

Lincoln, and Memorial were not independent of many of the Defendants; (3) the pre-need funeral funds would not be prudently managed to ensure future payment of funeral services; and (4) the RICO Defendants engaged in the numerous schemes discussed in detail in this Complaint to loot NPS, Lincoln, and Memorial.

97. If at any time a funeral home raised questions about the solvency of NPS, Lincoln, and/or Memorial, the RICO Defendants' practice was to not only falsely assure the funeral home that the companies were financially sound, but also to promise to the funeral home that should anything ever happen to the companies, the state life and health insurance guaranty associations would pay the funeral home's death claims.

98. The RICO Defendants also intentionally withheld from the NPS sales force and thus the funeral homes and consumers that a convicted felon, Defendant Doug Cassity, was actively involved in concocting the scheme, that he would be directing and controlling NPS' operations through his family and advisors, and that he would be actively participating in management, personnel, and investment decisions for the RICO Enterprises.

99. The RICO Defendants' scheme to defraud used new dollars received through NPS pre-need contract sales to pay claims on prior contracts sold by NPS and to pay life insurance premiums. It was thus necessary to constantly drive the sales force to generate such sales. To generate additional cash to pay prior obligations and to enrich themselves, the RICO Defendants also engaged in numerous other fraudulent schemes as discussed below.

*B. The RICO Defendants "Whited-Out" and Altered
Key Information on Insurance Policy Applications*

100. As part of the RICO Defendants' scheme to defraud, the RICO Defendants regularly engaged in a ploy to deliberately "white-out" and alter key information on insurance

policy applications in order to pocket the money that was being entrusted to them so that the funeral expenses could be paid in the future. The “white-out” schemes worked as follows.

101. The funeral home consumer paid the funeral home for the pre-need contract in full at the time the contract was entered. The funeral home then paid NPS the entire amount due on the pre-need funeral contract. At the time of full payment, an insurance policy application was correspondingly marked as a single premium policy that was *paid-in-full*. For example, where a consumer paid in full \$5,000 for a pre-need funeral contract, the consumer simultaneously applied for a corresponding, single-premium, paid-in-full life insurance policy with a face amount of \$5,000.

102. After the consumer submitted the life insurance application, an employee within NPS, Lincoln, or Memorial would “white-out” or otherwise alter those portions of the insurance application showing a single-premium policy *paid-in-full*, and change the application to show that the policy was to be paid for in *installments* over a period of time, such as 60 months.

103. The RICO Defendants used a related technique in states where an NPS pre-need trust, and not the consumer, purchased the life insurance policy by directing the purchase of policies that did not “match” how the consumer paid for the pre-need contract. Under this “policy mismatching” scheme, if a consumer paid for the pre-need contract with a single, up-front payment of, for example, \$5,000, the RICO Defendants would direct the NPS pre-need trust to purchase a corresponding life insurance policy from Lincoln that was a 60-month installment policy with monthly premium payments.

104. By altering the insurance policy applications to falsely state that payments had not been made in full, and by engaging in the “policy mismatching,” the RICO Defendants were able

to pocket the vast majority of the up-front payments rather than putting the money from the paid-in-full pre-need funeral contracts into trusts or purchasing a paid-in-full life insurance policy to fund the future funeral expenses.

105. The RICO Defendants' "white-out" scheme also included illegally changing the named owner or named beneficiary on the insurance application from the funeral home to NPS. Altering the insurance applications to make NPS the named owner and/or beneficiary was vital to the overall scheme to defraud, because only a policy owner can take out policy loans or surrender whole life policies to receive the cash surrender value. As explained later in this Complaint, after illegally altering the insurance applications to make NPS the owner and/or beneficiary of the whole life policies, the RICO Defendants caused NPS to request hundreds of millions of dollars worth of policy loans and surrenders of whole life policies from Lincoln. The policy alterations were therefore instrumental to the RICO Defendants' siphoning of cash out of the Lincoln insurance policies.

106. NPS, as a pre-need funeral contract seller, was prohibited by law in many states from altering and being named as the owner or beneficiary of the insurance policies used to fund the NPS pre-need contracts. The valid owner of an insurance policy was also prohibited by many states' laws from irrevocably assigning the insurance policy to NPS. As set forth in the following paragraphs, the RICO Defendants violated both of these prohibitions.

107. Two sections of the life insurance application addressed beneficiary and ownership status. In many instances, the "Beneficiary" section of the application was pre-completed with "National Prearranged Services, Inc." as the named beneficiary. If "National

Prearranged Services, Inc.” was not pre-completed as the named beneficiary on the insurance application, the consumer was required to name a beneficiary.

