



Consumer Federation of America

CFA's Plan for Improving Consumer Understanding of Life Insurance and Annuities Products and Strengthening Consumer Protections

The Consumer Federation of America (CFA) organizes a wide variety of consumer education and protection work concerning life insurance and related products. CFA, which is comprised of more than 250 consumer organizations across the nation, has been conducting consumer research, education, and advocacy for more than 50 years and has been one of the nation's leading consumer voices on insurance issues for the last 25 years. Our work tackles some of the most significant problems facing life, home, and auto insurance policyholders as well as those facing consumers of related insurance products such as annuities, credit life, and burial insurance. Over the years, our insurance and financial planning protection staff have successfully changed industry practices, improved laws and regulations, and helped Americans through education and assistance programs to become savvier consumers of these important but complicated products. Given that the cost of insurance products represents a significant household expense, we've led consumer education and advocacy efforts to protect consumers in the face of these aggressively marketed, complicated, and enormously variable products. CFA's insurance operations are overseen by two former state insurance commissioners and actuaries. It stands alone as America's leading nonprofit keeping an eye on insurance regulators and helping consumers by taking on overpriced, underperforming, unneeded, and often discriminatory products.

As described more fully at the end of this monograph, CFA has a long and successful history of protecting consumers and reforming the insurance marketplace through public education, consumer assistance programs and advocacy. Through its work, CFA has saved consumers billions of dollars, led the reform of insurance laws and regulations nationwide, and its insurance research is often recognized and cited by the media and policymakers.

Protecting Consumers of Important but Complicated and Sometimes Deceptive Life Insurance and Related Financial Planning Products

Life insurance and annuities can play a valuable role in the financial planning of American families by providing them with additional resources after the retirement or death of a breadwinner. But the various products sold in this space do not always meet a standard of fairness or reasonableness that should be expected of a financial safeguard.

CFA focuses on two overarching areas of effort needed to reform life insurance markets, practices, and oversight so consumers do not waste billions of dollars on excessively priced insurance, on products that are unsuitable for them, or on deceptive and fraudulent products.

Below, we discuss current and projected projects in each of these two areas of effort – consumer education and advocacy for improved law and regulation.

Where large insurers compete for business with high quality, reasonably priced options, the focus of effort should be educational in nature so consumers can make informed purchase decisions. However, large insurers do not consistently offer high quality life insurance products to low-and moderate-income (“LMI”) Americans and people of color. Ford Foundation-funded [research](#) CFA undertook in 2011 revealed some of the problems these communities face, including families being underinsured with respect to life insurance protection, overcharged relative to the coverage provided, and often sold questionable life insurance and derivative products that waste limited resources and offer little protection. For these problems and abuses educational efforts alone are not enough; regulatory and legislative action are needed. In fact, even the more competitive segments of the life insurance market exhibit some conflicts of interest and anti-consumer practices that also deserve consumer advocacy in support of legislative and regulatory reform, especially related to creating and enforcing suitability standards for products.

Sustaining and Expanding CFA’s Life Insurance Education Work

Life insurance products range from very simple (term insurance) to very complex and opaque cash value products (like whole life, universal life, variable universal life, and annuities).

Simple term life insurance satisfies the most straightforward need associated with life insurance – providing for vulnerable dependents in the event of a premature death. This is a pretty healthy market, and it is fairly easy to compare prices of term insurance. Web-based services are generally informative and competition for customers provides many options for consumers to shop around.

Cash value life insurance and annuity products are, on the other hand, extremely difficult to understand and to know when a product is best for the buyer. This is because these products incorporate a banking or investment element into the policy. It is very hard to determine just how much of the premium dollar is paying for the insurance, how much is paying for agent commissions and other expenses, and how much goes into your internal bank or investment account. It is also hard to assess the quality of these products. In fact, CFA’s life insurance actuary – a former State Insurance Commissioner – argues that consumers need to conduct a sophisticated analysis of the policy to determine if a particular policy is appropriate for that person.

A low-cost service CFA has run for years, called “CFA’s Rate of Return (ROR) Service,” uses a specialized program, our life insurance actuary estimates a policyholder’s

investment returns on any cash value life insurance policy — whole life, universal life or variable life. Each program participant receives a document showing average annual RORs if they hold the policy for 5, 10, 15, and 20 years. The consumer also gets a four-page explanation that includes other valuable information relevant to buying or owning cash value life insurance. While this is invaluable information for a policyholder, due to resource constraints, CFA can only provide this service to very few customers today. But, as resources become available, CFA intends to expand access to the ROR Service through innovative outreach and marketing efforts. Consumers could submit information and policy documents to CFA and our staff expert would provide them with an analysis of their coverage and options for them as they consider what to do with the policy.

