American Income Life – Selling Cancer

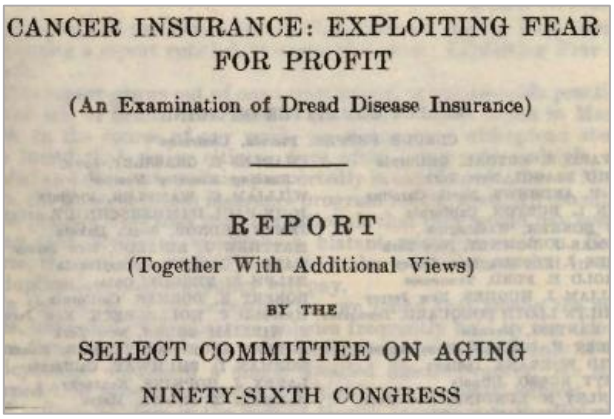
American Income Life, GL's largest subsidiary, has a documented history of exploitative sales tactics dating back to the 1970's.

PLEASE READ IMPORTANT DISCLAIMER – PAGE 9

May 1, 2024 – Viceroy Research is short Globe Life (**NYSE:GL**) following an extensive investigation of the company and its subsidiary American Income Life (AIL). Our original report can be found here:

https://viceroyresearch.org/2024/04/30/globe-life-the-main-course/

This report serves as a teaser while we continue untangling fraud at Globe Life.



CANCER INSURANCE: EXPLOITING FEAR FOR PROFIT

(An Examination of Dread Disease Insurance)

REPORT

(Together With Additional Views)

BY THE

SELECT COMMITTEE ON AGING

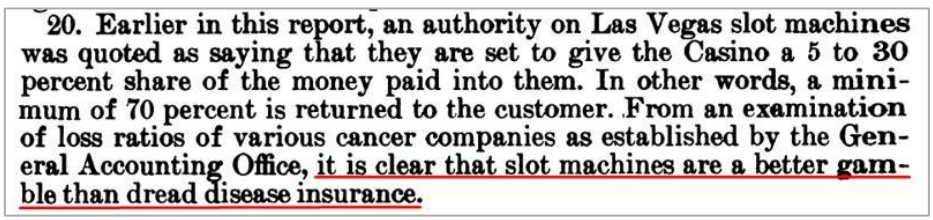
NINETY-SIXTH CONGRESS

Figure 1 – Select Committee on Aging Report – 25 Mar 1980[1]

In 1980 the Select Committee on Aging conducted an investigation into "Dread Disease Insurance" and the questionable practices in the sale of health insurance to the elderly, which began in 1978.

The committee found that *"policies were sold with the rationale that they would pay everything Medicare wouldn't – a blatant misrepresentation. Even worse, the policies generally contain a clause which says that in case of duplication, only one policy will pay"*. Of course, the market conduct examination included American Income Life Insurance Co.

The following pages contain the Committee's Market Conduct Examination on American Income Life Insurance Co conducted in 1978. The Committee concluded not only that predatory sales prices took place, but that the average consumer would generate a statistically higher return in Las Vegas slot machine.



20. Earlier in this report, an authority on Las Vegas slot machines was quoted as saying that they are set to give the Casino a 5 to 30 percent share of the money paid into them. In other words, a minimum of 70 percent is returned to the customer. From an examination of loss ratios of various cancer companies as established by the General Accounting Office, it is clear that slot machines are a better gamble than dread disease insurance.

Figure 2 – Select Committee on Aging Report – 25 Mar 1980

This enquiry led to the ban on cancer insurance sales in New Hampshire, Connecticut, New Jersey, and Massachusetts.

[1] https://cdn.centerforinquiry.org/wp-content/uploads/sites/33/2019/12/22170713/96-202.pdf

Readers will remember that AIL are now back to “selling cancer”, per training material from Carvajal agency. These policies are known within AIL as A71000.

Decline (DCL) -2-3%

Decline- is a policy that has been rejected due to background information or health information supplied by doctors or applicant. This requires a refund of initial premiums resulting in a full charge back from the agent.

Causes: Turned Down by the underwriting department. Trial App

Solutions: Use the Flash Sheet, be observant and ask questions. Place policy on someone else in house, Sell cancer. Mark ALT-DECL

Figures 3 – AIL Training Material, 2024, and AIL Marketing Material, 1978

More to come.

