



# *NEWS RELEASE*

INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
Arlington, VA 22202

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**IMMEDIATE RELEASE      December 19, 2002**

## **Inspector General Acts to Protect Warfighters From Predatory Practices**

The United States Attorney for the Eastern District of Pennsylvania, based on the criminal investigative activities of the Department of Defense Inspector General and the Federal Bureau of Investigation, announced today a civil settlement with the Academy Life Insurance Company whereby the company agrees to pay \$160 million in penalties, costs, and restitutions to current and former Service men and women for the improper commercial solicitation of life insurance.

The efforts by criminal investigators from the Inspector General's Defense Criminal Investigative Service are part of a wider strategy within the Department of Defense headed by the Under Secretary of Defense for Personnel and Readiness to protect all Service men and women from predatory practices. The civil Complaint under the Anti-fraud Injunction Statute alleges that Academy Life Insurance "engaged in a sophisticated scheme to defraud military service members who purchased life insurance policies from the company between 1991 and 1998." The complaint alleges that Academy Life had entered "an exclusive licensing agreement" with the Noncommissioned Officers Association (NCOA) that called for NCOA's "exclusive endorsement" of Academy Life's insurance products in exchange for a \$700,000 "annual payment." Additionally, NCOA allegedly designated and accredited Academy Life's insurance agents as "NCOA counselors" who would aggressively and deceptively sell insurance products to unsuspecting service members around the world.

The Inspector General of the Department of Defense, Joseph E. Schmitz, reaffirmed his resolve "to employ the full complement of criminal and administrative investigators, along with auditors, inspectors and evaluators to identify and target any commercial predators who engage in fraud or otherwise take advantage of our warfighters and the American taxpayer." Auditors from the Inspector General had previously worked with the Department to identify problems and improve policies to counter improper commercial solicitations on military installations. Schmitz stated that the action by the U.S. Attorney demonstrates the "importance placed by both my office and other senior leaders in the Department to protect our warfighters and to hold wrongdoers accountable for their actions."

An important aspect of the civil settlement agreement with the Academy Life Insurance Company is the system of redress that will increase the face amount of all coverage by 6.5%, which will increase death benefits coverage by approximately \$160 million. In addition, the Academy Life Insurance Company agreed to pay \$2.7 million to all policyholders who canceled their policies during the time period of 1991-1998. Schmitz stated that "this redress is effectively a reimbursement of hard-earned money back to our service men and women."

**-MORE-**

Consistent with the official mission of the Defense Criminal Investigative Service, “Protecting America’s Warfighters,” Schmitz stated that the actions of his office will be to “reinforce the message that we will vigilantly protect our soldiers, airmen and marines from those who seek to defraud them and will hold accountable anyone who betrays the public trust.”

**-END-**

To report suspected criminal activity, to include fraud, waste, or abuse of authority within the Department of Defense, contact the Defense Hotline toll free at (800) 424-9098, e-mail at [hotline@dodig.osd.mil](mailto:hotline@dodig.osd.mil), or visit the World Wide Web at <http://www.dodig.osd.mil/hotline>.

**U.S. Department of Justice**

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FOR IMMEDIATE RELEASE

December 19, 2002

**Life Insurance Company Agrees To Pay \$160 Million To Resolve  
Charges Of Fraud Against Military**

PHILADELPHIA – United States Attorney Patrick L. Meehan today announced the filing of a civil Complaint under the Anti-fraud Injunction Statute (18 U.S.C. § 1345) against Academy Life Insurance Company alleging that the company engaged in a sophisticated scheme to defraud military service members who purchased life insurance policies from the company between 1991 and 1998. U.S. Attorney Meehan also announced that a settlement has been reached with Academy Life to resolve the charges in which the company agrees to pay a total of more than \$160 million in penalties, costs and restitution and agrees that it will never again sell another insurance policy in the United States.

*"This case demonstrates our strong commitment to protecting members of the U.S. armed services from corporate predators who engage in fraudulent practices designed to unfairly take advantage of the brave men and women who serve our country," said Meehan.*

**A. BACKGROUND**

**1. Academy Life Insurance Company**

Defendant Academy Life Insurance Company ("ALIC") is domiciled in Missouri and its corporate headquarters is located in Frazer, Pennsylvania. Since 1997, ALIC has been a subsidiary of Aegon USA, Inc. Aegon USA, Inc. is a wholly owned subsidiary of AEGON N.V., an international insurance organization headquartered in the Hague, The Netherlands.