Educational Resources and Tools CFA Plans to Develop or Expand

1. Life Insurance Buyers' Guide. CFA plans to research, write, design, and publish a consumer-facing buyers' guide to the various insurance-financial products with death benefits. The guide will include information on the various types of cash-value insurance products including life insurance, funeral insurance, annuities, and credit life insurance. Once all of our research and information is placed in a single guide for distribution, we will issue updated editions to capture new laws, new trends, and new warnings for insurance consumers in the 50 states.
2. Annuities Buyers' Guide. Annuities' promise of guaranteed income for life is an attractive one for many investors, particularly those approaching retirement. That appeal only intensifies in the wake of market disruptions like the pandemic-related stock market oscillations of 2020. But annuity products offered by life insurers are among the most complex and opaque investment products sold to retail investors, with costs and risks that are often poorly understood by non-experts. With conflicts of interest rampant in the sale of annuities, consumers are too often encouraged to purchase the products that reward the seller most, rather than those that represent the best value for the investor.

Currently, much of the information that is available to consumers about annuities comes from the industry and reflects a pro-annuities bias. Even consumer education materials developed by state insurance regulators are of minimal value. Dense with technical jargon, those materials do little to alert potential investors to the costs and risks associated with some of the most commonly sold types of annuities. They do even less to help consumers distinguish between individual annuity products based on factors related to cost and quality. Rather than relying on industry-sponsored information, our research will produce independent, user-friendly educational materials to help consumers determine whether an annuity is a good option for them, what type of annuity would best

suit their needs, and which annuities within that product category represent the best value.

Building the Go-To Website for Evaluating Life Insurance Products. A website to grade the life insurance products on the market, independent of insurance company funding, commissions or kickbacks, is necessary to further help consumers and impact the marketplace. CFA has plans to expand its web presence with a go-to website for consumers who are shopping for life insurance or trying to ensure they are getting what they are due from a policy. As resources become available, “The Only Truly Independent Universal Life Insurance Calculator” is being developed for the site. Once developed, this calculator will allow consumers to plug in data about themselves and their insurance needs, and our calculator will provide an estimate of what a fair policy should cost in the market based on the most currently available information. This will help consumers who are shopping for coverage decide whether the policy they are being offered is fairly priced. It would also highlight key red flags that consumers should look for when evaluating a policy quote. It could also be used to determine if a current Universal Life insurance policy owned by the consumer is worth keeping.

Expand CFA’s Life Insurance Rate of Return Evaluation Service. As discussed above, CFA aims to conduct outreach and marketing efforts to increase awareness of our life insurance rate of return analysis service. In an updated version of our service, consumers could securely submit information and policy documents to CFA online and our staff experts would provide them with an analysis of their coverage and options for them as they consider what to do with their policy. Since its inception, CFA’s EvaluateLifeInsurance.org program has required customers to pay a small fee to cover the evaluation costs, but in an expanded program, the fee will be waived for low-income consumers.

Regulatory or Legislative Efforts

Many of the key problems in life insurance require public policy advocacy, either regulatory or legislative, since education alone will not defeat these problems. The virtual non-existence of state regulation leaves many consumers vulnerable to abusive practices in their state. The sale of unsuitable products, markets rife with hidden kickbacks, and the targeting of low-income populations with high-priced, low-quality policies are all areas in which needed reform has languished and advocacy is critical. Because insurance is regulated by the 50 states, reform efforts are particularly difficult to achieve on a wide-spread basis without a concerted and coordinated advocacy project. CFA is uniquely positioned to conduct public policy research and advocacy on life insurance issues, as our team includes two former state insurance commissioners, both actuaries, and a Ph.D. researcher who prepared a 2011 report on low-income life insurance policies for the Ford Foundation.

Expanding CFA's Regulatory and Legislative Work to Improve Consumer Protections in Life Insurance and Annuities Markets

1. Develop Reforms to Prevent Funeral and Burial Insurance Rip-offs

With assistance from the CFA member organization, Funeral Consumers Alliance, CFA has plans examine and propose needed reforms for funeral and burial insurance. These small whole life insurance policies are marketed mainly to LMI households. In the past, African-American families, especially those in the South, have been particularly targeted by marketers of these policies. Funeral and burial insurance is almost always more expensive than other types of life insurance. Premiums paid frequently greatly exceed claims paid, and because monthly premiums rise as policyholders age, the policies are frequently terminated with inadequate surrender values because of high commissions and administrative expenses. Some consumers terminating policies think, or are led to think, that they are owed no refund of any premiums paid. Funeral and burial insurance is frequently and increasingly marketed and sold by funeral homes that add their own expense to the product.

The last careful research on this product and its purchase was done in the 1990s. This research by the National Association of Insurance Commissioners (NAIC) revealed, among other facts, that there were 16 million of these small whole life policies in force. We have plans to update this research by, for example:

- Researching all small whole life insurance policies using sources such as the Federal Reserve Board's Survey of Consumer Finances and industry sources such as LIMRA.
- Identifying and investigating the finances of those companies selling burial and insurance policies with an emphasis on those marketing to LMI markets, especially African-American populations, by television and door-to-door.
- Examining the policies of these companies.
- Examining burial and insurance policies marketed by funeral homes, especially those to LMI and African-American populations.
- Contacting Legal Aid and Legal Offices throughout the South for evidence of related consumer complaints.
- Reviewing consumer complaints received by the Funeral Consumers Alliance.
- Examining existing state consumer protections.
- Proposing creation or strengthening of needed protections.

