



## Your Legal Counsel

*by Guy O. Kornblum, Certified Civil Trial Advocate,  
National Board of Trial Advocacy and  
Member Million Dollar Advocates Forum*

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### Life Insurance and Annuity Sales Fraud to Those over 60!

Money for retirement. Sounds good but, as most of us know, selecting the right vehicles to provide for us in our “Golden Years” is not easy. Many of us strive to find safe vehicles to supplement any other retirement benefits we might have through our work. As we get older, we get more insecure about “having enough.” How long will we live? What will our medical needs be? How will we pay for those needs if they are not covered by insurance or federal or state benefits.

The fear of future leads many who are over 60 to seek out a “quick fix” or be vulnerable to fraudulent sales practices by insurance agents who prey on this age group by pretending to help them find the “perfect solution” to their financial security.

If you or a family member or friend are over 60 years old and have experienced any of the following, you may be a victim of life insurance and annuity sales fraud:

- **Cashed in a life insurance policy with significant cash value in order to purchase a new life insurance policy or an annuity;**
- **Sold an annuity which was paid for with a significant payment of cash in return for a promise of lifetime income;**
- **Sold a new life insurance policy which required a substantial deposit of money and promises that it will stay in force with either no future contributions or with only a few more periodic contributions of cash;**
- **Purchased any life insurance product which was represented to be a “good investment”;**
- **Been persuaded to make any significant changes to your life insurance program within the past 5 years which resulted in a reduction of the “cash**

**value” of your policy;**

- **Been notified that unless you made a significant premium payment your life insurance policy will lapse (terminate);**
- **Been persuaded to buy more life insurance than you need; or**
- **Purchased a “variable annuity” which has declined in “cash value” over the past years or has had other financial consequences which were not disclosed to you.**

There are many opportunities for fraud and misrepresentation in the sale of life insurance products. But these opportunities are particularly significant with those who are 60 years old and over. This is for several reasons. For one, this generation most likely bought life insurance in the past to protect a family from the financial devastation of premature death of the primary “bread winner.” If a “whole life” policy was purchased, there may be a build up of cash – called the “cash value” – in the policy. Normally, this “cash value” would be used to pay premiums in the event the income of the person insured or who was paying the premiums declined. That is, the “cash value” would protect the policy from lapsing, or terminating, since there was a fund available to pay the premium should the insured not be able to do so.

With this cash just sitting, it becomes a target for disreputable insurance sales agents who are looking for ways to persuade an insured to move this cash from the old policy to a new one. The result is the insurance agent gets a new commission on a first year sale (which is usually much larger than commissions in later years) and also generates the opportunity to continue to receive commissions in subsequent years (particularly if the old policy was not sold by the agent).

The practice of cashing an insured out of one policy and putting the “cash value” into a new contract is called “twisting.” This change usually works to the insured’s financial detriment because there are surrender charges and other fees that may be assessed against the cash value that has been built up in the old policy. That is, instead of having the full “cash value” to sustain the life insurance coverage for future years, the amount left to put in the new policy is much less, so that this “reserve” does not have the potential for providing protection for the same number of future years that was present with the old policy. So the change is to the substantial financial detriment of the insured and the beneficiary protected, but to the significant financial benefit of the insurance agent and the insurance company, which now gets a new customer to pay premiums. So, in the next year or two, the insured – much to his or her surprise – has to come up with additional monies – often a very large sum – to maintain the insurance coverage.

Of course, this is all accomplished as a result of the “sales” skills of the insurance agent who persuades his customer that the new policy is much better because it has as better “growth” or “investment” potential. The insurance agent may use illustrations to demonstrate this growth which are not realistic and inflated. Or the agent may point out a feature or two which are claimed to be better than the old policy. All this time, however, the agent does not reveal the significant financial reduction that will result as a result of the change to the new policy.

This is just one of many types of insurance marketing fraud that is perpetrated on those in the 60+ age bracket. Given their age, there is no way they can make up for the loss of “cash value” of the old policy. There simply is not enough time to do so.

Other types of fraud may be found in the circumstances which are the subject of the “bullet points” above. These will be discussed in the next several months in a series of articles on this topic.

*\* Guy O. Kornblum resides with his wife, Victoria, in our neighborhood, where they reared their two now adult children, Tory, a deputy sheriff in Contra Costa County, and Guy, a real estate agent in San Francisco. Guy's law practice is Guy Kornblum & Associates, 1388 Sutter Street, San Francisco, California 94109, tel: 415-440-7800, email: [gkornblum@kornbumlaw.com](mailto:gkornblum@kornbumlaw.com). He specializes in civil trials and appeals in serious personal injury, legal and medical malpractice, insurance cases of all kinds, including insurance “bad faith, uninsured and underinsured motorist claims, and real estate litigation.*