

Funeral Service *Insider*

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SPECIAL REPORT: THE NPS/LINCOLN SCANDAL

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FSI Exclusive: NPS Scandal Widens

- Lies, Massive Coverup Alleged by Insiders
- Funeral Homes Could Be at Financial Risk
- More States Suspend Lincoln's License

The bad news swirling around National Prearranged Services and its affiliate, Lincoln Memorial Life, just keeps getting worse, with one state regulator after another shutting down the company's insurance operations.

And now, in an alarming development, the *Insider* has learned that Lincoln **never issued policies** to some of its funeral home clients; instead, it offered paid in full certificates.

That's bad news, says Tom Ripperda of Educational Concepts Unlimited, an insurance training firm in Belleville, Ill., because it probably means *NPS* is the beneficiary, not the funeral home or the family. So when it comes time to cash in a policy, there's simply no guarantee that a funeral home will get the money it's owed.

No Policies, Just 'Worthless' Certificates

It's important to note that no FDs have come forward claiming that NPS has failed to pay up. "We've had several claims with them since this started going down, and we've been paid in a very timely manner," says Dave Searby, owner of Searby Funeral Home in DuQuoin, Ill. Searby even says he's gotten full growth points.

But Searby's experience notwithstanding, 234 funeral homes recently sent a letter to NPS owner Brent Cassidy, complaining about the missing policies.

Editor's note: While the *Insider's* editorial policy is to resist quoting anonymous sources, the extraordinary circumstances that arose during the reporting of this story led us to reconsider. "Margo" and "Audrey" provided us with critical inside information we could not have obtained had the promise of confidentiality not been made, and we can confirm that they are in a position to have first-hand knowledge about the companies involved.

“There is a concern that the funeral directors, who are licensed insurance producers, completed Lincoln Memorial Life Insurance applications to fund the prearrangements but have never seen a policy,” the Jan. 11 letter reads.

“When one funeral director phoned the Illinois Insurance Board to inquire if the policies were backed by the Illinois Life and Health Guarantee Association, he was told to check the policy,” the letter goes on. “All the funeral homes have are ‘Paid in Full Certificates.’ It is also a concern that when another funeral director requested a copy of the policy, one was sent but it was incomplete and World Service Life Insurance Company of America was the company name on the policy, not Lincoln Memorial Life Insurance Company.”

Cassity did not respond to interview requests in time for publication.

NPS/Lincoln Are Still Operating, in Defiance of State Orders, Insiders Allege

A source close to the company says the certificates are essentially worthless. “You and I could do up a paid in full certificate on a computer,” she says. “It means nothing.” Moreover, Audrey (not her real name) and another source, who were both independently interviewed by the *Insider* and are both in a position to know the company’s inner workings, claim NPS’ insurance arm is acting like it’s business as usual, **despite having been shut down** by authorities in Texas, where the company has its headquarters.

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So bad is the situation that even some of the companies' most loyal employees are now feeling hurt. "I feel taken advantage of," says Danielle Grace, a former NPS account executive who left the company last December.

"My funeral homes put their trust in me," Grace continues. "They did business in good faith with me, and I turned around and did business in good faith with NPS. I feel that NPS owners and management weren't honest with us. In fact, I know they weren't. I feel a huge sense of loyalty to the funeral home owners who are left wondering what is going to happen and what to do next. It's truly an unfortunate situation for them. This is their future."

Why Signing Business Over to Lincoln Is So Risky

"Nobody [at Lincoln] is supposed to be doing business anywhere," says Audrey. "NPS is supposed to notify and alert its agents that they shouldn't be writing any new business on Lincoln Memorial Insurance applications. But they're not doing that. No funeral director should be writing with them at this point." To do so would be to jeopardize your license as an insurance agent, according to Audrey.

Further, even though most states' cease and desist orders apply only to Lincoln, not NPS, Audrey claims that every contract written by an NPS account executive goes directly to Lincoln. It's Lincoln's name on all the forms and contracts, she says, and the company has not found another firm to fund the insurance through.

David Nixon of Nixon Consulting in Chatham, Ill., confirms that NPS agents are still out there, trying to sell business. The Illinois state comptroller ordered NPS to stop selling back in January, but Nixon says the company has made sales calls to several of his clients since then.

In fact, NPS even has a full-page ad in the current issue of the Illinois Funeral Directors Association's magazine, *Connections*, despite the January cease and desist. ("Strong and Steady," reads the ad, noting that NPS "offers funeral directors options backed by strength and security.")

Jill Alters, the editor of *Connections*, says NPS was fully aware of the cease and desist order when it placed the ad. "I knew that because I asked them," Alters says.

