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INSURANCE COMMISSIONER JOHN GARAMENDI SUES "LIVING TRUST MILL" OPERATORS FOR MORE THAN \$110 MILLION

The defendants allegedly preyed on seniors, selling unneeded living trusts and annuities that bilked them out of hundreds of millions of dollars in retirement funds

SACRAMENTO - Acting to put an end to a massive "living trust mill" targeting vulnerable senior citizens, Insurance Commissioner John Garamendi and Attorney General Bill Lockyer filed a lawsuit Thursday seeking more than \$110 million in penalties, restitution and damages from the operators of the scam.

"Using lies, trickery and outright fraud, these defendants took away the hard-earned savings of thousands of seniors who trusted them with nearly everything they had," said Commissioner Garamendi. "I've attacked these types of predators by arresting them, through legislation, and with senior education. Now, I'm taking them to court to hit them where it hurts the most - the bottom line."

The defendants in the suit include: Family First Advanced Estate Planning and Family First Insurance Services of Woodland Hills; Nick A. Michaels, president of Family First Advanced Estate Planning; John Owen, president of Family First Insurance Services; American Investors Life Insurance of Kansas; Group Legal Services of San Diego; Senior Law Practice Group; and attorney Thomas R. Lee of Woodland Hills.

An investigation by the California Department of Insurance Investigations Division found that the defendants tricked victims into purchasing tens of thousands of living trusts and related services, and mislead them into buying annuities worth hundreds of millions of dollars. The Woodland Hills-based firm had numerous locations, including a call center in Corona, and regional offices in Sacramento, Fremont, Concord, Santa Ana, Irvine, Canoga Park, Rancho Santa Margarita, Santa Maria, Westlake Village, Pleasanton and Bakersfield.

The complaint seeks to prohibit the defendants from continuing the practices and asks for more than \$40 million in civil penalties and at least \$70 million in consumer restitution and damages. The suit was filed in Los Angeles Superior Court.

Commissioner Garamendi has worked to fight this type of fraud since taking office in 2003. Earlier this month, due to legislation sponsored by the Commissioner, the Department of Insurance began collecting \$1 for each life insurance or annuity sold in the state. The proceeds will go to support more enforcement and education on the dangers of insurance fraud involving these products.

The senior-related legislation Commissioner Garamendi has sponsored and helped pass includes:

- Senate Bill 1273 (Scott): Increases jail time to one year and monetary penalties to \$25,000, or three times the amount of the loss above \$10,000, for "twisting" or "churning" of annuities.
- Assembly Bill 2316 (Chan): Establishes the "Life and Annuities Consumer Protection Fund" by assessing up to \$1 per each new individual annuity or life insurance product sold in California.
- Assembly Bill 2384 (Nakano): Allows the department to penalize insurance companies who don't pay credit life and disability policy death benefits within 30 days of the date of a death.
- Assembly Bill 1600 (Nakano): This bill extends the period of time that life and disability insurers must maintain records relating to the activities of their agents and authorizes the State Insurance Commissioner to collect and report data relating to life and disability insurance. It enables the Commissioner to gather critical information about the life and annuity marketplace, particularly as it relates to senior citizens.
- Senate Bill 618 (Scott): Increases the fines for misrepresentation of insurance policies and increases the penalty for violations relating to the senior insurance law.

The Commissioner also strongly supported SB 620 (Scott), a new law which enacts additional restrictions on advertising practices that target senior citizens. It also expands the scope of existing restrictions to life insurance and annuities. The law also prohibits the sale of annuities to seniors in certain circumstances. Commissioner Garamendi is working to strengthen this new law with additional protections.

In the current case, the defendants tricked their victims through a complex business plan that used a multiple step process. They visited seniors under the guise of offering estate planning services. But in reality, according to the complaint, the defendants were using the meetings to gather information about the seniors' finances and gain their trust and confidence. When life agents would later deliver the estate planning documents, they then used the financial

information submitted for the documents to pitch unnecessary annuities.

Life agents would tell the seniors that their existing investments were no good, and then induce the seniors to close out their existing investments and purchase the annuity policies. The seniors would often do so, believing that the life agent had expertise in estate planning and was acting in their best interests. But investigators found that the life agents were really there to sell annuities in order to gain lucrative commissions, regardless of the damaging impact purchasing annuities had on the seniors' financial situations.

The complaint also alleges that sales representatives never revealed the drawbacks of these products. For instance, many seniors, particularly those with serious health problems, would likely never be able to benefit from the annuities because the period of maturation was so long, in some cases 15 years. Early withdrawal of funds would precipitate heavy financial penalties.

Consumers who believe they have been victimized by the defendants, or by another living trust mill or annuity fraud, should report it to the Department of Insurance by calling **1-800-927-HELP**, or visiting the web site at www.insurance.ca.gov. They also may file a complaint online at the Attorney General's web site, <http://www.ag.ca.gov/consumers/mailform.htm>.

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Please visit the Department of Insurance Web site at www.insurance.ca.gov. Non media inquiries should be directed to the Consumer Hotline at 800.927.HELP. Callers from out of state, please dial 213.897.8921. Telecommunications Devices for the Deaf (TDD), please dial 800.482.4833.

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