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CONTACT US Business editor Patrick Scott, 704-358-5176, pscott @charlotteobserver.com

CAREER ALMANAC Who's on the move in Charlotte and the Carolinas. **4D**

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Insurers scouring social media

They use Facebook and other sites in attempts to build cases for fraud.

By Shan Li
Los Angeles Times

Now there's another reason to be careful about what you post on Facebook: Your insurance company may be watching.

Nathalie Blanchard found out the hard way.

Struggling with depression, the 30-year-old from Quebec, Canada, took a medical leave in early 2008 from her job as an IBM technician. Soon after, she began receiving monthly disability benefits from her insurer, Manulife Financial Corp.

A year later and without warning, the payments stopped.

A representative of the Toronto insurance company told Blanchard that Manulife used photos of her on Facebook – showing her frolicking at a beach and hanging out at a pub – to determine she was depression-free and able to work, said Tom Lavin, Blanchard's attorney.

"They just assumed from the pictures that she was a fraud," Lavin said, "without investigating further before terminating Nathalie's benefits."

Blanchard sued Manulife, accusing Manulife of failing to talk to her doctor and neglecting to inform her before cutting off payments. The case is scheduled for trial next January.

Manulife, citing ongoing legal proceedings, declined to comment on the case but said in a statement: "We would not deny or terminate a valid claim solely based on information published on websites such as Facebook."

Social-networking websites such as Facebook and MySpace have become the go-to places where employers, college admissions officers and divorce lawyers can do background checks. Armed with the information, police have caught fugitives, lawyers have discredited witnesses and companies have discovered perfect-on-paper applicants engaged in illegal or embarrassing behavior.

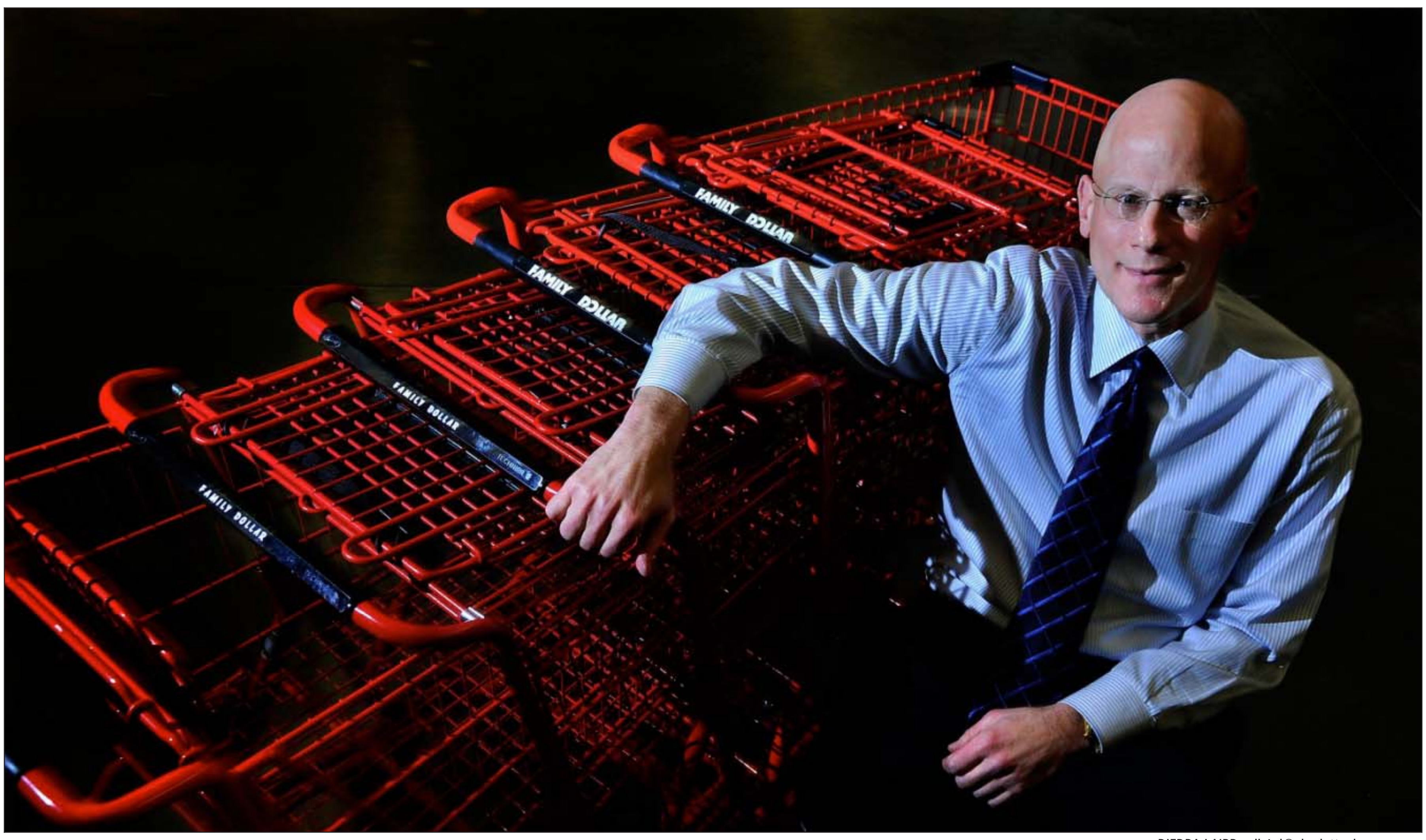
And now insurance companies are utilizing the free, easily accessible websites.

