



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 insurance and related products. CFA, which is comprised of nearly 250 consumer organizations across the nation, has been conducting consumer research, education, and advocacy since 1968 and has been one of the nation's leading consumer voices on insurance issues for the last 30 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 insurance products can be a critical source of individual, family, and community financial security and resilience and that the cost of insurance products represents a significant household expense, CFA has devoted decades of work to consumer education and advocacy efforts to protect consumers in the face of these aggressively marketed, complex, and enormously variable products. The foundation for CFA's insurance operations was laid by two former state insurance commissioners, both actuaries, who still advise and work with the CFA staff. CFA stands as the nation's leading organization that is keeping an eye on insurance regulators and helping consumers navigate a marketplace that, too often, offers up overpriced, underperforming, unneeded, and unfairly discriminatory products.

As we later describe, 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 served as an essential source of reliable research and the consumer perspective for the media, policymakers, and the public.

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 in the market do not always meet a standard of fairness or reasonableness that should be expected of a financial safeguard.

CFA focuses on two strategies for improving outcomes for insurance customers: consumer education and advocacy for improved laws and regulations. Where large insurers compete for business with high quality, reasonably priced options, our efforts should focus on education 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 need consumer advocacy in support of legislative and regulatory reform, especially related to creating and enforcing suitability standards for products.

Below, we discuss current and projected projects along these strategic pathways. These projects aim to empower consumers and ensure that appropriate guardrails are in place 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.



Sustaining and Expanding CFA's Life Insurance Education Work

CFA, through its insurance experts and its America Saves and Veteran Saves programs, produces valuable informational and educational financial security and planning resources for consumers, with an emphasis on financially vulnerable Americans.¹ There is a need and opportunity to update and expand the reach of our life insurance, annuities, and related product resources. 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). The public needs a truly independent, consumer focused organization's assistance in navigating these markets.

Simple term life insurance satisfies the most straightforward need associated with life insurance – providing for vulnerable dependents in the event of a premature death. Generally, this is a healthy market, and it is reasonably easy to compare prices of term insurance. Web-based services are 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.

CFA's life insurance actuary – a former State Insurance Commissioner – always believed that consumers need to conduct a sophisticated analysis of the policy to determine if a particular policy is appropriate for that person. So, he created the unique low-cost program we run through our website called "CFA's Rate of Return (ROR) Service." Using a specialized analysis, 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

¹ CFA's America Saves and Veteran Saves programs work with 4,500 nonprofits, employers, financial services institutions, and public agencies to motivate, encourage, and support low- to moderate-income households to save money, reduce debt, and build wealth. Through its extensive networks, the America Saves programs reach about one million American consumers each year.



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 and CFA provides hundreds of these analyses each year, due to resource constraints, we cannot afford to make the program available to as many life insurance policyholders as we believe would take advantage of this low-cost service² if they knew about it. Nor can we, as we might with greater resources, partner with CFA member organizations that directly serve low-income consumers and offer the ROR Service to the people they serve, even though low-income consumers are often targeted with the worst versions of cash value life insurance products. But, as resources become available, CFA intends to expand access to the ROR Service through innovative outreach and marketing efforts and partnerships with low-income service organizations. Many more consumers would have the opportunity to submit information and policy documents to CFA and get the benefit of our expertise to 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 online buyers' guide to the various insurance-financial products with death benefits. Unlike many of the advice consumers find online, which tends to be published as part of an effort by the website to earn a commission for providing consumer leads to contracted insurance companies, this will be an independent guide free of financial conflicts coming from a trusted nonprofit organization. The guide will include information on the various types of cash-value insurance products including life insurance, funeral insurance, and credit life insurance. Once all of our research and information is published, 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

² The charge for the service only covers CFA's costs and is not structured to net any income



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, 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.

3. Expand CFA's Life Insurance Rate of Return Service. As discussed above, CFA aims to conduct outreach and marketing efforts and create new partnerships to increase awareness of and access to 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.
4. Build a Universal Life Insurance Calculator. With sufficient resources, CFA intends to expand its ROR Service so that we can not only assist consumers who need to evaluate a policy they own, but so we can help people assess what they should expect to spend as they shop for coverage. Once developed, this calculator will allow consumers to plug in data about themselves and their insurance needs, and the calculator will provide an



estimate of what a fair policy should cost in the market based on the most currently available information.³ 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.