In conjunction with this research, we will develop model reforms and work with our state-based members and allies, including the Funeral Consumers Alliance, to advocate for these reforms.

2. Monitor and Weigh in on the Work of the NAIC’s Annuity Suitability Working Group

This working group has been developing suitability model legislation that weighs heavily in favor of insurer interests and against the public interest. With resources and media attention, CFA could play a more significant role in combatting the dangerous proposals being considered by the NAIC and some state regulators and moving toward real suitability requirements.

3. Research and Report on the Life Insurance and Annuities-related Actions of State and Federal Regulators

CFA has plans to produce an annual scorecard assessing regulators in which we identify best and worst practices and make recommendations for how regulators can best serve consumers in their jurisdictions. One particular focus of this effort involves regularly reviewing and rating state market conduct exam efforts (as this is particularly important in life insurance, since states have no rate control authority).

4. Research and Undertake Reform Action in Target States on “Reverse Competition” Lines of Insurance

Reverse competition occurs when competition drives premiums up, rather than down. This happens where the insurers see the intermediaries (brokers, banks, car dealers, etc.) as the “consumer” rather than the ultimate rate payer, the individual consumer. This unhealthy practice prevails in credit insurance and CFA has plans to focus first on credit life insurance. The findings would likely also apply to other lines of insurance which suffer from this phenomenon (for example, credit unemployment insurance, credit health insurance, title insurance, and forced-placed insurance). CFA will develop model reform proposals to advocate in select states in partnership with CFA members and allies.

Consumer Federation of America’s Insurance Education, Advocacy and Impact Credentials

The Consumer Federation of America (CFA) is an association of more than 250 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. Its membership includes well-known national organizations such as AARP and Consumer Reports and scores of state and local consumer organizations that advocate for marketplace protections and serve community members directly.

Since insurance is the fourth leading cost item for consumers and is a service that requires delivery on promises made sometimes many years after the contract is signed, it is an area of demonstrated abuse. Thus, CFA has focused on insurance matters since its creation and in a concentrated manner for over 25 years and has assembled a team of experts that has had a significant impact on insurance markets, industry practices, and company behavior, achieving many reforms through research, advocacy and education for consumers.

The current team includes two former state insurance commissioners, both of whom are both professionally certified actuaries. One is a life insurance actuary; the other is a property/casualty insurance actuary. The team also includes an insurance expert who sits on the U.S. Department of Treasury's Federal Advisory Committee on Insurance and formerly was executive director of California's leading insurance consumer advocacy group, Consumer Watchdog. The team also includes an investor protection expert who sits on the SEC's Investor Advisory Committee, an attorney with expertise in financial services regulation, two insurance researchers (one a PhD) and media support staff. CFA plans to expand its team further as its programs grow.

As insurance is regulated at the state level, the team interacts with CFA's state and local membership groups in order to reach insurance commissioners and policymakers in their home state. Among our members who have worked significantly on insurance issues are, for example, the Maryland Consumer Rights Coalition, Texas Appleseed, Consumer Federation of California, Florida Consumer Action Network, New Jersey Citizen Action, and Minnesota Asset Building Coalition.

Over the past several decades, CFA has exposed, highlighted, and challenged unfair, deceptive, and illegal practices in the areas of both life and property-casualty insurance.

In recent years, CFA has uncovered, and convinced about half of the states to ban, the use of complex computer models that vary prices not on the risk of the policyholder but on the policyholders' propensity to shop, raising prices particularly on the most loyal customers. Over the years, CFA has called upon state regulators to stop unfair price hikes in Universal Life Insurance products, stopped the insurance industry's effort to weaken solvency standards on a national basis in life insurance during the Great Recession, and advocated for improved annuities suitability standards. Under a grant from the Ford Foundation, CFA has previously studied life insurance for LMI families. The study found a disturbing degree of LMI families without life insurance or with inappropriate life insurance, including vastly overpriced burial insurance coverage.

Most recently, CFA has successfully advocated for insurer refunds and credits to consumers for excessive auto insurance prices when COVID-19 caused a dramatic drop in driving and car accident claims. That push led to over \$11 billion in paybacks to consumers, and the effort to require further paybacks is continuing today. CFA has also worked intensively on the ways in which low-and moderate-income Americans have suffered under unfair pricing systems in the auto insurance market that raise state-required auto insurance premiums to unaffordable levels for many of the LMI.

Finally, in spite of an industry that spends of billions of dollars promoting their products and millions lobbying to avoid accountability, CFA's current and expanding efforts are the best antidote to under-regulation, false promises, unfair claims processes, and discriminatory pricing.