THE MONEY VULTURES

By Emily Gottlieb and Joanne Doroshow *

INTRODUCTION

The insurance industry exercises vast economic clout in this country. When insurance companies come asking for government handouts or liability limits for policyholders whom they insure, they’re hoping for results.

Just in case there’s any question, however, they’ve got a back up: Lots and lots of money.

According to the Center for Responsive Politics, during the last two election cycles, the insurance industry, through individuals and PAC contributions, soft money and donations to political parties, dumped nearly $70 million dollars in contributions to federal candidates and parties, mostly to Republicans.¹ Ten insurance companies were responsible for doling out over $1 million each over the last two election cycles.² Since the mid-1990s, each of those million-dollar companies has either had run-ins with the law or been sued by defrauded policyholders, often in class action lawsuits – the very kinds of suits that insurers are lobbying hard to restrict.

According to Texans for Public Justice, five insurance company executives and at least one lobbyist were members of the elite group of George W. Bush fundraisers called “Pioneers” – people who raised at least $100,000 for Bush’s presidential run.³ Three of these individuals are connected to companies that are also among the top 10 corporate contributors: Maurice R. Greenberg, chairman and chief executive officer of American International Group (AIG), Robert O’Connell, chairman, president and CEO of Massachusetts Mutual Life Insurance (MassMutual), and Michael R. Hightower, a lobbyist with Blue Cross/Blue Shield of Florida.⁴ Insurance companies also gave over $1.1 million to underwrite Bush’s inauguration, with Greenberg’s AIG, the American Council of Life Insurance and the American Insurance Association each contributing $100,000 to the inaugural fund.⁵
The payback to insurers for all of this money has just begun. Greenberg and O’Connell were part of a group of 15 insurance executives brought into the White House for a private meeting with Bush and Commerce Secretary Donald L. Evans shortly after 9/11 to push for a taxpayer bailout of insurance companies in the event of future terrorist attacks. In November 2002, Congress passed this bill, legislation that will have the government covering 90 percent of all terrorism-related losses after insurers pay a relatively small amount. This is despite over a year of evidence that the economic crisis that insurers promised due to the lack of a federal terrorism insurance backup never materialized. In fact, the industry had already experienced a new surge of capital, banks had been lending to businesses for construction projects and insurance companies had already adapted to the market with alternatives to normal insurance, including self-insurance and formation of captive insurance companies.

Insurers now stand to gain from what could potentially be one of the biggest government bailouts in history, with taxpayers on the hook for potentially billions of dollars in losses that super-rich insurance companies can well afford to pay. The bill prompted USA Today to denounce the bill’s passage as putting “taxpayers at risk while exposing special interests’ willingness to exploit 9/11 for their own gain.”

Now, President Bush is working to advance insurance company interests in yet another way: By campaigning for cruel limits on patient compensation from hospitals and HMOs whose medical negligence causes injuries and death. The $250,000 cap on non-economic damages advocated by Bush and Senate Majority Leader Bill Frist (R-Tenn.) would have the greatest impact on the most severely injured Americans – quadriplegic workers and brain-damaged children who suffer most and suffer for a lifetime. As the following list shows, some insurance executives make more than this in a single week, without any pain, injury or suffering.

Despite being one of the most detested industries and worst corporate citizens in the country, insurance companies have bought access to the White House and to Congress, and insurers are just beginning to see their contributions pay-off.

Money Totals

During the last two election cycles, the insurance industry contributed nearly $70 million dollars and counting (numbers are final only as to December 2, 2002) to federal candidates and parties, mostly to Republicans. Here’s the breakdown, according to the Center for Responsive Politics:

**Election Cycle 2002**
- Total Contributions: $32,395,168
- Contributions from Individuals: $7,220,145
- Contributions from PACs: $10,835,801
- Soft Money Contributions: $14,339,222
- Donations to Democrats: $9,918,086
- Donations to Republicans: $22,456,473
- Percent to Democrats: 31%
- Percent to Republicans: 69%

**Election Cycle 2000**
Total Contributions: $41,331,737
Contributions from Individuals: $13,859,160
Contributions from PACs: $11,221,963
Soft Money Contributions: $16,250,614
Donations to Democrats: $14,037,419
Donations to Republicans: $27,149,875
Percent to Democrats: 34%
Percent to Republicans: 66%

The following ten insurance companies, profiled below, have each contributed over $1 million during the last two election cycles through individuals and PAC contributions, soft money or donations to political parties. As to whether the record of any of these companies suggests that they are worthy of special government handouts, the facts speak for themselves.

