



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

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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.

Kansas Commissioner of Insurance raises objections to plans that sell life insurance like a commodity

TOPEKA, Kan. – Sandy Praeger, Kansas Commissioner of Insurance, believes it is fundamentally wrong to sell life insurance policies as you would wheat or pork belly commodities.

“I urge Kansas consumers 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 today. “These arrangements are no better than trading on a person’s early death to gain a big money return. In that way, they are speculating just like the commodities markets do, and that’s just plain wrong when it comes to a person’s life.”

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.

“What really bothers me about these arrangements is that from the beginning they are created by strangers to be sold,” Commissioner Praeger said. “Most of the time the policyholder doesn’t even know who the beneficiary is.”

Restrictions to add more years before selling such a policy are included in a bill being worked this week by the Kansas Senate Financial Institutions and Insurance committee. The bill calls for consumer protections that add three more years following the policy’s purchase before a person could sell under these conditions.

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Currently a consumer under these arrangements has to wait two years before the policy can be controlled by strangers. The proposed bill would create a five-year prohibition on settling the policy.

“If investors have to wait a longer period of time before being able to own the policy, it makes this type of transaction less attractive as an investment,” Commissioner Praeger said. “That’s because of both the increased mortality risk and the investor’s likely lower rate of return.”

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 their loved one’s debts, according to the Commissioner.

“A STOLI product sidesteps the state’s insurable interest laws,” Commissioner Praeger said. “There is no family or business interest of the policyholder.”

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.”

In 22 states, legislatures are enacting or proposing restrictions similar to the Kansas legislation.

“This legislation in no way inhibits the traditional life settlement arrangements,” Commissioner Praeger said. “These can help people who need money for health care or an insured person who is widowed or retired.”

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.

“Almost every life insurance policy and the companies that write them have an interest in your living a long time,” Commissioner Praeger said. “The STOLI-type arrangements benefit from your death. The policies are really ‘death futures’ contracts. 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 a stranger could profit from your early death?”

More information about these types of policies can be obtained from the Kansas Insurance Department’s Consumer Assistance Hotline, 800-432-2484.

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.