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Department of Justice Press Release

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United States Attorney's Office
Eastern District of Missouri
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National Prearranged Services, Inc. Executive Indicted on Multiple Fraud Charges

ST. LOUIS, MO—Randall Sutton was indicted on mail fraud, wire fraud and money laundering charges involving a ten-year multi-million dollar fraud scheme involving the sale of pre-paid funeral services, Acting United States Attorney Michael W. Reap announced today.

Randall Sutton was the Chief Financial Officer, Director, and President of National Prearranged Services, Inc., headquartered in Clayton, MO, an entity that sold prearranged funeral services in 19 states. Customers either purchased prearranged funeral services directly from National Prearranged Services, or from funeral homes who in turn purchased these services from National Prearranged Services. National Prearranged Services purchased life insurance policies from Memorial Service Life Insurance Company and Lincoln Memorial Life Insurance Company of Austin, Texas in order to fund the funerals when customers died. Sutton was Director of both of those companies.

According to the indictment, beginning in 1998 and continuing until 2008, Sutton and others, defrauded National Prearranged Services' customers, states' guaranty funds, and funeral homes doing business with National Prearranged Services.

The purchase of prearranged funeral services involves a pre-payment of a substantial sum by the customer, in exchange for the promise that funeral services will be provided at no further expense upon the customer's death. In the ordinary course of business, the seller of prearranged funeral services uses the customer's pre-paid funds to purchase a life insurance policy, holds the funds in trust, or otherwise makes reasonable use of the funds, to ensure that funds are available to provide the funeral services upon the customer's death. The customer reasonably expects that the business will operate in such a way so that the pre-purchased services will be available upon death.

The indictment alleges that rather than making reasonable use of the assets of their business, Randall Sutton and others used a series of deceptions to extract funds from National Prearranged Services and related entities such as Lincoln Memorial Life. As a result of this fraudulent scheme, National Prearranged Services and Lincoln Memorial Life were unable to meet their mounting obligations and collapsed in 2008. Sutton and others at National Prearranged Services led funeral homes and customers to believe funds paid for prearranged funeral services would be held in trust or used to purchase life insurance policies in order to ensure that money would be available to pay for customers' funeral services when needed. Funeral homes and customers who paid the entire cost of pre-need funerals up-front were given "Paid in Full" certificates. Customers were not informed that their purchase of prepaid funerals involved risk. They also failed to disclose to funeral homes and custom

For example, at the time they purchased prearranged funeral services, many customers completed applications for life insurance policies indicating they were making payment in full for insurance policies that would fund their funerals. Employees at National Prearranged Services, with the knowledge and under the direction of Sutton, simply whited-out the indications that payments had been made in full and altered the documents to make it appear as though the customers had made partial payments. The altered documents were forwarded to life insurance companies such as Lincoln Memorial Life, who adopted the policies and assumed the obligation to pay a lump sum at the time of the customer's death. National Prearranged Services, meanwhile, diverted the difference between the true full payments and the falsified partial payments from the customer's insurance policy, thus retaining the vast majority of the customer's lump-sum payment while transferring the obligation of future pay.

As another example, National Prearranged Services' employees used white-out or cross-outs to change the names of beneficiaries on insurance applications in order to extract money. Customers

completed applications for life insurance policies naming themselves or their funeral homes as a beneficiary. With Sutton's knowledge, employees at National Prearranged Services simply whited-out or crossed-out other beneficiaries named in the applications and made National Prearranged Services the sole beneficiary. Once National Prearranged Services was listed as the sole beneficiary on policies, it was able to extract money from customers' policies in at least two separate ways:

First, customers' insurance policies were pledged as collateral for loans to National Prearranged Services without the customers' knowledge. Typically, the loans were made by insurance companies within the same family of corporate entities, such as Lincoln Memorial Life, allowing Sutton and others to extract funds from these insurance entities under false premises. In total, as alleged in the indictment, National Prearranged Services received in excess of \$65 million from such policy loans. Often, the proceeds of these policy loans were immediately turned around and used to pay outstanding premiums due from other customers.

