

UPDATE 1-Hartford to pay \$20 mln to settle broker pay probe

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(Adds details of settlement, byline, comments from Hartford, Blumenthal, Spitzer)

By Ed Leefeldt

NEW YORK, May 10 (Reuters) - Hartford Financial Services Group Inc. <HIG.N> said on Wednesday it would pay \$20 million to settle complaints by New York and Connecticut regulators that it secretly paid brokers kickbacks to recommend its group annuities to pension plans.

Hartford, the No. 4 U.S. life insurer, also apologized and said it had reformed the marketing of its retirement products.

"We have apologized to plan sponsors for not having provided full disclosure of the compensation paid," said Hartford Chairman and Chief Executive Officer Ramani Ayer in a statement. "We have cooperated fully with regulators during their investigations and will continue to do so."

The settlement agreement was negotiated by New York Attorney General Eliot Spitzer and Connecticut Attorney General Richard Blumenthal.

Hartford will pay \$16.1 million to plan sponsors that purchased the annuities between from 1998 through 2004 and \$3.9 million to be divided equally between the states of New York and Connecticut.

The Hartford, Connecticut-based insurer said the costs of the settlement have already been accounted for with reserves previously established.

As part of the agreement, Hartford will accept a three-year prohibition on the use of this type of broker compensation in this line of business, Spitzer said.

Annuities are paid at regular intervals, usually after the insured retires.

SPITZER'S INVESTIGATION CONTINUES

Spitzer said his investigation of the retirement products industry is continuing. On Wednesday a spokesman for Spitzer said the attorney general was investigating ING Groep NV <ING.AS> and the New York State United Teachers about fees paid by ING to the teachers union to endorse its retirement products.

"This (Hartford) investigation shows how payoffs and deception influenced major deals for retirement products,"

Spitzer said in a statement.

Spitzer's office began its probe of the marketing of retirement products last year after receiving tips that insurance companies might be making secret payments to insurance brokers to recommend annuities to pension plans.

Investigators confirmed these payments and that they were concealed from pension plan managers, who believed the brokers were acting on their behalf, the regulators said.

According to Spitzer, the scheme involved sham expense reimbursement agreements between Hartford and brokers. The agreements had nothing to do with expense reimbursements; they were simply volume-based bonuses designed to reward brokers for pushing Hartford products, he said.

With the aid of the brokers who participated in the scheme, Hartford was able to sell more than \$800 million worth of group annuity pension plans from 1998 to 2004, Spitzer said. Major companies that faced increased costs as a result included Montgomery Ward Co. and PricewaterhouseCoopers, he said.

"Hartford was at the hub of a series of secret conspiracies that enriched both the brokers and Hartford at the expense of their customers," said Connecticut Attorney General Blumenthal. He said company officials "betrayed their moral and legal duties."

Shares of Hartford were up 47 cents to \$92.37 in afternoon trading on the New York Stock Exchange.

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