Market Conduct Examination: American Income Life Insurance Company

In October and November 1978, the Massachusetts Department of Insurance conducted an examination of the cancer policies sold in that State by American Income Life Insurance Company. The Department enlisted the assistance of the respected accounting firm, Coopers and Lybrand as well as insurance expert and attorney Paul G. Gitlin. The study revealed a significant number of violations of law and regulations. Among these findings were the following:

- The Company "does not have any system to insure that policyholder complaints are resolved satisfactorily and on a timely basis."
- There was evidence that some policyholders coverage per the application "was reduced prior to the policy issuance to correspond with the Company's stated premium amount without the consent of the policyholder."
- The Company's lack of underwriting could "purport coverage to a policyholder which will not exist at the time a claim is filed. The only underwriting consists of asking if the individual has ever had cancer." The report recommended that the Company review medical records prior to the approval of the applications.
- The percent of each premium dollar returned to the policyholders in the form of claims is low. Comparing the premiums written to the losses paid "for the most recent thirty-three month period developed a ratio of 25.17. It would appear that the paid loss ratio would approximate the incurred loss ratio over such a period," said the report. This means that roughly 75 cents on each dollar paid in for the purchase of cancer insurance policies are retained by the company in profits, commissions paid to agents or administrative expense. The national average among all companies selling health insurance is to keep only 20 cents on the premium dollar for profit, commissions and administrative expenses and return 80 cents to the policyholders in claims.
- The Department found serious problems with the applications forms used by the Company. "While the agents are directed to fill in the information obtained, the form is drafted as though the consumer is responsible for filling it in." This is carried to the extreme in the sentence immediately preceding signature in which it is spelled out that the signature is a representation that all the information on the form is true and correct. Thus the consumer will bear the burden of any mistakes or omissions in the form filled out by the agent.

In addition to the above problem, the application forms (Nos. CAN and CDV) exclude certain information required by Massachusetts insurance regulation:

(1) Although the benefits recoverable represent less than 50% of the cost of an average hospital stay, the application does not contain the required statement that "this policy is supplemental in its coverage and is meant to be purchased in addition to basic health insurance. This policy pays for——% of the cost of an average stay in a Massachusetts Hospital as defined by the Massachusetts Division of Insurance Hospital Cost Standard."

(2) The application fails to clearly and unambiguously disclose the company's pre-existing condition exclusion provision.

(3) The application fails to contain most of the additional information required by Massachusetts Insurance Division regulation. In addition to its failure to include the information described above in this report, the company fails to disclose: the existence and extent of the waiting period; the fact that the reception of some benefits are contingent on hospitalization; and the terms of renewability and premium guarantee. There is also no room provided on the application for the applicant's signature specifically indicating that he/she understands the required disclosures.

(4) The application provided does not contain questions that elicit whether the insurance sought by the company replaces other accident and sickness insurance. Massachusetts Insurance Division regulations require that a specific disclosure must be made if a consumer is replacing present coverage by purchasing a new policy. To effectuate this disclosure, the regulation also requires that any application ask questions designed to elicit this information.

Problems were also found with application form No. CDK—another cancer insurance policy sold in the State. Among these, said the study, was the fact that "the company has reserved the right to increase premiums on all policies sold within the State." The reservation of the right to increase premiums of a specified disease policy is an apparent violation of two Massachusetts insurance regulations, said the report.

Perhaps the major finding of the study was that "the marketing materials used by this company appear to violate numerous Massachusetts statutes" as detailed below. "One major cancer policy numbered CDK is marketed by direct contact with Union Governing bodies. The policy numbered CAN is marketed by agents using a prepared statement and associated visuals with individual consumers. The leads for this sales presentation are obtained by using a letter prepared by the company agents and mailed on union or credit union stationery."

Violation of the Massachusetts General Laws include:

(1) *The marketing materials do not contain information concerning the average financial cost of the treatment of cancer.* Because of the extensive fear of getting this disease, many people tend to overestimate the total cost of treatment and to be unable to determine the extent to which these costs relate to medical care

as compared to the associated non-medical costs. Without such data, it is difficult to determine if the policy benefits available are worth the premiums charged.