Second, once it had altered applications to name itself as sole beneficiary, National Prearranged Services then converted customers' whole life insurance policies to monthly renewable term policies, extracting from the insurance company the difference between the cash surrender value of the whole life policy and the first monthly premium of the renewable term policy. By doing so, National Prearranged Services extracted more than \$40 million from the customers' policies at Lincoln Memorial Life without their knowledge.

As another example, National Prearranged Services failed to invest the funds it received from roll-over accounts as promised. Instead, they often purchased large blocks of prearranged funeral contracts from funeral homes that had sold prearranged funeral services in the past. These block purchases were referred to as "roll-overs" because the prearranged funeral contracts were rolled-over from the originating funeral homes to National Prearranged Services. National Prearranged Services promised to invest 80 percent of the underlying customers' funds in safe investments for 30 days, and then to use the money to purchase life insurance. Instead, National Prearranged Services failed to invest the money for 30 days as promised, and after 30 days failed to invest the money in life insurance policies as promised. Instead, the roll-over funds were used for other purposes, only to be replaced with "debentures" or promises to repay the funds. Sutton and others then caused false mo

The indictment states that Randall Sutton and others at National Prearranged Services agreed to manage a \$1.7 million custody account for the Muehlebach Funeral Home located in Kansas City, MO. The Muehlebach Funeral Home needed this account to pay for its customers' funerals when they died. National Prearranged Services invested this money in speculative futures contracts, lost most of the money, and then sent monthly statements to the Muehlebach Funeral Home showing false balances in its "Custody Account."

As another example, Randall Sutton and others at National Prearranged Services caused over \$50 million to be taken from the Company in exchange for promissory notes from related individuals or companies. Unlike legitimate promissory notes, these notes were often backdated, sometimes interest was paid back to National Prearranged Services with money that originated from National Prearranged Services itself in "round trip" transactions, and promissory notes were often replaced with new promissory notes when they came due. Over \$10 million of these funds were funneled through various entities and used to purchase a company known as Professional Liability Insurance Company of America which is owned by RBT Trust II.

During 2007, regulators and funeral homes from various states began to increase scrutiny of National Prearranged Services' practices. In response, Randall Sutton and others gave false information to state regulators and funeral homes. For example, regulators and concerned funeral homes were told falsely that "policy loans" were not taken by National Prearranged Services, or that policy loans had been repaid, or that senior management was not aware of the policy loans. As another example, regulators and concerned funeral homes were told falsely that senior management was not aware of the practice of whiting out and altering customers' life insurance applications, or they were told falsely that National Prearranged Services was permitted to do so based on language in the applications.

Finally, the indictment alleges that Randall Sutton held himself out to be licensed by the Missouri Department of Insurance. Sutton did in fact hold a Producer License issued by the Missouri Department of Insurance and this license was renewable every two years upon the successful completion of a qualifying exam. In truth, Sutton had his secretary study for and take the qualifying exam on-line rather than taking it himself.

"Money laundering is not a victimless crime as innocent people are often "duped" by various schemes" said C. Steve Howard, Acting Special Agent in Charge of IRS Criminal Investigation. "We

will continue to work with our law enforcement partners to financially disrupt criminal organizations that commit crimes against our society and our economy."

"Fraud schemes have a pronounced economic impact that eventually increase costs for all of us," said John V. Gillies, Special Agent in Charge of the FBI in St. Louis. "Investigators work hard to unravel this complex type of corporate fraud. The FBI and our partners are committed to protecting the public by eliminating dishonest and unscrupulous greed."

Sutton, 63, Chesterfield, MO, was indicted by a federal grand jury on six felony counts of mail fraud, one felony count of money laundering, and two felony counts of wire fraud. He is expected to appear in federal court this morning, in St. Louis.

If convicted, each count of mail and wire fraud carries a maximum penalty of 20 years in prison and/or fines up to \$250,000; money laundering carries a maximum penalty of 10 years in prison and/or fines up to \$250,000. Restitution is mandatory.

Reap commended the work on the case by the Federal Bureau of Investigation, the United States Postal Inspection Service, Internal Revenue Service Criminal Investigation, Missouri Attorney General's Office; and Assistant United States Attorney Jeffrey Jensen, Steven Muchnick and John Sauer, who are handling the case for the U.S. Attorney's Office.

The charges set forth in an indictment are merely accusations, and each defendant is presumed innocent until and unless proven guilty.

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