Such sites have become the latest tools in detecting fraud, which the industry says costs the U.S. as much as $80 billion a year and accounts for 3 percent to 10 percent of total annual health care spending.

Investigators who once followed people with cameras now sit behind desks "mining databases and searching Facebook," said Frank Scapili, spokesman for the National Insurance Crime Bureau, a nonprofit

SEE SOCIAL MEDIA, 2D

TALK FROM THE TOP
HOWARD LEVINE, FAMILY DOLLAR CHIEF EXECUTIVE



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Family Dollar CEO Howard Levine, with shopping carts in the company's visual merchandising facility at its corporate campus in Matthews, says the retailer is poised to open hundreds of new stores each year. Current locations will get a $100,000 facelift, aiming to drive sales by creating brighter, less-cluttered stores.

Call him the 'Family' man

By Ely Portillo
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A local retailer that's built an $8 billion business out of shoppers who mostly spend less than $10 each visit has big plans to continue expanding.

As the recession wore down other retailers, Matthews-based Family Dollar thrived, appealing to newly cost-conscious consumers with its low prices.

Now, Chairman and Chief Executive Officer Howard Levine says Family Dollar is poised to open hundreds of new stores each year. The chain also is giving all of its 6,800 current locations a $100,000 facelift, aiming to drive sales by creating brighter, less-cluttered stores with a wider assortment of goods.

Earlier this month, Family Dollar reported profits and sales both increased nearly 10 percent in its first quarter, to $74.3 million and $2 billion, respectively.

But Family Dollar will have to deal with rising food and commodity prices, and figure out how to keep shoppers who traded down from returning to other retailers if the economy picks up. The company also has an activist investor, Nelson Peltz of Trian Fund Management, who's met with management to push for more aggressive stock buybacks and more new stores.

At his company's model store on Monroe Road, where new layouts and designs are tested in a simulated Family Dollar, Levine spoke with the Observer about his new foundation, the store's greater use of private-label brands and how Family Dollar will stay competitive this year. The conversation has been edited for clarity and brevity:

Q. *Do you think we've turned a corner in terms of the economy and where the consumer is?*

I look at the higher-income customer and the lower-income customer. I think we see some better results from the department stores and some of the apparel retailers. I think at the lower end of the spectrum it's still tough, and I think the statistic that is most relevant there is the unemployment rate. For the college-educated folks it's about 5 percent, high school-educated people are running around 16 percent. That's our customer.

Q. *How are you planning to boost trips and keep middle-income customers if the economy improves?*

One of the focal points of our new strategy is what we call the fill-in food trip. This store here (gesturing to model store) is an effort to grow our food assortment. We're picking up the out-of-milk trip, the out-of-eggs trip, the out-of-bread trip. Part of our strategy also was to try to capture higher-margin goods, so,

SEE LEVINE, 2D

Wilmington tops the list for U.S. credit card debt

By Christina Rexrode
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Where are people most addicted to their plastic? Apparently it's Wilmington, whose residents seem to love (or maybe just need) their credit cards more than anywhere else in the country.

That's according to data from Equifax, one of the national companies that compiles credit reports on consumers. According to a just-released study from Equifax, people in Wilmington owe an average of 17.26 percent of their income to credit cards, more than any other U.S. city. Maybe it's just a coincidence, or maybe it's something in the water, but the seaside haven is also the hometown of two of the three N.C.-based banks that have failed during the financial crisis.

Other N.C. cities that ranked high on the list were Asheville, Fayetteville, Winston-Salem, Hickory and Greensboro, where residents owed at least 14 percent of their income to credit cards. In Charlotte, home to legions of bankers, people owe an average of 12.2 percent of their income to credit cards, Equifax said. That places the city No. 67 of 170 cities in the study.