**Top 10 Insurance Money Vultures**

**AFLAC (American Family Life Assurance Co.)**

**What it sells:** accident/disability, cancer, short-term disability, hospital intensive care, hospital confinement indemnity, long-term care, specified health event, life and dental

**Contributions during 2000 and 2002 election cycles:** $4,173,565

**Recent profits:** Third-quarter 2002 net earnings rose to $240 million, up from $193 million the same quarter a year ago.

**CEO Annual Compensation:** Daniel P. Amos, Chairman and CEO, $15,141,465

**Record of Corporate Citizenship:**

In 1998, AFLAC paid $80,000 in civil penalties for making illegal contributions to the congressional campaign of Henry Espy, evidence that was uncovered by the Independent Counsel investigation of Espy’s brother, former Agriculture Secretary Mike Espy. According to the Independent Counsel’s office, an AFLAC vice president had asked two independent agents and their wives to give $1,000 each to the campaign of Henry Espy and then authorized AFLAC to reimburse them, which is illegal.
**What it sells:** health

**Contributions during 2000 and 2002 election cycles:** $3,818,124

**Recent profits:** Blue Cross/Blue Shield plans as a group “produced a $2.9 billion profit [in 2001], or 70 percent of the industry’s $4.1 billion aggregate net earnings. This represents a 40 percent increase over the Blues’ $2 billion profit recorded in 2000.”

**Record of Corporate Citizenship:**

Blue Cross/Blue Shield companies have a long history of defrauding the U.S. government. For example, in 1999, after a five-year federal probe, Blue Cross/Blue Shield of New Mexico, Blue Cross/Blue Shield of Colorado and their wholly-owned management services company pled guilty to obstructing a federal audit of their Medicare administration program and conspiracy, agreeing to pay the federal government $13.5 million in criminal fines and civil settlement fees. That same year, the federal government announced a $74 million settlement with Anthem Blue Cross/Blue Shield of Connecticut, whose predecessor had falsified reports about Medicare payments so it could remain a Medicare contractor.

In 1998, Blue Cross/Blue Shield of Illinois pled guilty to eight felony counts of Medicare fraud and agreed to pay $4 million in criminal fines and $140 million in a civil settlement for lying to federal auditors, destroying documents and mishandling claims.

In 1996, Blue Shield of California pled guilty to three felony counts and agreed to pay the statutory maximum $1.5 million fine for hiding Medicare claims processing errors from federal auditors. The company reached a $12 million settlement with the U.S. Justice Department the following year.

In 1995, Blue Cross/Blue Shield of Michigan agreed to pay more than $52 million to resolve Medicare violations. According to a federal investigation, the company had submitted false audits to the U.S. government in an attempt to improve its grade as a federal contractor and had unlawfully billed a federal agency for thousands of medical insurance claims that should have been paid by Blue Cross/Blue Shield. A year earlier, Blue Cross/Blue Shield of Massachusetts agreed to pay $2.75 million to settle U.S. Justice Department charges that it had submitted false Medicare data to inflate its federal reimbursements.

Blue Cross/Blue Shield companies have also defrauded thousands of innocent consumers. For example, in 1997, Blue Cross/Blue Shield of Maryland settled fraud charges brought by 30,000 customers who alleged that the company had negotiated discounts with some health providers without passing them along to policyholders. Three years earlier, Trigon Blue Cross/Blue Shield of Virginia agreed to pay a $5 million fine and to make $23 million in restitution to policyholders whom it had overcharged for nearly a decade.
American International Group (AIG)

**What it sells:** auto, residential, property, general liability, umbrella, professional liability, employment practices liability, workers’ comp and international coverages.

**Contributions during 2000 and 2002 election cycles:** $3,679,161

**Recent profits:** Third-quarter 2002 net earnings were $1.84 billion, up from $326.8 million the same quarter a year ago.

**CEO Annual Compensation:** Maurice R. Greenberg, Chairman and CEO, $6,000,000

**Favorite quotes:**

- “It’s a field day for A.I.G., and we’re going to play on the field.” Maurice R. Greenberg after announcing third-quarter 2002 profits.

