The Web Site of The Sacramento Bee

This story is taken from Sacbee / Business.

Grim news for death-benefit investors

Officials warn about 'flavor of the month' Ponzi schemes.

By Dale Kasler - Bee Staff Writer
Published 12:00 am PDT Saturday, August 25, 2007

Three years ago, Rosslyn Bradshaw of Citrus Heights took the contents of her 401(k) plan -- some $12,300 -- and invested in a total stranger's life insurance policy.

Specifically, she bought a 2 percent share of the death benefit from a policy taken out by an elderly couple from parts unknown. She was told her investment would generate an 80 percent return in three years, when they were expected to die, a payout of $22,171.

Bradshaw, 45, said the investment sounded like "the American dream." Instead, she has been snared by an alleged Ponzi scheme that one expert calls "the flavor of the month."

Prosecutors say she is one of 500 investors victimized by an elaborate scam based in Redding. Eight people were charged Thursday in U.S. District Court in Sacramento in connection with a scheme to sell "viaticals," an odd-sounding but increasingly popular investment that represents a share in someone else's life insurance. When the insured dies, the investors get the death benefit payout.

Indicted were Donald Fred Neuhaus and his daughter Kimberly Snowden, who ran Redding-based Secure Investment Services Inc. Also charged were four sales agents, Clifford Palm of Citrus Heights and Robert Koppel of Roseville, and two Michigan men who ran a surety bond firm that was supposed to provide financial underpinning to the operation.

Prosecutors have been building the case for years. Assistant U.S. Attorney Matthew Stegman said Friday the investigation began in late 2004 and involved scores of document subpoenas and investor interviews.

"There was quite a bit to the investigation," he said. "We couldn't just slap it together. ... We moved forward on this case as quickly as we really could."

Federal officials said the Redding business has only $63,000 in cash left and is on the verge of collapse. On Friday a federal judge appointed a receiver to take control of Secure Investment Services and try to salvage as much as possible for investors.

The receiver, Dallas lawyer Michael Quilling, said he planned to secure a line of credit to make premium payments. That will keep the existing insurance policies -- the Redding firm's prized assets -- from lapsing and becoming worthless. He said he believes the monthly premiums total about $100,000 to $150,000.

"We will get the situation stabilized," he said. He will soon begin posting information updates for investors on his Web site, www.secreceiver.com.

But the Redding firm faces problems that could limit repayment to investors. According to the Securities and Exchange Commission, investors were given bogus information about the life expectancies on the life insurance policies. Now many of the insured people are outliving those expectancies. That means that continuing to pay premiums on some of those policies would constitute throwing good money after bad, Quilling said.

He wouldn't speculate on how much investors can expect to recover.

But investors in a fraudulent Michigan viaticals firm are expected to receive 30 cents to 35 cents on the dollar, and that's considered a good recovery, said Bruce Kramer, the court-appointed receiver in that case. Kramer, a Memphis, Tenn., lawyer, said he wound up liquidating the Michigan firm's assets -- consisting mainly of the life insurance policies -- which generated cash to partially repay investors.

Viaticals, or life settlements, first emerged in the early days of the AIDS epidemic, when dying patients began selling their life insurance policies to raise cash. It's now grown into a big business with its own trade group, the Life Insurance Settlement Association of Orlando, Fla., created to "promote the development, integrity and reputation of the life settlement association."

The Redding group didn't belong to the association, and the industry has been tarnished by several high-profile scandals. A Florida case took in more than $800 million from investors.

"It seems the viatical industry, which is basically unregulated, appears to be the choice game in town, the flavor of the month," Kramer said. "There are several viatical companies that are in receivership throughout the United States."

But Doug Head, executive director of the trade association, said the Redding case appears to be "a holdover from the old days."

"Any new business associated with the financial services industry has rocky periods and some participants operating on the real edge," he said. He said the industry has been cleaning up its act.

He said investors must make sure they're doing business with licensed broker-dealers who have registered their securities with the state. "People really need to deal with reputable licensed broker-dealers. They need to see the licenses," Head said.

In February 2003, Neuhaus, Palm and another sales agent, Ronald Jay Mack of Roseville, were slapped with cease-and-desist orders by the California Department of Corporations for failing to register their securities.

Mark Leyes, a spokesman for the department, said his agency then referred the matter to the U.S. Attorney's Office.

But Stegman, the assistant U.S. attorney, said he wasn't informed of the allegations until late 2004.

Palm was among those indicted Thursday. Mack was sentenced to 46 months in prison in April 2005 after pleading guilty to unrelated fraud charges. As part of the plea agreement, prosecutors agreed not to go after Mack in connection with the viaticals investigation, which was then under way, according to court documents.

Despite the cease-and-desist orders, prosecutors said the Redding firm continued selling viaticals, finding investors in 20 states. In 2004, Bradshaw said she met with sales agents Palm and Mack at her home.

Their pitch was persuasive. She eventually purchased a product that was supposed to pay an 80 percent return.

She got her sister, Rachel Heiny of Escalon, to invest.

"After sitting in mutual funds and losing $11,000, I figured what have I got to lose?" Heiny said. She invested nearly $19,000 with the Redding firm.

The sisters and other investors told The Bee that warning signs popped up in the past two months, when they received letters from Redding talking about legal problems with Secure Investment's surety bond firm.

The bonding firm is supposed to guarantee payout on the insurance policy in case the insured survives beyond their life expectancy. The owners of the firm, David Goldenberg and Mark Eric Wolok, both of Michigan, were among those indicted Thursday.

Go to: Sacbee / Back to story

The Sacramento Bee, 2100 Q St., P.O. Box 15779, Sacramento, CA 95852
Phone: (916) 321-1000