





Feds investigate funeral trust fund

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Federal prosecutors have begun a criminal investigation into a pre-need funeral trust fund that critics, including funeral homes that stand to lose millions of dollars, say operated like a Ponzi scheme.

The U.S. attorney's office in Springfield has issued a subpoena to the state comptroller's office demanding all records relating to the pre-need funeral trust fund once administered by the Illinois Funeral Directors Association. Carol Knowles, spokeswoman for comptroller Dan Hynes, said the comptroller has complied with the subpoena, which was received in late March.

Potential targets aren't clear from the subpoena.

IFDA officials could not be reached for comment. William Halldin, spokesman for Merrill Lynch, which provided investment advice to the IFDA, would not say whether the financial giant has received any subpoenas.

"As a matter of policy, we don't comment on the existence of any inquiries from any appropriate authority," Halldin said. "However, as a matter of policy, we cooperate fully with such inquiries when they occur."

The federal subpoena signals another layer of investigation into a fund that funeral directors say has hemorrhaged nearly \$100 million since 2001.

While funeral directors are on the hook for losses under state law, funeral contract purchasers also have an interest. Funeral directors say losses might be so steep that some funeral homes could be driven out of business, raising questions about how prepaid funeral services would be provided. The fund is earmarked to pay for funerals for more than 40,000 state residents.

Instead of investing directly in stocks, bonds or other securities, the IFDA used money from consumers to buy life insurance policies on funeral directors and association insiders who haven't been dying quickly enough to pay funeral expenses. The policies cannot be surrendered for cash value without tax penalties. That, coupled with losses in the stock market, has contributed to the fund's collapse.

The comptroller's office two years ago revoked the license under which the IFDA administered the fund. In May, the state Division of Insurance fined Merrill Lynch \$18 million for its role in the fund's demise.

In agreeing to the fine, Merrill Lynch admitted no wrongdoing. The IFDA has also said it did not violate the law.

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