- The insurance industry’s problems were due to price cuts taken “to the point of absurdity” in the early 1980s. Had it not been for these cuts, “there would not be ‘all this hullabaloo’ about the tort system.” Maurice R. Greenberg speaking before an insurance audience in 1986.

**Record of Corporate Citizenship:**

AIG has repeatedly violated state insurance laws. For example, in 1994, AIG faced the largest fine in the history of New Mexico’s Insurance Department after the company continued to process state workers’ compensation claims out of state despite repeated warnings and fines from the Department that such actions were in direct violation of state law.

In 1993, the California Department of Insurance levied penalties against AIG for its use of expired and unfiled rates in place of those approved by regulators, inconsistent application of rating plans and failure to consistently make written offers of uninsured motorist coverage.

And in 1990, AIG was fined by the New York State Insurance Department after eight AIG member companies failed to obtain prior approval of rates and policy forms before issuing medical malpractice, homeowners’ and professional liability insurance policies to consumers.
**American Financial Group (AFG)**

**What it sells:** primarily auto and specialty property and casualty insurance, and in the sale of retirement annuities, life, and supplemental health and long-term care insurance products

**Contributions during 2000 and 2002 election cycles:** $3,643,533

**Recent profits:** Third-quarter 2002 net earnings were $43.3 million, up from $27.9 million the same quarter a year ago.

**CEO Annual Compensation:** Carl H. Lindner, Chairman and CEO, $1,460,600

**Record of Corporate Citizenship:**

In June 2000, AFG subsidiary Great American Life Insurance of Cincinnati settled a policyholder class action lawsuit over the company’s mishandling of annuity benefits.

And in February 1999, Great American Life agreed to fines, penalties and refunds after Ohio officials found that the insurer had pressured seniors into buying investments without fully explaining them. Great American had sold 2,900 policies worth $115 million to seniors through another AFG-owned company, which misrepresented itself as a senior citizens’ advocacy group.

---

**Metropolitan Life (MetLife)**

**What it sells:** life, long-term care, disability income, auto, home and boat

**Contributions during 2000 and 2002 election cycles:** $2,307,634

**Recent profits:** Third-quarter 2002 net income was $328 million, up from $162 million the same quarter a year ago.

**CEO Annual Compensation:** Robert H. Benmosche, Chairman and CEO, $9,116,667

**Record of Corporate Citizenship:**

MetLife has repeatedly condoned sales abuses by its agents. For example, the company announced in February 2002 that it planned to resolve a class action lawsuit and a New York State Insurance Department investigation related to race-based underwriting practices.
In 1999, MetLife agreed to pay $1.7 billion to settle lawsuits brought on behalf of seven million current and former customers, who alleged that agents engaged in “churning,”* disguised life insurance policies as retirement or savings plans† and used deceptive examples to sell policies with “vanishing premiums.”‡ And in November 1998, MetLife faced a $25 million civil fine after a Justice Department investigation found that the company had marketed life insurance polices as retirement plans in Florida.43

In 1994, Pennsylvania regulators fined the company $1.5 million for “churning.”44 That same year, MetLife reached an agreement with 40 states to pay $96 million in fines and refunds after state regulators discovered that the company allowed its agents to market life insurance policies as retirement savings packages.45

What it sells: HMO, disability, life and accident46

Contributions during 2000 and 2002 election cycles: $2,141,340

Recent profits: Third-quarter 2002 net loss was $877 million, compared with net income of $270 million the same quarter a year ago.47

CEO Annual Compensation: H. Edward Hanway, Chairman and CEO, $3,815,90048

Record of Corporate Citizenship:

In October 1996, Cigna promised to pay millions to settle a class action lawsuit brought on behalf of policyholders, who were either overcharged or misled by Cigna subsidiary Connecticut General Life. More specifically, between August 1993 and March 1996, Connecticut General Life had improperly passed new federal tax costs onto 80,000 customers and sold “vanishing premium” life policies to 50,000 consumers.49

*C “Churning” is a term that describes when insurance agents convince policyholders to replace or borrow against existing life insurance policies to purchase new, more expensive ones, never telling customers that they would lose substantial cash values and pay new commission charges for the transaction.

† Retirement and savings plans are fully refundable; life insurance policies are not.

‡ “Vanishing premiums” is a phrase that describes when customers are told that policies will pay for themselves after a certain number of years when in fact premiums on those policies will not pay for themselves for many years.
Massachusetts Mutual Life Insurance (MassMutual)

What it sells: life, disability income, long-term care and annuities

Contributions during 2000 and 2002 election cycles: $1,957,214

Recent profits: Net income rose to $791 million in 2001, up from $740 million a year earlier.

