

# JOURNAL OF INSURANCE FRAUD



*in America*

FALL 2014  
Volume 4 • Number 3  
INSIGHT  
ANALYSIS  
IDEAS

Published quarterly by the Coalition Against Insurance Fraud

FALL 2014

3

## Partnership and analytics stemming bleeding of Medicare

*Fraud has bled Medicare for decades, leading to untold billions of dollars in losses to fraud rings and crooked medical providers. But Obama Administration initiatives look promising.*

*By Marc Smolonsky and Peter Budetti*



8

## Graying Baby Boomers may swell ranks of fraudsters

*America's Baby Boomer generation is rapidly entering retirement age and creating a large bulge of seniors unlike any demographic shift our nation has ever seen. This also portends a possible bulge of insurance fraud.*

*By Matthew J. Smith, Esq.*



14

## Malingering imposes large costs on insurance companies and society

*Disability fraud costs in the U.S. recently have been estimated to be as high as \$180 billion annually. Despite these and other estimated costs, there is reluctance by healthcare providers and others to completely address the issue.*

*By Dominic A. Carone, PhD, ABPP-CN*



20

## Insurers advancing fraud fight with advanced high-IQ technology

*Technology is an increasingly disruptive force for insurers in combating insurance fraud. Innovation is necessary: Suspicious activity has risen in the last three years, more than half of responding insurers say in a study*

*By Dennis Jay*



25

## TrendWatch: new developments about fraud in America

*Coalition defends right to sue suspects in Illinois ... Kentucky law barring soliciting of crash patients overturned ... Journalists start fast probes of newly released Medicare data ... Spinal implants challenged in lawsuits against surgeons.*

*By Coalition Staff*



Coalition Against  
Insurance Fraud

# Graying Baby Boomers may swell ranks of fraudsters

*Insurance industry must better study and respond to phenomenon*

**Abstract:** America's Baby Boomer generation is rapidly entering retirement age and creating a large bulge of seniors unlike any demographic shift our nation has ever seen. This also portends a possible bulge of insurance fraud. Seniors tend to be less inclined toward criminality, according to studies, but their sheer numbers could create a spike in fraud. Older Americans also form nearly the largest demographic of America's prison population. And recidivism is high. They form a large bloc of people convicted of general fraud – possibly an indicator of tendencies toward insurance crime. Cynicism over lost investments, failure to save properly and declining home values also could incline many seniors to seek an insurance bailout. Still, the insurance industry has yet to fully understand, study, and respond to the Boomer bulge as a looming fraud phenomenon. At stake are potentially many millions of dollars lost to Boomer scams unless the fraud-fighting community determines the potential scope of the problem and its needed responses.

By Matthew J. Smith, Esq.

As the 1950s dawned, insurance companies began to understand and prepare for the advance of the Baby Boomer generation as the greatest potential flood of new policyholders in America's history.

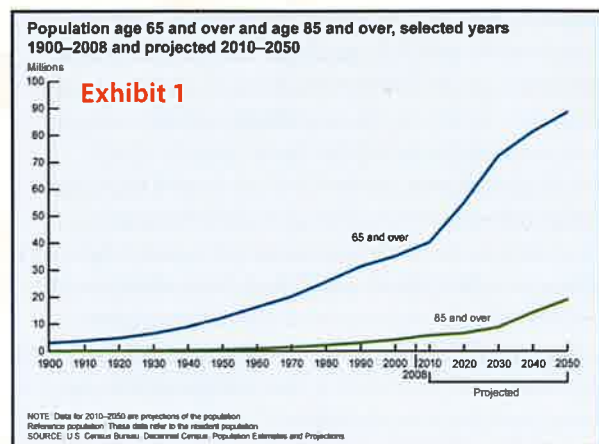
Six decades later, tens of millions of Boomers are now seniors, with a large percentage moving into retirement. Yet most insurers have yet to understand the anti-fraud implications of America's senior demographics. America may be on the cusp of a new criminal phenomenon: the graying of the nation's fraud force.

In my 30 years of observing the anti-fraud profession, insurance investigators and claims employees have routinely given a free pass to questionable claims of consumers in the 60s, 70s, or 80s age brackets. Investigators assume older people are honest, conservative, and would not commit insurance fraud.

Testing that assumption against available data paints a circumstantial but highly suggestive picture: the Boomer bulge might gestate a fraud bulge. Some

data appears more inconsistent and applicable than other data, but on balance should give insurers cause for concern.

