Recruited
A broker recruits a consumer to apply for life insurance. Consumers are generally older and have high net worth. Brokers connect investors with consumers who want to sell policies.

The loan
The consumer borrows money from a lender to pay the premiums with the agreement that after two years of paying the premiums, the investors would become the future recipients of the death benefit.

The pool
Investors put money toward a pool of policies with the expectation of a financial return when the consumers die. The lender is often the investor, who is using the policy as collateral.

The payout
If the consumer dies during the loan period, benefactors must repay the loan and fees before they can keep the death benefit. If the consumer survives, the policy is sold to investors for more than its cash value but less than the death benefit. The consumer receives a lump sum payment for allowing the "rental" of their body.

Disadvantages to you
A STOLI can limit your future insurability, should you decide at a later date that you'd like another life insurance policy. It also means strangers — not family — will receive your death benefits when you die.

Kansas Insurance Department

Sandy Praeger,
Commissioner of Insurance

Contact us

Online:
www.ksinsurance.org

By e-mail:
commissioner@ksinsurance.org

Consumer Assistance Hotline:
800-432-2484

Main number:
785-296-3071

By mail:
420 S.W. 9th St., Topeka, KS 66612

By fax:
785-296-2537

Hours: 8 a.m. to 5 p.m. weekdays
(except state holidays)

COMMISSIONER OF INSURANCE OF KANSAS
DEPARTMENT CREATED BY ACT APPROVED MARCH 1, 1871

June 2008

You bet your life

How Stranger/Investor-Originated Life Insurance (STOLI) works, and how you can protect your life insurance interests

Sandy Praeger,
Kansas Commissioner of Insurance

www.ksinsurance.org

STOLI is an agreement made by a consumer and a broker or third-party investor to sell the consumer's life insurance policy for a profit. Essentially, a STOLI is a gamble on the insured's life.

Life settlements

As your circumstances change, so do your life insurance needs. A life settlement is the sale to a third party of an existing life insurance policy for more than its cash value and less than the death benefit amount. There are many reasons a consumer might seek a life settlement. Exceptions to the Kansas Viatical Settlement Act of 2002 let individuals with a wide range of hardships legitimately sell their life insurance policies for immediate cash. Exceptions include:

- Terminal or chronic illness
- Death of the spouse
- Divorce
- Retirement from full-time employment
- Physical or mental disability and/or determination by a physician that the disability prevents the insured from maintaining full-time employment
- Declaration of bankruptcy

For sale (in two years)

Currently, the insured individual can sell a life insurance policy after the two-year contestability period to any individual, investor or broker, should he or she so desire.

Worth more dead than alive

Gambling in the mid-18th century would include purchasing life insurance policies on strangers known as "dead pools." From

this phenomenon, the principle of "insurable interest" arose. "Insurable interest" means there is an expectation of monetary loss that can be covered by insurance should a person die or property be destroyed.

A STOLI arrangement uses the same life insurance policy as the viatical or life settlement, but the method used to obtain the death proceeds is an attempt to circumvent state insurable interest statutes. "Insurable interest" means a person wanting to buy a life insurance policy on someone else's life must have an interest in that person remaining alive or expect emotional or financial loss if that person died.

The investor in a STOLI arrangement, a stranger, has an interest in the early demise of the insured individual: Investors are betting an insured dies before the investor has paid too much in policy premiums.

Predatory investors

STOLI investors usually seek older individuals (generally those ages 65 to 85) who they believe won't live many more years and who have substantial net worth ($1 million to $3 million or more). Investors solicit these individuals to purchase life insurance, then an agent/broker offers to loan the consumer the money to fund the premiums. The consumer then agrees that after two years, he or she will sell the death benefits to the investor.

After two years, the consumer receives a lump sum payment in exchange for the life insurance policy. And the consumer might receive calls as often as every three months inquiring whether he or she is still alive!

If it sounds too good to be true ...

Life insurance death benefits receive favorable tax treatment.

STOLI encourages investors to locate older people with no existing interest in purchasing life insurance and convince that consumer that a profit can be made by taking out and then selling their life insurance policy to an investor. Unfortunately, rarely is the consumer told there may be tax due on the lump-sum payment.