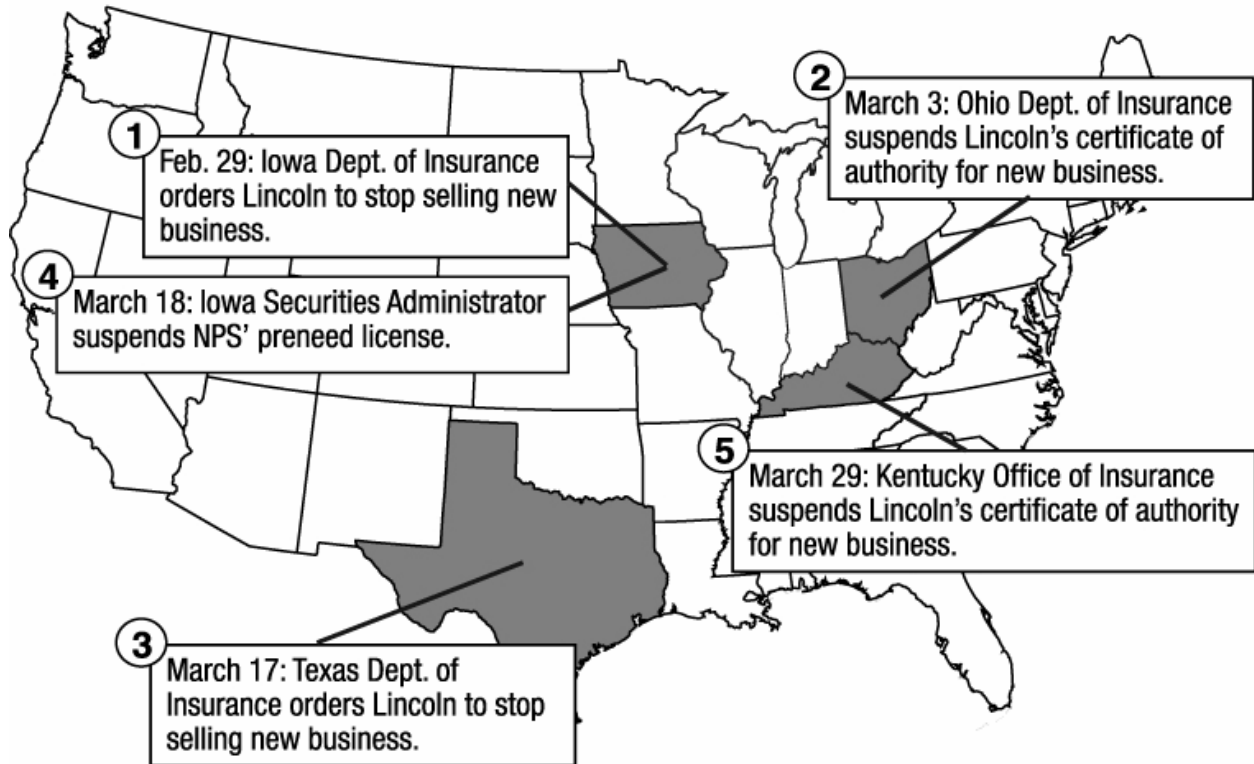
States Line Up to Issue Cease and Desist Orders; Six Already In

Last month, Cassity told the *Insider* in a brief e-mail that Texas authorities had lifted the no-new-business order against Lincoln. But Audrey alleges that's flatly untrue. Sure enough, state documents show that on March 21—four days after issuing the order—the Department of Insurance reaffirmed its original cease and desist.

"They're just so greedy," adds Margo, another NPS insider who also declined to be identified. "Money is far more important to them than doing the right thing. [FDs] are at potential financial risk if Lincoln becomes insolvent and NPS goes out of business."

And Texas isn't the only state that has tried to shut down NPS and/or Lincoln. Cease and desist orders have also been issued in Illinois, Iowa, Kentucky, Ohio and Tennessee. So how is the company still able to operate?

How Regulators have Responded to the NPS Scandal



The answer, according to both Margo and Audrey, is that NPS is merely a front company that *markets* preneed, while Lincoln—which is the company most often named in the cease and desist orders, not NPS—is the actual *insurance* firm. (Both NPS and Lincoln are owned by a holding company, Forever Enterprises, which is in turn held by Cassity and his family.)

No wonder NPS’ field agents are allegedly still acting as though the situation is entirely under control. “Those girls are calling and visiting funeral homes and saying it’s OK, that it’s just a misunderstanding,” says Audrey. “The hat gets passed back and forth [between NPS and Lincoln] to suit them.”

Don’t Worry, Insider Says, But Others Aren’t So Sure

Audrey is quick to point out that FDs shouldn’t be too worried about not getting their money back. After all, every state requires insurance companies to hold reserve funds, she notes, and many states also hold their own reserves.

But just how bankable *are* NPS/Lincoln’s reserves? After all, it was insufficient reserves that spurred Ohio and Texas regulators to shut Lincoln down, explains Scott Gilligan, NFDA general counsel. “I would think FDs are going to see *some* money, but I couldn’t tell you if it’s going to be 50 cents on the dollar or the full dollar,” Gilligan says.

