CT Attorney General

Connecticut Attorney General's Office

Press Release

Attorney General Announces $470,000 Settlement With Pension Plan Broker For Hidden Payments From Insurers

March 4, 2009

Attorney General Richard Blumenthal today announced that USI Consulting Group, Inc. (USICG) has agreed to pay $470,000 and adopt sweeping business reforms to resolve allegations that it accepted concealed compensation from insurers in exchange for access to lucrative pension plan business.

Today's settlement money will go directly to Connecticut's General Fund.

USICG, headquartered in Glastonbury, is part of USI Holdings Corporation, the ninth largest property and casualty benefits broker in the United States.

Since at least 1998, in connection with certain Single Premium Group Annuity (SPGA) insurance contracts, USICG received hidden payments from The Hartford Insurance Company, The Principal Financial Services Group, Inc., and Mutual of Omaha Insurance Company -- insurers that Blumenthal has previously settled with.

In exchange for these hidden payments to USICG, the insurers received competitive information and "last look" bidding opportunities not provided to carriers that declined to pay the secret compensation.

"More than the money, this settlement provides business reforms that prevent artificially inflated pension plan costs for private and public companies, non-profits and others," Blumenthal said. "Today's settlement stops secret payments to pension plan brokers, ensuring transparency and integrity for certain investments.

"Hidden payments from insurers to brokers, disguised as 'expense reimbursements' and 'administrative costs,' were loaded into SPGA premiums for private and public pension plans nationwide. These payments served only one purpose -- to skew the market in favor of select carriers who were willing to pay to play.

"USICG responsibly cooperated with my investigation early on -- resulting in today's settlement and three previous settlements with major insurance carriers in the SPGA market. The company's agreement to ban the acceptance of contingent compensation is a first for an SPGA broker, and should serve as a model for other brokers in the industry. There were other brokers involved in these schemes, and my investigation into pay-to-play in the SPGA market will continue."

Due to the complexities associated with a pension plan's administrative requirements and legal obligations, many plan sponsors rely on an experienced annuity broker such as USICG to guide and navigate the plan to make the right annuity choice. The law requires the broker to act for the benefit of the plan sponsor.

Brokers are generally compensated in one of two ways -- a fee negotiated between the plan sponsor and the broker, which is paid directly by the plan to the broker, or a commission agreed to by the plan sponsor and paid by the insurance company, which is built into the final annuity premium.

Despite USICG's claims that it acted for the benefit of the plan and to obtain the best product at the best price, its recommendations were largely motivated by undisclosed compensation from certain carriers. This motivation is apparent in an email by a USICG vice president to a Mutual of Omaha executive stating that "… given the size of this [upcoming placement] that the extra 1% soft dollar arrangement has to be firm in order to compete on comp. with Principal. Omaha and USI need to be on the same page on that issue… maybe you can deliver the message in the right way to the right people."

Every year, billions of dollars of retirement plan assets are invested in SPGAs by pension plan sponsors, including Fortune 500 companies, small businesses, healthcare systems and hospitals, public education systems and other entities. Competition for these investments among insurance companies is fierce.

USICG markets itself as a company that will "maximize the value of every dollar spent" for the client and provide the best in "value-added service" in selecting the right investment.

Despite these claims, USICG entered into undisclosed payment arrangements, variously called "Expense Reimbursement Agreements" (ERAs), "Marketing Agreements," "Administrative Service Agreements" or "Override Agreements" with carriers.

The intent of these agreements, as put by an executive with The Hartford, was "to change the buying habit of the intermediary…that is what we are trying to accomplish."

An executive of The Principal explained, hidden contingent compensation arrangements were "a means of adding some additional compensation without having to be completely upfront" about it.

These secret agreements increased USICG's overall compensation on those SPGA placements by as much as 33 to 50 percent -- and effectively directed business to those carriers willing to pay the contingent compensation. As recounted by a Mutual of Omaha executive, USICG "has been adamant on a 1% kicker for all premium opportunities he places with us. Adamant as he has committed the additional revenue to USI Corporate."

For instance, in 1999, when USICG maintained such an arrangement only with The Hartford, USICG placed close to 65 percent of its SPGA pension plan business with only The Hartford. In the same year, USICG placed only 5 percent of its pension plan client business with The Principal and none with Mutual of Omaha.

In 2001, however, in addition to maintaining agreements with The Hartford, USICG executed similar arrangements with The Principal and Mutual of Omaha. Correspondingly, in 2001 USICG placed 34 percent of its SPGA client's business with The Principal, 32 percent with The Hartford and 32 percent with Mutual of Omaha.

The pension plans sponsors that hired USICG to assist in their purchase of SPGA contracts -- which resulted in additional undisclosed payments to USICG -- include a diverse set of private and public companies, non-profit organizations and other entities.

Connecticut entities that hired USICG during the time covered by Blumenthal's investigation include USCO (now known as Kuehne & Nagel International AG) of Hamden, Round Hill Country Club in Greenwich, Stafford Savings and AAA of Hartford.

Blumenthal alleges that USICG's practices -- including misrepresentations to plan sponsors and conspiring with carriers in a scheme to deceive its clients -- violated Connecticut's unfair trade practice laws.

Under today's agreement, USICG has agreed to several business reforms, including that it will not accept or request any contingent compensation related to SPGAs. USICG will only accept a specific fee to be paid by the client; a specific percentage commission on premium or product to be paid by the insurer or other provider and set at the time of purchase; or both.

USICG has also agreed to fully and clearly disclose to clients -- prior to acceptance -- all quotes and indications sought and received by USICG in connection with an SPGA placement. The company will also disclose (and then obtain client consents in writing) all commissions/fees in either dollars or percentage amounts paid to USICG.

Blumenthal thanked those individuals who worked on this investigation and settlement, including Connecticut Insurance Department Counsel Anthony Caporale, and Assistant Attorney General Rachel Davis, and Paralegal Lori Measer, under the direction of Assistant Attorney General Michael Cole, Chief of the Attorney General's Antitrust Department.

View the entire USI Settlement - (PDF-3.31MB)

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