Many people count on life insurance to provide peace of mind and help ensure their loved ones will be financially secure in the future. Unfortunately, in a scheme called Stranger Originated Life Insurance (STOLI), investors are preying on seniors and misusing life insurance for their own gain.

Legislation supported by the Ohio Department of Insurance that became effective September 11, 2008 protects consumers against these transactions and strengthens the Department’s oversight authority. Amended Substitute House Bill 404 changed the state’s viatical/life settlement laws to restrict STOLI transactions in Ohio.

Seniors need to be aware of these misleading schemes, which are often inaccurately described to consumers as a worthwhile life insurance purchase program.

**What is a STOLI transaction?**

- People traditionally purchase life insurance to help pay for certain expenses when the insured dies and to leave money for that person’s loved ones to be used for different reasons. In this situation, the beneficiary or beneficiaries have what is called an “insurable interest.”

- A viatical or life settlement is a regulated means for someone to sell their existing life insurance policy to an investor. Under Ohio law, the consumer must have purchased the life insurance policy without any intent to sell it at least two to five years before the proposed sale. A consumer should consult with legal counsel or a trusted advisor to determine if their policy is eligible for a life settlement.

- STOLI schemes are intended to evade state “insurable interest” laws. Investors, or individuals working on their behalf, initiate STOLI deals so that they can purchase life insurance policies on others. The schemes usually target senior citizens who are expected to live less than four years and who are induced into buying something they otherwise would likely not buy or need.

- Generally, the investor “loans” the amount of the premiums for a certain amount of time to or on behalf of the insured. At the end of this period, the insured transfers the policy to the investor in exchange for forgiveness of the loan or after default on the loan. In some cases, the insured also receives a cash payment in connection with the transaction. The investor continues ownership of the policy and then benefits financially – by receiving all of the policy’s death benefits – when the person dies.

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How are STOLI Transactions Harmful?

- Life insurance has a long tradition of protecting insured individuals and those who have an interest in their lives. STOLI violates that important principle of life insurance practice.

- STOLI schemes make life insurance more expensive for Ohio's consumers. An increasing population of older life insurance buyers changes the risk pool upon which rates are based, eventually resulting in higher rates for all life insurance buyers.

- STOLI schemes make it difficult (if not impossible) for seniors who participate in these types of arrangements to buy other life insurance, because they might be deemed “over insured.”

- If a deal is completed, there may be adverse tax, insurability or credit issues for the consumer. In addition, if the deal is discovered and voided, the consumer would be a target of an insurance company lawsuit. If the consumer receives cash or loan forgiveness, it could be considered taxable income.

What consumer protections does the new law provide?

- Requires a five-year waiting period instead of two years in certain circumstances before an individual may settle a life insurance policy. The waiting period affects only policies that are originated and funded by investors.

- Does not affect the rights of people who purchase life insurance in good faith, including their right to sell the policy if it becomes necessary. Only those who promote the bad faith purchase of life insurance will be stopped.

- Ensures that life insurance benefits are paid to those who reasonably expect to benefit from the insured’s continued life, and who suffer a loss from his or her early death.

- Requires life settlement brokers and life settlement providers to provide insurers with additional information prior to engaging in a life settlement.

- Mandates life insurance companies to ask specific questions in order to identify STOLI transactions and report them to the Department.

- Gives the Department additional oversight authority over life settlement brokers and life settlement providers, which should deter STOLI transactions in the state.

Getting more information about STOLI and reporting fraud

Ohio insurance consumers with questions about viatical/life settlements and STOLI transactions should call the Department’s consumer hotline at 1-800-686-1526 or call the fraud hotline at 1-800-686-1527 to report suspicious conduct. Free insurance information can also be obtained at www.insurance.ohio.gov.