Top 20 for credit card debt

City	Median income	Average credit card debt	Percent of income owed to credit cards
1. Wilmington	**$42,392**	**$7,315**	**17.26%**
2. Canton, Ohio	$40,912	$7,050	17.23%
3. Toledo, Ohio	$44,349	$7,414	16.72%
4. Duluth, Minn.	$38,392	$6,418	16.72%
5. El Paso, Texas	$33,126	$5,349	16.15%
6. Asheville	**$39,884**	**$6,431**	**16.12%**
7. Pensacola, Fla.	$42,106	$6,649	15.79%
8. Youngstown, Ohio	$39,304	$6,142	15.63%
9. Fayetteville	**$42,506**	**$6,519**	**15.34%**
10. Winston-Salem	**$42,869**	**$6,505**	**15.17%**
11. Gainesville, Fla.	$38,572	$5,817	15.08%
12. Spokane, Wash.	$42,191	$6,351	15.05%
13. Tampa/St. Petersburg, Fla.	$42,354	$6,373	15.05%
14. Bremerton, Wash.	$54,417	$7,916	14.55%
15. Hickory	**$37,623**	**$5,416**	**14.39%**
16. Sarasota, Fla.	$45,000	$6,429	14.29%
17. Cleveland, Ohio	$47,186	$6,729	14.26%
18. Greensboro	**$41,080**	**$5,771**	**14.05%**
19. San Antonio, Texas	$44,113	$6,167	13.98%
20. Knoxville, Tenn.	$37,269	$5,178	13.89%

Source: Equifax

Tax refund anticipation loans on their way out

MCT ILLUSTRATION

High-fee RALs sought by low-income earners losing urgency, with so much filing online and faster refunds.

By David Pitt
Associated Press

Technology has transformed how we file taxes. It's to the point now that so many returns are filed electronically that the Internal Revenue Service no longer mails out forms.

The movement of taxpayers online also means refunds are frequently received within days instead of weeks.

The change has dealt a serious blow to the tax refund anticipation loan (RAL) industry. For years it has capitalized on the desire of taxpayers to get refund money in their hands fast.

RALs were used by about 5 million taxpayers last year to receive their expected refund in as little as one or two days. Such loans are often sought by low-income earners living paycheck to paycheck. Their financial bind means they're often willing to pay high fees to get their money quickly.

Often referred to as "rapid refunds," the loans are provided by tax preparers in partnership with banks, which provide the funding. Applicants essentially borrow the amount of their expected return and repay the loan when the IRS delivers the actual refund.

More than 80 percent of RAL customers had an annual income of less than $40,000, according to a 2007 government survey. About 37 percent made less than $15,000.

Refund anticipation loans at their peak generated more than $1 billion for the tax preparers and banks that offered them. That was in 2002, when 13 million RALs were processed.

The number of loans has plummeted in recent years. Industry observers say RALs likely will be used by about 2 million tax filers this year.

The IRS dealt a major blow to the business in 2010. The agency stopped providing information about a borrower's unpaid taxes, child support, federal student loans and other debts that could be taken out of a tax refund.

Without this debt indicator it's more difficult for a bank to gauge the amount of a refund, making it riskier to

SEE REFUND LOANS, 2D

LEVINE

■ from 1D

for example: For paper towels or detergents we may put some sponges or some other accessory items near that add to the basket and also help the margin.

Q. *Target is also putting more food in Charlotte-area stores specifically to provide for fill-in trips. How will you compete?*

I'm sure Target's going to have some success with it. Their customer's a little different than our customer. With Family Dollar, you can drive right up to the front, park, see what you need, get in, get out and not deal with the big-store environment.

Q. *How do you plan to hold the line on food if commodity prices keep increasing?*

Fuel is up 18 percent year-over-year. Whether you need it to get the goods from the Far East or get goods from our distribution centers, there's clearly pressure on commodity pricing. We're working through those things. We grew our people in our pricing group and we bought a tool called Revionics that helps manage through those pricing issues. We've had plenty of these periods, and while it's challenging and difficult, we think we've got a good team in place.

Q. *There was recently a safety recall of Chinese-made toy tanks sold by Family Dollar. How do ensure safety of your foreign-made goods, especially since you recently opened a Hong Kong office to take advantage of more international sourcing?*

We've invested significantly in our whole quality-control process. Anything we put our name on, we want to make sure we can stand behind. We've outsourced a lot of the lab testing to a company that performs ongoing tests to ensure that our suppliers are supplying us with what we all agreed to. I think that's critically important. In the apparel area, we've added resources and people to ensure that when we sample something and go get it made, it's exactly what we ordered, it's durable and holds up. The recall – those things happen. We're selling $8 billion worth of goods, and periodically those things happen.

