

PREMIUM ADVANTEDGE

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The Source

Strange Happenings

This edition of Premium AdvantEdge delves into an insurance scam you don't want to fall for – and it's easy to do, if you haven't learned how to spot it.

Premium Advisors Founder and CEO Tony Freeman brought this deception to the attention of "DealersEdge Car Dealer Insider," who interviewed him extensively for an article on this topic.

Stranger-originated life insurance (STOLI) transactions typically work in two ways.

First, a third party you don't know may offer to buy your existing policy. Second – and this often happens in conjunction with the former – 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 Freeman. "It's an automatic red flag if they're loaning you money."

Another red flag: you have no obligation to keep the policy. Freeman's 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 at www.naifa.org/advocacy/stolialert/index.cfm.

Or contact Tony Freeman at tony@pa-llc.com.

Don't Get Caught Up In Stranger Danger

Imagine someone you don't know offers you a free, multi-million-dollar life insurance policy. 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. After that, you have the option to pay back the party that paid all the premiums plus interest and keep the policy; plus pay all future premiums. Or you can simply give the policy back to the 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. The answer is yes, and it could cost you a fortune.

This scenario, known as Stranger-Owned (or Stranger-Originated) Life Insurance, has received a fair share of media attention because it's rife with risks for the often unsuspecting policyholder. Insurance companies, disgusted with how third parties are looking to cash in on your death, 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.

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 six 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 had gotten from past policies he had purchased and sold exceeded the value of his estate by about two times.

"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, 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 often use the highest commissioned products they can find, says Tony. And there may be hidden tax consequences.

Privacy is another concern. Tony told us that one of his long-time clients who sold a STOLI policy only a year ago just received a letter in the mail from an unknown party. The gist of the letter was, "We know you did a settlement in the past and want to talk to you about doing another one." His client was concerned that a complete stranger was familiar with his business, and might have personal data.

Tony says he wouldn't be surprised if thousands of individuals have been approached, including 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.

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."