
Headlines in the News Media: Stranger-Originated Life Insurance

The headlines and excerpts below are examples of the many articles highlighting the pitfalls of stranger-originated life insurance. Visit www.acli.com for links to the most recent media coverage.

“Seniors—Watch out for life insurance scams,” Port Clinton News-Herald, Sept. 12, 2008

“Many people count on life insurance to provide them with peace of mind and to help ensure that their loved ones will be financially secure no matter what the future may bring. Unfortunately, in a relatively new scheme called Stranger-Originated Life Insurance, investors are preying on seniors and misusing life insurance for their own gain.”

“Little-known insurance practice targets elderly,” by John Howard, Capitol Weekly (Sacramento, CA), Sept. 11, 2008

“The scope of the problem is unknown, although nationally, experts believe the assigned life insurance practice and STOLI involves about \$1 billion, some put the figure much higher. There are no estimates for California. The lack of data about the practices result in part from the fact that they are not regulated.”

“Rules target insurance scam: Elderly getting paid to buy a life policy, then assign benefits,” by Steve Wartenberg, Columbus Dispatch, Sept. 2, 2008

“A shady insurance scheme that started in Florida and Arizona, states chock full of wealthy and often vulnerable seniors, is starting to pop up here, Ohio Department of Insurance Director Mary Jo Hudson said.

“Gray Matters: SOLI: a stranger is your beneficiary, by Saul Friedman, Newsday, August 2, 2008

“Such SOLIs smack of cheating and salesmen, hungry for commissions, often pressuring the elderly into buying large policies to flip them, unaware that the taxes due on the payout could be high and that they will no longer be insured.”

“Covered for Life—by a Stranger,” by Kimberly Lankford, Washington Post, June 22, 2008

“Deals with strangers are just one more type of policy clamoring for investors, and they lower the amount people can get for legitimate life settlements. It’s also against the point of insurance: to protect those who would suffer financially if you die. Several states are changing their laws to put an end to STOLI.”

“Tombstone Contracts,” by Brian Rooney, ABC News, March 8, 2008

“Thousands of older Americans have entered similar deals and inevitably, some believe they have been misled.”

“Stranger-Originated Life Insurance a Bad Bet, Regulators Say,” by Paul Wenske, Kansas City Star, March 8, 2008

“In what has to be the wackiest new trend in life insurance, many consumers are allowing total strangers to place bets on when they will expire—and the sooner they go, the bigger the payoff.

“It’s called Stranger-Originated Life insurance, or STOLI for short.

“And it’s causing a stir in Kansas, Missouri and other states where officials say it is undermining the insurance industry and risking the finances, and possibly the lives, of consumers.”

Continued

“Kansas Commissioner Decries ‘Death Futures’,” by Mark Fagan, Lawrence Journal-World, February 24, 2008

“There’s a concern that this is a little too much of a get-rich-quick scheme,” said [Sandy] Praeger [Kansas commissioner of insurance and president of the National Association of Insurance Commissioners]... “We’re just trying to protect people from participating in something that’s highly questionable. You’re buying insurance under false pretenses.”

“Treating Death as a Commodity,” by Marc Lifsher, Los Angeles Times, February 20, 2008

“Enticing seniors with offers of free care to allow the purchase of life insurance on their lives for the benefit of third-party investors is wrong...”, committee Chairman Michael Machado (D-Linden) said. He thinks state regulation is overdue.”

“‘This is a runaway freight train,’ said Frank N. Darras, a top California attorney specializing in senior citizen issues. ‘Somebody needs to put brakes on it or we might have a lot of people extremely distressed.’”

“Rules Proposed for ‘Death Bonds’,” by Andrea James, Seattle Post-Intelligencer, February 20, 2008

“‘I think it’s a questionable practice,’ said Sen. Jen Berkey, D-Everett, a co-sponsor of the bill. People should generally care about what they insure, Berkey said. Just as a stranger wouldn’t buy an insurance policy for someone else’s boat, she explained, strangers shouldn’t buy life insurance policies on someone else’s life.”

“Rooting out a Twisted Form of Life Insurance,” by John Ketzenberger, The Indianapolis Star, February 14, 2008

“‘The people who do these are buying life insurance hoping for an untimely death,’ said Tom Zurek, general counsel for Indianapolis-based OneAmerica Financial Partners. ‘That’s counter to what the life insurance concept is all about.’”

“Investors Could Profit From Strangers’ Deaths,” KCRA Sacramento, January 31, 2008

“[California State Senator Mike Machado]...chair of the Senate Committee on Banking, Finance and Insurance...said the practice isn’t illegal, but he believes it is an abuse of the true purpose of life insurance. ‘It was not meant to build wealth’,” Machado said. ‘It may help in keeping wealth in a generational transition within a family, but not to build wealth for a third party.’ ”

“House Bill 404 Targets ‘Stranger’ Life Insurance,” by Michael J. Maurer, ThisWeek Community Newspapers, December 25, 2007

“Mary Jo Hudson, director of the Ohio Department of Insurance, said such practices could lend themselves to fraud, because they are marketed to people between the ages of 65 and 85—people whose deaths are more readily actuarially predicted for purposes of determining the likelihood of insurance payouts—who may not be as familiar as need be with policy terms.”

“Wealthy Engage in Controversial Re-Selling of Life Insurance Policies,” by Anita Huslin, The Washington Post, November 27, 2007

“‘If somebody owns several million dollars of insurance on my life who I don’t know . . . it would make me a little nervous to know someone had an interest in having me dead quick,’ said Joseph M. Belth, editor of the Insurance Forum, an independent industry publication. ‘Because not only do they not want to have to wait for their money, but they don’t want to pay for the premiums for long.’”

Continued

"Insight: Something's Wrong With Life Insurance," by Ronald D. Verzone, *Best's Review*, August 2007

"Picture a scenario in which the owner of the policy—the one who is paying the premiums, and who stands to get most of the death benefits—gets tired of paying those premiums. Wishing to speed up the benefit payout, the owner would have a financial incentive to wish for the insured's demise. This is called motive in a murder case. What if this policy was sold to organized crime?

"Are such scenarios improbable? Are they a stretch? Who is willing to stand up and say, 'It will never happen'? I wouldn't want to take a chance on my policy.

"Whatever the legalities of the zero-premium marketing scheme, it creates vulnerability and potentially a black mark on the life insurance industry."

"Profiting from Mortality," by Matthew Goldstein, *BusinessWeek*, July 30, 2007

"Many life settlement providers, for example, are trying to lure people who don't even hold insurance. In this tail wagging-the-dog scenario, speculators take out policies on the individuals' behalf, pay them something upfront, cover the premiums and then wait for the people to die so they can collect."

"The High Price of Free Insurance," by Anne Tergesen, *BusinessWeek*, April 23, 2007

"Seniors entering these insurance arrangements could get stuck with significant tax or legal bills if the deals don't work out as advertised. 'Nowhere in the hype will you learn of the potential tax liabilities or the fact that anticipated profits may not materialize,' says [J. Alan Jensen, a partner at Holland & Knight in Portland, Ore.]. There are other risks, too. For example, if you sell a policy and then decide later that you need additional insurance, you could find you've used up all of the coverage an insurance company will sell you."