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Family Dollar CEO Howard Levine says the company has "a huge initiative to improve our quality. All of our food that we put our Family Gourmet packaging on is name-brand-equivalent. ... This is what's going to position us for the future."

Q. *How is this renovated store model we're in important to your company's future, and why invest in renovations now?*

Our plan is to touch every one of our stores within the next four to five years and bring them up to this standard. We look at the physical plant of the store, so if a facade needs to be cleaned up we're addressing that. We're putting all new signage out there. We're fixing the front of the store. We wanted to be more competitive in our over-the-counter medications with the baby boomers, so we're adding some in that area. We've got a huge initiative to improve our quality. All of our food that we put our Family Gourmet packaging on is name-brand-equivalent. If you buy peanut butter at Family Dollar, not only will it look like peanut butter, it'll taste like peanut butter. This is what's going to position us for the future.

Q. *What was your first conversation like with the Trian hedge fund when you learned about their 6.6 percent stake in Family Dollar, and what talking points did you go over?*

We met with them in the late part of the summer, after we had reviewed our strategic plans with our board. We reviewed and went over that with Trian. They were very excited and very much aligned. We really appreciate their feedback. We've enjoyed a good relationship with them.

Q. *Trian has said they said they were influential in your expansion and stock buyback plans - how influential were they?*

I don't want to make this bigger than it is. I think we've had good dialogue with them, and what I wanted to make sure was that they, like all shareholders, heard what we had. Our board was presented with our plan, we reviewed that with (the board). Subsequent to that, we went and talked to Trian – and other shareholders – about (our plan).

Q. *Have there been any issues where you haven't seen eye-to-eye with them?*

I really don't get into a lot of details about what we talk about with other shareholders. Like any relationship, there's things you agree on and things you might not agree on. Specifically with Trian, we're aligned, I think they're very pleased and we're glad to have them as shareholders.

Q. *Trian indicated they might seek to appoint board members, but haven't done so yet. Were you concerned about that, and how do you feel about the board's makeup now?*

We feel good about where our board is now. Really, new board members would be something that our board would consider. If they were interested or others were interested, we'd certainly go through the normal process there and handle it that way.

Q. *You have taken on some debt recently, including $300 million last week to expand your stock buyback. Why is that good for the company?*

I've always been like you probably are – 'Why do you want to have debt if you don't have to?' But one of the things investors want today is better leverage of your balance sheet. The key point that we think is important is maintaining an investment-grade rating. We could have borrowed a lot more. The other important part is the timing. Rates are pretty low right now. We ended up getting a coupon right around 5 percent for 10 years. With the growth, with the stock buyback, we'll find many opportunities to utilize that.

Q. *There have been lawsuits against Family Dollar about workers being classified as managers and paid a salary when they should be paid hourly and get overtime, and about Family Dollar paying female managers less than males. Is Family Dollar a good place to work?*

Our mission statement is to be a compelling place to shop, work and invest, so it's of critical importance to us that we're a good employer. While I'm not

Howard Levine

Age: 52
Job: Family Dollar Chairman and CEO since his father, founder Leon Levine, retired in 1998
Education: UNC Chapel Hill, bachelor's degree in business, 1981
2010 compensation: $6.8 million

happy about any litigation, periodically we have to deal with those things. I think the best sign of having a happy work force is how long they work for you, and our store manager turnover is at the lowest levels in the company's history. Like anyone, we're not perfect. We have close to 50,000 employees, and not every one of them is probably happy, but I think we've done a really good job.

Q. *Your family is well-known in Charlotte for their charitable giving. What charities do you support?*

My father and his foundation have done some wonderful things, and the timing couldn't be better. I've just started my own foundation; I don't know if you want to put that in the paper, I'd be getting a lot of calls!

Q. *Your foundation pledged $500,000 to UNC Chapel Hill (last week) to fund Jewish studies. What else will your foundation focus on?*

Charlotte-related charities, Jewish organizations, health-related stuff, education – the kind of things that are important to me. I think we will continue along those lines.

Q. *As banks have stepped back in Charlotte's civic leadership, some other business leaders such as Duke Energy's Jim Rogers have stepped up. Do you see yourself taking a larger role in Charlotte?*

One day. Honestly, most of my time is spent at Family Dollar, and when I'm not with Family Dollar I'm with my family. I have four kids. I was born and raised here so there's no issue with selling me on Charlotte. I am involved today, but will be, as time permits, getting more involved.

