Pennsylvania Insurance Department STOLI Notice – May 5, 2008 Beware of Unusual Life Insurance Transactions

The Pennsylvania Insurance Department is advising insurance consumers, especially older Pennsylvanians, to proceed with caution and avoid participation in any "Stranger Originated Life Insurance" ("STOLI") arrangements. These transactions are not traditional life insurance purchases where the consumer has a true need for life insurance in order to protect loved ones or business partners in the event of an untimely death. Instead, STOLI arrangements are investment schemes created by investors (i.e., strangers) who have no relationship with the consumer.

Typically, in the case of a STOLI transaction, a consumer is advised to purchase a life insurance policy, and the investor will pay the premiums for the coverage, as well as an incentive or inducement of some type to the consumer. Then, the investor will get all or a percentage of the death benefits payable under that policy when the consumer dies. The longer the consumer lives, the less the investor stands to gain, and the sooner the consumer dies, the greater the return on the investment. STOLI transactions also differ from traditional life settlement transactions where an *existing* life insurance policy is later sold because the life insurance policy is no longer wanted or needed.

Consumers should be aware that STOLI arrangements vary and could go by a number of different names, including:

- Zero premium life insurance;
- Estate maximization plans;
- No cost to the insured plans;
- New issue life settlements; or
- High net worth settlements.

No matter the name, the common characteristic of STOLI arrangements is that life insurance is purchased purely as an investment vehicle for a third party investor, rather than to provide for financial protection of the policyholder's chosen beneficiaries, and consumers are advised to approach these transactions with caution.

The department does not sanction or approve STOLI arrangements. These transactions and the parties involved in these transactions may be in violation of Pennsylvania's existing insurance laws and regulations addressing insurable interest requirements.

STOLI arrangements are typically promoted to consumers between the ages of 65 and 85, and the transactions often provide an "inducement" to obtain a life insurance policy and participate in the arrangement. These inducements may vary and could take the form of a valuable "gift", a lump sum payment given either immediately or in the future, "free" insurance on the consumer's life for a period of time, or payment of a portion of the death benefit to a beneficiary of the consumer's choice.

Despite these inducements offered to consumers to apply for the life insurance policy, STOLI arrangements have some true "costs" to consumers, such as:

- Unanticipated tax liabilities. Whatever the consumer gains as a result of the STOLI transaction could be considered income for state and federal tax purposes, as opposed to the death benefits payable under the life insurance policy, which are generally not taxable.
- Ineligibility for government entitlements and programs. A consumer's income from the STOLI transaction could render him or her ineligible for certain government benefits by exceeding maximum financial thresholds for such programs;
- **Higher life insurance premiums for additional life insurance.** If a consumer requires additional life insurance in the future, premiums for that future policy could be higher and unaffordable because of the consumer's increased age or declining health; and
- The inability to purchase additional life insurance. Consumers should be aware that they have an "insurance capacity," meaning that there is a maximum amount of life insurance that companies will provide to any particular individual. Insurance companies may refuse to provide additional life insurance in the future because any policies purchased as part of a STOLI transaction will be counted against a consumer's "insurance capacity."

For More Information

If you have questions, or if you would like additional information, please call the department's toll-free Consumer Services Hotline at 1-877-881-6388 or the department's Harrisburg Regional Office at 1-717-787-2317. Questions may also be e-mailed to ra-in-consumer@state.pa.us. For more information on this and other insurance topics, please visit our Web site at www.insurance.pa.gov