IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA	:	
v.	:	**No.**
AMERICAN-AMICABLE LIFE INSURANCE COMPANY OF TEXAS, PIONEER AMERICAN LIFE INSURANCE COMPANY, and PIONEER SECURITY LIFE INSURANCE COMPANY	: : :	

COMPLAINT

The United States of America, by its attorneys, Patrick L. Meehan, United States Attorney for the Eastern District of Pennsylvania, James G. Sheehan, Associate United States Attorney, and Michael S. Blume, Assistant United States Attorney, brings this civil action under the fraud injunction statute, 18 U.S.C. § 1345, and Federal Rule of Civil Procedure 65. In support of the complaint, the United States alleges as follows:

1. This is a civil action initiated by the United States of America to enjoin fraud based on probable cause to find violations of 18 U.S.C. §§ 1341 (mail fraud) and 1343 (wire fraud), for a permanent injunction to prevent continuing and substantial injury to the victims of the fraud, for restitution, and for such other relief as justice requires. The United States of America alleges that defendants AMERICAN-AMICABLE LIFE INSURANCE COMPANY OF TEXAS, PIONEER AMERICAN LIFE INSURANCE COMPANY, and PIONEER SECURITY LIFE INSURANCE COMPANY executed a scheme and artifice to defraud active duty members of the United States armed forces through the fraudulent sale of life insurance products in violation of 18 U.S.C. §§ 1341 and 1343.

2. This Court has jurisdiction of this action pursuant to 18 U.S.C. § 1345 (fraud injunction statute) and 28 U.S.C. §§ 1331 (federal question jurisdiction) and 1345 (actions brought by the United States as plaintiff).

3. Venue is proper in this district because the defendants conduct business in this district and send mail in furtherance of the scheme in and to this district.

INTRODUCTION

A. The Defendants.

4. The defendants are American-Amicable Life Insurance Company of Texas (hereafter "American-Amicable"), Pioneer American Life Insurance Company (hereafter "Pioneer American"), and Pioneer Security Life Insurance Company (hereafter "Pioneer Security"). American-Amicable, Pioneer American, and Pioneer Security have common ownership and management. Each of the three maintains its home office at 425 Austin Avenue, Waco, Texas, 76701 (hereafter, collectively, "the Company").

B. The Horizon Life Insurance Product.

5. The Company sells a variety of life insurance product to members of the United States armed forces.

6. One such product is commonly called Horizon Life.

7. Horizon Life is combination or hybrid product. It consists of a twenty-year term life insurance policy with an accumulation fund rider to that policy. There are, in other words, two pieces to the product.

8. The first piece of the product is a term life insurance policy. Term life insurance is a life insurance policy that provides a stated benefit upon the policy holder's death, so long as that the death occurs within a specified period of time. A twenty-year

term policy, like the policy sold as part of Horizon Life, would therefore provide a stated benefit if the policy holder passed away within the twenty-year term.

9. The second piece of the product is a so-called accumulation fund rider. The accumulation fund rider is a contract whereby a portion of the monthly premium a Horizon Life policy holder pays is directed to a fund. That fund earns interest at a rate that fluctuates but that the Company guarantees to be no lower than a stated minimum. At the end of the twenty-year term, or whenever a Horizon Life policy holder cancels his policy prior to the end of that term, the Company returns that fund and its accumulated interest to the policy holder.

10. The two pieces of the Horizon Life product are inseparable. The Company must sell them together; otherwise, it would be unable to credit interest on the accumulation fund at or above the guaranteed minimum.

11. Put another way, the Company uses the term life insurance piece of Horizon Life to pay for the accumulation fund rider piece. The term life insurance piece of Horizon Life is more expensive than actuarily necessary. That is, the Company collects more in life insurance premiums than it needs to collect in order to be able to provide expected death benefits. The Company adjusts for this over-collection at the end of the twenty-year term. If a policy holder cancels prior to the end of his twenty-year term, no such adjustment occurs; the Company retains much of those over-collected premiums. It can then use some of those over-collected premiums from cancelled policies to pay for the guaranteed interest on accumulated fund riders attached to policies still in force.

12. Because the vast majority of its Horizon Life policy holders cancel well before the end of the twenty-year term – two-thirds of the policy holders cancel within three years of instituting their policies – the Company can make the product profitable. The Company knows full well the likelihood of a Horizon Life policy holder canceling prior to the end of the twenty-year term; it tracks that likelihood by use of persistency or lapse rates, which measure how long policy holders keep their policies before canceling.

13. The Company makes money from the sale of Horizon Life, then, because it is over-priced for the vast majority of people who buy it, people who will never hold it long enough to reap its promised benefits.

C. Department of Defense Regulations.

14. The Department of Defense – along with the various branches of the armed forces – has promulgated rules, regulations, and guidelines that govern the marketing, solicitation, and sale of insurance products to members of the armed forces.

15. The Department of Defense prohibits certain practices, including, but not limited to, the following:

a. the solicitation of recruits, trainees, and transient personnel in a "mass" or "captive" audience;

b. soliciting military personnel who are "on-duty;"

c. soliciting, without appointment, in areas used for housing or processing transient personnel, in barracks areas, and in family quarters areas;

d. offering unfair, improper, and deceptive inducements to purchase a policy;

e. using manipulative, deceptive, or fraudulent schemes, including misleading advertising and sales literature; and

f. using representations to suggest or give the appearance that the Department of Defense sponsors or endorses any particular company, its agents, or the products it sells.

