



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

FOR IMMEDIATE RELEASE

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Editor's note: A Break Out Box with bullet points regarding this alert is included at the end of this release.

CONSUMER ALERT

Insurance Commissioner, Secretary of Aging urge Kansans to be wary of 'death futures' life insurance

TOPEKA – Sandy Praeger, Kansas Commissioner of Insurance, and Kathy Greenlee, Secretary of the Kansas Department on Aging, are urging older Kansas consumers to think carefully about purchasing life insurance that could be sold as investments to strangers.

“Consumers need to be aware that potentially illegal arrangements allow an investor group of strangers to acquire an interest in the life – and profit from the death – of a policyholder,” Commissioner Praeger said.

Settlement arrangements termed “Stranger/Investor-Originated Life Insurance,” or STOLI, are typically promoted to those ages 65 to 85. The arrangements could allow an outside person or group to purchase insurance on a person’s life in exchange for an immediate lump-sum payment. In many cases the purchase of the policy is for the sole purpose of selling the policy to a third party, immediately or in the future.

“Kansas seniors, especially those facing financial challenges, can be attractive targets for unscrupulous sales people,” said Kathy Greenlee, Secretary of the Kansas Department on Aging, “Older Kansans, as well as their families, need to be aware of these schemes and be alert for them.”

The arrangements are often sold to consumers as “zero-premium life insurance,” “estate maximization plans,” “no-cost-to-the-insured plans,” “new issue life settlements,” “high net worth settlements,” or a “non-recourse premium finance transactions.”

“These investor-originated-type policies are really ‘death futures’ contracts,” Commissioner Praeger said. “The insurance is purchased by strangers as an investment vehicle; it doesn’t provide funds tax-free for the insured’s beneficiaries. How comfortable would you feel knowing that some stranger could profit from your death?”

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Insurance contracts are typically issued based on a consumer's assets and net worth. A STOLI-type contract could deplete any future insurability and leave family beneficiaries without enough assets to pay off their loved one's debts, Commissioner Praeger said.

Legislation being introduced in the Kansas Legislature this session would place consumer protections on these sales. The legislation, based on a national model, also seeks to increase the time following a purchase when policies could be resold. It also spells out the idea that an insurance policy can't be written in order to be sold later.

The National Association of Insurance Commissioners (NAIC), the National Association of Insurance and Financial Advisers, the Association for Advanced Underwriting and the American Council of Life Insurers oppose these policies. Commissioner Praeger is the 2008 NAIC president.

"Almost every life insurance policy and the companies that write them are interested in your longevity," Commissioner Praeger said. "The types of arrangements with strangers that we are concerned about seem only interested in your early demise."

The stranger-investor concept has grown so big that, according to a July 2007 article in *Business Week* magazine, Wall Street investors anticipate large profits in buying policies, putting them into a package, dividing the package into bonds and selling the bonds to professional investors. However, the article goes on to conclude that the life settlements industry is seeing more illegal schemes for quick profits.

"The old adage about something seeming too good to be true applies here," Secretary Greenlee said. "Before being talked into a deal, Kansans should take time to check out its legitimacy."

These arrangements are considered illegal by the life insurance industry, and sales to stranger/investors may void the policy because the new owner has no "insurable interest" in the policyholder.

"Traditional life settlement arrangements can be beneficial to Kansas consumers," Commissioner Praeger said. "They can help people who need money for health care or an insured who is widowed or retires. But with the increased number of Baby Boomers in the population, it is necessary that these types of contracts are completely understood."

TV talk show host Larry King is part of a lawsuit involving a company which he claims directed him to buy and sell insurance policies without regard to his health, financial situation and future insurability. The third-party company that now owns the policies is also facing lawsuits for bid-rigging and fraud.

"I urge Kansans to follow the "Stop.Call.Confirm" method for evaluating such arrangements," Commissioner Praeger said. "Stop and review the situation with family members and your local insurance agent. Call the Kansas Insurance Department with questions about the arrangement. Confirm that the company or agent proposing the arrangement is legitimate and licensed in Kansas."

The Kansas Insurance Department's Consumer Assistance Hotline number is 800-432-2484. Contact the Kansas Department on Aging at 800-432-3535.

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Break Out Box

Stranger/Investor-Originated Life Insurance (STOLI) "Deals"

- *Offered to consumers ages 65-85
- *Allows strangers, not your loved ones, to own most of the death benefit from your policy
- *You may be offered a lump-sum payment for signing over the death benefits to strangers
- *The lump sum may be taxable
- *The life insurance industry considers such "death futures" illegal
- *The STOLI could leave you without future insurability
- *National groups oppose such policies
- *Traditional life settlement policies can be beneficial
- *Follow the "Stop.Call.Confirm" method for evaluation

The Kansas Insurance Department, established in 1871, assists and educates consumers, regulates and reviews companies and licenses agents selling insurance products in the state. More information about the department is online at www.ksinsurance.org.