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

Many of the key problems in life insurance require public policy advocacy, either regulatory or legislative, since education alone will not overcome these problems. The limits of state regulation of the life insurance market leave many consumers vulnerable to abusive practices. 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. CFA’s Director of Insurance is an appointee to the Federal Advisory Committee on Insurance, which serves as the external advisor to the U.S. Department of Treasury’s Federal Insurance Office. Another CFA insurance staff member is appointed as a Consumer Representative to the National Association of Insurance Commissioners, both of which directly engage in life insurance research, policy, and oversight in a variety of ways. Our team also includes an investor protection advocate, an artificial intelligence expert, and a data scientist who will play key roles in our ongoing research and ensure that we can provide a consumer-oriented perspective on technology-driven changes and new risks in the life and annuities sector. Among the work we will expand or take up in the coming years are the following:

³ Unlike most online pricing information for consumers, in which the personal data collected is monetized for profits, CFA will not sell, rent, or share the data. Consumers’ data will be used only for the purposes of determining estimated rates and providing the calculator users with information and education.



1. Monitor and Weigh in on the Work of the National Association of Insurance Commissioners (NAIC) Life and Annuities Committee

As an official consumer representative to the NAIC, CFA serves a vital role in ensuring that state regulations effectively promote consumer protection. Through this role we have met with insurance commissioners and regulatory staff in nearly every state over the last several years and made several presentations to NAIC committees and working groups. With additional resources, CFA can increase our engagement on life and annuities issues at the NAIC. In particular, areas that we have monitored and plan to expand our activities include:

- 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 making the case for real suitability requirements.
- Apply a Best Interest Standard of Care to life Insurance Sales
The NAIC model best interest standard, while insufficient, applies to annuity sales but not life insurance sales. This is despite the fact that the sale and marketing of indexed universal life is nearly identical to that of fixed indexed annuities. We will continue to work to both strengthen the standards and apply a best interest standard to all of the relevant products.
- Barriers to Access to Life Insurance for People with Criminal Records
Many Americans have difficulty accessing life insurance products or getting a fair price for coverage because they have a criminal record. As they seek to re-enter the workforce and society and support family needs, facing barriers to important financial security products increases the chances that they will not be able to effectively reintegrate into their community. The NAIC has been exploring ways to address this through its Special Committee on Race and Insurance and CFA will play a key role in promoting fair access to insurance coverage.



- Deceptive Illustrations

We will continue to highlight the importance of improving the rules governing life insurance illustrations to ensure that consumers are not misled about the returns or risks associated with the life insurance products they are being offered.

- Unfair Discrimination Testing for Accelerated Underwriting

CFA has been a leading voice on the importance of testing insurance company practices for unfair discrimination and potential disparate impacts in the market. We have been actively involved in the drafting of regulations related to life insurance testing in Colorado and will work, through our role at NAIC, to encourage the use of algorithmic bias testing throughout the country. In particular, CFA and colleagues are concerned about the dangers of unfair discrimination in the practice of accelerated underwriting of life insurance policies and how the use of big data may create two tiers of access to coverage that disproportionately harm people of color seeking coverage.

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

With assistance from the CFA member organization, Funeral Consumers Alliance, CFA has plans to 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 relatively more expensive than other types of life insurance. Premiums paid frequently greatly exceed claims paid, and, because monthly premiums may 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 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 and communities of color.
- Examining the policy forms, disclosures, and illustrations of these companies.
- Examining burial and insurance policies marketed by funeral homes, especially those to LMI populations and in communities of color.
- Contacting Legal Aid and similar service organizations 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.

3. Work with State and Federal Agencies to Address Concerning Trends in the Life Insurance Sector

Through our relationships with regulators and in our advisory roles – in addition to having staff serving as a consumer representative to the NAIC, CFA staff also serve as appointed consumer representatives on the Federal Advisory Committee on Insurance and the Nevada Property and Casualty Insurance Advisory Committee – we will press for more investigation and action around concerning trends in the life insurance sector. For example, with the decline in life insurance sales over the past 50 years, we see a concerning trend that the insurance industry has specifically abandoned low- and moderate-income consumers. We also will continue to raise concerns about the transfer of policyholder assets offshore with limited United States regulatory oversight.



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 nearly 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 30 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.

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, New Jersey Citizen Action, and Illinois Public Interest Research Group.

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 known as “price optimization” 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 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. CFA has been an active stakeholder in the development of regulations in Colorado that will govern unfair discrimination testing in the life insurance market of that state.

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 \$12 billion in paybacks to consumers. CFA has 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 consumers and has played a critical role in the success of California’s Low-Cost Auto Insurance Program for low-income drivers, that currently insures about 45,000 low-income motorists in the state who would likely be driving uninsured without the program.

In spite of an industry that spends 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.