CEO Annual Compensation: Robert O’Connell, President, Chairman and CEO, $3,462,582

Robert O’Connell was president of U.S. Life Companies, a subsidiary of American International Group, until he joined MassMutual in 1999. That year, he sent a letter to some of his employees informing them that he and his wife, Claire, had each contributed $1,000 to Bush’s campaign. The letter urged recipients to send checks to their boss, O’Connell, so he could forward them to the campaign.

Record of Corporate Citizenship:

MassMutual is currently one of five major life insurance companies facing antitrust charges that they formed an illegal cartel to monopolize the market for studies of investment performance by life insurers in the United States. In June 2002, MassMutual reached a settlement with three million policyholders after the insurer failed to fully disclose the additional fees it charged when customers opted to pay their annual premiums in installments rather than at the first of the year.

New York Life

What it sells: life and annuities

Contributions during 2000 and 2002 election cycles: $1,831,775

Recent profits: “For the second consecutive year, New York Life Insurance Company reported net income of more than one billion dollars. Net income in 2001 was $1.086 billion, compared with $1.205 billion in 2000.”

CEO Annual Compensation: Seymour Sternberg, Chairman and CEO, $6,832,358

Record of Corporate Citizenship:

In August 1995, New York Life settled a class action lawsuit brought on behalf of three million policyholders over a variety of misleading sales practices. Customers alleged that between 1982
and 1994 company agents promoted “vanishing premium” policies, engaged in “churning” schemes and sold life insurance policies as investments rather than as insurance.\textsuperscript{59}

\begin{center}
\textbf{Prudential}
\end{center}

**What it sells:** life, auto, long-term care, homeowners’, watercraft, personal liability and annuities\textsuperscript{60}

**Contributions during 2000 and 2002 election cycles:** $1,794,048

**Recent profits:** Third-quarter 2002 net income was $302 million, up from a $280 million loss a year ago. These figures include results of both the company’s financial-services businesses and the closed-block insurance business.\textsuperscript{61}

**CEO Annual Compensation:** Arthur F. Ryan, Chairman and CEO, $8,159,005\textsuperscript{62}

**Record of Corporate Citizenship:**

In 1996, a 30-state task force found evidence that Prudential agents had engaged in “churning” and “vanishing premium” schemes throughout the United States. The company reached an agreement with regulators in 45 states and the District of Columbia to pay a $35 million fine and provide restitution for 10.7 million policyholders who purchased policies from 1982 through 1995.\textsuperscript{63} California, Florida, Texas, Massachusetts and Virginia, who did not participate in the multi-state settlement, levied millions of dollars in fines against Prudential for the same fraudulent behavior.\textsuperscript{64}

A month after settling with Florida, Prudential sued state regulators to keep records related to the state’s deceptive-sales investigation from becoming public. The insurer’s efforts were unsuccessful. Documents released included an outside auditor’s report, stating that company directors had been warned for 12 years – from 1982 to 1994 – about sales abuses but failed to act, and transcripts of sworn statements that Prudential’s top executive approved a $1.46 million payment to a mid-level employee who threatened to blow the whistle on how agents deceived consumers nationwide. In addition, Florida’s insurance department and attorney general’s office circulated its joint report, which detailed how Prudential “trained its agents to mislead, misrepresent and defraud policyholders” and specifically target the elderly.\textsuperscript{65}
United Services Automobile Assn. Group (USAA)

What it sells: auto, homeowners’, property, life and health

Contributions during 2000 and 2002 election cycles: $1,162,610

Recent profits: The company anticipates that its 2002 results will surpass those in 2001, which included pretax income of $737 million and $604 million in net income.

CEO Annual Compensation: Robert G. Davis, President, Chairman and CEO, $978,749

Recent problems:

In January 2000, USAA along with Farmers filed a lawsuit in California state court against the state’s insurance commissioner, arguing that potential “redlining” data should be protected as “trade secrets.” More specifically, the companies claimed that releasing information regarding insurance policies in specific communities, including nonrenewals and total premiums, would benefit their competitors. Allstate, Fireman’s Fund and Safeco joined the suit. The judge denied the insurers’ claims.