Even granting, arguendo, that Boomers are proportionately less likely to engage in criminal actions because older people purportedly tend to be more conservative, the vast size of this demographic



suggests a potential fraud trend in absolute numbers. This could cost the insurance industry many hundreds of millions of dollars unless the insurers understand and respond now to the possible looming bulge in questionable or false claims.

The insurance industry, however, normally moves cautiously when making significant changes. No carrier thus far has taken the public lead in seriously researching the impact of Boomers on insurance claims and fraud. While no studies publicly document claim files that never were investigated, it is plausible that insurers already have paid millions of dollars for fraudulent claims by incorrectly giving a free pass to dishonest persons based solely on

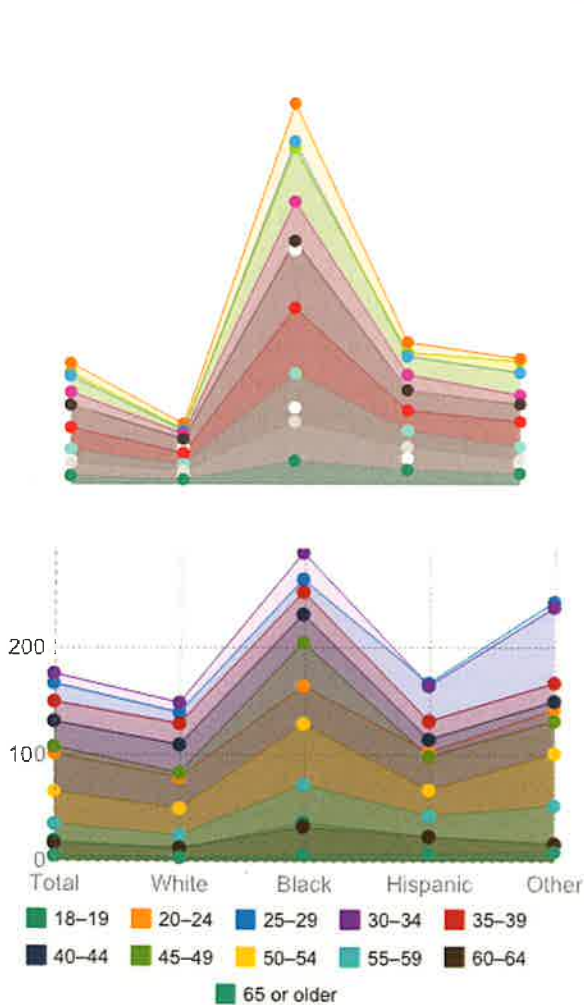
their age. The industry should equally and fairly investigate claimants of all age groups. The sheer volume of older Americans dictates that insurers address this issue promptly.

### Senior boomers spiking

We are on a statistical launching pad where older consumers will reach an estimated 90 million people by 2050. No other segment of the American population has grown by such numbers (See Exhibit 1). There will be roughly 72.1 million seniors by 2030, more than twice the number of only 14 years ago when the new millennium began. Consumers

## Prison Population By Age Group

Exhibit 2



Men					
Age group	Total	White	Black	Hispanic	Other
18-19	18	11	35	22	14
20-24	100	78	163	101	141
25-29	166	138	263	165	242
30-34	175	147	287	163	237
35-39	149	128	251	130	165
40-44	130	108	230	113	148
45-49	107	82	204	97	130
50-54	65	49	128	66	100
55-59	34	24	71	42	52
60-64	16	12	32	22	16
65 or older	4	3	6	7	8

Women					
Age group	Total	White	Black	Hispanic	Other
18-19	428	148	1,393	485	417
20-24	1,476	654	4,284	1,726	1,480
25-29	2,032	998	6,138	2,412	2,245
30-34	2,213	1,098	6,932	2,594	2,304
35-39	1,975	992	6,258	2,338	2,042
40-44	1,682	927	5,148	1,986	1,623
45-49	1,451	814	4,433	1,731	1,458
50-54	1,031	581	3,219	1,352	1,144
55-59	636	360	2,016	983	689
60-64	386	238	1,144	687	456
65 or older	146	99	423	280	193

age 65 years and older represented 12.4 percent of the population in the year 2000, but will grow to 19 percent by 2030.<sup>1</sup>

A sharp increase in criminals was a significant fallout from America's rapid population growth in the 1950s and 1960s. Many factors came into play. The result included prisons housing the largest percentage of the American population ever held behind bars.<sup>2</sup> The prison population remains at high levels today. Many are seniors, and it is reasonable to assume this reflects evidence of criminal tendency that could encompass insurance crimes.