108. If anyone, including the consumer, did not name NPS as the policy beneficiary, an employee within NPS, Lincoln, or Memorial would either strike out any named beneficiary that was not NPS and write in NPS or a related entity as the beneficiary, or would stamp “National Prearranged Services, Inc.” over the beneficiary that the consumer had chosen.

109. Similarly, the insurance policy application form had an “Assignment” section. The Assignment section stated:

I hereby irrevocably assign and transfer all the policy benefits and proceeds of this policy to: _____ as their interest may appear. I understand fully the effects of this assignment and transfer. It is my intention as owner to continue to pay premiums and *retain ownership*. (emphasis added)

In addition to containing the line to write-in the name of the assignee, the Assignment section contained a check box for “Yes” or “No,” and a place for the consumer to initial.

110. If anyone, including the consumer, wrote in the “Assignment” section a name other than NPS (typically the funeral home) as the assignee, an employee within NPS, Lincoln, or Memorial would either strike out the named assignee and write in NPS or a related entity as the assignee, or would stamp “National Prearranged Services, Inc.” over the assignee that the consumer had chosen.

111. The RICO Defendants used the altered life insurance applications as the basis for manipulating the life insurance policies through policy mismatching/white-outs, and policy loans and policy surrenders (described in detail below), despite the fact that neither the funeral homes

nor the consumers knew that the alterations had occurred, and despite the fact that the “Assignment” section explicitly stated that the consumer retained ownership of the policy.

112. The RICO Defendants knew the funeral homes and consumers were not aware either that the life insurance policy applications were altered or that the policies actually written did not match how the consumer paid for the pre-need funeral contract. The RICO Defendants purposely kept the funeral homes and consumers in the dark on these practices. For example, the RICO Defendants would not send copies of the policies to the funeral homes or consumers because they were not issued the same as the pre-need funeral contract.

113. Under the policy mismatching scheme, the insurance companies would issue an installment policy such as a fully insured benefit (“FIB”) or monthly increasing benefit (“MIB”), regardless of how the consumer paid for the pre-need funeral contract.

114. Both the RICO Defendants’ knowledge of these schemes and their intentional attempts to fraudulently conceal these material facts from the funeral homes and consumers are evidenced by the RICO Defendants’ internal discussions, as reflected in the following e-mails.

115. On September 18, 2007, in response to funeral home concerns over rumors that NPS altered the life insurance policy applications, Defendant Schnieders wrote to Defendants Brent Cassity, Scannell, and Nicki Province:

“I almost think us whitening/blackening stuff out on the contracts that we copied for fh’s [funeral homes] has made a bigger hoopla then [sic] the state letter that went out.” (emphasis added)

116. On February 11, 2008, in response to an e-mail from an NPS sales agent asking whether NPS engaged in policy mismatching, Defendant Brent Cassity wrote to Defendants Schnieders and Scannell: *“Just tell her that [it] is not being done....”* (emphasis added)

117. On February 26, 2008, in discussing how to fill out an annual report, Defendant Kelly Tate wrote to Defendant Kati Scannell:

“The premiums received column may show an amount less than the amount the consumer actually paid to NPS...which we know and the IOC knows, ***but the funeral home does not know that (i.e. we issued term policies) so when the FH [funeral home] gets their report and they see a PIF [paid-in-full] contract for \$5,000.00 and the premium received column says something other than that, they might notice that and have questions....***” (emphasis added)

118. On March 13, 2008, following a request to funeral homes from the State of Illinois for all Lincoln life insurance policy applications on file with each Illinois funeral home, NPS employees suggested the company provide copies of the applications to the funeral homes to ease the funeral homes’ burden in responding to the regulatory request. In response, Defendant Kelly Tate wrote to Defendant Brent Cassity, with Defendants Nicki Province and Scannell copied:

“Brent – I can have someone get started on making copies for this home. ***I wanted to let you know though that the life applications will become an issue with the funeral homes.*** In the past when a preneed contract submitted a paid in full contract in IL, the life application was changed when received in the office from a Single Pay to a 10 year FIB for example. The ***altered applications*** were the only applications kept on file. . . . ***I am concerned about how the funeral homes will react if we send them an application that has been altered or the MRT [monthly renewable term] (we probably don’t want to do that anyway).*** (emphasis added)

119. On April 1, 2008, non-party Jim Shawn, an employee of the insurance companies, sent an e-mail to Defendant Erin Province, with Defendants Singer, Scannell, Wise, Tate, and Nicki Province copied, regarding the white-out scheme:

“Erin, I have attached another document that [the regulator] just gave me. He said ***it ‘appears’ that someone whited out the person/entity designated as beneficiary and assignee and then substituted NPS.*** He also says the initial box in the assignment section has not been signed. In his words this is another example of ‘problems’ that he is uncovering.” (emphasis added).