the near future, it's important to explore your options now before the coverage runs out.

Before you get started, you first need to reevaluate your life insurance needs and determine if anything has changed. Are your children grown and have they graduated from college? Do you have a mortgage? If you have financial obligations that you need to take care of, you may still need term life insurance. If you are nearing retirement and have fewer financial obligations than you did when you were younger, your need for a term life insurance policy may not be as great as it once was.

Purchasing a new policy

If you are in relatively good health and your current term life insurance policy is about to run out, you might consider purchasing a new term policy altogether. When applying for a new term life insurance policy, you will generally need to pass a medical exam. In addition, since you are older now, your premiums may be higher than they were under your old policy. However, you may not need as large a policy as you did when you first purchased term life insurance years ago. It may pay to shop around and compare because premiums can vary among insurers.

Renewing your existing policy

When the coverage period for your term life insurance ends, you may have the option to renew the policy, depending on the specific policy and limitations. Though you won't be required to take a medical exam if you renew your policy, the rate will generally increase each time it is renewed for an additional term because your age has increased (as has the insurance company's risk of paying a death benefit). These increased premium costs can sometimes make renewing a term life insurance policy an expensive way to cover your life insurance needs.

Converting your policy to permanent life insurance

If you have a convertible term life insurance policy, you may be able to convert it to a permanent life insurance policy, such as whole or universal life insurance. Permanent insurance continues throughout your life as long as you pay the premiums. As with term insurance, permanent insurance pays a death benefit to your beneficiary at your death, but it also contains a cash value account funded by your premium dollars. When you convert your policy, you won't need to prove your insurability by taking a medical exam. However, there is usually a conversion deadline, which is the date by which you must convert, typically before your term life insurance is set to expire.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing company.

The rules governing 1035 exchanges are complex and you may incur surrender charges from your "old" life insurance policy. In addition, you may be subject to new sales and surrender charges for the new policy

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