Federal statistics detailing state and federal prisoners in 2013 suggest a valid concern.<sup>3</sup>

The four categories of oldest prisoners beginning with age 50 comprise 1,124 males per 100,000 inmates. This composite total is higher than any other age bracket except ages 30 to 34. A combined 119 older females also are incarcerated per 100,000 prison residents (see exhibit 2).

Prisoners are aging as well. The number of prisoners age 65 or older more than doubled, from 1,698 in 2001 to 3,534 in 2010. The median age of prisoners was 38 years in 2010, and 36 years in 2001 (see exhibit 3).<sup>4</sup> Recidivism also is a prominent trait of older prisoners. Nearly 70 percent of inmates age 40 or older were re-arrested within five years of release. This compares reasonably well with the 84.1 percent of inmates age 24 or younger who were re-arrested, and 78.6 percent of inmates age 25 to 39.<sup>5</sup>

Thus it appears that simply growing older has little downward impact on a person's likelihood of becoming a repeat offender.

The raw number of persons likely to engage in criminal acts and fraudulent activities should be cause for concern. Insurers should rethink how they investigate claims, and who is investigated.

This notion gains strength from federal conviction data involving general fraud, which likely would include insurance scams.

### Age as a Crime Factor

While the number of convicted fraudsters skews downward for each age group beginning with age 50, the total number of fraudsters age 65 and over is rising more dramatically than at any point in U.S. history (See Exhibit 1).

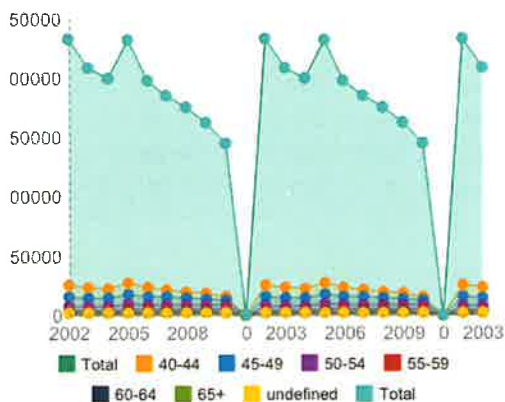
So even if the percent of persons committing fraud lowers with age, America will see the most explosive growth period ever recorded for the number of persons age 50 and over. Among them will be people who were hardened to fraud from an early age. Their numbers are undetermined, but the size of the age group suggests the potential that many insurance fraudsters are contained within this demographic.

Not surprisingly, people who learn to lie when young are far more likely to commit insurance fraud later in life, says a study by the Josephson Institute. Consumers who believed cheating and lying were necessary to succeed were more than three times as likely to inflate an insurance claim. People who cheated on exams in high school two or more times were three times more likely to inflate a claim later in life.<sup>7</sup>

Multiple studies conducted since the 1960s have focused on the apparent decline in American morals and ethics. The studies range from cheating and

## Median Age Of Prisoners

Exhibit 3



	2002	2003	2004	2005	2006	2007	2008
Total	233,087	208,469	199,974	231,721	197,722	185,229	174,596
40-44	25,363	23,239	22,297	26,766	22,843	21,084	19,263
45-49	15,175	14,238	14,285	17,692	15,403	15,204	14,553
50-54	7,813	7,386	7,523	9,229	8,526	8,838	8,675
55-59	3,986	3,762	3,694	4,752	4,335	4,327	4,443
60-64	1,776	1,756	1,704	2,070	1,869	2,074	2,103
65+	1,760	1,574	1,523	1,894	1,523	1,420	1,615
2002	2003	2004	2005	2006	2007	2008	
Total	233,087	208,469	199,974	231,721	197,722	185,229	174,596

shoplifting to employer fraud and a general decline in Americans' willingness to follow what were long held as "societal rules." The generation that changed these values in their youth now comprises the older demographic, which until now tended to follow more-traditional values.

The insurance industry needs to re-think its historical assumptions while the data continues demonstrating that many older Americans hold onto the criminal habits of their younger days.

### Economic uncertainty

Economy uncertainty and unwise spending habits also could impel more seniors to insurance fraud to buttress sagging finances and help secure their futures.

