



POWER

through Partnership

CONVERSION OF LIFE INSURANCE

What is Conversion?

When employers and employees part ways, employees can often continue life insurance coverage with the same insurance company through an individual life insurance policy without the need to prove further insurability. The group life insurance contract under which an employee is insured may have a conversion privilege available when their coverage is terminated for any reason other than nonpayment of premiums.

Conversion Privilege: What Does It Mean to Convert a Life Insurance Policy?

- A conversion privilege allows an employee under a group plan to convert their coverage under the plan to an individual life insurance policy without submitting to a physical examination.
- The life insurance company will extend coverage based on the fact the individual was already approved as part of the group life insurance plan. The individual policy is an amount, not in excess of the amount of life insurance, which ends under a group policy.
- A former employee usually has 31 days to convert the policy to individual coverage.
- A conversion privilege guarantees coverage and sets premium payments for a certain number of years regardless of the insured's health status.
- In some situations, an individual can continue to receive a group discount even though they're no longer part of the group. To qualify for this provision, the insured needs to notify the life insurance company within 31 days of termination of employment with the group policyholder. If the individual waits until after 31 days, they will have to go through a new approval process to get an individual life insurance policy. The process might entail a new medical exam.
- The insurance company extends coverage during the period allowed for the conversion. If an insured were to die during the 31-day period following the termination of insurance, the insurance company will pay the amount of life insurance for which an individual policy could have been issued.

Employer Fiduciary Responsibilities Under ERISA

If a group policy offers a conversion privilege, the procedure for applying for it is usually outlined in the Policy or Certificate of Insurance section titled "Conversion" which specifies whether the insurer or the employer has an obligation to inform the employee of his/her conversion rights.

If the employer fails to notify the employee whose employment terminated regarding how to convert, the liability for a denied claim may fall on the employer. Similarly, the insurance company may be in breach of their fiduciary duty under ERISA if they had an obligation to inform but failed to do so.

Liability in such cases depends on the group policy; both the insurer and the employer may be liable for a denied ERISA claim. Under the law, both the employer and insurer have a duty to act prudently and in the best interest of plan participants.

Notice of Conversion Rights

Any notice provided by an employer should be clear and concise and without ambiguity.

A clear conversion notice will inform the departing employee of:

- The date their group life insurance coverage will end.
- The deadline for submitting a conversion application.
- Step by step instructions on how to convert the group policy to an individual policy, including contact information for the applicable insurance carrier.

For additional information regarding conversion privileges, please refer to your Certificate of Insurance or contact your AssuredPartners Account Management Team.