

Consumer Alert



A Publication of the South Carolina Department of
Consumer Affairs Public Information Division

Got a life insurance policy to spare? Life settlements an option, not always solution

There was a time when the only way to collect money on a life insurance policy wasn't very appealing.

Today, however, there is a burgeoning market that offers a new way to collect on your life insurance without ending up six feet under.

A life settlement is the purchase of a life insurance policy by a third party. The life settlement industry is expanding rapidly in popularity, but is it a good idea?

Many senior citizens find themselves with policies they either don't need or can no longer afford. Naturally this segment of the population is targeted heavily by salespeople marketing life settlements, and consumers will want to shop carefully to avoid potential drawbacks that include high prices and the inability to obtain a new life insurance policy.



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Before you borrow



Know what you're getting

When you're swimming in a sea of debt, you're constantly looking for a lifeline. This is the time to keep a cool head and make sure that whatever you latch on to will buoy you to safety and not tie you down with dead weight.

Just be careful who heeds your SOS. A loan may help get you by, but you'll want to borrow money at the best rates, according to terms that suit your needs and steer clear of bad deals as well as those that look too good to be true.

When you're in financial trouble, predators smell opportunity.

Here are two lines to keep in mind:

The smaller the print, the bigger the hint. Make sure you understand the fine print, because if it's in small print, it's probably not good news.

If it's on the back, it gives you a whack. The back contains terms and conditions that you really want to pay attention to.

Before you take on new debt, it's a good idea to take a look at your credit report and make any corrections. This is of particular importance for people already in debt.

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SCDCA's last Shred Day was a big success.

In this Issue:

- Avoid life insurance scams
- 22 tips to keep Halloween safe
- Shred Day is back!

Companies grossly overcharging for free OSHA posters

The South Carolina Department of Consumer Affairs (SCDCA) warns businesses not to fall for unsolicited telephone calls attempting to sell



Occupational Safety and Health Administration (OSHA) posters or other state and federal government materials.

These deceitful companies use high pressure sales tactics and vague threats of fines and criminal charges to pressure businesses into purchasing government mandated materials at a cost of hundreds of dollars. Often the company will have an official sounding name and may reference being affiliated with various government programs, but they are not.

The truth is these materials are available free of charge. The posters can be acquired by contacting the U.S. Department of Labor or the South Carolina Department of Labor, Licensing and Regulation. Companies should check with these entities to be sure they have all required materials posted.

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22 Tips to make it an all treats, no tricks HALLOWEEN

The Children

1. Help your child pick out or make a costume that will be safe. Make sure it is fire proof and that the eye holes are large enough for good peripheral vision.
2. If you set out jack-o-lanterns with candles in them, make sure that they are far enough out of the way that children's costumes won't accidentally be set on fire.
3. Make sure if your child is carrying a prop, such as a scythe, butcher knife or a pitchfork that the tips are smooth and flexible enough to not cause injury if fallen on.
4. Kids always want to help with the pumpkin carving, but small children and knives are not a good combination. There are many kits available that come with tiny saws that work better than knives and are safer for older children to use. It's best to let the kids clean out the pumpkin and draw a face on it, which you can carve for them.
5. Treating your kids to a spooky Halloween dinner will make them less likely to eat the candy they collect before you have a chance to check it for them.
6. Teaching your kids basic everyday safety such as not getting into cars or talking to strangers, watching both ways before crossing the street and crossing when the lights tell you to will help make them safer when they are out trick-or-treating.
7. Small children should never be allowed to go out alone on Halloween. Make sure an older sibling or adult accompanies them if you are unable to go with them.
8. If the child is old enough and responsible enough to go out alone, be sure to set a firm curfew and stress the importance of being home on time.
9. Know the route your kids will be taking if you aren't going with them.
10. Instruct your children not to eat any treats until they bring them home to be examined by you.
11. Instruct your child to never go into the home of a stranger or get into their car.
12. Make sure your child carries a flashlight, glow stick or has reflective tape on their costume to make them more visible to cars.

The Yard

13. First on the list is to get extra home owners insurance for the nights that you will be allowing people to view your haunt. Nothing can spoil the fun more than a law suit because someone tripped and fell down.
14. When building your haunt, make sure that the walk ways are far enough away from things so that people can't trip over them or hurt themselves. This will also keep visitors from accidentally destroying your decorations.
15. If you have a lot of Jack-O-Lanterns, you might want to try a battery powered light source or light sticks to light them instead of candles. If you do use real candles, make sure there is no chance of anything blowing into the flames, no cloth, crepe paper streamers or anything that could start a fire.
16. If you have a particularly gruesome haunt set up, make sure you have warning signs up so that those with a weak stomach can be forewarned.
17. If your haunt is going to be publicized, make sure that you get some volunteers to help with crowd control and public safety. Off duty police and firemen are often willing to help out.

