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NAIFA and AALU Comment on California STOLI Bill Veto

FALLS CHURCH, VA (October 3, 2008) — California Governor Arnold Schwarzenegger on September 30, 2008 vetoed S.B. 1543, legislation based on the Life Settlements Model Act developed by the National Conference of Insurance Legislators. Now, members of the Association for Advanced Life Underwriting (AALU) and the National Association of Insurance and Financial Advisors (NAIFA) are gearing up to re-engage the battle in California, as well as some 20 other states across the nation, to enact legislation that will address STOLI effectively, while protecting legitimate uses of life insurance and life settlements.



Life insurance agents will play a major role in the battle against stranger-originated life insurance (STOLI) in 2009, as the stakes are higher than ever in the wake of California Governor Schwarzenegger's veto of legislation that would have deterred this growing misuse of life insurance.

STOLI is a contrived transaction designed to evade state insurable interest laws. It allows investors to use life insurance to profit from the deaths of people they don't know. In STOLI schemes, investors entice seniors to take out policies, with the intent to transfer most of the benefits to those investors, who then profit when the seniors die.

AALU, which represents approximately 2,000 of the nation's top producing agents, and NAIFA, which represents approximately 60,000 agents in the broader field force, are mobilizing their members to fight STOLI in order to preserve the integrity of life insurance.

Why are agents devoting their time to state legislative battles when they could be out making money by selling STOLI? AALU and NAIFA members say it is for three main reasons:

- STOLI is wrong and is not what insurance is supposed to be used for;
- STOLI exposes clients to more risks than benefits;
- STOLI threatens both the financial underpinnings of the products they sell and their tax-favored status.

– more –

Much of the work in state legislative battles over STOLI involves countering false claims made by some settlement groups that anti-STOLI legislation is a carrier-driven attack on legitimate life settlements. This charge provokes head-shaking by AALU and NAIFA members, who have every motivation to sell as much legitimate life insurance as possible and to preserve their relationships with existing clients who no longer need a policy for its intended purpose.

Another myth AALU and NAIFA challenge is that the limited five-year restriction on settlements in model legislation developed by the National Association of Insurance Commissioners (NAIC) is a broad attack on policyholders' property rights. In fact, the five-year rule is not a settlement "ban." Instead, it is a five year moratorium on settling only certain policies that have the indicia of STOLI. There are numerous exceptions, such as divorce, death of a spouse, chronic illness or disability and financial hardship which allow settlement at any time. Moreover, there is an exception for clients who pay (or finance with full recourse) 100% of the premiums for two full years.

For example, Ohio recently enacted a limited five-year moratorium as a part of its legislation. The CEO of one firm testified to the Ohio legislature that his firm had 176 legitimate settlements of policies in the previous three years, not one of which would have been affected by the moratorium.

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About AALU: Founded in 1957, the **Association for Advanced Life Underwriting (AALU)** is a professional trade association representing 2,000 life and health insurance agents and financial advisors nationwide. Most members are engaged in complex uses of life insurance such as in business continuation planning, estate planning, charitable planning, retirement planning, deferred compensation and employee benefit planning. The mission of AALU is to promote, preserve and protect advanced life insurance planning for the benefit of its members, their clients, the industry and the general public. AALU's website can be accessed at www.aalu.org.

About NAIFA: Founded in 1890 as the National Association of Life Underwriters, the **National Association of Insurance and Financial Advisors** comprises nearly 800 state and local associations representing the business interests of 60,000 members nationwide. Members focus their practices on one or more of the following: life insurance and annuities, health insurance and employee benefits, multiline, and financial advising and investments. NAIFA's mission is to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members. Visit NAIFA's website at www.naifa.org.