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GOVERNOR

SUSAN E. VOSS  
COMMISSIONER OF INSURANCE

KIM REYNOLDS  
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**BULLETIN 11-05**

To: All Insurance Companies Selling Life Insurance or Annuities in Iowa

From: Susan E. Voss, Insurance Commissioner

Re: Protect Against Stranger-Oriented Annuity Transactions

Date: July 1, 2011

The purpose of this bulletin is to encourage insurance companies to put safeguards in place to prevent or limit their exposure to stranger-originated annuity transactions.

As in a stranger-originated life insurance transaction (STOLI), in a stranger-originated annuity transaction (STOA), some producers or investors, to profit from the annuitant's death, offer an individual -- who is usually a "stranger" to the producer or investor -- a nominal fee for the use of the individual's identity as the annuitant (or the measuring life) in an investment-oriented annuity. Typically, individuals targeted to serve as annuitants are in extremely poor health and are not expected to live beyond the first year of the policy. In order to find individuals who meet the aforementioned criteria, these producers or investors have been known to take out advertisements in papers as well as solicit individuals residing in nursing homes or hospice.

Once a targeted individual has agreed to provide the use of his or her identity under the terms agreed upon (compensation, ownership, etc.), the producer will complete the annuity application, ensuring that particular riders (such as a bonus rider or a guaranteed minimum death benefit) are in place to maximize the rate of return for those financing the transaction. Depending on the number of companies the producer represents and the commission policies in effect, the producer may seek to use multiple policies from various companies.


To avoid detection of the scheme or added scrutiny of the policy, producers involved in STOAs will often take precautions to ensure the dollar amount of the annuity falls below specific underwriting guidelines. In addition, a trust or an organization may be named as a beneficiary of the annuity in order to hide the true identity of those who will benefit from the annuitant's death.

Because the financial implications of STOA transactions could be detrimental to both companies and consumers, it is suggested that companies, if they have annuity products that could be possible STOA targets:

- Review chargeback policies and consider reserving the right to adjust commissions if a policy is annuitized or a death benefit is paid within its first policy year and the facts indicate the policy was used to facilitate STOA transactions.
- Create detection methods to identify STOA transactions and those producers who may be involved in facilitating such transactions, including controls to flag questionable applications.

- Revisit annuity applications processes to ensure specific questions are posed with regard to the relationship between the annuitant and contract owner, and the manner in which the contract is being funded.
- Report actual and potential STOA transactions to the Iowa Insurance Division.

For questions regarding this matter, please contact the Iowa Insurance Division, 330 Maple, Des Moines, Iowa 50319, telephone 515-281-5705.

A handwritten signature in black ink that reads "Susan E. Voss". The signature is written in a cursive style with a large, looping initial 'S'.

Susan E. Voss  
Iowa Insurance Division