The Parties

18. If using dry ice in a punch bowl, make sure that the person serving keeps any dry ice chips out of drinks! It can cause severe injury if ingested.
19. If you are holding your party in your house, make sure that you move any breakable pieces of furniture or knick-knacks to another room where they can't get broken. A forgotten heirloom vase that hits the floor could ruin the night for you.
20. To keep things moving for either a child's or adult's party, make sure that you have some games, like a scavenger hunt or a murder mystery planned in advance.
21. If you're serving alcohol, be sure everyone has a designated driver.
22. Having a pumpkin carving party on the night before Halloween can be a great way to start off the festivities. Whether adults, kids or both, you can have a wonderful time carving pumpkins.



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Before you borrow...

The following are the ins-and-outs of certain types of loans.

Transferring High-Interest Loans

If you go for a credit card offer that promises a low rate for balance transfers, don't use it for new purchases. Creditors will apply your payments to the amount with the lowest interest rate first, meanwhile interest for new purchases will accrue at the higher rate.

If you really want to use the transfer to full advantage, continue to pay lower rate transfer offers against higher rate debt until you get all your debt at the right price.

Home Equity Loans

Too many people have borrowed against their homes only to find themselves in a dicey predicament because their home values have since dropped. They owe more than the property is worth. Banks are taking it on the chin because of increased defaults.

The most common problem is that people who draw on their equity to pay off high-interest debt then begin running up credit card debt all over again. The only way to pay down debt is with income and by cutting your spending.

Borrowing from Family

Your friend or family member is not likely to report late payments to the credit bureaus. They're also not going to like being taken advantage of, though. So, if you need money *and* can keep current on payments, this could be a good quid-pro-quo situation.

Borrowing money from friends and family is very risky, but you can also make it worth



SHRED DAY

SCDCA hosts Shred Day on October 30

The South Carolina Department of Consumer Affairs (SCDCA) will sponsor another Shred Day on Thursday, October 30. The event will be held at two locations: SCDCA located at 3600 Forest Drive in Columbia and St. Andrews Presbyterian Church located at 6952 St. Andrews Road in Irmo from 8 a.m. – 12 noon and 2 p.m. – 6 p.m.



Shred 360 and Carolina Records Information Management will provide document destruction services free of charge for consumers. SCDCA staff will also be on-site to answer consumers' questions about identity theft and other issues.

Please do NOT bring the following items to be disposed: prescription bottles, household trash items, plastic bags or containers, and other non-paper items. Staples and papers clips are acceptable shredding material.

Consumers are asked to limit themselves to four boxes of materials.

their while. Family and friends must be your top priority. Pay them back first, never late.

Peer-to-Peer Lending

Banks and even credit card companies are tightening their lending standards, so it may be worthwhile to see if you can get better interest rates using peer-to-peer lending sites (also called person-to-person lending) such as Zopa, Prosper or Lending Club. These social networking sites act as middlemen, enabling lenders and borrowers to come together. Some use an online auction system like that of eBay; others offer products with fixed rates for those on both sides of the transaction.

Generally, the middleman gets information from the borrowers, such as debt-

to-income ratios, employment histories and credit scores, so that lenders can get an idea of their creditworthiness and likelihood of default. The deals involve fees and varying loan terms. It's important to understand how the system works before getting involved.

Raiding Retirement Funds

This is almost always a bad idea, but if you're facing serious financial difficulties – for example, bankruptcy – it's nice to have options.

Borrowing from your 401(k) may be the least disruptive way to access money earmarked for retirement, but it will almost certainly impact the amount you will ultimately have at retirement.

It's true that you pay yourself back with interest, and you benefit from that

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The Details of life settlements

Until about 20 years ago, if you had a life insurance policy that you no longer wanted or needed, you had two options:

1. Surrender the policy back to the insurance company for its cash value.

2. Let the policy lapse, possibly making all your premium payments worthless.

But now there is a third option: selling the policy to an entity other than the insurance company that issued the policy in a transaction called a life settlement. The life settlement company continues paying the premiums and receives the death benefit when you die.

Life settlements grew out of viatical settlements, which bloomed in the 1980s as a way for AIDS patients and other terminally ill policyholders to tap into some cash before they died.

Viatical settlements are arranged only for people with life expectancies of fewer than two years. But life settlements generally cover people 65 and older who have life expectancies of between two and 10 years.

Many insurance salespeople express enthusiasm for life settlements, which can offer 10 percent to 50 percent more cash than surrendering policies back to the insurer with payment ranging from 10 percent to 80 percent of the policy's face value.

Problems with life settlements

Life settlement supporters claim the transaction offers older individuals an alternative to see real value from the money they've invested in their policy.

But experts stress that life settlements aren't for everyone and note that consumers have to be careful not to fall prey to abusive sales practices. Numerous life settlements have ended up in litigation.