Many older Americans today believe they worked hard and fulfilled their responsibility to the American Dream. They also believe their employers and the government have not fulfilled their end of the bargain. These seniors believe they have been cheated out of the rewards of living an honest life.

"The 77 million-strong generation born between 1946 and 1964 is increasingly worried about retirement and their finances in light of the economic crisis of the past three years. Just nine percent say they are strongly convinced they will be able to live comfortably when they retire," according to an *Associated Press* poll.<sup>8</sup>

A large minority of Americans nearing retirement age are ill-equipped financially. One of five has no retirement savings, says a recent survey conducted by the Federal Reserve Board.<sup>9</sup>



**Home values.** Large numbers of these worried seniors have homes in the Midwest or Northeast, where they raised their families. They want to move to warmer climates but cannot because home values have dropped dramatically.

"There is a concern about whether people will get money out of their house, they envision the home as a problem, not an asset and this unshakable belief as homes for a tool for retirement has been shaken to the core," the poll also concluded.<sup>10</sup>

Arson investigators know that cash-strapped people who view their home as a liability instead of an asset are potential candidates for torching the dwelling for an insurance bailout, especially when the insurance policy has a high limit.

"Prisoners are aging as well. The number of prisoners age 65 or older more than doubled, from 1,698 in 2001 to 3,534 in 2010."

**Large debt.** Many Boomers rang up huge debt by wanting to "have it all" right away during their younger adulthood. Credit was the way to live a lifestyle without waiting. As they now approach retirement, Boomers often still remain less willing to sacrifice now for financial security in their later years. Seniors approaching retirement fear or know they have not saved enough, but equally refuse to cut back on their spending or lifestyle, according to Bank of America's Merrill Edge report.<sup>11</sup>

Many seniors fear going broke, yet 33 percent refuse to cut back on entertainment to save money; 30 percent say they will keep eating out, and 28 percent will continue going on vacation.

More seniors (63 percent) also think having money to live "in the here and now" is a priority than seniors who said saving for the future (48 percent) is a priority.

**Social Security.** Uncertainty about Social Security could motivate younger seniors or those nearing retirement to attempt fraud. They are unsure that all of their promised federal funds will be available as they age, according to the *New York Times*.<sup>12</sup>



“The Social Security Administration’s rules allow retirement as early as age 62 — an option nearly half those eligible use these days.

But doing so reduces monthly income an average of 25 percent. “Even this option is a dream for those in their late 50s who wonder how to bridge the gap in a virtually dead job market until retirement is possible.<sup>13</sup> With another decade of Boomers still to come, the problems are only going to grow.”

Public-opinion research clearly points to the economy as a fraud driver, regardless of age. Four drivers contribute to insurance fraud: poor service, a difficult economy, the defrauder’s attitude, and consumers’ general attitude toward this crime, says research by Accenture.<sup>14</sup>

“At a time when the insurance industry is devoting more effort to battling fraud, it is losing the public-perception battle by a 19-point drop”

Some of the most interesting findings were these: “[A]ccording to the survey of more than 1,000 adults, more than three-quarters (76 percent) of consumers said that people are more likely to commit insurance fraud during an economic downturn than they are in more normal times, up from 66 percent in 2003.

“While 83 percent of the Americans surveyed in 2003 believed insurance companies were

capable of identifying or preventing fraud, only 72 percent thinks so today. More than two-thirds of respondents (68 percent) said they believe insurance fraud occurs because people believe they can get away with it, up from 49 percent in 2003.”

At a time when the insurance industry is devoting more effort to battling fraud, it is losing the public-perception battle by a 19-point drop. This amounts to nearly one of every five seniors of the extrapolated U.S. population who believe those who commit insurance fraud won’t get caught.

When people think they can get away with insurance dishonesty, they are more inclined to be dishonest. This fact, plus the perception that people believe they can get away with insurance fraud, are more indicators that insurance scams by older Americans may significantly rise in coming decades.

In this difficult environment, even many normally honest seniors may feel financially pressured enough to view insurance fraud as a convenient and low-risk income supplement. As defined pension plans fade into history and Americans continue grappling with lost investment income, many Boomers could decide it is time for an illicit cash reward from their insurer after paying premiums for so many years without making a claim.