(2) *The marketing materials refer to an aggregate benefit obtainable under the CAN policy.* This amount is overstated by ten percent, because the materials include reference to a policy provision which provides a ten percent additional benefit which has not been approved in Massachusetts.

(3) *The policy is marketed by emphasizing the aggregate benefits available.* This sum is used as a focal point for the visual part of the presentation and is repeatedly referenced in the verbal part of the presentation.

While the agent making the presentation is told to say that this aggregate sum will not be paid in every case, he/she does not inform the potential policyholder of the substantial improbability that claims will approach this amount. The policy provides an aggregate benefit of $32,400.00. The average policy claim for the **period January 1, 1977 through June 30, 1978 was $1,396.15.** Accordingly, to receive the full aggregate benefit, the average policyholder would require twenty-three distinctive claim opportunities.

The marketing method emphasizing an aggregate benefit which is unlikely to be paid by the company has the capacity of deceiving consumers concerning the potential benefits of obtaining this policy, and therefore, appears to violate Massachusetts General Law.

(4) *The agent is instructed to read a letter at the beginning of the presentation which states that one of the two most crippling expenses a family can incur is cancer (the other being death).* Massachusetts data indicates that the most prevalent and most costly disease afflicting this state's population is not cancer but rather, heart disease.

The *misrepresentation* of the relative expense of cancer appears to violate Massachusetts General Law.

(5) *The verbal presentation contains a reference to the usual cost of cancer treatment in the range of $30,000 to $40,000.* Available statistics indicate the total cost of cancer is below $20,000. Much of this cost is not treatment related, but rather includes the costs associated with child care, and other factors. This clarifying information is not disclosed, nor is the fact that the policy offered is not designed to indemnify a consumer for these subsidiary costs.

The use of information which is not sufficiently clear and complete to avoid confusion, and the failure to disclose additional relevant information appears to violate Massachusetts General Law.

(6) *The prospect is told that a decision must be made at the completion of the presentation because the agent cannot come back into the home.* The examination team observed at a company sales meeting that agents were instructed to make repeat calls when necessary.

The *misrepresentation* of the agent's availability for repeat visits and the effect of this statement appear to violate Massachusetts General Law .

(7) ***The marketing method is designed to create or enhance the*** *consumer's fear of contracting cancer.* The visuals include a page of names, printed on a black background, of famous individuals who have died of cancer, and a corresponding page on which the following words appear: 'CANCER CAN HAPPEN TO YOU.' The associated verbal presentation recites statistics concerning the number of Americans who have or will get cancer.

The inclusion of this otherwise superfluous information creates or enhances an emotional atmosphere of concern about contracting cancer. Insurance purchases should be contemplated and made for functional reasons, and not as a result of an artificially created fear of being afflicted with a particular malady. The infusion of this information has the effect of concentrating the consumer's attention on the disease itself, and away from the costs and possible benefits of the policy. This may trigger purely emotional responses to the purchaser's innate fear of cancer, and may result in a decision to purchase based-on irrational reasons.

Inducing the purchase of insurance for emotional rather than functional reasons appears to violate Massachusetts General Law.

(8) *The marketing methods used misrepresent the effect of other insurance policies on the consumer's retention of benefits provided by stressing that the cancer coverage will pay expense benefits regardless of the existence of other insurance.* While that representation is technically true, it is nevertheless misleading because it fails to inform the consumer that there exists a possibility in Massachusetts that the benefits provided by this policy will reduce any benefits expected from the consumer's other insurance policies, such as, Blue Cross and Blue Shield.

The *misrepresentation* of the possible effect of overlapping insurance coverage appears to violate Massachusetts General Law . . . because it has the tendency to mislead the public about the extent of insurance proceeds that may be paid. The effect of other insurance companies' coordination of benefit provisions should be clearly disclosed.

