



Texas Department of Insurance

Consumer Protection – Public Education, Mail Code 111-1A
333 Guadalupe • P. O. Box 149091, Austin, Texas 78714-9091
Consumer Help Line: 1-800-252-3439 • Website: www.tdi.state.tx.us

CONSUMER ALERT

Stranger-Owned Life Insurance: Zero Premium Life Insurance and New Issue Settlements

The Texas Department of Insurance (Department) has recently experienced an increase in the number of consumer inquiries regarding two different nontraditional offerings in the Stranger-Owned Life Insurance (STOLI) market. One arrangement is frequently referred to by names including “zero premium life insurance,” “estate maximization plans,” or “no cost to the insured plans,” and the other arrangement is often called a “new issue life settlement,” “high net worth settlement,” or a “non-recourse premium finance transaction.” This notice is to advise Texas consumers to proceed with caution when considering participation in such transactions.

The offers are typically marketed to consumers between the ages of 65 and 85 and may have some or all of the following features:

- (1) Consumers are being solicited to participate in the application for life insurance to be owned by a stranger in exchange for a lump sum payment or for the consumers’ beneficiaries receiving only a portion of the death benefit. These programs may be referred to by names such as “zero-premium life insurance,” “estate maximization plans” or “no cost to the insured” policies.
- (2) Consumers are being solicited to participate in the application for life insurance in anticipation of a future life settlement transaction. These transactions are known as “new issue life settlements,” “high net worth settlements,” or “non-recourse premium finance transactions.”

The Department is currently gathering details and investigating whether STOLIs are policies purchased by a person or legal entity, typically an investor, institution, or corporation, unknown to the policy owner or insured person before the transaction. Texas law allows an individual to consent to the purchase of insurance on his or her life by another person or legal entity, including strangers.

Texas law also allows any person of legal age, with certain limitations, to designate any other person or legal entity, including strangers, as the beneficiary and/or owner of an existing policy on his or her life. The sale of an existing life insurance policy is referred to as a “life or viatical settlement” contract and typically occurs after the policy has been in effect for a period of time. Viatical and life settlement providers and brokers are required to hold a certificate of registration issued by the Department in order to do business in Texas.

However, the Texas Insurance Code prohibits the offer of rebates or inducements to enter into life insurance contracts.

In the interim, the Department urges consumers to proceed with caution when considering nontraditional STOLI arrangements. If you are considering:

- allowing a stranger to purchase life insurance on your life in exchange for an immediate lump sum payment of some amount;

- allowing a stranger to purchase insurance on your life in exchange for a partial payment of the policy's face value to your beneficiaries upon your death;
- entering into a contract for "free" or "no-cost" insurance on your life;
- purchasing a life insurance policy for the sole purpose of selling the policy; or
- materially participating in transactions leading up to the purchase of a life policy for the above-stated purposes, then

the Department offers the following suggestions:

- Determine what company you are applying with by inspecting the insurance application closely.
- Be cautious if your application is being sent to more than one company and multiple insurance policies are being purchased on your life.
- Obtain a sample copy of the policy for which you are applying.
- Be careful about disclosing confidential health and/or financial information.
- Consider any potential tax consequences of the amount offered to you for allowing someone to purchase insurance on your life. Discuss this issue with an attorney and/or a tax consultant.
- Understand that the policy may count as an asset when determining eligibility for public benefits, such as Medicaid long-term care benefits.
- Confirm that all persons and entities involved in your transaction are properly licensed and registered by the Department. Agent, insurer, premium finance company and life or viatical settlement provider and broker licensure and registration can be verified at the TDI's website (www.tdi.state.tx.us) or through the toll-free *Consumer Help Line* (1-800-252-3439).
- Remember that filing an application for insurance containing materially false information may be prosecuted as insurance fraud and subject you to civil and criminal penalties.
- Obtain all details about the program and have a complete understanding of your obligations. If necessary, discuss this information with an attorney.
- Use common sense. Remember the warning "If it seems too good to be true, it probably is."