**2. Non Commissioned Officers Association**

The Non Commissioned Officers Association (“NCOA”), is a non-profit fraternal association formed in 1960 in San Antonio, Texas and chartered by Congress in 1988 to advance the interests of military service members throughout the world. NCOA’s corporate headquarters is located in San Antonio, Texas and it maintained a lobbying office in the Washington, DC area. At its peak, the NCOA maintained over 200 chapters on or near Department of Defense (“DoD”) installations throughout the world, and had an active membership in excess of 150,000. In 1988, the Non Commissioned Officers Association received a charter from Congress to function as a non-profit

fraternal military association for the purpose of advancing the interests of military service members through charitable and benevolent activities and programs and through its lobbying efforts in the Congress.

## **B. THE ALLEGED SCHEME TO DEFRAUD**

The complaint alleges that, since approximately the 1970s, defendant ALIC has enjoyed the exclusive endorsement of its insurance products by the NCOA and has, with the knowledge, approval and encouragement of the NCOA, referred to its agents as “NCOA counsellors.” Over the years, it is alleged that NCOA has held many significant financial interests in Academy Insurance Group and defendant ALIC. On or about July 2, 1991, it is alleged that defendant ALIC and the NCOA entered into an exclusive License Agreement that provided for, among other things, the exclusive endorsement by NCOA of defendant ALIC’s insurance products in exchange for an annual payment to NCOA by defendant ALIC of \$700,000 plus one percent of all premiums received by defendant ALIC. As an additional incentive, and as part of the License Agreement, defendant ALIC allegedly provided the NCOA with a Stock Appreciation Rights plan, which allowed NCOA to share in any increase in the value of defendant ALIC’s stock price after the License Agreement was signed.

According to the complaint, NCOA designated and accredited ALIC’s life insurance agents as “NCOA counsellors.” It is alleged that the NCOA counsellors were not paid any compensation by the NCOA, and their sole source of compensation was through commissions from defendant ALIC on the sale of ALIC life insurance policies. The NCOA counsellors allegedly solicited appointments with military service members for the stated purpose of providing information on the benefits of joining the NCOA when, in fact, their primary purpose – and only source of income – was the sale of life insurance policies issued by defendant ALIC. The complaint alleges that NCOA counsellors told military service members that they represented a non-profit, fraternal organization “endorsed” and chartered by the United States Congress and that their only job was to look out for and advance the best interests of the service member and provide objective counseling and advice to the service member on issues ranging from military service benefits to planning for retirement.

It is alleged that, under the guise of being an independent, objective “counsellor” representing a non-profit organization that fights to protect the interests of military service members and whose sole job is to look out for and advance the best interests of military service members, the NCOA counsellors described the ability to purchase life insurance from defendant ALIC as one of the many “benefits” of membership in the NCOA. The NCOA counsellors allegedly explained to military service members that they were required to be licensed life

insurance agents in order to provide this insurance “benefit” to the NCOA member but did not disclose that they were not employees of the NCOA, received no income from the NCOA as a result of their NCOA counsellor role, and instead were only compensated through commissions from defendant ALIC if and when a policy is sold to a military service member. The NCOA counsellors allegedly did not disclose to the military service member that they were not objective or independent with respect to the recommendation of an insurance product and, instead, were “captive” agents who could only sell the insurance products of one company – defendant ALIC. It is alleged that the NCOA counsellors falsely told military service members that NCOA investigated many other insurance companies and selected defendant ALIC as having the “most appropriately priced” products on the market when, in truth, no such investigation had been performed and the selection of defendant ALIC by the NCOA was instead the result of substantial financial benefits paid by defendant ALIC to the NCOA under a secret license agreement which resulted in payments of approximately \$1.5 million per year to NCOA.

According to the complaint, as part of a deliberate effort to demonstrate the supposed “need” to purchase a life insurance policy from defendant ALIC despite the fact that every service member already had a low cost government life insurance policy with face values up to \$200,000, the NCOA counsellors would perform a “Personal Affairs Inventory” and “Analysis of Government Benefits,” which included a mathematical computation that demonstrated to the service member the supposed inadequacy of his or her government benefits and the need to address that inadequacy through the purchase of an NCOA recommended life insurance policy from defendant ALIC. Defendant ALIC allegedly maintained so-called “NCOA Service Centers” located near major DoD installations around the world which functioned as local insurance offices for defendant ALIC's agents and which were funded in their entirety by defendant ALIC and its local agents.