(9) *The agent is instructed to inform the prospect that payment will be made on a claim for cancer that is diagnosed by a physician any time after a one hundred and twenty (120) day waiting period.* This is claimed to be true 'even if the doctor says that that tumor has been growing there for 4–5 years.' Since the policy's pre-existing condition clause requires a positive pathological determination of cancer, this statement appears to be correct. But the policy also contains a limit on payments for undiagnosed conditions to those medical costs incurred within ten (10) days preceding the date of diagnosis. This limitation is not disclosed in the marketing materials. Therefore, the above quoted statement may deceive a consumer as to the benefits obtainable.

The *non-disclosure and resulting misrepresentation* appear to violate Massachusetts General Law.

(10) *The marketing materials fail to disclose the extent to which the policy meets the costs of a short, average and long hospital stay* as defined in the 'Massachusetts Division of Insurance Hospital Cost Standards.'

The *company's failure* to provide the required information appears to violate Massachusetts General Law.

(11) *The policy is guaranteed renewable, but the company has reserved the right to increase the premiums uniformly on all policies in force in Massachusetts.* The fact that premiums may be adjusted at the company's option without specific Division approval is not conspicuously disclosed in any of the marketing materials.

The *failure to conspicuously disclose the potential for premium increases* without Division approval appears to violate Massachusetts General Law.

(12) *The visual portion of the presentation contains a statement in bold face that (the policy) "pays for preexisting cancer after 120 days."* This statement is followed in smaller print by the explanatory phrase that this is true provided that cancer has not been diagnosed prior to the expiration of this time period. This printing layout emphasizes the first statement and deemphasizes the second with the possible effect that the consumer will misconstrue the pre-existing condition exclusion.

The *practice of emphasizing, in positive terms, half of the company's pre-existing exclusion* appears to violate Massachusetts General law.

The Massachusetts Department of Insurance also contracted with RL Associates asking them to interview a sample of those who had recently purchased cancer insurance policies from American Income. They concluded as follows:

> ● American Income sells cancer policies primarily to working aged people using an implied union endorsement . . . Almost all policies are sold by agents rather than through the mail. Overall, the company trades on an implied endorsement by the potential policyholders' union, but this appears reasonable in light of the union's general cooperation in providing lists of names.

About one-fifth of the respondents first heard of the policy through their union . . .

Presumably as a result, three out of four of those with an opinion think the policy is endorsed by their union.

- *Only one in five said the agent pressured them to buy the policy the same evening, but six out of seven actually did buy their policy at that time.* Thus, the apparent sales pattern is for the agent to get into the home, often through a union recommendation, spend a reasonable length of time, sell the policy, and then get out without ever coming back again.
- *The respondents in this sample say they bought a cancer policy because of fear of the disease itself or of its costs and because of the widespread incidence of the disease.*

At least some of the information about incidence and cost had come from the agent. Three fourths of cancer policyholders said that the agent had mentioned that "1 out of 4 Americans will eventually get cancer." Of those who recalled what the agent said about the cost of cancer, almost 80% said that the agent had mentioned a cost range of $30,000–$40,000.

- *While respondents are very concerned about the incidence and cost of cancer, they are not knowledgeable about the potential benefits of the policy.* For instance, only one in four "knew" that there was a 60 day waiting period before the policy becomes effective.

  More important, most respondents did not know the amount of benefits typically paid by the policy. Respondents were asked what part of a $20,000 and of a $2,000 bill for cancer would be paid by their policy. In both cases, most people did not even think they knew, and of those that did "know," the great majority thought the policy paid the total amounts. Similarly, almost no one knew what coordination of benefits meant, and as indicated above, most people did not understand the concept as it applies to Blue Cross policies.

RL Associates summarized their findings:

> **Policyholders are not particularly well informed as to the benefits of the policies, and, in many cases have overlapping coverage of several kinds.**
>
> **American Income's agents are clearly more interested in presenting the horrors and catastrophic costs, real or imagined, of cancer than they are in describing the likely real benefits of the policies they sell.**

The Company was given 60 days to correct these violations and submit new promotional information.[1]

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[1] In its February 28, 1979, response to the Department, American Income responded that it had made a number of corrections in the policies, advertising material, and training manual used by its agents. They notified the Commissioner that they were withdrawing their insurance form CDK and that this policy would no longer be sold in Massachusetts. American Income made numerous other corrections saying, "we trust you will find this material in order and that it meets the objections set forth in the report."

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Globe Life, AIL, their sales agents, their affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

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