USAA, along with Nationwide, Farm Bureau, State Farm and Safeco, also “redlined” Texas drivers living in low-income and minority areas, according to a 1997 study by the non-profit Center for Economic Justice (CEJ). CEJ’s analysis of Texas insurance department data revealed that these insurers had a substantially smaller number of insured drivers in minority communities than they did in white neighborhoods. In San Antonio, for example, USAA provided coverage for over 25% of the insured vehicles in white areas but covered less than 5% percent of the insured vehicles in minority areas.

§ “Redlining” is the practice of discriminating against consumers based on their race, economic status or geographic location.
NOTES


3 Texans for Public Justice, The Pioneers: George W. Bush's $100,000 Club, found at http://www.tpj.org/pioneers.


7 See, e.g., Consumer Federation of America, “CFA Study Finds Fewer Terror Insurance Problems, Lower Losses Than Predicted,” January 23, 2002, found at http://www.consumerfed.org/disaster_terror_insurance_1_02reportrelease.pdf

8 “… as does aid to insurers,” USA Today, November 20, 2002.


13 “Executives’ Compensation in 2001,” Insurance Forum (July 2002), Vol. 29, No. 7, p. 76. According to Insurance Forum, they relied on two sources for executive compensation data. First, they used compensation exhibits in documents filed by public companies with the Securities and Exchange Commission (“SEC”). The exhibits show six dollar items: salary, bonus, “other annual compensation,” “restricted stock awards,” “long-term incentive plan payouts” and “all other compensation.” They used the sum of those items. They did not include the value of “securities underlying stock options” or the value of “option grants in 2001.” Second, they used compensation exhibits filed with the Nebraska insurance department by companies doing business in the state. The
exhibits show salary, bonus, “all other compensation” and the sum of those items. They used the sum. In some cases, the data filed with the SEC produced a different total compensation figure than the total shown in the exhibit filed with the Nebraska department for the same individual. In those instances, they used the larger figure. In a few cases, the exhibits filed with the Nebraska department indicated that the compensation for an individual was allocated among the insurance companies in a group of related companies. In those instances, they added the figures shown for an individual in several exhibits. In some of those cases, the figures may understate an individual’s compensation, because they may not have had exhibits for all the related companies among which the compensation was allocated. “Executives’ Compensation in 2001,” Insurance Forum (July 2002), Vol. 29, No. 7, p. 75.


15 https://sales.bcbs.com/ASP/Public/Chooseplan.asp.


23 The proposed settlement totaled $2.3 million. M. William Salganik, “Blue Cross class-action to yield refunds; 30,000 stand to benefit, most getting $25 to $50; Insurance,” Baltimore Sun, December 18, 1997; Shelly Schwartz, “Blue Cross to Settle Class Action Fraud Suit,” Daily Record, December 17, 1997.


AIG agreed to pay a $750,000 fine, the second-largest such payment in the history of the California Department of Insurance at that time. “AIG To Pay $750,000 Penalty In Calif.,” BestWire, June 30, 1993; “American International hit with $750,000 fine in California,” United Press International, June 29, 1993.


http://metropolitanlife.com/Applications/Corporate/WPS/CDA/PageGenerator/0,1674,P364,00.html.


http://www.newyorklife.com/NYL2/Article/0,1234,8409-22-75.00.html.


http://www.prudential.com/overview/0,1468,intPageID%253D2516%2526blnPrinterFriendly%253D0,00.html.


Before the task force issued its findings, the *Los Angeles Times* obtained an internal Prudential memo from January 1994, ordering managers in 14 states to destroy documents that might be sought in the multi-state investigation. The memo read: “We just learned this morning that one state is looking into possible violations regarding our ‘private pension’ materials. You must destroy all private pension letters other than the approved versions I referred to in my earlier focus message today. …Again, destroy and discard any other letters. I remind you that we’re mailing you copies of the approved versions today. ‘Life insurance’ now appears in both.” Scot J. Paltrow, “Prudential Told Staff To Destroy Documents, Memo Shows,” *Los Angeles Times*, June 26, 1996.


67 Lori Chordas, “The ultimate niche: USAA’s commitment to serving only people connected to the military, and its unusual structure and sales strategy, set it apart from the rest of the insurance industry,” Best’s Review, November 1, 2002.


70 Center for Economic Justice, Worse Redliners Identified: Department of Insurance Fails to Act (May 1997), found at http://www.cej-online.org/failsto.htm.