SOCIAL MEDIA

■ from 1D

that investigates suspicious claims for insurance partners such as Allstate and State Farm.

"They look out for things that don't add up," he said, "like someone who claimed they hurt their back too badly to work and then bragged on Facebook about running a marathon."

Social-networking sites have become such "standard tools" that Peter Foley, vice president of claims at American Insurance Association, said that investigators could be considered negligent if they didn't conduct at least "a quick scan of social media to check for contradictions."

But the evidence gathered on these sites, Foley and other insurance experts caution, should be used only as a launch pad for further investigations and never as final proof of fraud.

More ambitious insurance companies are exploring the possibility of using online data to help underwrite policies.

Celent, the insurance consulting arm of financial and insurance brokerage firm Marsh & McLennan Cos., recently published a study titled "Leveraging Social Networks: An In-Depth View for Insurers" and suggested that social-networking data could be used to help price policies.

Mike Fitzgerald, a Celent senior analyst, said life insurance companies could find social media especially valuable for comparing what people will admit about lifestyle choices and medical histories in applications, and what they reveal online.

That could range from "liking" a cancer support group online to signs of high-risk behavior. "If someone claims they don't go sky diving often, but it clearly indicates on their online profile that they do it every weekend they can get away," Fitzgerald said, "that would raise a red flag for insurers."

Social media is "part of a new and emerging risk to the insurance sector" that could affect pricing and rating of policies in the future, said Gary Pickering, sales and marketing director for British insurer Legal & General Group PLC. But many insurance lawyers decry such practices and warn of a future when insurance companies could monitor online profiles for reasons to raise premiums or deny claims.

"The situation is coming up more and more in court where lawyers for insurance companies lay traps for the insured based on pictures or postings on Facebook or Twitter," said Vedica Puri, a partner at Pillsbury & Levinson, a San Francisco law firm that specializes in insurance.

"Photos can be years old. People joke or write things in jest, but insurance companies use everything. Even if it's not true, it can be very damning," she said.

Lawyer John Beals of Piering Law Firm in Sacramento, Calif., requires all his clients to either shut down or tighten privacy settings on their social media profiles as a precaution.

Lawyers and industry experts said that one of the dangers for consumers is people's desire to present themselves in the best light, even if it hurts an insurance claim.

Or as Lavin puts it: "No one puts pictures of themselves crying in a dark room, even if that's what they're doing 18 hours a day."

"The whole thing is just symptomatic of technology running ahead of the people who are using it," he said. "It's kind of like the early years of flight, when planes are crashing all over the place. Society has not come to terms with how to manage social networking."

REFUND LOANS

■ from 1D

OK a loan against that amount.

The IRS said it stopped providing the data because it can deliver refunds in 10 days, and taxpayers no longer need to pay fees that amount to triple-digit interest rates on the short-term RALs. The loans typically last five days to two weeks.

Borrowers often face charges for the application, e-filing and a range of other costs, in addition to the bank's finance charge. This can all add up to the equivalent of an interest rate in excess of 100 percent and sometimes multiples of that, said the National Consumer Law Center. A $3,300 RAL carries a 72 percent when fees and charges are added up, the group said.

Federal bank regulators have increasingly pushed banks out of the business because without the IRS debt indicator there's a greater potential for losses.

After taking action against two smaller banks, the real blow came when regulators informed HSBC Bank that it must stop offering RALs in December. Because HSBC funded the loans for H&R Block, the government's action left the nation's leading tax preparer unable to offer RALs.

This could cost H&R Block millions. About 17 percent of its customers got a refund anticipation loan in the 2010 tax season. This produced more than $146 million, or about 4 percent of annual revenue.

JPMorgan Chase voluntarily exited the RAL business in 2010. At the time, New York City Consumer Affairs Commissioner Jonathan Mintz said he hoped it would "herald the ultimate and long-overdue demise of these predatory and unnecessary loans."

One major concern of consumer advocates is that RAL fees are frequently paid by recipients of the Earned Income Tax Credit. The anti-poverty program is a tax credit paid to workers earning below certain thresholds. If the tax credit exceeds the taxpayer's liability, the IRS sends the worker a refund check.

Nearly 24 million taxpayers received $50 billion in benefits in 2009. The average credit exceeded $2,000, the IRS said.

In essence, RAL providers are reaping huge profits from a taxpayer funded government program designed to help low income workers.

"We don't understand why our nation's largest anti-poverty program has a middleman charging usury rates to provide people their refunds," said Peter Skillern, executive director of the Community Reinvestment Association of North Carolina.