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NEWS

Illinois Department of Insurance

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State Department of Insurance Warns About the Dangers of Stranger-Originated Life Insurance Arrangements or STOLIs *STOLIs Not the Same as Traditional Insurance Policies and Illegal in Illinois*

CHICAGO - Illinois Department of Insurance (DOI) Director Andrew Boron is warning consumers about stranger-originated life insurance arrangements. Unlike a traditional life insurance policy where a consumer initiates the application for insurance and the insured loved ones are beneficiaries of the death benefits, a stranger-originated life insurance arrangement involves a group of investors, often strangers, who initiate the insured application for life insurance by offering the participant an upfront lump sum payment in exchange for allowing the group to purchase the insurance on the participant's life.

Transactions involving viatical or accelerated death benefits were premised to assist life insurance policy holders who have an illness or physical condition that a physician has certified as reasonably expected to result in death in 24 months or less. The policy holder could sell the policy or receive a cash payment to have money to assist with expenses and estate planning. But a growing effort by some to make a profit led to more seniors being targeted as part of stranger-originated life insurance (aka STOLI) arrangements. Effective July 2010, the Viatical Settlement Act specifically prohibits any person from entering into a STOLI arrangement whether as a purchaser of a life insurance policy on someone or as a participant in order to benefit.

"Stranger-originated life insurance arrangements or STOLI transactions are illegal in Illinois," said Director Boron. "If you or a loved one are asked to buy a life insurance policy and then sell it immediately as a viatical settlement, you should know the activity may be considered fraudulent and the individuals involved may be prosecuted."

DOI's warning about the dangers of STOLIs comes after the department has become aware of several STOLI cases being reviewed in Illinois. "Purchasers" of so called STOLI transactions can face charges including breach of contract and fraud. State insurance regulators also warn that the participants themselves may be liable for committing insurance fraud or misrepresentation.

Individuals considering a viatical or accelerated death benefit should consult an accountant and tax advisor to avoid devastating tax and other financial consequences including ineligibility for programs such as Medicaid and supplemental Social Security income.

For more information about viatical settlements, accelerated death benefits, and STOLIs, visit the department's website at http://insurance.illinois.gov/Life_Annuities/viaticaldeathstoli.asp or call toll-free at 866-445-5364.

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