16. Department of Defense rules place particular emphasis on protecting the most junior members of the armed forces. For instance, Department directives require that any member of the armed forces in pay grades E-1 through E-3 – many of whom are still in their teens – be given a "cooling off" period of seven days before their decision to purchase an insurance product is final. During that period, the service member must get counseling from finance personnel about the transaction he is to enter into and must be allowed to cancel the policy without penalty if he chooses.

THE MARKETING SCHEME

A. Misleading Marketing.

17. The United States provides affordable life insurance, with substantial benefits, to members of the armed forces.

18. The Company sells a product – Horizon Life – that many members of the armed forces do not need (expensive insurance) and from which many of its customers will never benefit (because the vast majority of them cancel the policy before the end of its term).

19. Given the nature of Horizon Life, the Company sells the product in a manner that is misleading. Otherwise, few – if any – members of the armed forces would purchase it.

20. The Company trains its agents to describe Horizon Life as a savings plan. It teaches its agents to extol Horizon Life as a way to invest for the future, a way to plan for retirement.

21. At the same time, the Company trains its agents to obscure the fact that, at its core, Horizon Life is an insurance product.

22. The Company's agents follow that training to a "T." Listen to a typical sales pitch by one of the Company's agents – whether he throws that pitch to a group of people in a financial planning "class" or to a single person in his living room – and it would be impossible to tell that the agent was selling insurance.

B. <u>A Focus on Junior Members of the Military.</u>

23. The Company and its agents focus their marketing on the most junior members of the armed forces. Many of these service members are still in their teens.

24. This focus is most acute during military training, when classroom instruction is common. Such instruction often includes required financial planning lessons to help the young service members manage their money. The lessons occur on-base, during duty hours. The Company and its agents manage to convince military personnel to allow them to conduct these lessons. Rather than doing so, however, the Company and its agents use the captive audience of junior service members to sell their products. The Company and its agents call themselves "counselors" or "advisors" and mislead the service members into believing that their lesson – sales pitch, really – has been endorsed by the military and that their "savings" or "investment" product is necessary for them to plan for their future.

25. The Company and its agents also solicit members of the armed forces in their quarters, sometimes going door to door in the barracks looking for new recruits.

26. And, the Company and its agents lure junior service members off-base, offering them food or drinks at a restaurant, office, or community center. There, the Company and its agents engage in a mass sales pitch to groups of junior service members, pressuring them to sign up for their "savings" or "investment" plan.

C. Misleading Documents Further the Scheme.

27. Once the Company and its agents convince a member of the military to purchase Horizon Life, the policy holder typically pays his monthly premium through an automatic payroll deduction called an "allotment."

28. To begin an allotment, a member of the armed forces executes a form. The form authorizes the government to take a portion of the service member's salary and, rather than send it to the service member, send it to a third party.

29. The Company and its agents assist members of the armed forces in completing the forms necessary to begin the allotments. These forms identify the type of allotment as "savings." And, the forms identify the third-party payee as "Central National Bank of Waco, Texas."

30. That is, the forms that the Company and its agents use to begin the allotments tend to indicate to the service member that his money is going to a savings plan at a bank. In fact, the government wires the service member's money to a Company account at Central National Bank, where it sits for a short period until the bank sweeps it into another account to fund insurance premiums and the associated accumulation fund riders. The allotments, in other words, go to the Company to pay for Horizon Life.

31. What is more, because of the indications on the allotment forms, the so-called "Leave and Earnings Statement" or "LES" for a Horizon Life policy holder is misleading. An LES is a pay stub. The government provides them to service members as a record of – among other things – how much they earned in salary during a pay period, how much they paid in taxes, and how much they paid, by way of allotments, to third parties. The information that appears on an LES with respect to an allotment depends on the information that is contained on the form that began the allotment. Here, because of the way the Company and its agents prepare the allotment forms, the LES's state that service member is sending his money for "savings" at "Central National Bank."

D. <u>The Success of the Misleading Marketing.</u>

32. The Company and its agents have been successful in selling Horizon Life.

33. Because of the manner by which the Company and its agents market Horizon Life as a "savings" or "investment" plan, by which they target junior service members, and by which they obscure the fact that Horizon Life is an insurance product at its core, few members of the armed forces who purchase Horizon Life understand the product. Believing the product to be something that it is not, thousands of members of the armed forces have purchased Horizon Life.

34. Since January 2000, more than 50,000 member of the armed forces have purchase Horizon Life.

PRAYER FOR RELIEF

35. The United States restates paragraphs 1 through 34, inclusive, as if fully set forth herein.

36. The defendants committed the acts alleged in this complaint knowingly and willfully, intending to defraud purchasers in the manner described above.

37. The defendants devised and perpetrated a scheme or artifice to defraud purchasers and, for the purpose of executing the scheme, used the U.S. mails to deliver into interstate commerce the insurance policies (and associated documents) sold as part of its efforts to defraud purchasers and used interstate wire communications to transfer funds paid by the policy holders to purchase said policies.

38. The defendants have engaged in and are about to engage in violations of 18 U.S.C. §§ 1341 (mail fraud) and 1343 (wire fraud).

39. In order to prevent this injury from occurring or recurring, the defendants should be enjoined pursuant to 18 U.S.C. § 1345 from engaging in this fraudulent activity and should be subject to other equitable relief, including restitution to the victims of such activities.

WHEREFORE, plaintiff, the United States of America, prays that this Court, pursuant to 18 U.S.C. § 1345 and its inherent equitable powers, permanently enjoin the defendants from such unlawful activity, pay restitution to the defendants' policy holders who have been defrauded, and grant such other and further relief as is just and proper to prevent injury to the public.

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