



## Conversion vs. Portability

Extending life insurance protection after group coverage ends



**35%** of all in-force life insurance policies are represented by group insurance, according to a recent study.<sup>1</sup>

**Group life insurance is one of the simplest and most accessible financial benefits available.** For a relatively low cost and through convenient payroll deduction, employees can receive term life insurance coverage that can help protect their families' future. In an increasingly complex financial world, it is a benefit that is easy to understand and appreciate.

One of the trade-offs for the low cost of group life insurance is that it is not permanent. If an employee leaves their company for a new job or is laid off, coverage will end. While many employees will quickly sign up for new plans with another employer, others will not. This may lead to gaps in an individual's overall life insurance coverage.

Fortunately, group life insurance providers typically include provisions in their policies that allow exiting employees to convert to permanent, individual coverage or to temporarily continue their existing group term life insurance coverage.<sup>2</sup> Which option fits best—"converting" or "porting"—depends on the life insurance needs of each employee.

Conversion and portability provisions in your group life coverage should be discussed with your benefits broker or provider. The first step, though, is to understand the facets and implications of each provision.

**When a group life insurance benefit is reduced due to age, the portion that is no longer covered under the group plan is eligible for conversion. For example, an employee with a \$50,000 benefit that reduces to \$35,000 can convert the \$15,000 difference to an individual policy.**

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**Certain events—age reduction, a divorce, children turning 26, a retiring spouse—can trigger termination of an individual’s coverage under the group policy.**

Employees need to be notified of their life insurance options as soon as possible. In some states, employers are legally required to provide at least 15 days notice and most carriers require conversion or portability applications to be received within 31 days after an individual’s loss of coverage.

## **Conversion: Offering a lifetime of coverage**

Group life insurance carriers may allow employees who are losing their employer-sponsored coverage to convert their term policy to a permanent, individual life insurance policy. Covered employees, their covered spouse and/or eligible dependents can generally keep the same amount of benefits they had under their term policy without a new medical exam. This can be an advantage as health conditions normally play a factor in individual life insurance rates.

In terms of cost, individual life insurance coverage does tend to be more expensive than group coverage. This is because rather than a negotiated group premium, the rate is determined by each person’s age, gender, the amount of coverage requested and other factors. However, because the rate is fixed for the life of the policyholder, it will not increase as the person ages or be based upon any changes in the insured person’s health condition. In addition, permanent, individual life insurance coverage can also accumulate cash value.

An individual life insurance policy is a bigger financial commitment than a group term policy, but conversion may make sense if the employee needs a more consistent level of coverage, perhaps following the purchase of a new home, the birth of a child or other life events.

## **Portability: Continuing group term life benefits**

Portability allows departing employees to continue their existing group coverage for a limited period of time or until they are eligible for coverage under a new group plan. Porting coverage is typically a lower-cost option than converting to a permanent policy.

Because ported coverage typically remains in-force for a limited time period, it can be a good option for individuals who are likely to resume employment with a new company offering its own group life plan. A ported policy can effectively serve as a “bridge” until new group life insurance coverage is attained. Portability may also be available for spouses and dependents covered under the current group policy. As with conversion, a medical exam is usually not required.

It is important to recognize that portability coverage is subject to certain conditions and restrictions. These may include the following:

- The amount and length of coverage that is continued may be limited.
- Coverage may be subject to age-based reductions.
- The original company’s group life insurance policy and the portability provision must be in-force at the time of application.
- The employee must not have reached Social Security Normal Retirement Age (SSNRA).
- The employee must not be entering active military service.
- Dependents may only port their coverage if the employee elects to do so.

## At-a-glance: Conversion vs. portability

Educating employees on the benefits of conversion or portability will allow them to choose the best option for their needs.

	Policy type	Length of coverage	Cost	Cash value	Maximum benefit
Conversion	Individual, permanent life insurance	Provides lifetime protection when sufficient premiums are paid.	Individual rates typically tend to be more expensive than a 'ported' policy.	Yes	Employees can usually convert their full group policy face amount.
Portability	Group term life insurance	Provides protection for a limited period of time.	Group rates typically tend to be less expensive than other types of coverage.	No	Determined by the insurance carrier. Often, it cannot exceed the current benefit amount or policy maximum. Generally \$250,000.

## Employer advantages

As a recruiting and retention tool, group life insurance allows companies to offer valuable benefits at a relatively low cost. By incorporating conversion and portability provisions into the policy, employees do not have to lose these important life insurance benefits if they choose to leave or are laid off—a time when they may already feel vulnerable.

While employers are responsible for providing timely notice about the employee's right to convert or port their coverage, processing applications is typically managed by the group life insurance provider, requiring little paperwork from the employer. For this minimal extra effort, employees will appreciate the enhanced peace of mind that comes with the conversion and portability provisions.

**For more information about conversion and portability, talk with your group benefits representative.**



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<sup>1</sup> "Life Insurers Fact Book 2023," American Council of Life Insurers, March 25, 2024, <https://www.acli.com/-/media/public/pdf/news-and-analysis/publications-and-research/2023-fact-book-chapters/2023aclifactbook.pdf>.

<sup>2</sup> Accidental death and dismemberment (AD&D) benefits are typically not eligible for conversion or portability.