U. S. Department of Justice

United States Attorney
Northern District of Illinois

Patrick J. Fitzgerald
United States Attorney

Dirksen Federal Courthouse
219 South Dearborn Street, Fifth Floor
Chicago, Illinois 60604
(312) 353-5300

FOR IMMEDIATE RELEASE
THURSDAY MAY 3, 2012
www.justice.gov/usao/iln

PRESS CONTACTS:
AUSA Andrew S. Boutros 312-886-7641
Randall Samborn 312-353-5318

EXECUTIVE INDICTED FOR ALLEGEDLY DEFRAUDING EMPLOYEE BENEFIT PLANS OF PUBLIC HOUSING AGENCIES NATIONWIDE OF $8.6 MILLION

CHICAGO — A former executive and part owner of a suburban company that administered employee pension plans and group life insurance programs for public housing authorities across the country was indicted for allegedly defrauding the agencies and their employees of more than $8.6 million. The defendant, **Richard P. Zachmann**, was charged with 12 counts of wire fraud in an indictment returned yesterday by a federal grand jury, Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois, and Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation, announced today.

Zachmann, 60, of Aurora, will be arraigned at a later date in U.S. District Court. He was vice president of Life Associates, Inc., and between 2001 and 2008 controlled operations of the business, which he and his wife owned. Life Associates, which had offices in far west suburban Sandwich and later in Sugar Grove, administered employee pension plans and group life insurance programs for more than 100 public housing authorities in 21 states, with thousands of employee beneficiaries. Chicago area clients included the public housing agencies in Du Page County, Elgin, North Chicago, and East Chicago, Ind. The Chicago Housing Authority was not a client of Life Associates.

Between 2002 and January 2009, Zachmann allegedly did not disclose to, and concealed from, the housing authorities and the beneficiaries that their pension plans and group life insurance programs had received valuable proceeds when the financial company that serviced the plans converted from a mutual holding company, owned by its policyholders, to a publicly-traded company through a process known as "demutualization." Zachmann allegedly converted approximately $8,628,666 in demutualization proceeds to his and his wife's personal benefit, to the benefit of Life Associates, and to the benefit of other non-related businesses that Zachmann at least partially owned. Zachmann knew that these proceeds were to be used solely for the benefit of the housing authority benefit plans and their beneficiaries, the charges allege.

According to the indictment, Life Associates offered its housing agency clients access to a group life insurance program through Principal Financial Group (formerly known as Principal Mutual Holding Company), based in Des Moines, Iowa, that provided investment management services to the housing authorities. In May 2001, Principal converted from a company owned by its policyholders to a publicly-traded company. As a result of the demutualization process, Principal's customers and policyholders, including the housing authorities, were entitled to share the distributions of Principal's value at the time of its initial public offering in the form of cash, policy credits and Principal's stock.

In February 2002, Zachmann caused account credits to the housing authorities' pension plans to be converted into approximately $6,250,967 in cash. At the same time, he allegedly caused Principal common stock shares credited to the group life insurance plan to be sold and converted into approximately $1,363,458 in cash, which grew with interest over time. In about July 2002, Zachmann caused Principal to debit the demutualization proceeds on roughly a monthly basis, retroactive to April 2002, to pay increased fees to Life Associates, and he provided Principal with false documents purporting to prove that the housing authorities knew about the higher fees, as well as the existence of the demutualization proceeds, the indictment charges.

Between July 2002 and May 2007, Zachmann allegedly caused Principal to make monthly payments to Life Associates totaling nearly all of pension plan demutualization proceeds, which had grown to approximately $6,861,666. As these proceeds were nearing depletion, between February 2007 and January 2009, Zachmann allegedly caused Life Associates to receive payment of life insurance demutualization proceeds totaling approximately $1,767,000. The indictment seeks forfeiture of at least $8,628,666 in alleged proceeds of the fraud scheme.

Each count of wire fraud carries a maximum penalty 20 years in prison and a $250,000 fine, and restitution is mandatory. The Court may also impose a fine totaling twice the loss to any victim or twice the gain to the defendant, whichever is greater. If convicted, the Court must impose a reasonable sentence under federal statutes and the advisory United States Sentencing Guidelines.

The government is being represented by Assistant U.S. Attorney Andrew S. Boutros.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendant is presumed innocent and is entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

# # # #