Experts caution those choosing to sell their life insurance policy to be sure to understand exactly what they're giving up in the settlement. It's only when the insured's original reason for having the policy no longer exists he or she should consider selling.

Other mitigating circumstances may render the policy moot, such as policies taken out to cover estate taxes. Estate tax exclusions are rising, such that a

couple could leave \$4 million tax free to their heirs. Persons with smaller estates no longer need insurance to cover taxes.

Parents who took out a policy to provide money for children or grandchildren, may now find the kids are independently wealthy and no longer need the helping hand.

More practical concerns should also be considered. People with unexpected health expenses also may want life settlements to help pay for their care.

Look out for better deals

Even if you meet those criteria, keep in mind that in only about 10 percent of cases can consumers obtain more money from life settlements than just surrendering their policies. And life settlement companies generally are interested only in policies with a value of \$250,000 or more.

The risks

Experts offer plenty of reasons for caution when transacting life settlements. As the life settlement industry is new and often targets senior citizens in poor

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How to avoid life insurance scams

The following tips are provided to educate and inform you about how to avoid insurance fraud:

- If it sounds too good to be true, it is.
- Never ignore notices from the insurance company even though your agent tells you it's a "mistake" and nothing to worry about.
- Be careful of any life insurance plan that promises "vanishing premiums" or guarantees you a premium-free policy over a specific period.
- Don't be confused by life insurance disguised as a "pension plan" or a "retirement fund." Life insurance is NOT a pension plan.
- Don't let yourself be pressured. You do NOT face any deadlines.
- Never buy coverage you don't understand. It is the agent's and company's responsibility to explain your coverage in terms you can comprehend. If you don't understand it, show it to a trusted friend or a lawyer.
- Save every piece of paper explaining your coverage and your policy. Keep them on file with your policy.
- If a new policy replaces an old policy, make sure the old coverage is not terminated until the

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CONTINUED: **Before you borrow...**

interest. But, the money that you've withdrawn is not compounding or working for you. In addition, many people stop making new contributions to their plans while repaying the loan.

Also, when you pay yourself back, you'll be using after-tax money. Most 401(k) plans are funded with pre-tax money that gets taxed when you take distributions at retirement. The after-tax money that you repay the loan with gets mixed up with the pretax money, and you will have to pay taxes on it again.

CONTINUED: **Companies grossly overcharging for OSHA posters**

Businesses searching the Internet for work posters are advised to be very careful when selecting a website. Felonious companies often mimic and spoof government websites to try to mislead businesses into purchasing these free materials. Real government websites will always have a web address that ends with a .gov extension.

CONTINUED: **How to avoid life insurance scams**

new policy has been issued. Also, an agent should explain how you will benefit whenever one policy replaces another.

→ Never buy life insurance as an investment without understanding that some of your "investment" is paying for your coverage. Life insurance provides protection against economic loss resulting from death. (Also: Be careful of "special opportunities" to expand coverage for a non-working spouse or children.)

→ If an agent tries to sell you life insurance as an investment with a high return, insist that you be shown that specific guarantee in your contract.

→ If you are offered a chance to turn in a small policy for a larger one without paying substantially more, WATCH OUT!

→ Never give an agent money without getting a receipt. Never "loan" money to an agent.

→ Never sign a form that includes blank spaces, even if the agent assures you they are merely a formality.

→ Never buy insurance from an unlicensed agent or an unauthorized company. You can check their status by calling your state's Department of Insurance.

About the South Carolina Department of Consumer Affairs

Established by the Consumer Protection Code in 1974, the South Carolina Department of Consumer Affairs represents the interest of South Carolina consumers. Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement, and education. For more information on the SCDCA, visit www.sconsumer.gov.

Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement and education. The Department strives to be a **CREDIT** to our State by holding the following values as essential in our relationships and decision-making:

Competence **R**espect **E**quality **D**edication **I**ntegrity **T**imeliness

The *Consumer Alert* is published every month. To receive the *Consumer Alert* or its sister publication *Fraud Alert* by e-mail or postal service contact Charles Ellison at ellison@scconsumer.gov or by phone 803.734.4203.

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Got a life insurance policy to spare?

health it can be prone to aggressive sales tactics and abuse.

This new field has also spawned a number of scammers, who promise outrageous returns in exchange for money up front or personal information. The scammer then makes off with your money or enough information to steal your identity.

Legitimate life settlement deals can still be very complicated and are best reviewed by an attorney.

Also keep in mind, your insurance adviser may use a life settlement broker in order to find the best price, which could mean you pay a commission for the adviser and the broker. Fees will generally take 20 percent to 25 percent off the settlement payment.

The bottom line is when considering a life settlement be very careful, have everything put in writing and thoroughly explained and have a lawyer look over it. Now that's a sound policy.