

Trend spotting

Biodegradable cars? So far, cars have been biodegradable only in the sense that their steel parts rust. But new materials will soon change how vehicles decompose. The factories are eager to eliminate plastic and fiberglass in favor of natural materials such as soy, grass, and even corn – materials that could degrade but wouldn't break down while customers still own the vehicles. For example, did you know that the seat foam in the 2008 Ford Mustang is 40 percent soy? Plans are in place to make some of a vehicle's support structure from hemp and other natural fibers rather than fiberglass, which could reduce the weight of those components by 30 percent without reducing strength.

Ford's fusion Hydrogen 999 covered the Bonneville Salt Flats at 207+ mph last August making it the first fuel-cell-powered car to top 200 mph. The number 999 holds special significance at Ford. When he was trying to break into the car business in 1902, Henry Ford built a race car, hired Barney Oldfield to drive it, and won that year's Manufacturers' Challenge Cup. The 999 engine, named for the Empire State Express locomotive, the first machine to exceed 100 mph, was the motor that got Ford up and running after two failed attempts.

BMW, after what seems like a very long time, is finally bringing its 1-series coupe to the U.S. Smaller, lighter, and with a lower MSRP than the 3-series, the 1-series could be the answer to the prayers of BMW diehards who look on the 1968-76 2002 as the perfect small sports car. Two versions of the 1-series are headed to American showrooms: the 128i and the 135i. Compared to the 3-series, the 1-series coupe will be 0.1 seconds faster to 60 mph and 100 pounds lighter. The base price is expected to come in at less than \$30,000 for the 128i and in the mid-\$30s for the 135i. Look for the 1-series in BMW showrooms next spring.

Dealers warned to beware “stranger-owned” life insurance propositions

By Jerilyn Klein Bier

Here's a scam, or at least a potential scam, that's just beginning to hit franchised car dealers. Imagine someone you don't know pitches an offer to you for a free, multimillion-dollar life insurance policy. They tell you that they'll pay your premiums, throw in some extra cash, and maybe even a vacation to boot. Your beneficiary receives the death benefit during the first two years of the policy. After that, you have the option to pay back the party that paid all the premiums plus interest and keep the policy; you will also have to pay future premiums. Or you can simply give the policy back to that party and you don't owe them a nickel. They'll just sell it again.

Perhaps you're scratching your head trying to figure out if there is a catch – or to figure out if you have heard this before. The answer to both questions, most likely, is yes.

This scenario, known as Stranger-Owned (or Stranger-Originated) Life Insurance, has recently received a fair share of media attention because it's rife with risks for the often unsuspecting policy-

holder. Insurance companies – disgusted with how third parties are looking to cash in on your death or make a buck in the secondary market – are also cracking down on STOLI. Meanwhile, many of the older, high net worth individuals that these investors are seeking out – a profile which many automobile dealers fit – are continuing to sign on, unaware of the danger.

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“Stranger” happenings

Stranger-Originated Life Insurance (STOLI) transactions often follow a two-step process. First, a third party you don't know may offer to buy your existing policy. Second, they will help you buy another policy if you still need coverage and even pay the first two years' premiums. This is referred to as “Free Life Insurance.” But dealers should be asking themselves, “How much is that free life insurance really going to cost me?” says life insurance consultant Tony Freeman. “It's an automatic red flag if they're loaning you money,” he says. Another red flag: you have no obligation to keep the policy. His general advice when it comes to STOLI: “Don't touch it with a ten foot pole.”

For more information, check out the STOLI Alerts from the National Association of Insurance and Financial Advisors (NAIFA) at www.naifa.org/advocacy/stolialert/index.cfm.

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Tony Freeman, founder of Premium Advisors, LLC, a fee-based life insurance advisory firm in Chicago, tells *CDI* he was recently called in by a CPA firm to meet with an auto dealer in his 80s who first got involved with STOLI about a half dozen years ago. The dealer, who had bought and sold several of these policies, was trying to buy another one since his CPA told him he needed \$10 million to \$12 million in life insurance. Tony had to break the bad news that the dealer was now uninsurable because the amount of insurance he has gotten from past policies he had purchased and sold – and investors apparently made big commission on – exceeded the value of his estate by about two times.

If it sounds too good to be true, etc.

“If it looks too good to be true, it obviously is,” says Tony, who told us the dealer now realizes the harm of his past transactions. Further adding to the blow: the dealer doesn’t have much liquidity since everything is tied into his dealership and real estate, and he is not married so he doesn’t have tax leverage. That has left him with very few options. “His son has taken over the dealership and is left holding the bag. He has lost his independence,” says Tony.

Exceeding your insurance capacity isn’t the only problem STOLI settlements can stick you with, warns Tony. Insurance companies can also rescind your policy if they find out it was obtained fraudulently, he says. Even if you were an innocent victim, it can cost you a fortune to defend yourself. STOLI is also messing up policy lapse ratios used by insurance companies to figure out premiums – which can result in high life insurance costs for everyone, he says. In addition, the settlement brokers who initiate STOLI transactions – who tend to be pretty sophisticated and shrewd – often use the highest commissioned products they can find, says Tony. And there may be hidden tax consequences.

How do they get the information?

Privacy is another concern. Tony told us that one of his long-time clients who bought a STOLI policy several years ago just received a letter in the mail from an unknown party. “We know you did a settlement in the past and want to talk to you about doing another one,” was the gist of the letter, said Tony. His client was very concerned that a complete stranger was familiar with his business activity.

Tony says he wouldn’t be surprised if thousands of individuals have been approached about STOLI, including a number of auto dealers. And if a settlement broker who engages in this transaction gets in with a

dealer, they’ll move on to other dealers, he says.

Not always a bad idea

Here’s the good news. Although STOLI tends to be a bad business practice, particularly given its rampant abuse, there are certain times when the concept is acceptable, says Tony. For example, it may be worthwhile when it is hard for a policy owner to pay his or her premiums, or if someone wants to pay you for a term policy that you no longer need. But before getting involved in any STOLI transaction, Tony suggests asking the following questions:

- ▶ Who will be buying my existing policy and do they have the right to sell it to someone else? (Remember, you may have sold the policy, but it’s still on your life. If you feel uncomfortable “looking over your shoulder,” don’t sell it, he says.)
- ▶ How will I know how much the buyer actually paid for my policy? (Ask to see the “offer” made by the buyer so you don’t get shortchanged.)

Purchasing a new policy while selling your old one? Do your normal due diligence, says Tony. Also ask to see proposals from four or five competitive companies so you’ll see how good this one is.

Think you may have unwittingly gotten caught up in a STOLI scam? Consider calling your insurance company and asking to be connected to someone in the legal department. “It’s my impression that the legal department would take the side of the insured,” says Tony. “They’re very aware of who’s playing the game.” ♦

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