The complaint alleges that defendant ALIC and NCOA utilized the services of so-called “membership developers” as part of an elaborate effort to evade the DoD regulations prohibiting life insurance agents from directly soliciting service members on DoD installations. According to the complaint, membership developers employed by NCOA were typically retired non commissioned officers in one of the military service branches and were not licensed life insurance agents. The Non Commissioned Officers Association allegedly employed the membership developers to give briefings on United States military installations throughout the world, which included a discussion of the NCOA, its mission, programs and membership benefits, and the use of “lead cards” for the purpose of obtaining personal information from each of the service members in attendance at the briefing in order to facilitate the sale of Academy Life Insurance Company's insurance products to these service members.

According to the complaint, unbeknownst to the military officials who permitted the briefings to occur, the salaries of the membership developers were secretly paid for in part by defendant ALIC and the lead cards collected from service members at the briefings were

distributed to defendant ALIC so that a life insurance agent of defendant ALIC could make appointments with the service members to solicit the sale of insurance. In using the lead cards, defendant ALIC allegedly encouraged its agents to violate DoD regulations by training them to call the service member and tell the service member that the agent was a counsellor with NCOA and wanted to meet with the service member to provide information on membership in the NCOA rather than disclose in this phone call the fact that he is a licensed life insurance agent for defendant ALIC as required by DoD regulations.

Between 1991 and 1998, defendant ALIC allegedly mailed hundreds of letters known as "base access" letters or "base clearance" letters to U.S. military installations throughout the United States and overseas for the purpose of obtaining permission to engage in the sale of insurance policies on those installations and which falsely claimed that defendant ALIC would comply with all regulations governing solicitation practices. At the time that these base access letters were submitted by defendant ALIC, however, defendant ALIC was allegedly not in compliance with the solicitation regulations and had implemented a scheme designed to evade and to violate the solicitation regulations by, among others:

- a. Devising and implementing a training program that instructed defendant ALIC's life insurance agents to use deceptive practices in obtaining appointments with service members by not disclosing during "cold calls" that they were insurance agents for defendant ALIC and that their purpose in setting up the appointment was to solicit the sale of a life insurance policy.
- b. Describing defendant ALIC's insurance agents as "NCOA counsellors" in violation of DoD regulations prohibiting the use of titles such as "counselor" or "advisor" by insurance agents.
- c. Secretly funding and implementing the NCOA membership developer program in which, under the guise of presenting neutral information about issues affecting the military and the NCOA to captive audiences of service members during duty hours – and without disclosing that their efforts were paid for in part by defendant ALIC – NCOA representatives were invited onto U.S. military installations and thereby obtained personal information from the service members on lead cards, which were then turned over to defendant ALIC to use as insurance sales leads.
- d. Devising and implementing a fraudulent scheme to sell insurance to service members.

During the years 1991 through 1998, defendant ALIC allegedly paid nearly \$16 million to the NCOA in undisclosed royalties under the terms of the ALIC-NCOA license

agreement and in secret payments to the NCOA to support the membership development program. According to the complaint, in total, during the years 1993 through 1998, defendant ALIC sold more than 92,000 new life insurance policies throughout the United States and overseas to military service members and their families and received over \$200,000,000 in premium revenues.

On September 11, 1998, the Department of Defense imposed a three-year ban on defendant ALIC, thereby prohibiting defendant ALIC from conducting any business on U.S. military installations throughout the world.

**C. THE SETTLEMENT AGREEMENT**

Defendant ALIC has agreed to settle the claims made in this case without admitting liability under the terms of a settlement agreement that provides for the following:

- S Academy pays a \$1 million civil penalty.
- S Academy pays \$505,000 to government to cover the costs of the government's investigation.
- S Academy increases the face amount of all in force coverage by 6.5%. This means that a beneficiary of a policyholder with a \$100,000 life insurance policy will receive \$106,500 upon death of the policyholder instead of \$100,000. This results in a total in force increase in death benefits coverage of approximately \$160 million. The net present value of this payment stream to policyholders is approximately \$11.7 million.
- S Academy pays \$2.7 million to all policyholders who canceled their policies during the relevant time period (1991-98). There are approximately 110,000 persons in this category.
- S Academy agrees that it will never again sell another insurance policy or reapply to the U.S. Department of Defense for permission to conduct business on U.S. military installations.

**INFORMATION REGARDING THE DEFENDANT**

NAME	ADDRESS	AGE OR DATE OF BIRTH
Academy Life Insurance Co.	20 Moores Road Frazer, Pennsylvania	A Missouri corporation formed in 1967

The case was investigated by the Defense Criminal Investigative Service and the Federal Bureau of Investigation. The case has been assigned to Assistant United States Attorney John J. Pease for prosecution.

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