“If those allegations are true, then that company is in serious financial shape,” adds Ripperda. “A cease and desist means you don’t have the assets to back new business.”

And just to make matters even more worrisome, company executives announced at a Dec. 20 meeting **not to pay growth on existing business**, according to Audrey.

That could seriously hurt independent firms that are counting on those growth points for their financial well-being, Margo says. “Most individual funeral home owners can’t afford to lose a dime,” she explains.

“You have to be concerned,” adds Searby, the FD. “I’m disappointed in them, very disappointed. I’d like to be optimistic, but right now I’m feeling a little pessimistic.” Searby has stopped writing new NPS/Lincoln business.

As noted, Cassity points out that the company has never failed to fulfill a death claim. “I can tell you NPS is profitable,” he told the *Insider* in February, just weeks before Texas regulators declared Lincoln to be in “hazardous financial condition.”

Lincoln also reported a meager 1.1:1 asset to liability ratio to the Texas Department of Insurance in 2006, the most current year for which those figures are available. That’s far below the 2:1 ratio credit granters generally like to see.

NPS/Lincoln Alleged to Be Taking Money in the Front Door, Paying it Out the Back

Audrey also suspects NPS/Lincoln of **paying out death claims using the cash generated from the sale of new life insurance policies**—a precarious and ultimately unsustainable position, in Nixon’s view. “They say they’ve never not paid a death claim, but big deal,” says Audrey. “They pay those death claims with the money that came in last week.”

In fact, so dire is the company’s financial situation that it has abandoned its promise to pay claims within 24 hours, as promised—a benefit listed prominently on a 2006 company brochure—unless the funeral home *submitting* the claim had written new business within the previous 90 days, according to Audrey. That claim is confirmed by Margo, who says some of her clients are waiting as long as 30 days to get their claims paid—and are only getting minimal amounts of growth when the checks finally arrive.

Nixon says the same thing, reporting that some of his clients are being told by NPS that since they are not “active sellers,” they will only get the face or original value of the preneed account, without growth. “I believe threats of legal action may be necessary in these cases,” Nixon says. “It seems to be working for some, but the jury is still out.”

Taken as a whole, the situation baffles industry watchers like Alan Creedy of the Trust 100 consulting firm in Raleigh, N.C. “When are we going to learn that you can’t get five bucks for four bucks?” he wonders. “And when are we going to realize, as the most simple farmer has, that you don’t put the fox in charge of the henhouse?”

Margo sheds even more light on how NPS and Lincoln are set up. “NPS is the middleman,” she says. “The money goes to NPS, and they turn around and do whatever they want with it. When

anybody made a check out, it went to NPS. So they money didn't go directly to Lincoln. NPS would pay Lincoln and then sell it off to reinsurance companies. There's too much room for greed. If the states don't shut down NPS along with Lincoln, they've still left a huge problem out there."

Meanwhile, FDs and regulators in other states still seem unaware of the gathering storm that has many funeral professionals running scared. "California, Indiana, Louisiana, Georgia—those states are totally oblivious," Audrey says. "Those FDs are living under rocks. These states need to be told that there is a cease and desist, and they should not be funding prearrangements with a Lincoln Memorial Life Insurance application."

Triad Casket Fiasco Was No Misunderstanding, According to Leaked Document

And that's not all. Remember the Triad casket commotion earlier in the year, when FDs were up in arms about letters they had gotten from NPS, explaining that the company would now be offering them free Chinese caskets, courtesy of Triad (which the Cassitys also own), instead of the growth specified in their contracts (FSI 2/4/08)?

At the time, Cassity told the *Insider* it was all just a simple misunderstanding—that the free caskets were being offered as an additional option for FDs who wanted the casket rather than the money, and that the growth would still be paid to any funeral home that wanted it.

But "there absolutely, positively, was no confusion" on NPS' part, Audrey says now. And sure enough, the *Insider* recently obtained an internal company document titled "Questions & Answers—NPS Profit Plus Casket Program," intended for its sales reps, which contains the following paragraph:

We were told we cannot pay growth how we used to but we do have a new growth program in place to offer to the funeral homes; a program to help them make more money than just a growth % on the contract. We feel this is a much better program because casket costs are growing 2 x as fast as inflation to growth.

The document also includes this exchange:

Q: If the funeral home has a letter stating they will receive a 4 percent growth, then in this case will it be legal to not pay a growth?

A: Even if the FH has a letter they will still receive the same letter as those that have an NPS agreement.

We will continue to report on this story as it develops. Until then, Audrey, Margo and industry watchers like Nixon continue to remind FDs that they should not sign any new business with NPS or Lincoln Memorial.

"The consumer's not the one who's going to have a problem," Nixon says. "The consumer has never paid the piper. Somebody has always stepped up to the plate and taken care of it. And that's as it should be, because it's their money. But if some of these FDs who have \$600,000 or \$1 million with NPS find that there's no money, ultimately it could impact a funeral home enough that they'll have to sell, close, or whatever." ♦