### **Industry must respond**

While the insurance industry has yet to adequately address this potential senior fraud bulge, lawyers, judges and those involved in the criminal justice system are studying the phenomenon. The *Stetson Law Review* observes:<sup>15</sup>

“Even if the proportion of older persons

committing criminal acts is not increasing, the growth of the elderly population portends an increase in the absolute number of older criminals.<sup>16</sup>

“Further, a study of the categories in which older persons constitute a higher proportion of arrest than the norm, may suggest areas of discussion about the social and economic situations that caused this concentration.<sup>17</sup> The eight categories of criminal

“When people think they can  
get away with insurance  
dishonesty, they are more inclined  
to be dishonest”

activity in which persons age 65 and older constitute a higher proportion of arrests ... help demonstrate the pattern of elder criminality.”<sup>18</sup> One of the eight areas identified as leading the growing areas of elder crime is “larceny or theft,” which would include insurance fraud, the article says.

The insurance industry must begin studying how it can better track information about the age of claimants, their attitudes, and their involvement in fraudulent or questionable claims. Such an initiative

also should include actively supporting industry-wide anti-fraud training through insurers and trade associations to insurance employees, vendors, and legal counsel.

Insurers should never “target” the elderly or any group, but should affirmatively share information and statistics factually about age demographics and the need to watch diligently for fraud. Better investigative questioning concerning finances, medical expenses, retirement benefits, and plans to relocate should be a part of a more-thorough analysis of potential claim fraud.

The insurance industry either changes and adapts by better understanding the impact of the largest demographic age shift in recorded history or faces paying possibly many hundreds of millions of dollars in false Boomer claims for years to come.



**About the author:** *Matthew J. Smith, Esq. is founder and president of Smith, Rolfes & Skavdahl Company, L.P.A. He has practiced for nearly 30 years in the field of insurance law, defending insurance carriers and assisting with insurance-fraud investigations. Smith is a past president of the National Society of Professional Insurance Investigators, a member of IASIU, and is legal advisor to the Coalition Against Insurance Fraud.*

## endNOTES

<sup>1</sup> Administration on Aging – Aging Statistics Study, 2009.

<sup>2</sup> Justice Policy Institute. [http://www.justicepolicy.org/uploads/justicepolicy/documents/punishing\\_decade.pdf](http://www.justicepolicy.org/uploads/justicepolicy/documents/punishing_decade.pdf)

<sup>3</sup> U.S. Bureau of Justice Statistics, National Prisoners’ Statistics Program, Federal Justice Statistics Program, National Corrections authors: E. Ann Carson and Daniela Golinelli, 2013.

<sup>4</sup> *ibid* <http://www.bjs.gov/content/pub/pdf/fjs10.pdf>

<sup>5</sup> *ibid* <http://www.bjs.gov/content/pub/pdf/rppts05p0510.pdf>

<sup>6</sup> Sourcebook of Criminal Justice Statistics, School of Criminal Justice, University at Albany. <http://www.albany.edu/sourcebook/>

<sup>7</sup> Josephson Institute of Ethics – Character Study Reveals Predicators of Lying and Cheating, 2009.

<sup>8</sup> Associated Press, Economy Altered Retirement Plans, 2011.

<sup>9</sup> Washington Post, “Almost 20 percent of people near retirement age have no retirement savings,” August 7, 2014.

<sup>10</sup> *ibid*

<sup>11</sup> USA Today. “Many Fear Going Broke During

Retirement; Nanci Hellmich, 2014. <http://www.usatoday.com/story/money/personalfinance/2014/05/25/retirement-affluent-americans-going-broke/9383019/>

<sup>12</sup> New York Times, Unemployed and older, and facing a jobless future, July 27, 2013. <http://www.nytimes.com/2013/07/27/your-money/unemployed-and-older-and-facing-a-jobless-future.html>

<sup>13</sup> *ibid*

<sup>14</sup> Accenture – Insurance Consumer Fraud Survey, 2010.

<sup>15</sup> Adams, William E. – The Intersection of Elder law and Criminal Law: More Traffic than One Might Assume, 2011.

<sup>16</sup> Rothman, Max B. et al., Introduction, in *Elders, Crime, and the Criminal Justice System: Myth, Perceptions, and Reality in the 21st Century* iixi, xxxi (Max B. Rothman at al. eds., Springer Publishing. Co. 2000).

<sup>17</sup> Flynn, Edith Elisabeth – *Elders as Perpetrators, in Elders, Crime, and the Criminal Justice System: Myth, Perceptions, and Reality in the 21st Century* 43, 70 (Max B. Rothman at al. eds., Springer Publishing. Co. 2000).

<sup>18</sup> *Ibid.* at 59.